

Speech to Powerlan AGM – 16 December 2011

Ladies and Gentlemen,

At last year's AGM I regrettably announced poor results for the year, with a revenue decline of 29% compared to the previous year, attributed in large part to the flow through of the global financial crisis and the strengthening Australian dollar.

But I also announced measures we were undertaking as part of a strategy to overcome the problems. In short, I said that:

- 1) we would aim to grow IMX Software and ConverterTechnology organically or by acquisitions of synergistic businesses, with the aim of developing saleable businesses, hopefully divesting them at a profit, and thereafter focusing all our energies on growing the value of the Clarity business; and
- 2) we would continue our Clarity product redevelopment and strengthen our sales and marketing, to enable us to progressively move from a seller and implementer of customised OSS solutions to a more scalable business, selling standard software through third parties and passing the implementation and customisation services to others.

I am pleased to say we stuck to these strategies diligently and we are now beginning to see the fruits of our endeavours in respect to our third party marketing strategy for Clarity. On the other hand, we have not achieved everything we had hoped in regard to building up the IMX and ConverterTechnology businesses and attracting third party purchasers.

We did manage to grow ConverterTechnology into a \$4 million business with a \$200,000 profit for the year, and a sales pipeline at year-end of around \$7 million, making it a saleable business in its own right, but because of the company's narrow business niche we were not successful in attracting any third party purchaser or any company prepared to consider a merger.

Regarding IMX, by the end of the financial year we had completed the relocation of the business to London to be near its main markets; we had substantially completed the new GTS product; made significant progress with its installation at American Express; and built a significant pipeline of new customers and upgrade opportunities with existing customers. We also progressed takeover discussions with a South African company that currently resells IMX's products in Africa. The investment in IMX was around \$3 million for the year. The acquisition of the South African partner and a good sales pipeline provide IMX with a strong platform to build a breakeven business in the future, but unfortunately, Powerlan itself

does not have the funds to finance the purchase of the South African company.

Although we diligently explored opportunities to sell the businesses or merge them, or even float them on local exchanges, the world's troubled financial outlook made such courses problematic and, although neither business is aligned to my current undertakings, I offered to buy the companies through a CPS company, so that Powerlan could implement its strategy of focussing on the Clarity business. After negotiations managed by the independent directors of Powerlan and the appointment of an Independent Expert to review whether the proposed transaction was fair and reasonable to non-associated shareholders, an agreement was reached, subject to shareholder approval, for CPS to buy the businesses for a total consideration of \$8.4 million and separately take on the purchase of the South African company, which Powerlan could not afford to do. In addition, CPS has agreed that if either business is sold within 12 months of the proposed transaction then half of any net gain will be payable to Powerlan. The sale of the two assets will reduce the debt due to CPS by \$8.4 million and reduce Powerlan's annual interest obligations by about \$1 million.

As I stated earlier, our other strategy of continuing to invest in Clarity to transform it from a supplier of customised systems to a genuine product supplier, build reseller relationships with major industry players, complete our first projects as a standard product supplier and redirect our selling to the largest and most prestigious customers has started to bear fruit. We invested a further \$12 million in Clarity last year, completed key implementations, made new core product-based sales and associated services totalling \$22 million and created a high grade sales pipeline of around \$90 million going into the current year.

In financial terms the consolidated result for the year, including the ongoing investment in Clarity and IMX, and a write back of remitted interest from the Australian Tax Office showed a loss of \$12.4 million.

However by the end of the financial year the Board believed the investment in the Clarity product and repositioning could be funded by the ongoing operations and we were poised to become a growing and profitable company.

I am very pleased to say the optimism of the board has been validated by the results in the current financial year. Specifically:

1. The orders signed for the first 6 months have been spectacular, more than \$60 million for the half year including significant recent orders from Axiata in Malaysia, Mobile Communications Company of Iran and Vietnam Mobile. This represents a 3 fold increase in orders compared to the last full year and goes a long way to validating our new product and sales strategies.
2. The pipeline for the second half still includes several substantial opportunities, which might well lead to a 4-fold increase in orders for the full financial year.
3. The Clarity business has run at breakeven at the operating level for the first 6 months, and we expect it to continue to breakeven, or possibly even show an operating profit for the year, which is of course a significant change from the last few years.
4. Although we expect working capital might be required in the second half to support the new projects, we are confident of raising this capital from CPS or elsewhere, a capital or loan raising task which should be much easier than in the past, having regard to Clarity's order backlog and business outlook.

We understand that our long standing shareholders might well want to know what all this good news might mean to the share price or company valuation of Powerlan, especially when only the Clarity business remains.

Although I obviously can not give you specific numbers, I can tell you that the directors believe, based on the recent sales success, the enterprise value of Clarity is now well in excess of the value implied by the current share price.

In conclusion, I wish to thank shareholders and the management teams and staff of each of the operating companies for their support and commitment over a difficult period and I sincerely hope and believe that we can all look forward to a prosperous future together.