

ASX ANNOUNCEMENT

31 January 2017

Norwood Corporate Overview and Appendix 4C for December 2016 Quarter

Highlights:

- Breakthrough distribution agreement negotiated and signed post quarter-end with leading loyalty program provider, Affinion International, opening a new high-margin distribution channel for Norwood's World Apps, covering multiple counties, products and end user segments
- Corona service agreements signed with two multinational companies, as sales process continues with further multinational companies undertaking pilots
- Development on World Wi-Fi and World Message substantially complete, moving into launch preparations
- Priority Enterprise applications for Compliance and CRM being readied for launch post-quarter-end, featuring deep integration of the existing World Phone App and the soon to be released World Message App, complementing the company's current corporate BYOD offering
- Underlying gross margin for product sales (ie: revenue minus cost of sales) expected to be positive for the Half Year ended 31 December 2016

'Sharing Economy' telecommunications pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide an overview of the Company's activities for the December 2016 quarter and the accompanying Appendix 4C.

Following the sharpened sales focus previously outlined, Norwood successfully pursued a number of opportunities across the Enterprise and Travel & Loyalty segments. Most significantly, the breakthrough distribution agreement signed with loyalty and engagement programs company Affinion International will see several of Norwood's World Apps (World Phone and World Wi-Fi) offered into leading loyalty programs worldwide, under a high-margin Software as a Service (SaaS) revenue model.

Briefings to Affinion's global salesforce and product marketing teams are set to commence at the beginning of February 2017, targeting Affinion's top global clients for an exclusive introductory period pursuant to an aggressive go-to-market strategy. Norwood expects that first revenues under the Affinion distribution agreement could commence in the first quarter of FY18.

Norwood saw highly encouraging progress with Corona sales activity in the quarter, achieving strong growth in pipeline prospects across all targeted priority segments, culminating in signed agreements expected to generate initial combined annual revenues in the order of AUD\$100,000. These sales were achieved with demanding multi-national clients, supporting Norwood's belief that Corona Cloud and Corona GTS have achieved "product-market fit" with its targeted Enterprise segment.

Norwood's revolutionary and unique Over the Top (OTT) BYOD service – where users of Corona can have a complete separate and enterprise-administered mobile identity covering both calls and messages utilising standard mobile phone numbers within the one handset – is expected to continue to significantly contribute to the sales appeal of Corona for enterprises looking at the best way to manage Bring Your Own Device (or BYOD)

options. Additional multinational companies are undertaking pilot program of this enhanced Corona functionality and the Company is seeing encouraging pipeline growth for customers interested in this offering.

The Company was highly encouraged by the early response from potential financial and healthcare clients to its forthcoming Compliance and CRM offerings, services that the Company believes will occupy a unique and valuable position in the marketplace.

During the quarter, Norwood successfully demonstrated fully automated logging by Corona of all client-facing phone call records and SMS messaging traffic into Salesforce.com-hosted CRM systems. This capability is being readied for launch in the current quarter, and will feature deep integration with the upcoming World Message App, alongside World Phone. Norwood's believes there is currently no other solution that integrates carrier-independent mobile call and SMS logging into mainstream CRM platforms. As CRM users around the world move predominantly into a "mobile-first" operating mode, there is a pressing need to automate logging of such mobile-based client interactions.

Norwood's initial release of Corona's Archival Compliance Engine is also targeting release this quarter, featuring integration into three of the market leading Compliance Archival Hub vendor platforms. Corona's Archival Compliance Engine addresses the increasing need for financial, legal and healthcare services firms to archive all business communications, including those conducted on mobile devices. Recent media reports of a major global bank seeking to ban all text messaging by employees due to this specific compliance issue underscores the dearth of existing applications in the market to deal effectively with this issue. Norwood believes its unique OTT archival compliance capability for SMS content and metadata will provide a very significant compliance advantage for the highly regulated finance sector where all customer interactions must be recorded in full, including text or other messaging services, as well as finding further application in the legal and healthcare sectors.

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

"During the quarter we laid the groundwork for a very substantial breakthrough distribution agreement with Affinion International, and I am very pleased that we were able to deliver a signed agreement early in the New Year. In the coming weeks we will be pushing vigorously on this opportunity, and look forward to bringing our World Apps into some of the best loyalty programs globally, driving high-margin SaaS service revenues for our World Apps."

"For the period ahead, we also plan to entrench our Corona service platform into several key identified market opportunities, namely the BYOD, Compliance and CRM driven opportunities. It is through the focused targeting of Corona and our World Apps at solving such pressing business problems that we will successfully drive corporate SaaS service revenue."

"This quarter will see Norwood having initial versions of all of its currently targeted roadmap offerings launched in the market and the Company is looking forward expectantly to seeing revenue and pipeline growth across multiple segment opportunities arising from its compelling expanded portfolio of OTT service capabilities."

Affinion Loyalty Distribution for World Phone

The Affinion deal represents a significant distribution opportunity for Norwood's World Apps. The agreement will see World Apps (commencing with World Phone) offered alongside other high appeal digital benefits in some of the world's leading loyalty programs.

Norwood will be paid a high-margin Software as a Service (SaaS) monthly fee for every end customer offered the **World Phone** benefits bundle as part of their loyalty program, in addition to upside revenue potential arising from usage of the World Phone service beyond the initial bundled minutes. SaaS fees generated via bundling

benefits into loyalty programs do not originate via the respective app stores, and thus do not attract app store fees. Margin on the usage beyond the initial bundled minutes is also expected to be positive.

First revenues under the distribution arrangement are contemplated in the first quarter of FY18 timeframe.

With its high-quality World App portfolio, Norwood is perfectly positioned to take maximum advantage of the trend to digital loyalty program benefits, as credit card issuers face significant pressure on transaction fees and move towards membership based services. The loyalty segment will remain a key sales focus for Norwood.

Corona

Corona continues to attract significant sales interest, driven primarily by the interesting in use as a 'bring your own device' (BYOD) platform, alongside extensive compliance and privacy benefits for certain segments. Norwood continues to witness a number of excellent opportunities being added through the business development pipeline.

First sales revenue from the contracts announced on 23 December 2016 have been recorded post quarter end, beginning in January 2017.

World Apps

Development on initial versions of the World Wi-Fi and World Message products was substantially complete at quarter end, and the Company has now moved into preparations for initial launch.

World Message in particular will be a significant driver of compliance-related sales for segments where all communications must be recorded in full and accessible via a central archive, such as the finance sector (the data must be stored in a tamper-proof archive external to the individual handset).

Corporate

The Company successfully received an R&D tax refund during the quarter of \$1.297 million. Underlying gross margin for product sales (ie: revenue minus cost of sales) is expected to be positive for the Half Year ended 31 December 2016 (subject to final completion and sign off, including audit, of the Half Year financial report).

Product manufacturing and operating cash costs for the quarter contain a number of one off infrastructure setup costs relating to the soon-to-be-released World Wi-Fi and World Message products. As fixed infrastructure costs are spread over the higher volumes generated from the Affinion distribution agreement, and ongoing Corona sales margin and ultimately net cash flows from product sales is expected to increase further.

The Company also saw a number of similar one off non-recurring costs in the quarter, such that cash expenditure is estimated to decline by approximately 20% in the current quarter.

<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

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

NORWOOD SYSTEMS LIMITED

ABN

15 062 959 540

Quarter ended ("current quarter")

31 DECEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	36	78
1.2 Payments for		
(a) research and development	(670)	(921)
(b) product manufacturing and operating costs	(117)	(278)
(c) advertising and marketing	(131)	(430)
(d) leased assets	-	-
(e) staff costs	(427)	(700)
(f) administration and corporate costs	(401)	(796)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	10
1.5 Interest and other costs of finance paid	0.3	0.3
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,297	1,297
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(410)	(1,740)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1)	(7)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1)	(7)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,553	3,889
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(410)	(1,740)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(7)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	2,142	2,142

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,092	2,502
5.2	Call deposits	50	51
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,142	2,553

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

(47)

-

- Managing Director's Salaries and Wages
- Non-Executive Director's and Chairman's fees.

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	(374)
9.2	Product manufacturing and operating costs	(121)
9.3	Advertising and marketing	(73)
9.4	Leased assets	-
9.5	Staff costs	(356)
9.6	Administration and corporate costs	(380)
9.7	Other (Extraordinary/Non-recurring Expenses)	-
9.8	Other (Research and Development and EMDG Grant)	-
9.9	Total estimated cash outflows	(1,304)

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: Date: **31 January 2017**
(Director/Company secretary)

Print name: **Steven Wood**
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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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.