2009

Sample Comprehensive Credit Rating Report

Probon International Pty Ltd and its Controlled Entities

Sample Comprehensive Credit Rating Report

Prepared on:

Probon International Pty Ltd

(ACN 000 123 444)

Prepared for:

Attention: Mr Joe Smith

Manager

Procurement Branch

Department of IT Infrastructure

Prepared by

Corporate Scorecard Pty Ltd

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1. Executive Summary

Probon International Pty Ltd (ACN 000123444)

Probon International Pty Ltd (PROBON) acts as the holding company for a group which specializes in developing, providing and installing Payment, Bill & Web Technology systems.

PROBON's credit quality on a consolidated basis deteriorated to 'ccc' over the period to December2009. This is considered a highly vulnerable rating with a credit watch classification and a high level of risk.

Audited consolidated accounts for the year ended December2009 disclose net profit after tax decreased by 23.60% to **- $307.60m** (2008: **- $248.07m**)

Key Strengths

- Capital raising of $363.01m in June 2009
- Syndicated loan agreement of $600.00m
- Restructuring process that commenced at end 2008

Key Challenges

- Significant refinance risk of $450.00m due January 2010
- Legal dispute with the major supplier, CBMS Software Solutions, and impact on 'going concern' if outcome is unsuccessful
- Qualification on 'going concern' if sales, profit and cash flows fall below current planning levels
- Capital raising restraints resulting from decrease in the market 'stock' price from $64.24 per share (4 July 2007) to $0.66 per share (22 Jan 2010)
- Inadequate working capital position
- Negative profits, retained earnings, operating cashflows, repayment capability, interest coverage and financial leverage with low liquidity and high gearing

PROBON has a number of financial restraints with its syndicated loan facility and does not have sufficient internal resources to accommodate sustained growth. It is reliant on external financing and/or support and is unlikely to be able to provide support to the tendering entity.

Based on the reported results for the three months to September 2009 and the challenges facing the company, Corporate Scorecard holds a stable-negative outlook on the credit quality of PROBON.

Following our detailed analysis, our **OPINION** is that Probon Pty Ltd is heavily reliant on PROBON to continue as a going concern, and given the credit quality and financial restrictions on PROBON, that Probon Pty Ltd would **not be acceptable** for the contractual commitments of this engagement.

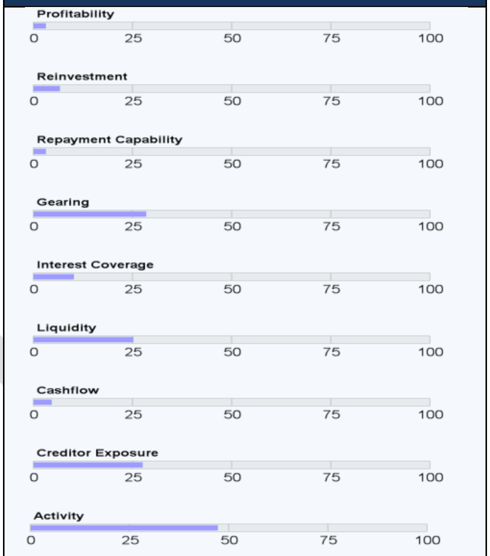
According, based on the financial capacity and viability of the company we recommend a maximum individual contract value of $0m and a maximum aggregate contract value of $0m.

This opinion is valid for a period of one year from the date of this Report. After that date, a further assessment would be required. Please refer to the full report for further information.

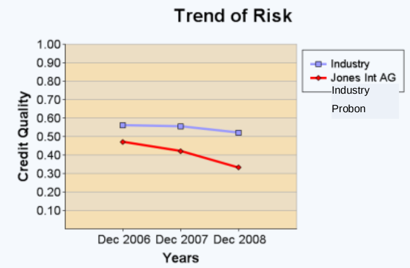
Risk Rating

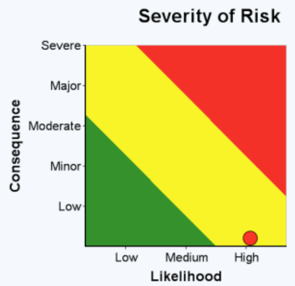
Risk rating	Subject	Sector
• 2007	b	bb-
• 2008	b-	bb-
• 2009	ccc	b+
Trend	Deterioration	Deterioration

Risk Indicators

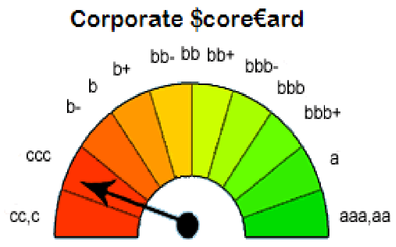


Risk Diagnostics*





Credit Rating



2. Scope of Report

The purpose of this Credit Rating Report is to provide a Financial Viability Assessment on Probon International Pty Ltd (PROBON) for the Procurement Branch, Department of IT Infrastructure, NSW. We have used our Corporate Scorecard Credit Rating system, which is similar in form and accuracy to ratings provided by Standard & Poor's and Moody's. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions.

We have conducted our assessment on the basis of the information provided to us by PROBON, and from our own enquiries. We have derived a Credit Rating for the subject based on the understanding that it has no contingent liabilities to any other entity other than as disclosed to us. Our duty does not include auditing the financial statements.

The Credit Rating is based on an entity's ability to meet and complete the obligation(s) for which it is being rated. The contract relating to this evaluation is as follows:

Entity Name	**Probon International Pty Ltd**
Industry Group	**L - Property & Business Services**
Assessment Basis	**Consolidated Accounts**
Principal Name	**Procurement Branch, Dept. of IT Infrastructure, NSW**
Contract Name	**Document Management System**
Contract Role	**Ultimate Parent of Tendering Entity**
Assessment Purpose	**Counterparty Risk to Prime Contractor**
Total Contract Value	**$32.00m**
Maximum Annualised Commitment	**$20.00m**
Initial Capital Spend	**$2.50m**
Contract Duration	**24 months (with two possible 12 month extensions)**
Payment Terms	**Delivery milestone progressive payments in arrears**

The opinion in this report is valid for a period of one year from the date of this report. After that time, a revised credit rating is required. This Report and the information contained herewith is for the exclusive and internal use of the Procurement Branch, Dept. of IT Infrastructure, NSW and shall not be disclosed to any other person or entity without written consent from Corporate Scorecard Pty Ltd. The Report should be taken as a whole and cannot be abridged or excerpted for any reason.

3. General Background of the Subject

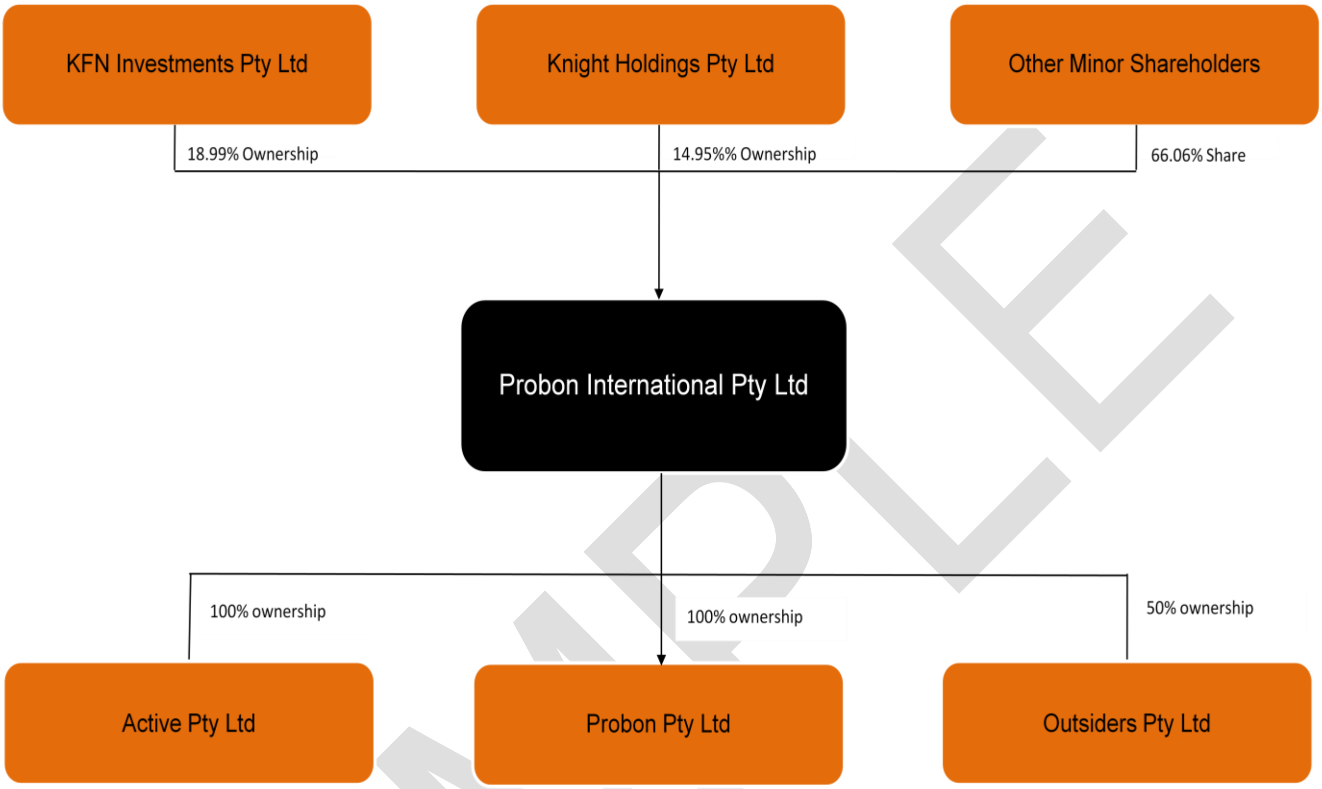
3.1 Subject Overview

Subject Name	Probon International Pty Ltd
Type of Entity	Australian Proprietary Company
Subject Identifier	ACN 000123444 ABN 99000123444
Head Office Address **(Ultimate Parent Entity)**	**Probon International Pty Ltd** Address: 20 Station Road, Blacktown, NSW, 2148 Phone: (02) 9123 4567 Fax: (02) 9123 4568
Head Office Address (Tendering Subsidiary)	**Probon Pty Ltd** Address: 20 Station Road, Blacktown, NSW, 2148 Phone: (02) 9123 4567 Fax: (02) 9123 4568
History	The Sydney-based Probon International Pty Ltd (PROBON) ranks among the leading Payment, Bill & Web Technology systems companies in Australia. Founded in 1998, it offers commercial organisations, utilities, local government and e-merchants secure B2B, B2C, and payment services via the internet, phone or custom software applications. Combining the latest in internet, telephony and banking network technologies, it delivers real time secure communications and provides dependable connectivity throughout the client's company, and its suppliers and customers. It has strategic alliances with financial institutions and telecommunication carriers and this has enabled its network to deliver complete 24x7 payment services, including processing of financial transactions in real time through all major banks. Probon Pty Ltd was established in January 2005 as the operational and tendering subsidiary of Probon International Pty Ltd. It has a head office in Sydney and state offices in Brisbane, Melbourne and

	Perth with plans to expand into Adelaide and Darwin. Following the formation of Probon Pty Ltd, Probon International Pty Ltd has become the holding company, providing administrative & financial support.
Principal Activities	Developer, provider & installer of Payment, Bill & Web Technologies. The group specialises in development of payment & billing solutions, document management systems, data management systems, network services and IT Data Centres

3.2 Corporate Structure

Entity Ownership Structure Diagram:



3.3 Management Overview

Shareholders of Probon International Pty Ltd (Ultimate Parent Entity)	The shareholder structure of PROBON as at 31 June 2009 was as follows: Of the 398,098 no-par shares, KFN Investments Pty Ltd held 18.99% and Knight Holdings Pty Ltd held 14.95% of the voting rights. The remaining shares are classified as free-floating shares. Knight Holdings Pty Ltd retains options to acquire a further 1.02% of the company's shares from the original shareholders of PROBON. With these additional shares, Knight Holdings Pty Ltd would hold a stake of 15.97% percent in PROBON. In addition to the shareholders mentioned above, no further shareholders are known to control more than 5.0% of the capital of PROBON.

Shareholders of Probon Pty Ltd (Australian subsidiary)	Probon International Pty Ltd (100%)
Board of Probon International Pty Ltd (Ultimate Parent Entity)	**ANTHONY KNIGHT** holds a Bachelor of Applied Science (Computing) and was a founding Director. He was previously employed by IBM Australia Limited from 1979 until 1995, holding various sales and Marketing roles. He has not had a hands-on role within the business for the last 2 years but has remained as a non-executive Director. He has built and manages an IVR hosting business and more recently has established a number of web based businesses providing sales and Marketing type services. He remains Chairman of the board. **JAMES FORD** joined PROBON in 2005 and is one of Australia's most experienced private equity investment Directors. He participated in the fund raising, portfolio development, management and sale of investments for several generations of Premier Private Equity Funds. He has been chairman or a director of over 20 Premier investees. Prior to joining Premier Private Equity, he played a pivotal role in helping establish the Australian venture capital industry. He was Secretary and Member of the Committee that recommended Australia's first VC Program, the MIC Program. He was then responsible for leading the design and implementation of the MIC Program and MIC Licensing Board. He holds a Bachelor of Economics degree from Monash University and has attended numerous courses in finance and general management. **MARK NEWMAN**, joined PROBON in 2001, originally as its Financial Controller, later as its General Manager and for the last 3 years as its Managing Director. Prior to joining PROBON, he spent 15 years in the Chartered Accounting profession within PriceWaterHouse and Deloittes, primarily focusing on mergers and acquisitions and profitability and process improvement consultancies. He has a degree in Economics with a major in

	Accountancy from the University of Adelaide, is a member of the Institute of Company Directors and has completed the Post Graduate Professional Year of studies with the Institute of Chartered Accountants.
Board of Directors of Probon Pty Ltd (Tendering entity)	**JOHN CLARKSON** has over 20 years experience in the IT industry. He is highly regarded as a professional architect in network, server, storage and platform design by his peers in the integrator and vendor community. His experience over years of IT trends and innovations provides the team with technical leadership. He has worked on major deployments throughout his career ranging from 3500 desktop build and rollout to large scale Data Centre commissioning. During the past five years, he has spent most of his time being responsible for establishing and developing Partnerships in the industry. **MARK NEWMAN** joined PROBON in 2001, originally as its Financial Controller, later as its General Manager and for the last 3 years as its Managing Director. Prior to joining PROBON, he spent 15 years in the Chartered Accounting profession within PriceWaterHouse and Deloittes, primarily focusing on mergers and acquisitions and profitability and process improvement consultancies. He has a degree in Economics with a major in Accountancy from the University of Adelaide, is a member of the Institute of Company Directors and has completed the Post Graduate Professional Year of studies with the Institute of Chartered Accountants.

3.4 Segment Overview

As at December 2009, PROBON was managed via three divisions being Payment and Billing Services (PBS), Document and Data Management Systems (DDMS) and Network Services (NS). In its Payment and Billing Services segment PROBON develops, produces and markets payment and billing services systems. PROBON develops and markets document and data management systems in its Document and Data Management Systems segment. In its Network Services segment, PROBON delivers internet, telephony and banking network technologies. Segment sales for Payment and Billing Services were $251.50m (2008: $ 155.53m); Document and Data Management Systems were $352.10m (2008: $250.00m); Network Services at $402.40 (2008: $300.00m). Segment sales via region were as follows: Australia at $251.50m (2008: $176.25m); UK at $201.20m (2008: $141.00m); Rest of Europe at $100.60m (2008: S70.50m); Rest of World at $452.70m (2007: $317.25 m).

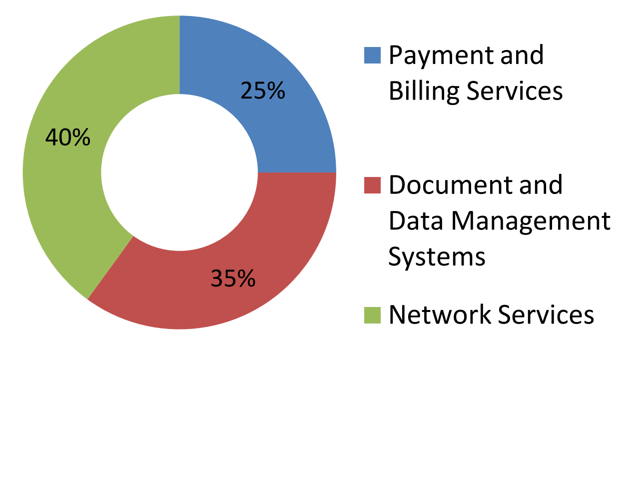
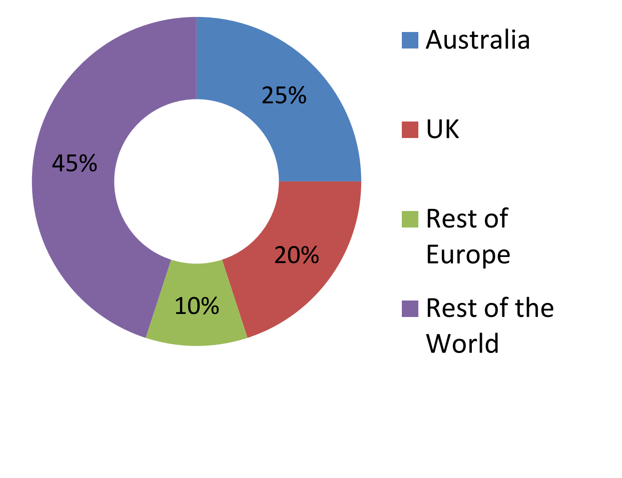
By Business Segment

	PBS	DDMS	NS
Sales	$251.50	$352.10m	$402.40m
Growth	*61.71%*	*40.84%*	*34.13%*
Profit	**-$80.00m**	**-$128.40m**	**-$125.00m**
Margin	***-31.81%***	***-36.47%***	***-31.06%***
Net Assets	$61.80m	$60.00m	$75.00m

By Geographic Area

	Australia	UK	Rest of Europe	Rest of the World
Sales	$251.50m	$201.20m	$100.60m	$452.70m
Growth	*25.75%*	*42.70%*	*32.37%*	*56.90%*
Profit	**-$95.98m**	**-$82.42m**	**-$80.00m**	**$75.00m**
Margin	***-38.16%***	***-40.96%***	***-79.52%***	***-16.57%***
Net Assets	$45.64m	$39.93m	$20.67m	$90.56m

The break-up of revenue by each segment and geography for PROBON for the year ended December 2009 are illustrated below.

Revenue by Segment	Revenue by Geography
	

3.5 Project Overview

Major Contracts:

Contract	Client	Contract Value	Percent Complete
Network services, development of payment & billing solutions.	NSW Department of Education	$46.50m	55%
Development of an IT Data Centre for payment & billing solutions.	NSW Police	$18.00m	80%
Network services.	BHP Billiton	$24.50m	5%
Development of document management system.	Department of Education (Victoria)	$22.75m	70%
Development of billing system.	Department of Defense	$55.35m	40%
Document management system	Australian Federal Police	$17.60m	50%
Document management system	Commonwealth Bank of Australia	$36.20m	0%
Network services, development of payment & billing solutions.	RAA Security Pty Ltd	$13.50m	0%
Development of web technologies & data centre	Pro Security	$15.90m	25%
Development of data management system.	Woolworths Limited	$29.80m	60%

Unexecuted Work-in-Hand:

Year ending 31st Dec 2010	Year ending 31st Dec 2011	Year ending 31st Dec 2012
$213.50m	$121.10m	$26.40m

4. Financial Overview

4.1 Financial Information

Revenue	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Sales Revenue	$1,007.20m	$705.53m	$682.33m	Inc	42.62%
Other Revenue	$19.00m	$15.98m	$5.18m	Inc	18.90%
Total Revenue	$1,025.20m	$721.51m	$687.51m	Inc	42.09%

Expenses	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Cost of Goods Sold	$880.20m	$611.96m	$574.40m	Inc	43.84%
Depreciation	$35.80m	$42.65m	$4.54m	Dec	16.07%
Amortisation	Nil	Nil	Nil	Nil	Nil
Total Expenses	$1,358.60m	$991.09m	$691.95m	Inc	37.09%

Profit	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Gross Profit	$126.00m	$93.57m	$108.93m	Inc	34.66%
Profit after Tax	($307.60m)	($248.07m)	($0.64m)	Dec	23.60%
Profit after Tax & Dividends	($305.30m)	($250.86m)	($4.03m)	Dec	21.71%
Retained Earnings	($567.00m)	($261.71m)	($12.33m)	Dec	116.66%

Financing	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Interest Income	$3.60m	$11.13m	$1.09m	Dec	67.66%
Dividend Income	Nil	Nil	Nil	Nil	Nil
Borrowing Costs	$71.40m	$32.86m	$7.13m	Inc	117.29%
Dividends Paid	Nil	$3.30m	$3.01m	Dec	>100.00%

Cash Flow	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Net Operating Cash Flow	($160.90m)	($188.62m)	($238.08m)	Inc	14.70%
Net Investing Cash Flow	($21.20m)	($194.55m)	($100.97m)	Inc	89.11%
Net Financing Cash Flow	$146.40m	$421.51m	$237.10m	Dec	65.27%
Net Cash Flow	($35.70m)	$38.34m	($101.94m)	Dec	193.12%

Balance Sheet	Dec 2009	Dec 2008	Dec 2007	Change to Dec 09	% Change
Working Capital	$8.40m	($17.02m)	$44.48m	Inc	149.36%
Total Assets	$746.80m	$1,036.08m	$697.83m	Dec	27.92%
Total Liabilities	$550.00m	$910.92m	$546.39m	Dec	39.63%
Shareholders' Equity	$196.80m	$125.15m	$151.45m	Inc	57.26%

Other Items as at **December 2009**:

Other Information	Type	December 2009
Intangibles	Non-Current Assets	$30.10m
Deferred Tax Assets/Liabilities	Non-Current Assets	$79.60m
	Non-Current Liabilities	$10.10m
Income Tax	Current Liabilities	$2.10m
Related Party Receivables/Payables	Current Assets	Nil
	Non Current Assets	Nil
	Current Liabilities	Nil
	Non Current Liabilities	Nil
Interest Bearing Liabilities (including interest bearing Related Party Loans)	Current – Secured	$224.90m
	Current – Unsecured	Nil
	Non Current – Secured	$86.50m
	Non Current – Unsecured	Nil
Operating Leases Outstanding	< 1 year	$17.60m
	>1 year but <5 years	$34.20m
	>5+ years	$123.90m
Contingent Liabilities	Additional Information	$166.00m*
Registered Charges	Additional Information	Yes**
Court Proceedings / Adverse Check	Additional Information	Not Available

** Bank guarantees and documentary credits as part of the syndicated credit facility amounted to $129.70m (2009) and $141.47m (2008). The company also had liabilities to other banks from $36.30m (2009) and $29.00m (2008) in draw downs from bilateral guarantee facilities. Please refer to comments on contingencies under section 5.10 "Contingencies" of this report for further information*

*** PROBON had secured debt with banks at $311.40m (2009) and $455.43m (2008). Refer to comments on debt maturity and funding under section 5.5.*

4.2 Financial Indicators

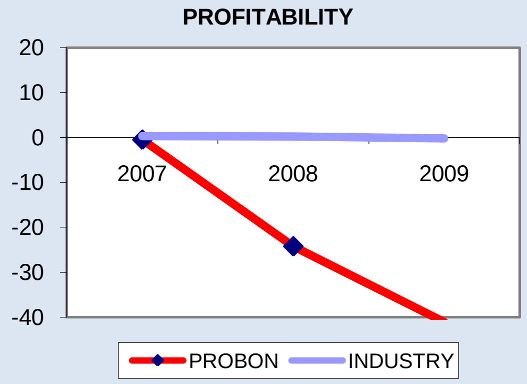
Probon International Pty Ltd (PROBON) overall Credit Rating was derived after a detailed analysis of key credit and financial indicators. The subject's performance relating to several of these indicators is provided below. Sector averages have been derived from selected comparator entities within a specified sector of the ANZSIC Classification Code "L – Property & Business Services".

(i)Profitability

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Substantial Deterioration*

This indicator reflects the current year's level of profit that remains for reinvestment into the business to fund improvement and future growth.

PROBON'S profitability deteriorated substantially from **-0.52%** (2007) to **-41.07%** (2009). Although gross profit increased by 16.75% to $126.00m (2007: $108.93m), other expenses increased substantially by 307.98% to $478.40m (2007: $117.55m). This contributed to the substantial decrease in net income to **-$305.30m** (2008: **-$4.03m**) and with the $48.97m increase in the asset base to $746.80m (2007: $697.83m), resulted in the substantial deterioration in profitability. The indicator was significantly below the sector average recorded at – 0.20% at 2009.



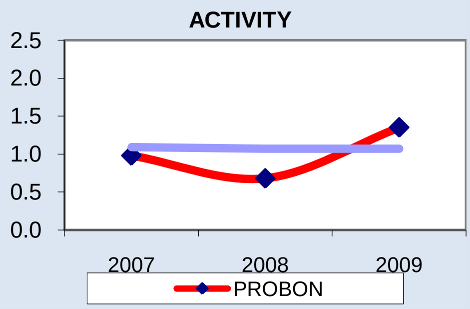
The higher the better

(ii) Activity

Relative to the Sector	Change over the Period
Slightly Higher than Average	*Recent Increase*

This indicator reflects the efficiency of management in generating and growing sales from the asset base of the company.

PROBON'S activity indicator increased in 2009 to 1.35 times (2008: 0.68 times) to be slightly higher than the sector average at 1.08 times (2009). The decrease in cash ($34.13m), trade debtors ($91.75m), inventories ($96.76m) and other current assets ($76.48m) contributed to the 27.92% decrease in the asset base to $746.80m (2009) and together with the 42.62% increase in sales revenue to $1,007.20m (2009), resulted in the increased activity level.



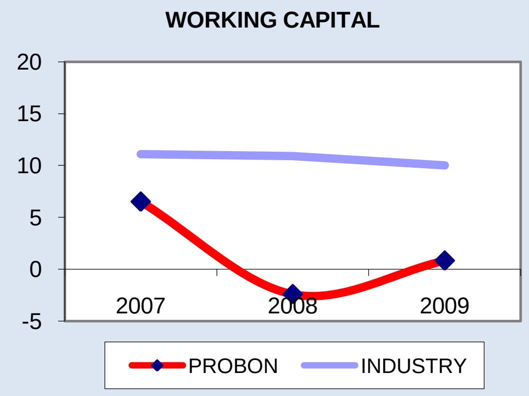
The closer to industry levels the better

(iii) Working Capital

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Recent Improvement*

This indicator reflects the working capital position relative to the revenue level of the business

PROBON'S working capital increased from **-$17.02m** (2008) to $8.40 (2009). While current liabilities decreased by 43.67% to $418.70m (2009), the company's current assets decreased 41.19% to $427.10m (2009). Despite sales revenue increasing by 42.62% to $1,007.20m (2009), the working capital position improved from **-2.41%** of sales (2008) to 0.83% of sales (2009). The company has remained significantly below the sector average level during the period under review.



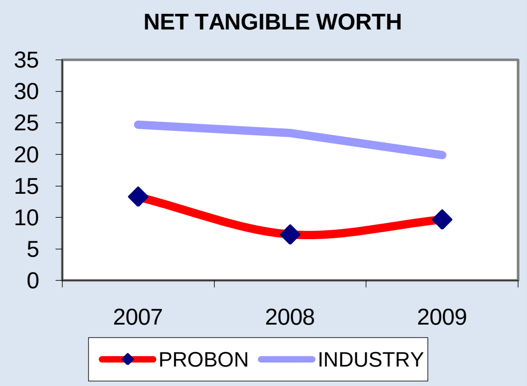
The higher the better

(iv) Net Tangible Worth

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Recent Improvement*

This indicator reflects the net tangible worth position relative to the revenue level of the business.

PROBON'S net tangible worth improved from $51.43m (2008) to $97.20m (2009). Impaired assets and asset sales resulted in a significant decrease in net intangibles, reducing to $30.10m (2008: $44.07m). Despite sales revenue increasing from $705.53m (2008) to $1.007.20m (2009), the tangible net worth position improved from 7.29% of sales (2008) to 9.66% (2009). This is significantly below the sector average of 19.90% of sales (2009).



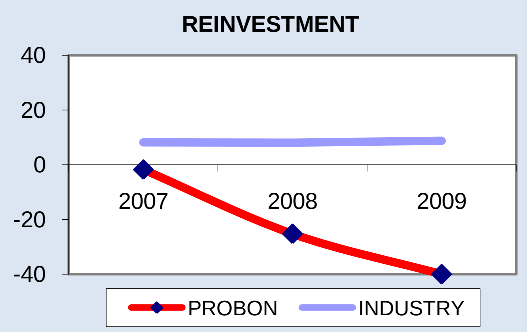
The higher the better

(v) Reinvestment

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Substantial Deterioration*

This indicator reflects the accumulated level of profit that has been reinvested into the business over time to fund future growth. It is one of the most heavily weighted indicators examined and compares retained profit with the asset base.

PROBON'S reinvestment indicator deteriorated from **-25.26%** (2008) to **-75.92%** (2009) and remained significantly below the sector average levels recorded at 8.70% (2009). Despite a decrease of 27.92% in the company's asset base to $746.80m (2008: $1,036.08m), the substantial decline in profitability contributed to an erosion of 116.66% in retained earnings to **-$567.00m** (2008: **-$261.71m**).



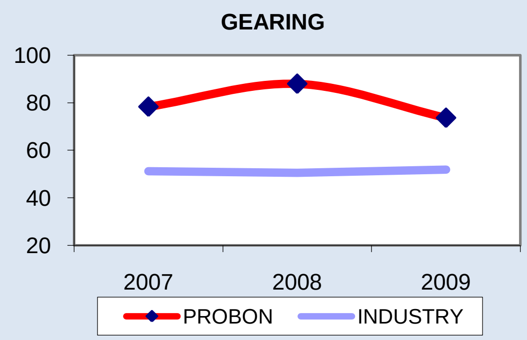
The higher the better

(vi) Gearing

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Recent Improvement*

This indicator reflects the extent of total debt outstanding relative to the company's total asset pool. The benchmark for this indicator is to have a gearing indicator of no more than 65%.

Although **PROBON'S** gearing improved from 87.92% (2008) to 73.65% (2009), it remained significantly above (worse) than the sector average level at 51.90% (2009) and the 65% risk benchmark. While the company's asset base decreased by 27.92% to $746.80m (2008: $1,036.08m), total liabilities decreased by 39.63% to $550.00m (2008: $910.92m). The capital-raising of $363.01m supported the $144.03m decrease in interest-bearing debt and the $171.03m decrease in trade creditors that contributed to the substantial decrease in total liabilities.



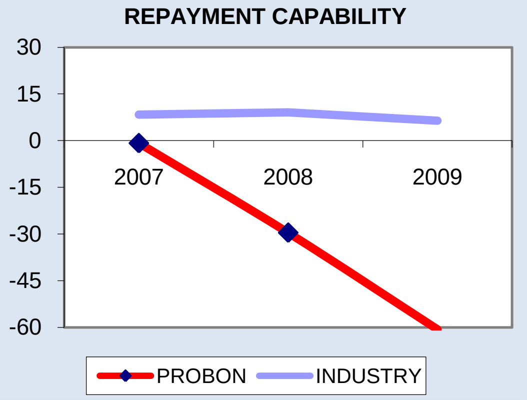
The lower the better

(vii) Repayment Capability

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Substantial Deterioration*

This indicator reflects the company's ability to meet total outstanding debt and obligations from business profits.

PROBON'S long-term debt repayment capability deteriorated in 2009 to **-60.62%** (2008: **-29.59%**) and remained significantly below the sector averPty Ltde level at 6.40% (2009). The capital-raising of $363.01m in June 2009 enabled a reduction in debt and trade creditors. As such, total liabilities decreased by 39.63% to $550.00m (2008: $910.92m). However the 26.19% increase in other expenses to $478.40m (2008: $379.13m) contributed to a 23.68% decrease in pre-tax profit to **-$333.40m** (2008: **-$269.58m**), which contributed to the deterioration in this indicator.



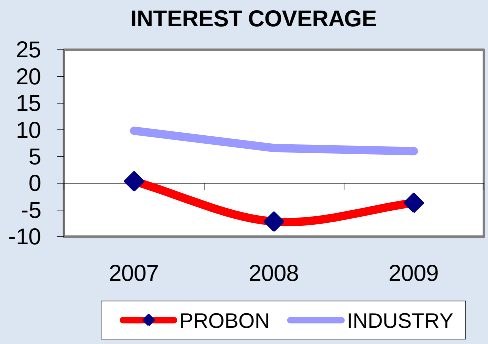
The higher the better

(viii) Interest Cover

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Deterioration*

This indicator reflects the company's level of profits that is available to meet its total interest expense obligations.

PROBON'S interest coverage deteriorated from 0.38 times (2007) to **-3.67** times (2009) and remains significantly below the sector average at 6.02 times (2009). While EBIT decreased from $2.69m (2007) to **- $262.00m** (2009), interest expenses increased to $71.40m (2007: $7.13m), impacted by the increase in interest-bearing debt levels over the period.



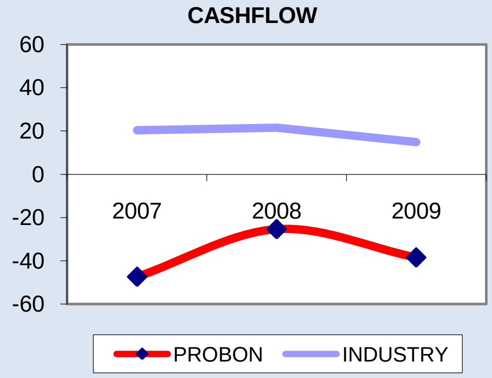
The higher the better

(ix) Cashflow Cover

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Recent Deterioration*

This indicator reflects the level of cash that is generated from business activity which is available to meet short-term cash commitments. Cashflow is a critical indicator of credit risk.

PROBON'S cashflow cover deteriorated from **-25.38%** (2008) to **-38.43%** (2009). Although net operating cash flow increased from **-$188.62m** (2008) to **-$160.90m** (2009), it remained significantly negative with the company continuing to make substantial operating losses at **-$269.58m** (2008) and **-$333.40m** (2009). While operating cash flow increased by 14.70% to **-$160.90m**, current liabilities decreased by 43.67% to $418.70m (2008: $743.24m). The company's cashflow cover has remained significantly below sector average levels at 14.80% (2009).



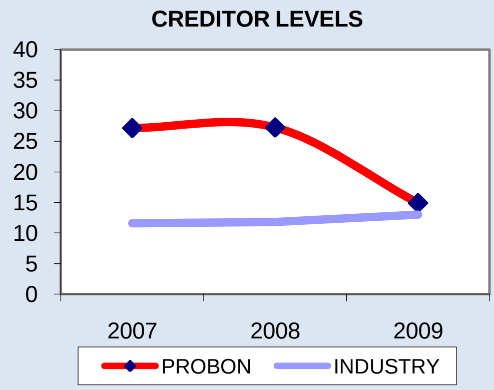
The higher the better

(x) Creditor Exposure

Relative to the Sector	Change over the Period
Average	*Recent Improvement*

This indicator reflects the company's ability to manage cash flow and how it uses trade creditors in funding cash flow. Generally the higher the level of outstanding creditors the higher the potential risk.

PROBON'S level of exposure to creditors improved from 27.24% (2008) to 14.89% (2009) of assets, to be broadly in line with the sector average level. Creditor-days significantly reduced (improved). The capital raising of $363.01m in June 2009 supported the 60.60% decrease in trade creditors to $111.20m (2008: $282.23m) which was significantly greater than the 27.92% decrease in the company's asset base to $746.80m (2008: $1,036.08m).



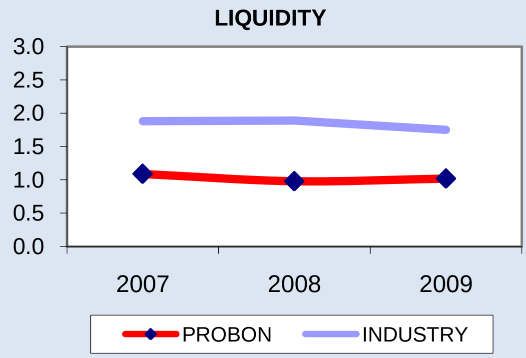
The lower the better

(xi) Liquidity

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Relatively Stable*

This indicator reflects the company's level of liquid assets that would be available to meet short-term cash commitments. The risk benchmark is 1.5 times.

PROBON'S current indicator remained stable over the period at 1.09 times (2007), 0.98 times (2008) and 1.02 times (2009). During 2009 the level of current liabilities and current assets decreased by similar proportions, being approximately 40.00%. The company has been performing below the sector average for the period under review, and below the risk benchmark of 1.5 times. The company's quick indicator is 0.43 times, which is significantly below (worse than) the risk benchmark of 1.25 times.



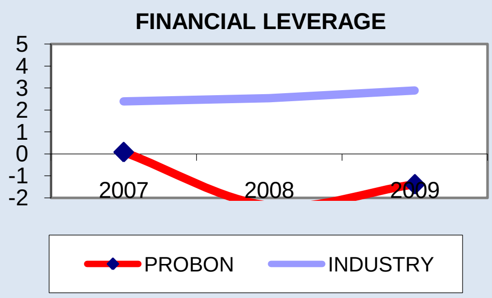
The higher the better

(xii) Financial Leverage

Relative to the Sector	Change over the Period
Significantly Worse than Average	*Deterioration*

This indicator reflects the subject's level of debt in relation to earnings before interest, tax and depreciation. The level of credit risk increases when this level exceeds five times or is negative.

PROBON'S financial leverage improved from -2.35 times (2008) to -1.38 times (2009), however with the company generating operating losses over the past two years, the indicator has remained negative. While EBITDA decreased by 16.56% to **-$226.20m** (2008: **-$194.08m**), the capital-raising of $363.01m in June 2009 facilitated a 31.63% decrease in interest-bearing debt to $311.40m (2008: $455.43m). The indicator has remained significantly worse than the sector average level in the three years to 2009.



The lower the better (unless negative)

Each of the financial indicators shown above has a different weighting in calculating the overall Credit Rating. Some are much more heavily weighted than others when assessing the overall credit quality of the subject. The structure, size and sector within which the subject operates also have a strong bearing on the overall Credit Rating assigned.

5. Commentary and Analysis

5.1 Sales and Profitability

Probon International Pty Ltd (PROBON) reported a 42.62% increase in sales revenue from $705.53m (2008) to $1,007.20m (2009). Despite the deterioration in the gross profit Margin from 13.26% (2008) to 12.52% (2009), the increases sales level supported a 34.66% increase in gross profit to $126.00m (2008: $93.57m). However, this was offset by the $99.27m increase in other expenses to $478.40m (2008: $379.13m) and contributed to a 23.68% decrease in pre-tax profits to **-$333.40m** (2008: **-$269.58m**). As such PROBON experienced a decreased in its retained earnings position from **-$261.71m** (2008) to **-$567.00m** (2009).

5.2 Financial Indicators

PROBON was observed to be inferior to the sector average for the key financial indicators relating to Profitability, Reinvestment, Working Capital, Net Tangible Worth, Gearing, Cashflow Cover, Liquidity, Repayment Capability, Interest Cover, and Financial Leverage. The company was broadly in line with the sector average for Activity and Creditor Exposure.

Despite PROBON'S sales revenue increasing substantially, by 42.62% to $1,007.20m, the key risk indicator for profitability deteriorated from **-24.26%** (2008) to **-41.07%** (2009). PROBON recorded a increase of 23.60% in post-tax losses to **-$307.60m** (2009) to record a deterioration in the indicator and remain significantly below the sector average recorded at -0.20% at 2009. The increase in post-tax losses was impacted by the substantial increase in other expenses to $478.20m (2009). It was observed that finance costs increased by $38.50m to $71.40m, losses after tax from discontinued operations increased by $18.00m to $53.10m, and other operating expenses increased by $52.20m to $231.50m. The increase in bad debt allowance ($23.80m), currency losses ($23.00m) and legal and consulting fees ($11.40m) contributed to the increased operating expenses. PROBON'S retained earnings deteriorated from **-$261.71m** (2008) to **-$567.00m** (2009). Although the company's asset base decreased by 27.92% to $746.80m (2008: $1,036.08m), the substantial decrease in retained earnings resulted in the company's reinvestment indicator deteriorating from **-25.26%** (2008) to **-75.92%** (2009).

Although PROBON'S gearing improved from 87.92% (2008) to 73.65% (2009), it remains significantly worse than the sector levels at 51.90% (2009) and the 65.00% risk benchmark. The improvement was supported by the capital raising in June 2009 of $363.01m that offset the impact from the net loss of $305.30m (2009). PROBON'S interest coverage and financial leverage both improved during 2009, however with significant operating losses being incurred in recent years, the indicators remained negative and significantly below the sector average levels. The decrease in pre-tax profits to **-$333.40m** (2008: **-$269.58m**) contributed to the deterioration in the company's repayment capability to **-60.62%** (2008: **-29.59%**). The indicator is significantly below the sector average level at 6.40% (2009).

PROBON'S level of exposure to creditors decreased (improved) from 27.24% (2008) to 14.89% (2009) of assets. The capital raising supported the decrease in the balance of trade creditor payables to $111.20m (2008: $282.23m). However the working capital benefits obtained from the 43.67% decrease in current liabilities to $418.70m (2008: $743.24m) were constrained by the company's continued negative net operating cash flows of **-$160.90m** (2008: **-$188.62m**). As such, PROBON'S cashflow coverage deteriorated from **-25.38%** (2008) to **-38.43%** (2009). Although the liquidity indicator remained relatively stable over the period at 1.09 times (2007), 0.98 times (2008) and 1.02 times (2009), it remained significantly below the sector average of 1.75 times (2009) and the financial risk benchmark at 1.5 times.

5.3 Financial Capacity

The Working Capital and Net Tangible Worth metrics are key indicators of the financial capacity (the higher the indicator the greater the capacity) to undertake contractual commitments. PROBON was observed to have an adequate level of Net Tangible Worth to support its subsidiary company (Probon Pty Ltd) for the annualised commitment associated with the contract in question. However, PROBON was observed to have an inadequate level of Working Capital, and as such constrains its ability to provide funding and/or assistance to the subsidiary as and when required.

PROBON'S working capital increased from **-$17.02m** (2008) to $8.40m (2009). Current liabilities decreased by 43.67% to $418.70m (2009) while the company's current assets decreased 41.19% to $427.10m (2009). Therefore, despite sales revenue increasing by 42.62% to $1,007.20m (2009), the working capital position improved from **-2.41%** of sales to 0.83% of sales (2009), however it remains significantly below the sector average levels at 10.00% (2009).

PROBON'S net tangible worth improved from $51.43m (2008) to $97.20m (2009). As such, despite sales revenue increasing to $1,007.20m (2008: $705.53m), the net tangible worth position improved to 9.66% of sales (2008: 7.29%), however it also remains significantly below the sector average level at 19.90% (2009).

The level of credit risk increases as the size of the contractual commitment approaches the financial capacity constraints of a company. This is particularly magnified for large commitments with a concentrated exposure. More specifically, once the size of any single annualised commitment exceeds 30% of the average annual revenue of the entity for the past three years, the level of risk significantly increases. PROBON has averaged sales of $798.02m in the three years to December2009. The annualised exposure of the contract in question therefore represents 1.44% of average revenue of the ultimate parent entity for the past three years, which is well within the desired capacity threshold.

5.4 Sustainable Growth

An area investigated for credit quality purposes is the company's ability to sustain growth levels based on their internal resources and reserves. The sustainable growth rate (SGR) refers to the rate at which an entity can grow its revenue base without having recourse to external finance, and is calculated as the retained income divided by opening shareholder funds. If an entity is growing in excess of this rate it will require additional funding or will experience deterioration in its key credit indicators and financial strength. In these situations, high growth entities are likely to face liquidity constraints, increased gearing, lower interest coverage and diminished dividend payouts. PROBON has a number of financial restraints with its syndicated loan facility and does not have sufficient internal resources to accommodate sustained growth, and is reliant on external financing and/or support. Its capacity to facilitate and support the growth of its subsidiary company is therefore heavily constrained.

5.5 Finance and Funding

At December2009, PROBON'S debt amounted to $311.40m (2008: $455.43m) and represented 56.62% (2008: 50.00%) of the total liabilities. It consisted of current loans of $224.90m (2008: $335.40m) and non-current loans of $86.50m (2008: $120.03m). All debt was interest-bearing with banks and was secured over asets of the company.

The following information was provided in the Annual Report 2009:

"Probon's interests in several fully consolidated subsidiaries were pledged as security for the loan liablities". As such, the company has significant debt obligations with assets fully pledged and restrictive covenants to be maintained. The syndicated loan agreement was originally for $600.0m and was signed in 2007.

The loan was divided into two tranches and provided funding for the construction of the production facility in Victoria (Tranche A) and also enabled PROBON to refinance its existing credit facilities and finance its working capital and guarantee requirements (Tranche B with a revolving facility of $250.00m and a guarantee and documentary credit facility of $200.00m). Tranche A, amounting to $150.00m, is to be repaid by 31 December 2011 in half-yearly instalments starting on 30 June 2008. In this regard in 2009 $37.50m was settled as agreed upon. Tranche B, amounting to $450.00 million is due for total repayment on 31 July 2010, unless the banks approve an application for extending Tranche B's term to 31 July 2011 or 31 July 2012, as the case may be. The syndicated loan was initially collateralised by pledging absolutely all interests in Australia. Liens were created for absolutely all interests in the UK

The individual tranches are subject to interest at a rate corresponding to the sum of the applicable margin, LIBOR for the interest period selected and the regulatory costs (in each case as defined in the loan agreement). The relevant applicable margin is the prevailing margin at the time the contract was closed, which is either raised or lowered with respect to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. The initial margin is 1.70% per annum for tranche A and 1.55% per annum for tranche B. The margin is raised or lowered in regards to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. Accordingly, (i) the margin for tranche A may be lowered to 0.65% p.a. and raised to 1.95% p.a. and (ii) the margin for tranche B may be lowered to 0.50% p.a. and raised to 1.80% p.a. The syndicated loan agreement also provides for an increase in the relevant applicable margin by 1.0% p.a. if the debtor fails to make timely payments on amounts that are due and payable.

Under the loan agreement, PROBON is obligated to pay the customary loan commitment fee for any unused amounts under both tranches depending on the relevant applicable margin.

PROBON is also obligated – if it borrows funds on the capital market, sells assets and receives insurance payments – to use its net revenues for early repayment, in full, first of tranche A and then of tranche B, provided none of the exceptions set forth in the loan agreement intervene. However, the banking syndicate holding the loan has waived compliance with this obligation during the term of the bridge loan if the revenues are utilised to repay it.

The loan agreement contains requirements that have an impact on PROBON' ability to exercise discretion in operational terms. PROBON has undertaken thereunder to ensure that the ratio of consolidated net liabilities to consolidated EBITDA (in each case with and without contingent liabilities) does not exceed a specific figure and that the ratio of EBITDA to consolidated net interest expense does not fall below a specific figure. While the banks did waive compliance with the Financial Covenants for the 2008 and 2009 financial years, given the development of the PROBON's financial situation at the end of 2007, PROBON as of the 31 March 2010 will once again have to evidence compliance with financial indicators renegotiated as of 30 September 2009 based on the new capital structure and based on a business plan.

Certain other requirements do apply during the term of the agreement. Among other things, these requirements crimp the ability of PROBON to provide assets as collateral, sell assets, participate in joint ventures, acquire additional companies or business units, incur additional financial liabilities, make loans, provide guarantees, incur leasing liabilities or undertake specific restructuring measures. Any non-compliance with these stipulations and the agreed financial covenants triggers an extraordinary right of termination on the lenders' part (in some cases after expiry of a cure period), giving them the right to call the loan immediately. The lenders have other rights to terminate, for example, if covenants stipulated provided under the loan agreement are not (or cannot be) truthful, if significant foreign subsidiary files for insolvency, if creditors institute execution proceedings against PROBON for an amount in excess of $5.0 million in each individual case, if Group companies whose total financial liabilities (of whatsoever nature) are $5.0 million or more default, or if creditors of such financial liabilities are entitled to call these liabilities early due to the occurrence of a right to terminate (whatever its nature).

Any change of control – i.e. a situation where an individual or a group of people acting in concert with each other (pursuant to an agreement or by other means) gain control over the company – would give each bank the individually exercisable right to terminate the loan for cause.

PROBON entered into a $240.00 million bridge loan from WestPac Banking Corporation effective 5 February 2008. The bridge facility's initial term ended at the end of September 2008 but was extended to the end of December 2008. It served to plug the company's liquidity needs until the capital increase in December 2008 and was repaid in early December 2008.

5.6 Related Party Information

PROBON has a number of subsidiary companies.

The tendering entity for the contract in question is Probon Pty Ltd, an Australian subsidiary company. At December2009, PROBON had an at call loan receivable from Probon Pty Ltd amounting to $39.20m that represents 88.01% of Probon Pty Ltd's total liabilities and 130.89% of its total assets.

The December 2009 financial statements were prepared on the going concern basis as Probon Pty Ltd received a letter of financial support from its parent Probon International Pty Ltd (PROBON), which requires RPOBON to continue to provide financial support to Probon Pty Ltd so that it can continue to pay its debts as and when they become due and payable for at least twelve months from the date of signing the financial statements and not seek repayment of the loan payable from Probon Pty Ltd to PROBON if it would prevent Probon Pty Ltd being able to pay its debts as and when they become due and payable. The December 2009 financial report makes mention of the going concern issues surrounding PROBON that are referred to in this report in the section titled "Post Balance Date Events and Subsequent Information; Contingencies". The report also states that if PROBON at any point is no longer a going concern or withdrew its financial support to Probon Pty Ltd, there is significant uncertainty as to the ability of Probon Pty Ltd to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

5.7 Counterparty Risk

Supplier	Purchase Value	% of all Purchases
Standard Networking Limited	$572.00m	65.00%
Optics Limited	$17.14m	3.00%
AusNet Limited	$0.43m	2.50%

PROBON procures 65.00% of its supplies from Standard Networking Limited. However, PROBON has filed a lawsuit regarding the delivery of network cables, seeking to invalidate the contract by declaratory judgment on the grounds that it contains a number of invalid and, in particular, anti-competitive provisions, which PROBON believes render the entire contract, invalid (Refer Post Balance Date Events and Subsequent Information section for more details).

Subcontractors	Contract Value	% of all Subcontractors
Network Services Pty Ltd	$114.84m	13.05%
Aus Billing Limited	$5.43m	4.73%
Atlas Corporation Limited	$0.21m	3.83%

5.8 Other Financial Items and Information

At December 2009, PROBON had the following contingencies. Bank guarantees and documentary credits as part of the syndicated credit facility amounted to $129.70m (2009) and $141.47m (2008). The company also had liabilities to other banks from $36.30m (2009) and $29.00m (2008) in draw downs from bilateral guarantee facilities.

At December 2009, PROBON had operating lease payments that were not included as liabilities in the balance sheet and were due and payable within 12 months at $17.60m; due and payable within one to five years at $34.20m and due and payable greater than 5 years at $123.90m.

A number of long-term procurement contracts are in US dollars or Japanese Yen. A decline in the euro against the US dollar and/or the Japanese Yen would have a negative impact on PROBON's gross profit margin.

At the end of September 2008, PROBON failed to abide by the Financial Covenants stipulated in the syndicated loan. The Financial Covenants were suspended for the 2008 and 2009 years. Compliance with new Covenants was negotiated by September 2009 and must be complied with as at 31 September 2010.

PROBON has limited interest rate risk due to the use of fixed-rate swaps.

5.9 Accounting Policies: Critical Estimates & Judgments

The Notes to the accounts appear that the entity prepared the financial statements in accordance with industry standard accounting policy decisions. As such, there are no specific issues that have required comment relating to revenue recognition, inventory, provisions, asset valuation impairment, and any other policies and associated commentary.

5.10 Post Balance Date Events and Subsequent Information

Contingencies:

Law Suit:

On 25 April 2009, PROBON filed a lawsuit in Victoria - the place of jurisdiction pursuant to the company's ten-year contract with Standard Networking Limited - seeking to invalidate the contract by declaratory judgment on the grounds that it contains a number of invalid and, in particular, anti-competitive provisions, which PROBON believes render the entire contract invalid. PROBON had already initiated talks with Standard Networking Limited at the end of 2008 in order to settle the matter out of court. Whilst these talks aimed at setting aside the contract it lead to an accord on the economic conditions governing the parties' future collaboration, they ran aground with respect to a number of ancillary terms. The current market situation allows PROBON to secure procurement of network cabling anyway. Plans to ensure the factory's capacity utilisation through 2010 for the purpose of supporting sales thus remain in place.

Risk and Opportunity Report

The Group management report for the 2009 financial year, which was published on 15 January2010, contains a detailed description of the opportunities and risks that arise from the business of PROBON.

Compared to the risk and opportunities described in the 2008 Group management report, particularly the litigation that PROBON initiated against Standard Networking Limited– with whom the company has had a long-term agreement since October 2007 – has given rise to material changes in the Group's risk profile in 2010.

The litigation is based on the fact that the contract contains a number of invalid and, in particular, anti-competitive provisions, which PROBON believes render the entire contract invalid. PROBON had already initiated talks with Standard Networking Limited at the end of 2008 in order to settle the matter out of court. Whilst these negotiations aimed at setting aside the contract did lead to an accord on the economic conditions governing the parties' future collaboration, they were not implemented with respect to a number of ancillary terms. In the final analysis, PROBON felt compelled to file a lawsuit seeking to invalidate the delivery contract by declaratory judgment.

PROBON secured its purchase obligation under the contested supply agreement between PROBON and Standard Networking Limited in accordance with contractual requirements for the first year though a bank guarantee, among others. However, the company's finances and liquidity would be negatively impacted if Standard Networking Limited were to avail itself of the bank guarantee, in whole or in part, despite the pending suit upon expiry of the first contractual year.

Although PROBON believes based on a variety of legal opinions that its chances of prevailing in this lawsuit are good, we cannot preclude that the company might lose to Standard Networking Limited wholly or partly. The existence of PROBON as a going concern would be jeopardised if the court were to find that the delivery contract is valid and if any such ruling were to become final and absolute.

What follows is a description of the risks that could have considerable negative effects on the assets, liabilities, cash flows and profit or loss of the PROBON and its share price. These are not necessarily the only risks to which PROBON is exposed. Risks that are presently unknown to PROBON or that it deems insignificant at this time might also undermine its business activities.

PROBON' business model presupposes functioning market mechanisms in its capital and sales markets. In the long-term, systematic and/or structural disruptions can substantially hamper the development of the company's business and lead to unforeseeable business developments.

Both regional and global economic conditions influence PROBON' business. After three successive quarters of GDP contraction, Europe – which, in its capacity as the core networking market remains PROBON' most important market – is officially in a recession.

Substantial negative effects on PROBON' assets, liabilities, cash flows and profit or loss that might even jeopardise the company as a going concern as well as its ability to close financing deals and raise funds cannot be excluded if these fluctuations and distortions on the capital and credit markets remain in place owing to the financial market crisis – particularly in the markets that are crucial to PROBON – or if they were to trigger deflation.

The current economic situation is having a particularly negative impact on PROBON' ability to achieve individual restructuring targets, mainly in the following areas:

Sales volume:

There is a noticeable possibility that customers might delay or cancel orders and projects due to their specific situation as a result of both the financial market crisis and the recession, and that the company will be unable to acquire new customers in the numbers necessary for meeting sales volume targets. Indeed the networking industry's strong seasonal fluctuations could intensify this effect. The decline in sales reflects a postponement in customer orders that occurred in the first three months of the current financial year. This development could be partly offset by a rise in the order volume in the second and third quarter.

Change in margins:

The sales prices for payment billing are falling considerably faster than expected. PROBON now expects prices for 2010 to fall between 15% and 20%. For PROBON there is a risk that the price degression of long-term delivery contracts does not correspond to deteriorating sales prices. Any inability on the company's part to adjust the procurement prices stipulated in delivery contracts as necessary would put the planned margin increases substantially at risk.

Project financing:

Given the current situation in the markets for capital and sales, there is a risk that neither borrowings nor equity from PROBON's customers for specific projects might be available as planned, for example, because customers have filed for bankruptcy. Other reasons include their inability to make capital available or unrealistic expectations as to yields. However, given the current situation in the markets for capital and sales, we cannot ensure the contractually stipulated funding would actually materialise. In turn, this could change or completely cancel contractually stipulated projects, with the attendant affects on PROBON's assets, liabilities, cash flows and profit or loss. Here due to the financial crisis first limitations are noticeable.

Working capital management, default risks:

PROBON is creating inventories of raw materials and consumables as well as billing systems and payment systems under long-term delivery contracts – and pursuant to conservative planning rooted in functional market mechanisms – in order to meet requirements under planned and projected sales. PROBON would be unable to use these asset inventories, or they might be subject to write downs, if orders and projects are cancelled because of the current situation in the markets for capital and sales, as described above. Besides increasing the quantity of inventories, such a development might require valuation adjustments to inventories as part of working capital management or selling prices that are below cost.

There is also a greater risk that customers might no longer be able to fulfill their contractual payment obligations, given their own financial situation. In term, this could lead to unplanned allowances for doubtful accounts.

Furthermore, we cannot always guarantee that PROBON would be able to retrieve the goods it delivered subject to reservation of title by enforcing its security interest because it is an international business and because goods are resold.

Fixed and intangible assets:
Impairment losses might have to be recognised on intangible assets – but also on significant items of property, plant and equipment such as the production plant in Australia – pursuant to statutory accounting standards if fair values fall below carrying amounts. This could happen if revenues are lower than planned due to the ongoing crisis on the markets for capital and sales. The crisis thus intensifies the risk that PROBON' assets, liabilities and profit or loss might be substantially affected by accounting losses on tangible assets as well as immaterial assets.

If the earnings and liquidity of PROBON were to deteriorate as a result of the aforementioned factors, the proceeds from December 2008 capital increase that were earmarked for the restructuring might be used up for other purposes and hence make it impossible for the company to attain significant additional restructuring targets. In turn, this could threaten PROBON as a going concern.

According to the company's planning and based on the existing credit lines and guarantees, the liquidity of PROBON is ensured in both the short and medium-term mainly through cash flows from operating activities.

In the event of substantial shortfalls in sales and earnings targets as well as in the cash inflows from operating activities – e.g. due to the fallout of the crisis in the markets for capital and sales and/or any failure of the restructuring measures to produce economic successes – both the company's and the Group's existence as a going concern might be jeopardised if they are unable to offset the relevant effects through other actions.

News releases on 15 and 16 January have stated that nine employees including the CEO are under investigation by the Victorian prosecutor's office over suspected insider trading, share price manipulation and falsification of balance sheet data.

5.11 Year to Date Performance

Financial accounts for the three months ended September 2009 report sales revenue at $64.60m (Q1 2009: $208.20m) and Profit after Tax at **- $27.90m** (Q1 2009: **- $42.90m**).

5.12 Impact of Current Economic Climate

The global economic downturn has further intensified since autumn 2008. Numerous countries have tried to revive their economies through specific programs. However, the Market’s confidence has yet to be fully restored. The uncertainty that continues to prevail on the international financial Markets remains a fundamental stumbling block.

There has been a substantial decline in the global demand for capital goods, which in turn is greatly affecting export-orientated countries such as Australia. According to the IFO Institute and the Institute for World Economics, however, the downward momentum has bottomed out, given that he decline in orders has slowed somewhat in February. The stock Markets also began to follow a slight upward trajectory in September.

5.13 Current Year Forecast

Report of Anticipated Development

Outlook

It is difficult to predict how long the current downturn of the global economy and the crisis in the financial Markets will continue. As a result, forecasts regarding the development of PROBON are highly uncertain. This makes it all the more difficult at the present time to predict the future development of the company with any precision. The Management Board expects the situation to become clearer as the year progresses and plans therefore to provide its outlook for the company’s development at a later date.

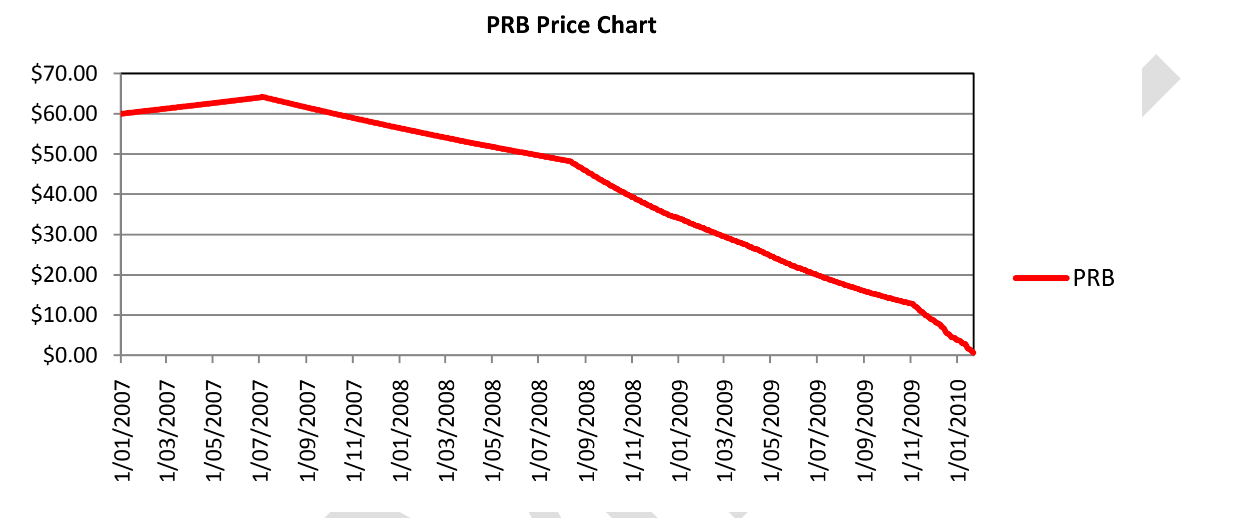
Given the difficult first quarter however, the Management Board does not believe in the light of the financial and global economic crisis that the company will be able in the current year to maintain the level of sales achieved in 2009. In addition, this is also due to a realignment of PROBON’s business model which will result in lower sales but at the same time will generate higher gross margins.

5.14 Market Analysis

Share Price

PROBON is listed on the Australian Stock Exchange under the ticker symbol "PRB". The company's share price has decreased substantially from $64.24 per share on 4 July 2007 to $0.66 per share on 22 January 2010. The multitude of issues that have been listed above have contributed to the substantial decrease in the share price.

Share Price Performance



5.15 Credit Outlook

The 2009 audit report included the following statement:

"Without qualifying this opinion, we draw attention to the statements of management board in the Group management report. There it is stated in the "Risk and Opportunity Report" under 'Financial risks / Liquidity risks" that both the company's and the Group's existence as a going concerns is jeopardised if sales, income and the cash flows from operations should fall significantly below planning and this cannot be offset through other actions. According to the company's planning the liquidity of the company and the Group is ensured beyond 2009 through cash flows."

Outlook:

It is difficult to predict how long the current downturn of the global economy and the crisis in the financial markets will continue. As a result, forecasts regarding the development of PROBON are highly uncertain. This makes it all the more difficult at the present time to predict the future development of the company with any precision. The Management Board expects the situation to become clearer as the year progresses and plans therefore to provide its outlook for the company's development at a later date.

Given the difficult first year however, the Management Board does not believe in the light of the financial and global economic crisis that the company will be able in the current year to maintain the level of sales achieved in 2008. In addition, this is also due to a realignment of the business model which will result in lower sales but at the same time will generate higher gross margins.

Based on reported results for December 2009, the contingencies noted in the report and the challenges facing the company, Corporate Scorecard holds a stable-negative outlook on the credit quality of PROBON.

6. Credit Opinion

The Credit Rating for Probon International Pty Ltd (PROBON) at December 2009 on a consolidated basis:

Risk Rating	Subject	Sector
• 2007	b	bb-
• 2008	b-	bb-
• 2009	ccc	b+
Risk Trend	Deterioration	Deterioration
Outlook	Stable-Negative	Negative
Probability of Distress / Default		
• Short-term (1 year period)	19.08%	3.77%
• Medium-term (3 year period)	43.15%	8.69%
• Long-term (5 year period)	56.00%	14.11%

Probon International Pty Ltd's (PROBON) credit quality is at a highly vulnerable state, with a credit rating of 'ccc' assigned for the year ended December 2009. The subject therefore holds a highly vulnerable rating with a credit watch classification and a high level of risk. The short-term probability of default is 19.08%, which is significantly worse than the sector.

In summary, our **key findings** included:

- The company's sales increased by 42.62% to $1,007.20m (2009) while gross Margin deteriorated to 12.52% (2008: 13.26%) to record an increase in gross profit to $126.00m (2008: $93.57m). However this was more than offset by the increase in other expenses to $478.40m (2008: $379.13m), that contributed to the decrease in pre-tax profits to **-$333.40m** (2008: **-$269.58m**). The company's retained earnings deteriorated to **-$567.00m** (2008:**-$261.71m**).

- Key strengths included the capital raising of $363.01m in June 2009; limited interest rate risk due to fixed-rate swaps; the syndicated loan agreement of $600.00m signed in 2008; and the restructuring process that commenced at the end of 2008, that has included the sale and/or closure of a number of unprofitable businesses and a reduction in staff numbers from 1,200 as at 31 September 2008 to 950 as at 31 September 2009.

PROBON has a number of key challenges that include.

- The company's ability to successfully complete the restructuring process to a level where the company is generating positive operating profits and cash flows of sufficient magnitude not to be as reliant on external funding and to be in a strong enough financial position to renegotiate and/or repay the debt repayment amount of $450.00m due in July 2010.

- Going concern is in question if sales, profit and cashflow from operations should fall below planning and this cannot be offset through other actions.

- Crrent market conditions with selling prices expected to fall between 15% to 20%. The risk for PROBON is that the digression (on pricing) of long-term delivery (purchase) contracts, do not correspond to the decreased selling prices.

- Increased counterparty risk resulting from the legal dispute with major supplier, Standard Networking Limited. The company has stated that the existence of PROBON as a going concern would be jeopardised if the court were to find that the delivery contract is valid and if any such ruling were to become final and absolute.

- Exposure to foreign currency risks particularly in regards to long-term procurement contracts that are in US dollars and Japanese Yen, where a decline of the Euro against these currencies would have a detrimental impact on PROBON' earnings and liquidity.

- At the end of September 2007, PROBON failed to abide by the Financial Covenants stipulated in the syndicated loan. The Financial Covenants were suspended for the 2008 and 2009 years. Compliance with new Covenants were to be negotiated by September 2009, and must be complied with as of 31 March 2010.

- Inability to engage in currency hedging due to its financial position.

- PROBON is listed on the Australian Stock Exchange and has incurred a substantial decline in its share price, decreasing from $64.24 per share on 4 July 2007 to $0.66 per share on 22 January 2010. The challenges and issues referred to in this report have contributed to the substantial decrease in the share price.

- Nine employees of PROBON, including the CEO, are under investigation by the Victorian prosecutor's office, over suspected insider trading, share price manipulation and falsification of balance sheet data.

- The majority of the financial indicators (with the exception of creditor exposure and activity) are significantly worse than the sector average levels. Key weaknesses relating to the company's financial indicators notably included profitability (negative), reinvestment (negative), cashflow (negative), repayment capability (negative), interest coverage (negative), financial leverage (negative), gearing, liquidity, working capital and net tangible worth.

- PROBON has a number of financial restraints with its syndicated loan facility and does not have sufficient internal resources to accommodate sustained growth, is reliant on external financing and/or support and unlikely to be able to provide support to the tendering entity.

- PROBON was observed to have an adequate level of Net Tangible Worth for the contract in question. However, the company was observed to have an inadequate level of Working Capital necessary to support its subsidiary company (PROBON Pty Ltd) for the annualised exposure of the contract in question.

- Based on reported results for December 2009, the contingencies noted in the report and the challenges facing the company, Corporate Scorecard holds a stable-negative outlook on the credit quality of PROBON.

Following our detailed analysis, our **OPINION** is that Probon Pty Ltd is heavily reliant on Probon International Pty Ltd to continue as a going concern and the level of risk of PROBON is at a point where the entity would **not be acceptable** for the annualized exposure of the contract in question.

Accordingly, based on the financial capacity and viability of the company we recommend a maximum individual contract value of $0m and a maximum aggregate contract value of $0m.

The opinion in this report is valid at the time of the assessment. The scope of this report does not include an ongoing review of the credit quality of the entity. It is strongly recommended a further assessment be conducted within twelve months from the date of this report.

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