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ASX Release

FY2010 earnings outlook – revised down from FY2009

Substantial impact from new product costs incurred in the period

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- The benefits of Tel.Pacific's development of new products to address shifts in the market will not be fully realised this financial year, although substantial costs are included in this result.
- Key financial metrics for FY2010 are expected to be materially lower than comparable FY2009 underlying figures.
- Critical factors affecting the result:
    - 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)
    - However, EBITDA and NPAT substantially reduced through expensing of new investment in Hello Mobile pre-paid international mobile product, around $2.5m over the period
- Board anticipates payment of dividend consistent with prior periods

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Monday, 28 June 2010: Having reviewed the Company's performance to date, management's forecast for June 2010, and the appropriate accounting treatment of certain new product expenses, the Board of Tel.Pacific Limited (ASX:TPC) anticipates that the key financial metrics for the financial year ending 30 June 2010 will be materially lower than the comparable FY2009 underlying figures.

The key elements and primary drivers of the anticipated full financial year result are set out below. The diminished result was not known earlier given the necessary consideration of the accounting treatment of certain expenses, and new revenues (including from the Hello Mobile product) not being achieved as anticipated in the final months of the financial year.

Anticipated Full 2010 Financial Year Results at a glance

$000's	Full Year to 30 June 2010	Underlying PCP 30 June 2009	% of PCP Underlying Profit
Revenue	53,640	63,777	-15.9%
EBITDA	3,626	5,395	-32.8%
NPAT	1,896	3,258	-41.8%

Background

Broadly, the Company's revenues decreased 16% 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 from new entrants to the market. 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: the Hello Mobile prepaid international mobile capability.

While Hello Mobile is expected to contribute strongly to the business, it has not yet reached its anticipated earnings targets towards the end of the financial year, and the costs associated with rolling out the product continue to be incurred: cumulative costs over the period are around $2.5m.

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.

While disappointed that the delay to certain developments for the new business means that customer acquisition costs remain higher than planned over the longer term, the Board continues to believe that this 'investment' in the Hello Mobile product is essential for the growth of the business into the future.

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 positive response to its low cost international prepaid mobile service from the consumer market.

The Board looks forward to 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 in culling 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.

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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.