

Tel.Pacific and gotalk Limited to merge

- Tel.Pacific and goTalk have agreed to merge their operations
 - Offer for all the issued shares in gotalk Limited
 - Consideration of \$8m in vendor notes (paid over three years), and 15% of the enlarged Tel.Pacific equity
 - Each business has complementary strengths, which will combine to create a more competitive operation in the future
 - Revenue and cost synergies to be realised over the coming year
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19 December 2011: The Board of Tel.Pacific Limited (ASX:TPC) today announced that the Company had offered to acquire all the outstanding shares in gotalk Limited, to effect a merger between the two companies.

gotalk and Tel.Pacific (together with gotalk shareholders representing more than 50% of that company) have signed an Implementation Agreement that provides for the offer to be put to all gotalk shareholders, and that the gotalk board was committed to recommending the offer to its shareholders.

A Share Sale Agreement forms the basis of the offer to gotalk shareholders, and includes the following commercial points:

- On completion, gotalk shareholders will receive consideration for their shares comprised of \$8m in Vendor Notes to be paid over the following three years with a coupon of 7.5 to 10%; together with the issue of Tel.Pacific shares representing 15% of the Company on a fully diluted basis.
- A 'participating right' to receive 85% of the proceeds of a future sale of the existing gotalk Wholesale Business (should it be sold by 31 December 2012) – a non-core asset which both parties believe may be worth more in a third party's hands, but which will provide an excellent addition to the business should it remain within the combined group.
- Conditions precedent to completion include:
 - Acceptance of the offer by 100% of gotalk shareholders (with provision for some shareholders to be subject to a 'drag' provision if at least 90% of shareholders accept)
 - Consent to the transaction from Vodafone, a key supplier to both companies

On completion, the Board expects to ask Steve Picton (gotalk CEO) and Ian Solomon (gotalk CFO) to join the Tel.Pacific Board, providing the Company with a very direct benefit at the highest level of their many years of expertise in the international telephony business. Steve and Ian will also both assist with the integration and transition of the businesses as executive directors for at least the initial period of the merger, and have defined areas of responsibility which will see a great deal of relevant expertise directed immediately to where it can most benefit the combined group.

While gotalk's 30 June 2011 EBITDA was \$601k, with an NPAT loss of (\$1,028k), the company has an important presence in the calling card market, as well as in the emerging international pre-paid mobile market. The Boards of both companies believe there is an excellent opportunity here to benefit from each company's areas of specialisation to strengthen the combined business and to create both cost and revenue synergies.

Tel.Pacific anticipates that many of the identified synergies will be realised within the initial six months, and looks forward to updating the market on progress at the full year result for 30 June 2012 (and, if possible, at the time of reporting the half year result to 31 December 2012).

The Company will update the market as the offer progresses, particularly once the critical threshold of acceptance has been reached.

For more information please contact:

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About Tel.Pacific

Established in 1996, Tel.Pacific is a significant participant in the Australian communications market. The Company's core business centres around the provision of pre-paid telephony products and services through extensive distribution networks.

Since its establishment Tel.Pacific has experienced strong and sustained revenue growth. Tel.Pacific sees continued growth opportunity in its pre-paid calling card business and intends to further expand its business activities in this area as part of its long-term growth strategy.

Tel.Pacific's core product line comprises more than 30 brands of low cost pre-paid calling cards mainly used for international telephone calls to over 230 countries and regions. The Company's portfolio includes the well known Hello, Joy and GPS brands.