

## ASX RELEASE

24 July 2017

# Update on Brisbane City Council (BCC) LGS Contract – TNE Response to BCC Second Notice to Show Cause

TechnologyOne Ltd (ASX: TNE) provides the following update regarding the dispute with Brisbane City Council (BCC) in relation to the LGS Project Contract (Contract) based on queries from our shareholders on the status of this project.

As previously disclosed in our ASX statement dated 7 July 2017, on 26 June 2017, BCC issued TechnologyOne with a second Notice to Show Cause (June Notice to Show Cause). The June Notice to Show Cause covers many of the same issues in the May Notice to Show Cause, all of which BCC did not act upon. This second Notice also ignores TechnologyOne's bona fide requests for extensions of time under the contract due to BCC's conduct.

On 17 July 2017 TechnologyOne once again provided BCC with an exhaustive response to the second Notice to Show Cause. To allow our shareholders to make an assessment of this dispute, we have reproduced in Appendix A of this announcement, the summary section of our response to the second Notice to Show Cause (limited to sections 2.1 to 2.7).

This summary explains how BCC actions and inactions are causing the project to proceed more slowly than planned and are preventing a compliant system being implemented and operating by the contracted date (refer section 2.4 of the response) as follows:

- *Significant Additional Scope Causes Substantial Delays (5+ months)*
- *Council's Instruction Not to Proceed in December 2016 Causes Substantial Delays (5+ months)*
- *Council's Failure to Reform The Project Causes Substantial Delays*
- *Council's Unreasonable and Bureaucratic Conduct Causes Delays.*

This summary also explains how BCC has endangered the successful completion of the project through its actions and inactions (refer section 2.6 of the response) as follows:

- *Council's Business Processes are Poorly Defined; their Process Catalogue is deficient and Council is in breach of contract*
- *Council has not acted on the recommendations of the independent review commissioned by Council*
- *Council's unreasonable conduct and lack of real action after the Lord Mayor's Announcement has condemned the project to fail.*

TechnologyOne continues to recommend expedited arbitration to resolve issues. BCC continues not to accept arbitration which would allow these issues to be resolved and the project put back on track.

TechnologyOne has highlighted to our shareholders on a number of occasions since our half year results, that termination of the contract by BCC is expected.

**BCC has made it clear through both its actions and its statements that it does not want to complete this project, and is endeavouring to engineer a termination of the contract for breach. TechnologyOne has now made it clear to BCC if they proceed with a wrongful termination, TechnologyOne will immediately commence proceedings for a \$50+m damages claim.**

TechnologyOne has offered to BCC that if they no longer wish to proceed with the project, TechnologyOne is open to BCC paying all outstanding invoices and to separate company, which would be substantially less than the cost of a long and drawn out court case that exposes Brisbane ratepayers to a \$50+m damages claim.

Given BCC's continuing behaviour is exposing Brisbane ratepayers to a significant damages claim, TechnologyOne Executive Chairman Adrian Di Marco once again reached out last week to the Lord Mayor to no avail.

Mr Di Marco said "Though the Lord Mayor has on many occasions publicly stated that the project needed to be reformed, and that he was committed to doing this, BCC has taken no steps to achieve this, and has hindered TechnologyOne from doing so."

Mr Di Marco said "TechnologyOne at all times remains ready, willing and able to complete the BCC contract. TechnologyOne as the leading supplier to over 300 Councils in Australia, is uniquely placed to provide a compelling value proposition to the ratepayers of Brisbane. If BCC lawyers had not assumed control of this project after the Lord Mayor's inaccurate press conference in January, and common sense had prevailed, we would still be on track to meet the contracted 'go live date.'"

TechnologyOne remains confident of its legal position.

**- ENDS -**

## About TechnologyOne

TechnologyOne (ASX:TNE) is Australia's largest enterprise software company and one of Australia's top 200 ASX-listed companies, with offices across six countries. We create solutions that transform business and make life simple for our customers. We do this by providing powerful, deeply integrated enterprise software that is incredibly easy to use. Over 1,000 leading corporations, government departments and statutory authorities are powered by our software.

We participate in only eight key markets: government, local government, financial services, education, health and community services, asset intensive industries, project intensive industries and corporates. For these markets, we develop, market, sell, implement, support and run our preconfigured solutions, which reduce time, cost and risk for our customers.

For 30 years, we have been providing our customers enterprise software that evolves and adapts to new and emerging technologies, allowing them to focus on the business and not technology. Today, our software is available on the TechnologyOne Cloud and across smart mobile devices.

For further information, please visit: [TechnologyOneCorp.com](http://TechnologyOneCorp.com)

## Appendix A to TechnologyOne ASX Statement 24 July 2017

Excerpt from TechnologyOne's Response to Brisbane City Council ("Council") dated 17 July 2017

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### 2 Summary

- 2.1 It would be unreasonable for Council to terminate the Customer Contract on the basis of the matters complained of in the Second Notice in light of the cause shown in this response. The reasons are summarised below and developed in this response.
- 2.2 In showing cause herein, TechnologyOne incorporates by reference, and also relies upon, on its Response to the First Notice. A copy of that response is in **Appendix A**.
- 2.3 TechnologyOne is not in material breach of the Customer Contract. There is no basis for Council to terminate the Customer Contract for cause.
- 2.4 Council's contentions in the Second Notice are, in substance that TechnologyOne has failed to carry out work on time and is progressing under the Customer Contract at a rate that will prevent a compliant system being implemented and operating by November 2017. It is Council that is causing the project to proceed more slowly than planned and preventing a compliant system being implemented and operating by November 2017 for the reasons as follows:
- (a) **Significant Additional Scope Causes Substantial Delays (5+ months):** On 28 October 2016, Council provided TechnologyOne with Council's process catalogue. It included at least 40% more (i.e., 61) new process patterns, and many more processes, that were not within the scope of the Customer Contract. Council told TechnologyOne that Council wanted these additional process patterns and processes added to the work performed by TechnologyOne under the Customer Contract. As a result, TechnologyOne performed significant additional work to plan for the inclusion of this additional scope. However on 12 June 2017, after receiving the Response to the First Notice, Council told TechnologyOne that Council no longer required TechnologyOne to implement the system in accordance with Council's process catalogue. Despite requests, Council has not, as the Customer Contract obliges it to do, provided TechnologyOne with a conforming process catalogue. This means that TechnologyOne does not have the correct and necessary information to perform the Customer Contract. TechnologyOne issued Council with an Extension of Time request EOT-7 for at least 5 months. See sections 4.3 to 4.50 below.
- (b) **Council's Instruction Not to Proceed in December 2016 Causes Substantial Delays (5+ months):** On 15 December 2016, in breach of the Customer Contract, Council instructed TechnologyOne not to proceed past Payment Milestone 9. This instruction was both unreasonable and uncommercial. On 8 May 2017, that instruction was revoked by Council even though circumstances had not changed, demonstrating Council's inconsistent approach. For 5 months, TechnologyOne was prevented by Council from undertaking verification workshops with Council and configuring of the software. To TechnologyOne's detriment, because of this. TechnologyOne has been delayed in progressing the project. Council is still making it difficult for TechnologyOne to proceed. TechnologyOne issued Council with an Extension of Time request EOT-8 for at least 5 months. See sections 4.51 to 4.70 below.
- (c) **Council's Failure to Reform the Project Causes Substantial Delays:** Council publicly stated the project needed to be reformed, but took no material steps towards doing so. Because of the potential impact of reformation, Council and TechnologyOne agreed to defer planning and work that were contractually required to be performed and that were essential for subsequent points of the project. Because ultimately, Council did not undertake the reformation, these items of work have not been carried out. Council has refused to discuss this with TechnologyOne. That impasse has occasioned substantial delays. Examples of essential items that were postponed include the revised implementation methodology, the revised Master Schedule, and the revised Resource Plan, which had to be agreed between the parties. These items set out key procedures and plans that were needed to carry out the remainder of the project. TechnologyOne

issued Council with an Extension of Time request EOT-4 and EOT-9 in relation to this issue. See sections 4.71 to 4.106 below.

- (d) ***Council's Unreasonable and Bureaucratic Conduct Causes Delays.*** Council unreasonably demanded to increase scope, Council unreasonably required TechnologyOne to build additional features into TechnologyOne's product, Council scheduled unnecessary meetings, Council had a slow and bureaucratic approval processes, Council delayed in accepting deliverables, Council unreasonably added acceptance criteria and Council had a lack of understanding of the implementation approach. TechnologyOne provided details of this conduct in Attachment 1 to the Response to the First Notice. Continued unreasonable and bureaucratic conduct by Council is also causing further delays. TechnologyOne is still quantifying the impact of this and will issue an appropriate Extension of Time request shortly. See sections 4.107 to 4.135 below.

2.5 Sections 2.4(a) and 2.4(b) above, which are discussed further in section 4 below, are the subject of Extension of Time Requests issued to Council prior service of the Second Notice. Those requests appear not to have been taken into account in preparation of the Second Notice.

2.6 It is Council that has endangered the successful completion of the project though its actions and inactions, not TechnologyOne:

- (a) ***Council's Business Processes are Poorly Defined; their Process Catalogue is deficient and Council is in breach of contract.*** On 28 October 2016, Council provided TechnologyOne with Council's process catalogue. The Customer Contract required Council to document and provide descriptions of its processes, to enable TechnologyOne to undertake configuration. What Council provided was ill-defined and deficient in a number of ways. The process catalogue did not define Council's processes clearly or with the required level of detail. Processes were missing. New processes had been added. Processes had sub-processes that were out-of-scope. Process names had been changed. TechnologyOne issued Council with a Notice to Show Cause in relation to this issue. The project cannot proceed to successful conclusion without well-defined processes, which are Council's contractual obligation to provide. See sections 4.3 to 4.50 below.
- (b) ***Council has Not Acted on the Recommendations of the Independent Review Commissioned by Council.*** Council undertook an independent review of the project. The independent review highlighted issues that were preventing success of the project, and that those were issues of Council not of TechnologyOne. The independent review concluded that Council needed a new approach and new people, that Council personnel on the project needed to understand their own business processes, and that a tier one project manager or systems integrator was needed to run the project, rather than Council trying to do this itself. Rather than implement the recommendations of the independent review, Council has buried it and the Lord Mayor has distanced himself from the project and the report rather than implementing its recommendations. Not acting on the recommendations in the independent report is continuing to cause delays and is endangering the successful completion of the project. See sections 4.111 to 4.118 below.
- (c) ***Council's unreasonable conduct and lack of real action after the Lord Mayor's Announcement has condemned the project to fail:*** In late 2016, the project was proceeding and software was delivered to Council for implementation on 2 December 2016. There were no disputes (either formal or informal) between the parties and both parties were working and committed to the contracted go-live date. In late January 2017, Council informed TechnologyOne that "the opposition had heard about delays in the project and that the Lord Mayor was concerned about this" and wanted to get ahead of the issue. TechnologyOne received a draft of the Lord Mayor's media release just 15 minutes prior to the announcement being made. TechnologyOne highlighted to Council the misleading media release would put both companies on a collision course and would undermine the project. Council acknowledged this but refused to intervene. [REDACTED]

As a result, the behaviour of Council personnel working on the project changed. Council

has barraged TechnologyOne with over 75 legal letters in the last six months, has issued two Notices to Remedy, has issued two Notices to Show Cause, has refused to accept any of TechnologyOne's requests for extensions of time, has refused to negotiate any contract variations to deal with Council's requested scope increases, has announced a need to reform the contract but not carried through with this, and has instructed TechnologyOne not to proceed in accordance with the Customer Contract. Council has recently directed TechnologyOne to configure a system for Council that does not meet Council's current requirements. Council is forcing TechnologyOne to expend significant amount of unnecessary effort and cost and to divert TechnologyOne's key resources and attention away from focusing on successfully completing the project. Council is creating issues, instead of focusing on working collaboratively and productively with TechnologyOne to complete the project. Council is proceeding in a manner which frustrates the engagement and completion of the project in an attempt to force TechnologyOne to invest significant time and effort at all levels of its organisation so as to make the ongoing performance of the project prohibitively expensive for TechnologyOne, which is counterproductive to project aims and goals. Council's clear intention is that it will continue to calculate other means to terminate even if the legal outcome of this notice to show cause is in TechnologyOne's favour. It can be inferred that Council has no intention to allow TechnologyOne to perform in accordance with the Customer Contract. See sections 4.111 to 4.135 below.

- 2.7 Council's decisions, instructions and conduct referred to in sections 2.4 and 2.6 above were not commercially sensible approaches nor good practice. On many occasions, TechnologyOne informed Council of this, and recommended different approaches to those taken by Council. TechnologyOne notified Council numerous times that Council's decisions, instructions and conduct as set about above would delay the project. Council did not accept TechnologyOne's recommendations. Delays resulted, and Council unfairly and incorrectly blames TechnologyOne for delays and for endangering the project, for issues that in fact were caused by Council.