Chairman's & CEO's Letter

Dear Fellow Shareholders,

18 August 2017: Since writing last year's report in September 2016, Arowana International has materially changed from a business and financial composition perspective. We are now very much a global group with more than 75% of revenue, profits and assets being generated from overseas. This is because of the greater than expected growth of our solar power business, VivoPower International PLC ("VivoPower"). Our business units today are solar power (global with a strong US weighting), education (Australia), industrial testing (Australia) and funds management (Australia).

FY17 in Review

This time last year, we set our FY2017 strategic execution priorities as follows:

- Complete NASDAQ listing of VivoPower (and dual listing on ASX subject to market dynamics);
- Further grow the development and asset ownership orbit for VivoPower;
- Rebuild vocational education division and where possible, assist in turning around Intueri;
- Manage our Operating Companies to deliver minimum aggregate organic EBIT CAGR of 10-20%;
- Increase AFM FUM to minimum A$200m (excluding internally seeded capital); and
- Fast track coaching and development of our team to master and apply V.U.C.A. leadership.

We delivered on 5 of the 6 execution priorities, with the AFM FUM goal of A$200m not being achieved.

If there is a one word barometer to describe FY2017, it would be Obstacles. Our resilience as a team and our leadership capabilities in a V.U.C.A. (volatile, complex, uncertain and ambiguous) world were robustly tested. We constantly had to overcome significant uncontrollable challenges that manifested over the course of the year. Key amongst these were the demise of the largest solar stock in the world, Sun Edison (April 2016), the surprise Brexit vote (June 2016) and the shock election of President Trump (November 2016); all of this combined to make solar the most unpopular stock market sector in the United States and made capital raising for a NASDAQ listing of VivoPower, which was our number 1 priority, challenging. Admittedly, we could have been less sceptical and more attentive to our new in-house data analytics team, they were predicting both Brexit and Trump back in April 2016. We listen to them more closely now! Nonetheless, we did consummate the listing of VivoPower on NASDAQ and have successfully helped its leadership team build a development and asset ownership orbit with joint ventures in the United States and an asset ownership alliance agreement in Australia.

On the Australian front, like many others, we continue to be frustrated by political and regulatory volatility that is more pronounced than at any time I can remember. We felt the brunt of it with the diametric change in federal vocational education policy in November 2016 that scorched the Australian business of Intueri Education, along with most of its peers in Australia. This led to the forced sale of Intueri's remaining businesses in New Zealand and its effective closure in June 2017 with no residual value for AWN's 24.9% stake. That said, I have always considered crises to be opportunities and have spent the last 15 years principally focussed on unfashionable and ostensibly complex situations that are not sunset industries. We look for situations where absolute undervaluation exists that we can validate with deep forensic research and then apply strong operational capabilities to deliver the investment thesis. Arowana has traditionally delivered strong returns in unpopular sectors and companies (these include amongst others, software in 2004 in the aftermath of the 2001-2002 technology bubble bust, traffic control in 2008 several weeks after Lehman Brothers and following the public decline of a listed peer and market leader, NZ education in 2010 when consensus was that the NZD had significant further downside). The establishment of Everthought Education in July 2016 is an expression of our belief that certain segments of the Australasian education sector fit this mould.

In summary for FY2017, I have committed AWN to being weighted to the most unpopular listed sector in the United States (solar) and the most unpopular listed sector in Australia (education). This is however deliberate, given our long-term business building mindset and the fact that both sectors are multibillion dollar addressable markets that are still fragmented and with strong tailwinds.

FY18 Objectives

For FY2018, we have set our annual theme to be Grow Platforms. The context is that following the sale of Intueri Education in May 2014, we launched 3 new business platforms in solar (VivoPower International), funds management (Arowana Funds Management) and education (Everthought Education). VivoPower has scaled up significantly over the past 18 months but it is now time to similarly scale up Everthought and Arowana Funds Management. For all three businesses, the year ahead is critical in terms of taking advantage of opportunities before them and appropriately managing the inevitable growing pains challenges that come with a growth ambition.

Our FY2018 strategic execution priorities are as follows:

- VivoPower International - deliver on FY18 forecasts and drive investor relations;
- Everthought Education – scale up platform and secure strategic partnerships;
- Arowana Funds Management – raise 2 new fund vehicles and achieve $200m FUM target;
- Co-Investment Partnerships – secure Australian and international strategic partners;
- Data Analytics – build leadership team and establish profitable platform; and
- Enterprise Office – complete marketing & branding upgrade and secure B Corp accreditation.

The broader Arowana group officially marked its 10 year anniversary in July 2017 and launched a new logo, branding and website (www.arowanaco.com) to position itself for the next decade and further growth internationally. As part of this exercise, Arowana has solidified its core purpose to be: Grow People, Grow Companies and Grow Value. Furthermore, we have defined our primary focus to be the small and medium sized enterprise (SME) space where we are a specialist investor and operator having successfully scaled up different businesses across various sectors. Furthermore, the availability of equity and debt capital continue to be constrained for SME businesses, which presents opportunities.

How do we grow people, grow companies and grow value? Simply put:

- We grow people – by investing time and money through Arowana University in learning & development opportunities as well as diverse and challenging on the job opportunities;
- We grow companies - by applying “hands on” operational engineering, working alongside leadership teams to scale up companies (and less through financial engineering);
- We grow value - through executing well on the two above.

For AWN, new team members have been hired in London, New York and Manila whilst maintaining headcount budget (through not replacing natural attrition). We will also be shortly opening an office in Los Angeles (as part of the execution plan for scaling up Arowana Funds Management as well as expanding the investor universe for AWN). As flagged in the FY2017 half year report, we are also importantly reshaping the composition of the Enterprise Office team to be less heavily weighted towards financial engineers. We have not replaced natural attrition in this regard and have instead invested in operational engineering capabilities, data science skills and a digital marketing specialist to better serve and help our operating businesses to scale up. We have also beefed up our international advisory board with a strong line-up of UK and US based advisors, including Shimi Shah (London and Dubai), Professor Hugh Durrant-Whyte (London), Simon Perry (London) and Chris Kehoe (New York); their details are available on our website.

10 Year Horizon

I realise this is unorthodox writing about a 10 year horizon for a listed company! Whilst short term tactical challenges, people issues and execution do dominate my days (as is normal when scaling up SME companies), the 10 year checkpoint has meant a year of investing more heavily in learning, through attendance at conferences, reading more and spending time engaging in deep research. In doing so, I reread my favourite book, the Sovereign Individual, written by Lord Rees Mogg, the former editor of the Times and James Dale Davidson. I last read it in the year 2000, several months after it was released. In the book, amongst other things, it foretells the rise of the global technology mega-corporations and how they would become more powerful than city states (i.e. governments).

This leads me to Amazon, where on the cusp of the company's official opening in Australia, Australian businesses are finally realising that they face not just disruption but an existential threat, if they somehow have the misfortune to be in a space in which Amazon will operate. What is perhaps not well understood is that Amazon has become a conglomerate of start-ups that executed flawlessly in seeking out traditional industries to invade, where someone's profit is Amazon's opportunity. The website URL www.relentless.com is owned by Jeff Bezos and when typed in, it takes you to the Amazon website; relentless captures Amazon in one word – too fast, too strong, too resilient and will outcompete most businesses, especially those who have been comfortably operating in an oligopolistic construct. I first wrote about the threat of Amazon in our November 2014 AGM presentation and if anything, we are even more vigilant than before in assessing not just Amazon risk but technology risk on business models. This being said, Amazon also provides opportunities; one case in point is Amazon Web Services (an also ran in 2011 but now the global leader in cloud based solutions) which is a platform that will enable many SME companies to scale rapidly. As recently as 6 years ago, we decided not to use AWS for our newly opened Brisbane office because it was a start-up that was too new; today we would be hard pressed to use any other platform for our various business units.

Speaking of technology risk, having visited technology companies in both the United States and China this year, it is very clear that artificial intelligence and machine learning are no longer science fiction. This poses a threat to all forms of businesses, although equally it will present significant opportunities for companies to transform the competitive landscape in their favour, if they can embrace and execute. In this regard, we will continue to build up our data analytics unit to ensure we are capturing the right opportunities and enhancing our capability to understand and deploy various AI tools across our business units. The likes of Amazon, AliBaba or even newer starts up such as Ofo in China have a backbone of data analytics and artificial intelligence. Interestingly the business model of Ofo and other similar subscription based businesses are effectively a modern incarnation of the float concept that Buffett and Berkshire are well known for.

Aside from Amazon and Artificial Intelligence, I see our other key risks over the next decade as being Australia centric and also Arowana (i.e. ourselves).

On Australia, I am concerned that the combination of political and regulatory volatility, myopic leadership and mindsets, declining school education standards relative to the rest of the world and relatively low standards of technology literacy combined with high costs and low productivity, will structurally constrain business prospects within Australia. A decade ago, Australia's internet infrastructure and speeds were better than many Asian countries, now it is slower than places like Thailand and Taiwan. Next year the Hong Kong to Beijing fast train will come into service cutting travel time to 10 hours (from 24 hours) whilst Australia still continues its 20 year debate on high speed rail. Having said that, there are sectors where Australia is world class, such as healthy food and beverage, pet care, certain segments of technology and education and anything that is compliance or rules related. We will focus on sectors such as these where there are tangible export opportunities, especially in the ASEAN region.

Lastly on Arowana, I choose ourselves as a key risk, especially if we are unable to execute on strategy as flawlessly and quickly as possible. I would love for us to have the same execution tempo and resilience as Amazon. I have a great deal of admiration for companies where generally things get done fast, on time or ahead of time. Whilst we have executed at pace on scaling up VivoPower International, there is still far more room for improvement even at a cultural level when it comes to execution. Execution with pace, power and precision in a world that is changing faster than ever before, because of technology, is going to be an essential and ingrained cultural trait of successful enterprises. Furthermore, we must be more mentally flexible than ever before, avoiding dogma and being able to pivot strategy fast.

So, in summary, over the next decade, our key threats but also our key opportunities are: Amazon (and others as a technology platform), Artificial Intelligence (as an enabler of competitive advantage), Australia (in certain segments with export potential) and Arowana (further building up a resilient culture of flawless execution).

Final Remarks

In closing, I would like to take this opportunity to thank the AWN team as they have continued to work hard on various fronts scaling up companies and funds. I would also again like to thank our fellow shareholders for their investment in AWN and for their continued patience. We are continuing to work and fight hard to deliver value to them over the long term.

Yours sincerely

Kevin Chin

Executive Chairman and Chief Executive Officer