

## FY2010 Preliminary Final Result – Appendix 4E

### Development of Hello Mobile business impacts on result

---

- Tel.Pacific has applied extensive resources and funds to the development of its new Hello Mobile products to capitalise on the changing market dynamic:
    - customers are willing to pay a premium for the convenience of international calling from their mobile
    - the traditional calling card business revenues reduced throughout the year due to the introduction of mobility products and a shift in calling destinations, recent trends indicate that revenues are stabilising – the underlying business continues to provide steady profitability and cash flow
    - early results from the Hello Mobile business are very promising – in excess of 45,000 new customers activated services in the last three months
  - Growing the new business requires substantial investment, impacting the 2010 financial year result, and likely to continue to hold back profitability in the coming year, as the Company aggressively acquires customers in this fast growing market.
  - The Hello Mobile business is anticipated to be a substantial contributor to revenue and profitability in future years, adding to the solid base of the traditional calling card operation.
  - Other critical factors in the result for the year:
    - Revenue decreased due to changed revenue mix with lower rates, not fully recovered through increased volumes (and only limited “new” revenue in the period)
    - Gross Profit was maintained near FY2009 levels (improved margins), with reductions in airtime costs (both negotiated carrier rate reductions and improved USD costs)
    - EBITDA and NPAT substantially reduced through expensing of new investment in Hello Mobile pre-paid international mobile product
    - NPAT also reduced through write downs in relation to the New Zealand operation, which has not grown as anticipated (reversing deferred tax credits, and impairing the goodwill relating to that business)
    - 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
  - The Board has declared a fully franked final dividend of 0.40 cents per share, consistent with prior periods. The record date for the dividend is 8 September 2010, and intended date of payment is 22 September 2010.
-

**Wednesday, 25 August 2010:** The Board of Tel.Pacific Limited (ASX:TPC) today announced the Company's results for the 2010 financial year.

The result was materially lower than the comparable FY2009 underlying figures, primarily due to a substantial investment in new product development and a write down in the goodwill and deferred tax benefits associated with the Company's New Zealand operations.

The key elements and primary drivers of the full financial year result are set out below.

### 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 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.

### Background

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 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.

### New Product Development

Given the shifting market dynamics, the Company undertook a number of strategic initiatives over the period, including a very significant new product development in prepaid international mobile capability: Hello Mobile.

Hello Mobile has been developed to address the shifting market dynamic, where certain calling card customers prefer the benefit of mobility to the existing calling card product, while still seeking great value international calling. Hello Mobile is also expanding our target market by attracting new customers who have traditionally not used calling cards.

While Hello Mobile is expected to contribute strongly to the business in the medium term, it did not achieve substantial revenues in the 2010 financial year, and is expected to continue to require investment in the coming financial year. The costs associated with rolling out the product continue to be incurred: cumulative costs over the 2010 financial year are around \$2.0m.

The Company has held discussions with its auditors in relation to the appropriate accounting treatment of these costs and has now concluded that the most appropriate approach is to continue to expense the costs (as it had at the half year). Hence, the scale of the development, sales and promotional activities for Hello Mobile has a material impact on the reported earnings for the full financial year.

The Board strongly believes that this 'investment' in the Hello Mobile product is essential for the growth of the business into the future, and anticipates that the operation will be a substantial contributor to profitability in future years, adding to the solid base of the traditional calling card operation.

Importantly, it is clear that 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.

On 30 June 2010, the Company completed the acquisition of the Mobile Real Time Monitoring (MRTM) intelligent network platform and related mobile businesses. 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 a foundation for the Company to further differentiate its Hello Mobile offering and to expand its potential revenue base.

## **Outlook**

The recent launch of Hello Mobile is a further tactical example of the Company's strategy of capitalising on its strength in channel distribution. The Company is looking forward to a continued positive response to its low cost international prepaid mobile service from the consumer market.

The Board anticipates restoring growth in operating earnings for the business over the coming years, and continues to support management in both identifying and capitalising on new opportunities, and reviewing any of those that do not meet the ongoing needs of the business.

In addition, the Board anticipates that management will undertake additional specific initiatives and focused investment to ensure the success of the Hello Mobile business, and associated new revenue streams.

---

For more information please contact:

Charles Huang  
Tel.Pacific  
(02) 8448 0663  
[www.telpacific.com.au](http://www.telpacific.com.au)

---

**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.*