



10 June 2016

TeamTalk Pre-Close Update

In the lead up to financial year-end TeamTalk Limited (“TeamTalk”) provides the following update on its results and its activities.

Major Strategic Initiatives - Optus

Over the last few years the financial performance of Farmside, our rural focused ISP business, has suffered as customers have moved away from services delivered over satellite to alternative services delivered, in the main, by the Government funded Rural Broadband Initiative (“RBI”) network.

This migration has had a material negative impact on earnings with both EBITDA¹ impacted and some additional large non-cash charges as we had to write off the value of the satellite equipment installed at the customer’s premises. There has also been a material lift in capital expenditure requirements to fund the new RBI based customer installations.

In spite of the negative impact on its results Farmside has been active in migrating its own customer base as part of a customer pledge to provide the most appropriate service for each customer. While in many cases that is an RBI service there are still large areas of rural New Zealand where satellite is the most appropriate broadband solution.

Accordingly, in an initiative to be announced separately today (see following NZX release), Farmside are delighted to announce that agreement has been reached with Optus Satellite Pty Limited which will enable it to provide greatly improved satellite services with faster speeds and increased data caps.

The agreement with Optus is a multi-year contract that will progressively deliver improved financial results and cash returns as Farmside will be able to buy satellite bandwidth on materially better terms than the current provider with a number of other incentives provided to facilitate the switch.

In the short term however there will be a negative impact on the financial results of the group as the switch involves several million dollars of capital expenditure over the next six or so months as new equipment is installed at several thousand individual premises right across the country and further

¹ EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation and is often considered an appropriate measure of the cash earnings of a business

non-cash charges will arise as existing customer equipment is rendered obsolete and written off accordingly.

Despite these short term costs we believe that the move is an exciting one for Farmside that will, from day one, provide a better customer experience, reduced rates of churn and a chance to offer additional services which, in turn, should translate into improved financial results.

“Farmside is the market leader in RBI services and continues to build on that position. This initiative with Optus complements our RBI market position by enabling Farmside to provide a competitively priced satellite based service, which is materially better than we are currently able to offer, for those tens of thousands of households not in RBI zones” said TeamTalk Chairman Roger Sowry.

FY16 Trading Update

TeamTalk’s previous guidance, released at the time of the interim result in February, was for the second half of the current financial year to be better than the first half with an overall result for the year in line with that reported in FY15.

Despite the encouraging start to the half subsequent results have not met expectations and we now expect EBITDA for the second half to be slightly down on the \$6.4 million reported in the first six months.

In addition a number of non-cash charges and write-offs (principally related to the Optus satellite migration project noted above as well as some accelerated depreciation charges relating to a change to the useful life assumption for residential customers’ broadband equipment) will mean that reported earnings for the second half will be negative with the overall bottom line reported result for the year around the breakeven level.

Dividend

We previously reported an intention to pay a 4c final dividend bringing the total for the 2016 financial year to 8c. In light of the second half earnings not improving as expected, the substantial capital requirements required over the coming period to support initiatives like the Optus migration project and the desire to afford the incoming CEO as great a level of flexibility as possible when working with the board to formulate a strategic direction for the group the board has decided to suspend its previous guidance in respect of the final dividend.

Summary

The TeamTalk board is disappointed with the results for the year which reflect a difficult trading environment. By the same token the board believes that there are a number of attractive options available to each of the businesses within the group and it remains committed to investing in them. “While the short term results may be impacted we believe that opportunities, such as the Optus

initiative, must be pursued as they will deliver better services to customers and improved returns to shareholders” said Mr. Sowry.

We expect to provide a further update when we release our full year results on the 24th of August.

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