

## Speech to Powerlan AGM – 29 November 2010

Ladies and Gentlemen,

At last year's AGM I was able to announce revenue growth of 72% compared to the previous year, but indicated that the effects of the Global Financial Crisis were yet to be reflected in our results because we had entered that year with a strong order backlog but had already started to see the lead times for new projects increasing, particularly in Clarity. Unfortunately this prediction proved to be accurate, with revenues for the whole group declining year on year by 29%.

This was obviously a disappointing result, but one that mirrored the industries that we operate in, particularly the telecommunication software sector where little significant new business was signed by any of our competitors during the Global Financial Crisis. However, I'm proud to say that Clarity did sign one of the few major new OSS contracts awarded during that time, VIVACOM in Bulgaria. You will have seen from our recent announcement that we have already successfully delivered the first phase of that project and there are more phases to be delivered in the coming months.

Although not to the same extent as Clarity, both IMX Software and ConverterTechnology revenues declined compared with the previous year, in a large part due to the effects of the unfavourable exchange rate. Most of our income comes from overseas markets and is denominated in US Dollars and British Pounds while the majority of our costs remain fixed in Australian Dollars.

Despite the difficult trading conditions we continued to invest in the previously planned projects to modernise our software after many years of under investment and continue to believe that to be the right decision, as it positions all of the businesses well for future organic growth.

All of these factors, that is to say reduced revenue and increased development costs, combined to produce a poor year in terms of financial performance from normal operations and we remained well below break-even.

At last year's AGM I also foreshadowed that we intended to raise capital, repay some of the loan funding advanced by my companies and start down a high growth path to achieve a significantly larger company with a much more significant market position.

With those objectives in mind we raised \$16 million in the months immediately following the AGM, repaid around \$10 million of the debt and used the remainder to continue funding operations, focussing principally on the Clarity Division by seeking to increase its position in the market and diversifying into the utilities market.

You will recall that the fund raising process was interrupted by a very unwelcome takeover bid, which as you all know ultimately proved unsuccessful as the bidder's offer was both unfunded and manifestly inadequate.

Once both of those events had been successfully concluded, we began a process of looking for acquisitions for both IMX Software and ConverterTechnology. The objective was to base them in the UK and US respectively and build them into businesses of significant size in their respective markets and then profitably divest them from Powerlan. The Board believes that it will benefit Powerlan significantly if these businesses are built and divested, thereby

bringing in certain capital and allowing management to concentrate on the Clarity business. We will continue to focus on this objective in a reasonable time scale, while seeking to maximise shareholder value.

We have yet to find a suitable acquisition target in the telecommunication software area to add to Clarity and have consequently not sought to raise additional capital for that purpose. During the year we did however complete the acquisition of the minority interest in Omnix Software, funded by debt from my companies, and that business has now been fully integrated into Clarity, operating under the Clarity brand.

Clarity now offers an integrated suite of software products that allow service providers to manage their networks, create innovative new products, activate customer services and assure service quality. All in all, this automates the high volume operations of our customers using consistent and standardised processes. A compelling proposition to any service provider in any geography I think you will agree!

As part of our strategy to deliver these products to the market, Clarity has started to implement a program that, while continuing to grow the footprint in the current customer base, will see the company be less dependent on selling and delivering customised solutions directly to customers.

The new approach involves a much more scalable productised software model, allowing the company to market and deliver a more clearly defined product through partner sales and delivery organisations. We believe that as this strategy is implemented we will be able to scale the business more effectively with a proportionally lower level of operating costs.

We have also invested heavily in Clarity's management, sales, delivery and development teams, bringing in people with considerable experience in selling to and working with world-leading service providers and the major system integrators that service them. In addition, a number of the new team have been key performers in similar companies which have successfully pursued similar growth strategies to those that we are pursuing in Clarity.

During the year we also invested heavily in developing Clarity's "Go-To Market" messaging, creating new sales collateral including demonstration systems and pursued a number of very large first world sales activities, including a significant bid to the Australian NBN to provide part of their Operational Support Systems. Although we have not yet won a new account of this size, we have invariably been short listed and recognised for the technical excellence of both our solutions and people, and it would only seem to be a matter of time until we succeed in the top end of the market. A stronger balance sheet will without doubt improve our chances of success with established, more risk-averse operators.

Clarity and consequently Powerlan's biggest challenge is continuing to fund the operating overheads along with the necessary investment required to implement these organisational changes. I strongly believe that the shareholders, including my companies, see and understand the risks involved in the strategy that is being pursued, but more importantly also the potential returns, and are committed to continuing this journey.

In round terms, the execution of this strategy at an operating level has cost \$10 million in the last year and I estimate that it will cost another \$5-10 million in the current year. But the objective is to drive the group, with or without IMX and ConverterTechnology, to break-even in the following year, and a modest profit the year after

that. Our aim by this time is to be well on the way to achieving annual revenues of \$100 million. Previous valuations of companies of a similar size in the same market, suggest that Clarity could be worth an attractive multiple of that number.

In conclusion, we understand where we are going and know what we need to do to get there. We will need more capital to expand and divest IMX Software and ConverterTechnology at good prices. If we succeed in doing that then we can provide an attractive return to Powerlan on those assets. The proceeds from the divestiture of those businesses, along with some additional capital that might be required, can then be used to acquire synergistic telecommunication software businesses or to fund the organic growth. The Board believes that the successful execution of this strategy should result in significant rewards for shareholders in comparison to the estimated investment required.