

22 September 2010

Dear Shareholder,

With this letter you will receive your dividend statement and, if you have elected not to have dividends paid to your bank account, a cheque for the fifth dividend paid by your Company.

On behalf of the Board of Tel.Pacific Limited I am delighted to offer the following comments on the recently completed 2010 financial year.

This year we witnessed a significant change in the market for pre-paid international calls with the introduction of low cost international calls on pre-paid SIM cards for mobile telephones. This created an opportunity for Tel.Pacific to expand outside our traditional calling card business.

As a result of this expansion, the Company's focus over the last year involved:

- a. stabilising our traditional pre-paid calling card business,
- b. the launch of Hello Mobile pre-paid mobile services, and
- c. the acquisition of the Mobile Real Time Monitoring (MRTM) business.

Our primary focus now is to continue stabilising and strengthening our calling card revenues and profits to assist the aggressive growth of our new Hello Mobile customer base.

The Company launched our pre-paid mobile product, Hello Mobile, in early 2010.

Since its launch, Hello Mobile has been delivering strong organic customer growth. To a large extent this was made possible through leveraging the existing calling card business, including our strong Hello brand and distribution channels.

The Company believes it is well positioned to capitalise on the growth of pre-paid mobile and has an advantageous position over most of our competitors due to our low operating cost model. Management also believes they can build the new Hello Mobile business largely within the existing calling card overhead structure, thus benefiting the Hello Mobile business with:

- Lower operating costs
- Established national distribution channels
- Low cost international termination

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To date, all of these elements have enabled Hello Mobile to achieve substantial growth in the emerging market at, by industry standards, a moderate cost. All of these costs have been expensed, as outlined below.

Importantly, it is clear the Company has achieved substantial traction in the emerging market already, with more than 45,000 new customers activating services in the last three months.

In addition, the Company acquired the MRTM business during the last financial year.

The MRTM platform comprises an innovative and intelligent network switching solution integrated into the Vodafone Hutchison Australia Network, with real time monitoring of mobile traffic associated with the platform. The acquisition of the MRTM platform provides the Company with a core billing and provisioning system for its mobile products. Essentially, it is a foundation for the Company to differentiate further its Hello Mobile offering and to expand its potential revenue base, not only through Hello Mobile but through future wholesale customers.

## Financials

### Full 2010 Financial Year Results at a glance

\$000's	Underlying PCP 30 June 2009*	Full Year to 30 June 2010**	% of PCP Underlying Profit
Revenue	63,777	53,935	-15.4%
EBITDA	5,395	3,065	-43.2%
NPAT	3,258	1,012	-68.9%

\* Underlying FY2009 EBITDA of \$5,395k and underlying NPAT of \$3,258k have been adjusted for non-recurring expenses of \$863k and \$723k respectively, relating to office relocation and forward exchange contracts.

\*\* FY2010 result included Hello Mobile losses of \$2.0m, impairment of goodwill in New Zealand operations of \$89k and write off of previously recognised deferred tax asset of \$215k. In the absence of the Hello Mobile investment, EBITDA and NPAT would have been \$5.1 million (down 5.0%) and \$2.5 million (down 24.7%) respectively.

Broadly, the Company's revenues decreased 15.4% over the period because of a shift in the mix of Tel.Pacific's market leading calling card products to countries with lower rates (and hence revenues) – in large part due to increased competition in those areas. While those destinations achieved increased volumes, the increase was not sufficient to make up the revenue shortfall.

Recognising the revenue trend over the year, the Company reduced its carrier costs appropriately and was assisted by the increased strength of the Australian dollar, compared to the US dollar (in which a large proportion of its costs are denominated). This approach allowed the Company to improve its gross margin, and overall gross profit was retained near FY2009 levels.

The Board believes that management will continue to manage the costs of the 'traditional' revenue drivers of the business, despite increased competition and shifting customer preferences, to ensure ongoing profitable operations from those revenues.

However, the Board is also mindful of its obligations to ensure that Tel.Pacific develops new revenue streams to allow for the future growth of the Company and to 'in fill' any shortfalls in the traditional revenues. The costs associated with this effort had the effect of reducing earnings otherwise flowing from the gross profit of the 'traditional' business.

The Board is pleased with the way management has responded to the challenges of the changing market, the currency fluctuations and economy and is confident the Company's strategy for the future is well thought through and appropriate for this dynamic market sector.

I wish to thank all our shareholders for their continued support.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Greg McCann', with a stylized flourish at the end.

Greg McCann  
Chairman

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