

ASX ANNOUNCEMENT

29 July 2016

Norwood Company Overview and Appendix 4C for June 2016 Quarter

Highlights:

- Corona Cloud & Corona GTS services launched publically as a Beta, with first sales now recorded
 - Both products currently available to paying customers, with a strong forward looking sales pipeline, as corporate clients can realise potential savings of up to 25-50% off phone bills
- Planned expenditure budgets have been set for remainder of FY17 following \$3.5 million capital raising closing prior to 30 June.
 - “Base case” expenditure scenario will see the Company’s operating plans, including R&D and corporate sales efforts, funded out until the end of the financial year with existing and projected financial resources.
 - Current and forecast quarterly “burn rate” is set at less than \$1.2 million per quarter.
 - Operating scenario reflects a recently achieved reduction in total quarterly expenditures, which is reflective of the Company’s current run-rate, and significantly does not assume any material receipts from customers, using a conservative budgeting approach.
- World Phone downloads and revenue continue, without significant digital marketing spend, as the Company prioritises Corona corporate and Europa carrier OTT platform sales in the coming quarters
- New product R&D, principally focused on World Wi-Fi and World Message, continues with development on track

“Sharing Economy” telecommunications pioneer Norwood Systems Ltd (“Norwood” or “the Company”) (ASX: NOR) is pleased to provide an update on Company activities, together with the attached Appendix 4C for the period 1 April to 30 June 2016.

Overall the quarter has seen the Company prioritise business sales efforts over direct consumer marketing expenses, in order to support the launch of both Corona Cloud & Corona GTS services. This has seen quarterly cash outgoing expenses reduce compared to the last quarter, and they are expected to reduce further in the coming quarters in line with the recently set planned expenditure budgets of just under \$1.2 million per quarter. This “base case” scenario will see the Company’s operating plans, including R&D and corporate sales efforts, funded out at a minimum until the end of the financial year (i.e. 30 June 2017) with existing and projected financial resources.

The Company is also budgeting to receive an R&D tax credit refund of at least \$700,000 prior to the end of the year under the “base case”. Given the current strong corporate sales pipeline, and continuing telco discussions on white label options for World Phone and other products, the Company is of the opinion that current “base case” assumption of no material receipts from customers is likely to be actually a “worst case” set of assumptions, and remains confident of sales progress in the short term. The planned “base case” assumption also devotes the necessary resources to pursue all of Norwood’s R&D objectives for the year, including World Wi-Fi and World Message.

Norwood Systems' CEO and Founder, Paul Ostergaard, commented:

"We have invested aggressively over the past two quarters for two reasons: firstly, to put Norwood Systems on the map, in terms of aggregate customer acquisition downloads and visible app store rankings, building credibility with targeted customers both at the telco operator level and the corporate level; and secondly, to build out as rapidly as possible Norwood's portfolio of Apps, platforms and associated services to fulfil the overarching strategy and vision for the Company, as defined by the Company in late 2015.

"I am pleased to announce that we have made excellent progress towards both these goals. With just under 5 million downloads achieved in less than a year and supporting nearly one million daily active user connections to our servers, we have powerfully demonstrated our abilities to operate a global telco service platform at scale, whilst delivering a quality service and user experience. This has directly led to inbound expressions of interests by telco operators to work with Norwood from around the globe.

"Furthermore, as we approach the release of our two additional World Apps, we have eliminated the bulk of the technical risk ahead of us, in moving much closer to delivering the full portfolio of targeted services. This again has increased the attractiveness and reduced the perceived risk of the Company in the eyes of prospective telco operator partners, sales channel partners and end customers.

"Accordingly, having reached this point in our development and marketing lifecycles, we have now de-emphasised two key spend areas that impacted our burn rate over the past two quarters, namely the investment of direct digital acquisition of customers, as well as 'bought-in' R&D. Norwood's R&D spend is now largely internally driven and we have re-prioritised sales and marketing investment into the corporate and telco operator segments, realising an immediate impact on our sales pipeline in both segments.

Corona Cloud and Corona GTS

Corona Cloud & Corona GTS are now both available to paying customers, and the Company has confirmed that first corporate sales have been completed post the quarter end. The first sales have been achieved with customers in the Retail, Consulting and Accounting sectors, with targeted savings on telco expenses over the next 12 months for these customers being as high as 50%.

Corporate sales on the Corona Cloud & Corona GTS product lines have been determined as the primary focus of the Company's resources in the coming quarters, given the potential for a relatively small number of successful corporate signings to have a significant impact on the Company.

The Company has witnessed very strong sales pipeline growth since the launch of Corona Cloud & Corona GTS with meaningful deployment negotiations progressing well with large prospective clients in the Oil & Gas, Fast Moving Consumer Goods, Engineering, Information Technology, Publishing, Local Government and Travel sectors. Of the top ten prospects in Norwood's current Corona Cloud and Corona GTS sales pipeline, four or more have an annual revenue potential estimated above the \$200,000 threshold required to meet one of the Company's performance share milestones.

Corona Cloud is Norwood's business-focused App-based telephony offering. It provides corporate clients with a centralised and zero-touch corporate web-based platform to manage Over-the-Top (OTT) telecommunications services being delivered to multiple users and groups in the business environment. Organisations can effortlessly set up their own Corona Cloud implementation through the web.

Corona GTS connects all office voice traffic to nearby Points of Presence in Norwood's global federated network, delivering a single-vendor solution for multi-sited multi-country organisations. Corona GTS call routing over the internet is delivered over short-haul routes, hence users enjoy very high quality calling, without the service degradation generally suffered by free VOIP services, particularly over international

distances. Both Corona Cloud and GTS have significant advantages for business considering how to manage bring your own device environments.

World Phone

With the prioritisation of Corporate resources for the quarter towards supporting the launch and corporate sales pipeline of Corona Cloud & Corona GTS, digital marketing spend for World Phone was deliberately reduced in the quarter, with consequent flow on effects to customer receipts. Pleasingly, World Phone revenue and downloads have continued to show good results, despite the absence of aggressive marketing spend.

Europa

Discussions continue with potential telco operator partners around white label /OTT opportunities for the entire Norwood product suite, including World Phone, Corona, World Wi-Fi and World Message also continue to progress. This includes MoU counterpart Vietnam Posts Telecommunications Group. Whilst the sales cycle generally for selling into telco operators is lengthy, the Company remains committed to securing strong revenues from this segment derived from its portfolio of OTT Apps as well as the Corona and Europa platforms. The company's pipeline of prospects in the telco operator segment now numbers nine operators and associated partners. Base case annual revenue run-rates for each of these telco prospects is above \$1 million and it is on this basis, coupled with the ongoing positive and encouraging feedback received from sales interactions with these operators, that the Company continues to invest robustly in this segment.

World Phone Version 1.2 also launched on Android handsets on 17 June 2016, bringing the latest features for World Phone to both major smartphone platforms. With World Credit and Global Dynamic Pricing, the addressable market for World Phone has moved beyond certain price limited geographies and business travellers, to a truly worldwide market for long distance calling.

Commencing with Version 1.2, World Phone also incorporates support for Corona and Corona Cloud. World Phone now operates effortlessly in either a corporate or a personal use case context, supporting an elegant user interface to enable the end-user to switch easily between the two modes.

New Product Development

New product development continued on track during the quarter, with one of the principal developments a signing with Devicescape on World Wi-Fi. Devicescape is the operator of the world's largest multi-service Wi-Fi platform, and the agreement provides automated access to Devicescape's Curated Virtual Network of shared Wi-Fi hotspots, with over 20 million quality-managed locations worldwide. Norwood is in discussions currently with additional Wi-Fi network aggregators to add further providers to the World Wi-Fi footprint.

World Wi-Fi will allow users to connect to the world's largest federated Wi-Fi network, utilising a simple-to use Wi-Fi access App with integrated security features. The agreement with Devicescape fills out a substantial portion of the initially planned federated Wi-Fi network, bringing over 20 million locations to the expected network of over 40 million+ hotspots.

World Wi-Fi addresses the three key Wi-Fi usage issues of network discovery, network fragmentation and network security through innovative patented and patent-pending technologies developed by Norwood and its partners.

World Message will initially support mid-size to large financial services companies in jurisdictions that require text message archival due to local financial services regulations.

Corporate

As detailed, the Company recently finalised planned expenditure budgets for the remainder of the Financial Year ending 30 June 2017. Based upon a “base case” scenario, planned expenditure budgets will see the Company’s operating plans, including R&D and corporate sales efforts, funded out until the end of the financial year with existing and projected financial resources.

Whilst the Company has been careful to take into account a broad range of expected events in preparing the planned expenditure budgets, shareholders should be aware that the circumstances of the Company or unforeseen events may impact actual expenditure as it occurs. The Company will update shareholders on actual progress against planned expenditure budgets with each quarterly cash flow report.

<ENDS>

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Background

Individual travellers, businesses and governments globally are incurring significant international call roaming charges. Informa Telecom estimates that mobile operators today bill more than US\$55 billion annually in roaming charges* (source: *Juniper Research report on the Mobile Roaming Market, 2014*).

Norwood Systems' patented cloud service platforms and Apps integrate the international fixed phone network with short-haul Voice over Internet Protocol (VoIP) technologies to provide high quality, well priced calling abroad or at home.

Customers in over 5000 cities and 200 countries are using Norwood's services today. The Company has built up a significant pipeline of prospects, including global players in the areas of aviation, professional services, banking, telecommunications, engineering and legal services.

About Norwood Systems

Norwood Systems Ltd (ASX: **NOR**) is revolutionising the 'Shared Economy' delivery of high-quality telecommunications services for individual business travellers and organisations globally. The Company listed on the ASX on 16 June 2015.

Norwood Systems was founded in 2011 to develop and supply the best possible global voice, data and messaging solutions using Over-The-Top (OTT) technologies. The Company's breakthrough offerings, **Corona** and **World Phone™**, deliver the world's most advanced international and roaming calling solutions addressing a broad spectrum of customers - from individuals and business travellers, to enterprises and government clients.

Corona is an award-winning, enterprise-class services platform that integrates compatible mobile devices securely and seamlessly with the organisation's existing Unified Communication or PBX networks, independent of their location. It also offers a frictionless Corona Cloud option.

World Phone is an award-winning, revolutionary communications App, delivering 'Shared economy' consumer access to leading fixed-line network service providers around the world, providing unparalleled local access to high-quality voice networks in more than 90 countries. The App is available for Android and iOS.



World Phone

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Norwood Systems Limited

ABN

15 062 959 540

Quarter ended ("current quarter")

30 June 2016

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (12 Months) \$A'000
1.1	Receipts from customers	106	580
1.2	Payments for (a)staff costs	(576)	(1,853)
	(b)advertising and marketing	(957)	(5,258)
	(c)research and development	(328)	(1,847)
	(d)cost of goods sold	(140)	(889)
	(e)other administration	(473)	(1,547)
	(f)other working capital	-	-
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	41	90
1.5	Interest and other costs of finance paid	-	(1)
1.6	Income taxes paid	-	-
1.7	Other - government grant proceeds	11	305
1.8	Other	-	(30)
Net operating cash flows		(2,316)	(10,450)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (12 Months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,316)	(10,450)
Cash flows related to investing activities		
1.9 Payment for acquisition of:	-	-
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	(46)	(98)
(d) physical non-current assets	(4)	(66)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets (exploration projects)	-	-
1.11 Loans to other entities	-	(36)
1.12 Loans repaid by other entities	-	-
1.13 Other	-	-
Net investing cash flows	(50)	(200)
1.14 Total operating and investing cash flows	(2,366)	(10,650)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	3,500	10,600
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – capital raising costs	(237)	(607)
Net financing cash flows	3,263	9,993
Net increase (decrease) in cash held	897	(657)
1.21 Cash at beginning of quarter/year to date	2992	4,546
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	3,889	3,889

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	153
1.2 Aggregate amount of loans to the parties included in item 1.11	-

1.2 Explanation necessary for an understanding of the transactions

Includes payments to directors as follows:

- Non-executive director fees; and
- Payments to Managing Director Paul Ostergaard.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The following securities were issued during the quarter as consideration for professional services received:

- 4,000,000 Fully Paid Ordinary Shares.

Class A performance shares each convert to one ordinary fully paid share upon Norwood generating gross revenue of at least \$200,000 from two separate third party contracts in any 12 month period. The expiry date of performance shares is 8 December 2017.

Class B performance shares each convert to one ordinary fully paid share upon Norwood generating gross revenue of at least \$3,000,000 for a 12 month consecutive period. The expiry date of the class B performance shares is 8 June 2018.

No class A or B milestones were met during the quarter. No shares were cancelled or converted during the quarter.

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

3.2 Credit standby arrangements

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Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	3,829	2,932
4.2 Deposits at call	60	60
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	3,889	2,992

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	-	-
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net liabilities	-	-
5.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 29 July 2016
 (Company secretary)
 Print name: Brett Tucker

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.