Freshtel HOLDINGS

FRESHTEL RESTRUCTURES BUSINESS AND UPGRADES VOIP PLATFORM

Melbourne, Australia, Monday, 22nd February 2010: Freshtel Holdings Limited (ASX:FRE) is pleased to announce today a major restructuring of the business that sets the platform for potential growth in 2010.

Freshtel has upgraded its VoIP platform with the addition of a software licence from a local company, Cloudware. Cloudware has developed a world class VoIP switch and was selected by Freshtel after an extensive testing program. The new platform allows Freshtel to interact with a comprehensive range of PBX solutions for businesses of all types and sizes as well as catering for the traditional residential products currently offered.

Freshtel has reached agreements for Vixtel and other suppliers to market an end-to-end PBX solution to businesses based on the new platform. To date, seven corporate contracts for PBX applications have been secured by Vixtel since December 2009, covering over 700 seats. A further contract for 900 seats is under negotiation by Vixtel and is likely to be signed in the coming fortnight.

As a result of revenue shortfall resulting from a combination of competition from established major VoIP players in the fixed line and mobile VoIP technologies, and the lack of resilience of the open source technology platform which Freshtel had deployed, management have decided to streamline the business.

Freshtel relocated to Prahran from South Melbourne in October 2009 and this has greatly reduced office rent and outgoings.

Freshtel has incurred significant losses on its UK activity and agreement has now been reached with Tesco in the UK to terminate the service agreement under which Freshtel provides services to Tesco. This has allowed a further reduction in costs and removed the need to continue to support the operating platform. Sean Wilkins, from Tesco, has resigned as a director of Freshtel and we have appointed Ken Carr, former CEO of Keycorp, as director to replace Sean.

The technology upgrade and the cessation of the UK business have allowed Freshtel to further reduce head count and expenses by $150k per month.

Calendar Year 2010

The forecast for the calendar year 2010 shows an operating loss and cash deficit of approximately $1.25M on the assumption that PBX related, call termination revenues in Freshtel, will exceed A$2M in the calendar year. Moreover, this is reflected in the 2nd half of the calendar year with projections of operating losses and cash deficit reducing to approximately $30k - $35k per month.

As from the second half of this calendar year, Freshtel can be viewed as an entity with solid technology that is attractive to the growing SME market; with a much reduced infrastructure and cost base generating losses and cash deficit of $350k per annum (and expected to reduce) on a $2M revenue base and with tax losses of approx $29M. This may be attractive to some of Freshtel's larger more profitable competitors.

Corporate

Restructuring costs, loan drawdown, migration costs and one off licence fees have amounted to approximately $750k. Consequently, the $1M facility provided by Custodial Capital Management will have been fully utilised by March 2010 and the Company will need to raise funds to complete the turnaround largely underway.

Freshtel intends raising some $2M of capital to pay down the Custodial Capital Management loan and to provide working capital to grow the business in 2010. The funding will be in the form of a 1 for 1 rights issue at 0.4c with a 1 for 2 free share option, maturing in June 2012 at a 20c strike price (and a 20/1 share consolidation) to be offered to shareholders as well as a share purchase plan. Custodial Capital Management has indicated they intend to take up their entitlement.

The Chairman of Freshtel, Dr Allan Sullivan, commented that the new technology and streamlined company structure will allow Freshtel to move into high margin segments of the telecommunications market. The above cost savings are evidence of the continued focus on cost reductions and simplification of the business. Assuming that funding from shareholders can be secured to complete the restructuring currently in train, then the Company can operate under its own, and hopefully, growing revenues going forward and position itself as an attractive merger candidate.

The Company is planning to recruit a sales manager as well as assessing new opportunities in the market place.

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