ASX: TTV

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Two Way TV Australia Ltd
FY05 Results Announcement and FY06 Guidance

Key Points for FY05:

- **Revenue in line with prospectus forecast**
- **Cash position improves against prospectus forecast**
- **Asian business development about 12 months ahead of schedule**
- **Net loss in line with previous guidance**

Interactive television provider, Two Way TV Australia Ltd (**Two Way**), has reported a net loss after tax of $2.1m for the year ended 30 June 2005. This result incorporates a significant degree of investment in both the Australian business but particularly in opportunities in Asia, where the Company's development activities are well ahead of schedule.

Total revenue of $1.25m was above the forecast made in the Company's November 2004 IPO prospectus. Operating revenue was in line with the prospectus forecast at $0.6m. This was derived primarily from the subscription games channels on Australian Pay Television services, Foxtel and Austar. Subscriber numbers grew by 83% during the 2005 financial year, with growth in Foxtel subscribers of 110% and growth in Austar subscribers of 60%.

Operating costs were slightly ($0.2m) higher than the guidance to the market made in April 2005. The key area of difference relates to the accounting treatment of the development costs associated with the Asian business.

Total cash costs (including business development) were actually $0.4m lower than forecast in the prospectus, but a greater proportion of these costs have been expensed, rather than capitalised, as highlighted in the table below. Operating cash flow was stronger than prospectus forecast.

A better than expected working capital performance also contributed to the $1.4m improvement in cash flow over prospectus forecasts.

	FY05 Results – Costs ($m)		
	Actual	April 2005 Guidance	Nov 2004 Prospectus
Operating expenditure	(3.2)	(2.9)-(3.0)	(2.4)
Capitalised development costs	(0.7)	(0.7)	(1.9)
Total operating costs: expensed + capitalised	(3.9)	(3.6)-(3.7)	(4.3)

Two Way has made significant strategic progress during 2005 in Australia, New Zealand and in Asia. In Australia, the interactive racing product has been integrated with Tabcorp's NSW wagering system and the process to integrate the Victorian system has now commenced; the Simcast (mobile phone to TV platform) business model has been deployed and validated; and active discussions continue with a number of Pay and Free to Air Television operators. The company also acquired the rights to a suite of live gambling and play for fun gaming products, deliverable via television or mobile phone under the Zone4Play licence.

The company has new agreements with SKY Network Television and Prime TV in New Zealand, and with Sky News in Australia.

In the Asian markets the company has focused on Hong Kong, as many of the operators based there service a number of heavily populated countries in the region from a Hong Kong hub. Two Way is in active discussions with major operators in Hong Kong, and since year end has signed an agreement with free to air operator, ATV, and successfully completed technical trials with PCCW and Star TV's Channel V in India.

Two Way is approximately 12 months ahead of schedule with regards to developing contracts for the Asian business. In addition, this development has been at a lower cost to date than had been envisaged in the Prospectus.

TWTVA has been frustrated by the lack of progress in securing a distribution agreement with a Pay Television operator in Australia to support Two Way's interactive wagering application. The Company is, however, continuing to make progress in this area.

In line with Prospectus forecast, Directors have not declared a final dividend.

Outlook

Key points:

- **TWTVA is rapidly advancing its business on the foundations laid in 2005**
- **Asian strategy will be the key growth driver**
- **First Asian contract signed**
- **Mobile games and gambling to become increasingly important**
- **2006 operating cash flow forecasts upgraded reflecting lower business development costs, despite earnings revision**

The key driver of Two Way's growth profile will be the Asian business, with the Asian gaming business demonstrating particular potential. Two Way expects 2006 to be a formative year with a number of new contracts signed by year's end.

Two Way will continue to aggressively focus on the many opportunities emerging from the Asian markets and remains in active, ongoing discussions with major operators in the region.

In Australia and New Zealand Two Way will continue to focus on securing broadcast agreements for its interactive racing application. The Company intends to secure a contract for an interactive racing service in New Zealand, on some form of revenue share basis, for launch in the June 2006 quarter. In addition, Optus is expected to launch a digital television service to its current 160,000 subscribers in the near future and this will provide further opportunities for Two Way's games channels and interactive wagering product as Optus migrates to digital.

Directors have reviewed the FY06 forecasts made in the Company's November 2004 IPO prospectus, and have prepared the following revised earnings and cash flow guidance.

FY06 Guidance ($m)

	Revised	**Prospectus**
Revenue	2.4	2.2
Operating costs	(5.5)	(2.8)
NPAT	(3.5)	(1.0)
Operating Costs: expensed + capitalised:		
Operating costs	(5.5)	(2.8)
Capitalised development costs	(0.8)	(4.4)
Total operating costs: expensed + capitalised	(6.3)	(7.2)
Net improvement in cash costs	0.9	
Operating cash flow	(3.9)	(4.5)
Net improvement in operating cash flow	0.6	

The $2.7m revision in operating costs is primarily as a result of:

- the reduced capitalisation of business development costs, primarily in Asia
- the incremental operating costs associated with the acquisition of Holotype ($0.4m)
- the incremental license fees to be paid to Zone4Play for its gaming product ($0.5m)
- the impact of accounting for executive options under the new IFRS standards ($0.3m)

Total cash costs in 2006 are expected to be $0.9m lower than the prospectus forecast. This translates into an improvement in operating cash flow, as highlighted in the table above.

As explained in the 2005 commentary, Two Way will expense the bulk of the development costs, rather than capitalising them as envisaged in the prospectus. This does not reflect a change in the Company's positive outlook with regards to the Asian business, but rather a change in the nature of the expenditure and a more conservative approach to capitalisation.

The lower cash usage rates in 2005 and 2006 will see the Company in a stronger position to continue to exploit the emerging opportunities in Australia, New Zealand and across Asia. While Directors are mindful of the infancy of the interactive television market and the lead times associated with the implementation of interactive services, Two Way aims to reach breakeven during the 2007 year.

For further information:

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ABOUT TWO WAY TV AUSTRALIA (ASX: TTV)

TWTVA is the leading provider of live, competitive, enhanced TV entertainment and interactive TV applications and technology to the Australian and Asian television environment. Its competitive strengths include its patented technology, library of interactive program applications, exclusive content deals and management team.

The exclusive and perpetual licence it acquired in 2000 from Two Way Media Ltd in the United Kingdom has given TWTVA a competitive advantage in terms of content and patented technology in both the Australian and Asian markets. This licence also gives it automatic access to arguably the world's largest library of interactive applications for existing television programs, as well as to the technology to deploy these applications for broadcasters within very rapid timeframes.

TWTVA has built a powerful suite of technologies that can be operated across any television delivery platform and interactive TV middleware. The core components consist of patented production, scheduling, and monitoring tools, transmission management, game/score processing systems, and an engine for handling real-time messaging and score process management.