
PEOPLE TELECOM LIMITED
ACN 009 273 152

CONSOLIDATED HALF YEAR
FINANCIAL REPORT

31 DECEMBER 2006

People Telecom Limited
ACN 009 273 152
and its controlled entities

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COMPANY DIRECTORY

DIRECTORS

Barry John Hamilton (Non Executive Chairman)
John Leslie Stanton (Chief Executive Officer and Executive Director)
Brendan William Fleiter (Non-Executive)
Colin Joseph Marland (Non-Executive)
Ryan Michael O'Hare (Non-Executive)
Stephe Peter Wilks (Alternate for C.M. Marland)
Martin Edward Wylie (Non-Executive)

COMPANY SECRETARY

Wayne Robert Wanders

REGISTERED AND HEAD OFFICE

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Pitcher Partners

SOLICITORS

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Somerville & Co

BANKERS

National Australia Bank

SHARE REGISTRY

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Level 2, Bank Building, 45 St Georges Terrace
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Telephone: (08) 9323 2000
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Directors' Report

The Board of Directors of People Telecom Limited submit their report in respect of the financial half-year ended 31 December 2006.

Directors

The names and details of the directors in office during the half-year and until the date of this report are as below.

Directors were in office for this entire period unless otherwise stated.

	Appointed
Barry John Hamilton	(Non Executive Chairman) 29 June 2004
John Leslie Stanton	(Chief Executive Officer) 7 August 2006
Ryan Michael O'Hare	(Non Executive) 29 June 2004
Brendan William Fleiter	(Non Executive) 29 June 2004
Colin Joseph Marland	(Non Executive) 12 September 2003
Stephe Peter Wilks	(alternate for Mr Marland) 15 February 2006
Martin Edward Wylie	(Non Executive) 1 September 2004

Principal Activity

The principal activity of the consolidated entity during the half-year was the provision of telecommunications services to the Australian corporate and public markets.

Results for announcement to the market

The loss from ordinary activities after income tax of the consolidated entity was \$776,932 for the half year ended 31 December 2006 (2005: loss of \$361,037).

Review of Operations

People Telecom commenced a program of internal reorganisation and process improvement during the first half of 2006-2007 to position the consolidated entity for stronger results going forward.

At the recurring gross margin level the consolidated entity recorded a recurring gross margin of \$13.4m (24.5%). This is an increase over the prior corresponding period in both dollar and percentage terms.

During the second half of the financial year the consolidated entity will benefit from reduced wholesale costs for ADSL and mobile phone services, following the recent signing of new agreements with Telstra and Optus.

In summary:

- Consumer grade recurring revenue grew by 14%.
- Mobile recurring revenue grew by 5%. Average recurring revenue per user remains high at \$95.
- Fixed voice revenue decreased by 8% from the prior corresponding period to \$30.3 million.
- Business grade recurring data revenue grew by 12% due to continued strong demand for business grade IP Virtual Private Networks and co-location services.
- Equipment and service establishment revenue fell by 15% mainly due to setup costs being either absorbed or spread across contracted periods.

The growth in recurring gross margin for the consolidated entity was driven by a combination of:

- The benefits of the major supply agreement signed with Telstra in June 2006 improving fixed voice margins (up from 20.6% to 22.2%).
- Improved recurring mobile margins by 0.8 percentage points.
- Consumer grade data recurring margins remaining steady as retail price declines have been matched with savings at the wholesale level.

Work continues on a wide-ranging program to improve operational efficiencies and internal processes. This is designed to further improve customer service, maximise customer retention, generate profitable growth and put the consolidated entity on a stronger competitive footing.

The consolidated entity reported a net operating cash outflow for the period of \$1.9m. This was driven by:

- the timing of wholesale supplier payments (where in selected instances seven months of charges were paid in this period); and,
- delays in the receipt of re-contracting fees during the period in which a new mobile supply agreement was being negotiated with wholesale suppliers.

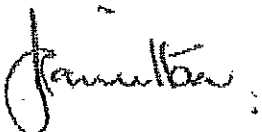
Other key factors driving the overall result include:

- The one-off costs of discontinuing the ADSL-2 broadband service and migrating customers to alternative products.
- Additional customer care costs were incurred. This has now been corrected through the recruitment of new staff and the implementation of improved systems and procedures.

	December 2006	December 2005	Growth period on period	% Growth period on period
Recurring Revenue for the half year				
Fixed Voice	29,801,642	32,534,261	(2,732,619)	(8%)
Mobile	9,344,549	8,881,325	463,224	5%
Business Grade Data	3,976,758	3,538,841	437,917	12%
Consumer Grade Data	8,922,405	7,835,653	1,086,752	14%
Total Recurring Revenue	<u>52,045,354</u>	<u>52,790,080</u>	<u>(744,726)</u>	<u>(1%)</u>
Recurring Gross Margin for the half year				
Fixed Voice	6,609,906	6,711,378	(101,472)	(2%)
Mobile	2,953,044	2,734,098	218,946	8%
Business Grade Data	1,774,499	2,002,819	(228,320)	(11%)
Consumer Grade Data	2,060,207	1,795,109	265,098	15%
Total Recurring Gross Margin	<u>13,397,656</u>	<u>13,243,404</u>	<u>154,252</u>	<u>1%</u>
Equipment & Service Establishment for the half year				
Revenue	<u>2,371,289</u>	<u>2,786,418</u>	<u>(415,129)</u>	<u>(15%)</u>
Margin	<u>(54,096)</u>	<u>747,542</u>	<u>(801,638)</u>	<u>(107%)</u>

Auditors' Independence Declaration

The Auditors' Independence Declaration is on page 14 of the Consolidated Half Year Financial Report and forms part of this report.



Barry Hamilton
Chairman

Melbourne, 28 February 2007

**Condensed Consolidated Income Statement
for the half-year ended 31 December 2006**

		Consolidated	
		31 December 2006	31 December 2005
		\$	\$
Revenue from rendering telecommunications services	2	54,416,643	55,576,498
Cost of sales		<u>(41,073,084)</u>	<u>(41,585,552)</u>
Gross margin		<u>13,343,559</u>	<u>13,990,946</u>
		24.5%	25.2%
Operating Costs			
Wages and related expenses		(6,869,435)	(6,592,163)
Advertising and promotion expenses		(159,951)	(385,809)
Billing and collection costs		(830,607)	(972,135)
Dealer charges		(2,812,898)	(2,908,832)
Theft / Loss		-	(381,165)
Insurance		(120,621)	(119,410)
Professional fees		(207,692)	(251,796)
Rental expenditure		(1,032,568)	(770,015)
Other operating expenses		<u>(1,727,755)</u>	<u>(1,521,023)</u>
		<u>(13,761,527)</u>	<u>(13,902,348)</u>
		25.3%	25.0%
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)			
		<u>(417,968)</u>	<u>88,598</u>
		(0.8)%	0.2%
Depreciation		(340,122)	(374,886)
Finance costs		(13,273)	(54,807)
Plant and equipment written off		(107,590)	(107,103)
Interest income	2	102,021	87,161
(Loss) before income tax expense		<u>(776,932)</u>	<u>(361,037)</u>
Income tax expense		-	-
(Loss) attributable to members of People Telecom Limited		<u>(776,932)</u>	<u>(361,037)</u>
Basic (loss) per share (cents per share)		(0.25)	(0.11)
Diluted (loss) per share (cents per share)		(0.25)	(0.11)

The accompanying notes form an integral part of this condensed consolidated income statement.

**Condensed Consolidated Balance Sheet
as at 31 December 2006**

	Consolidated	
	31 December 2006 \$	30 June 2006 \$
Current Assets		
Cash and cash equivalents	2,456,011	4,882,774
Receivables	14,449,129	14,138,073
Other	3,744,017	3,691,783
Total Current Assets	<u>20,649,157</u>	<u>22,712,630</u>
Non-Current Assets		
Other financial assets	822,723	819,643
Property, plant and equipment	2,681,326	2,766,146
Intangible assets	15,000,000	15,000,000
Other	352,979	479,561
Total Non-Current Assets	<u>18,857,028</u>	<u>19,065,350</u>
Total Assets	<u>39,506,185</u>	<u>41,777,980</u>
Current Liabilities		
Payables	16,321,296	18,092,253
Interest bearing liabilities	81,433	265,789
Provisions	504,282	476,780
Other	3,614,364	3,142,743
Total Current Liabilities	<u>20,521,375</u>	<u>21,977,565</u>
Non-Current Liabilities		
Other	552,739	585,002
Total Non-Current Liabilities	<u>552,739</u>	<u>585,002</u>
Total Liabilities	<u>21,074,114</u>	<u>22,562,567</u>
Net Assets	<u>18,432,071</u>	<u>19,215,413</u>
Equity		
Share Capital	62,377,038	62,383,448
Accumulated losses	(43,944,967)	(43,168,035)
Total Equity	<u>18,432,071</u>	<u>19,215,413</u>

The accompanying notes form an integral part of this condensed consolidated balance sheet.

**Condensed Consolidated Statement of Changes in Equity
 for the half-year ended 31 December 2006**

	Consolidated	
	31 December 2006 \$	31 December 2005 \$
(Loss) attributable to members of People Telecom Limited	(776,932)	(361,037)
Transactions with equity holders in their capacity as equity holders		
Issue of Shares	-	282,968
Share Issue Costs	(6,410)	-
Net (decrease) in Equity	<u>(783,342)</u>	<u>(78,069)</u>
Total equity at the beginning of the financial period	19,215,413	40,544,924
Total equity at the end of the financial period	<u>18,432,071</u>	<u>40,466,855</u>

The accompanying notes form an integral part of this condensed consolidated statement of changes in equity.

**Condensed Consolidated Statement of Cash Flow
for the half-year ended 31 December 2006**

	Consolidated	
	31 December 2006	31 December 2005
	\$	\$
	Inflows/(Outflows)	
Cash flow from operating activities		
Receipts from customers	58,389,187	59,775,387
Payments to suppliers and employees	(60,347,961)	(58,410,671)
Interest received	102,021	87,161
Interest and borrowing costs paid	(13,274)	(54,807)
Net cash (used in) / generated by operating activities	<u>(1,870,027)</u>	<u>1,397,070</u>
 Cash flow from investing activities		
Payments for property, plant & equipment	(362,892)	(447,974)
Investment in deposits	(3,080)	(65,768)
Net cash used in investing activities	<u>(365,972)</u>	<u>(513,742)</u>
 Cash flow from financing activities		
Share issue costs	(6,410)	-
Payment of loans	(76,413)	(102,008)
Repayment of finance lease principal	(107,941)	(162,577)
Net cash (used in) financing activities	<u>(190,764)</u>	<u>(264,585)</u>
 Net (decrease) / increase in cash held	<u>(2,426,763)</u>	<u>618,743</u>
Cash at the beginning of the financial period	<u>4,882,774</u>	<u>2,671,522</u>
Cash at the end of the financial period	<u><u>2,456,011</u></u>	<u><u>3,290,265</u></u>

The accompanying notes form an integral part of this condensed consolidated statement of cash flow.

Note 1. Basis of Preparation:

These general purpose consolidated financial statements have been prepared for the half-year ended 31 December 2006 in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The notes to the financial statements do not include all information normally contained within the notes to an annual financial report. It is recommended that this report be read in conjunction with the 30 June 2006 Annual Report and any public announcements made by People Telecom Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations of the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

The accounting policies used are consistent with those applied in the 30 June 2006 annual report. This financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

a) Going concern

The consolidated entity has made a loss from ordinary activities of \$776,932 for the half-year ended 31 December 2006 (2005: \$361,037). The directors have prepared the financial statements of the consolidated entity on a going concern basis. In arriving at this position the directors have had regard to the following pertinent matters:

- a. Total cash and debtors as at 31 December 2006 exceed creditors at the same date.
- b. The impact on the future cash flow of the business of the recent renewal of the mobile supply agreement with Optus.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the consolidated entity not be able to continue as a going concern.

b) Comparatives

Comparative information has been reclassified where appropriate so as to achieve consistency with current year disclosures.

	Consolidated	
	31 December 2005 \$	31 December 2005 \$
Note 2. Revenue		
Operating Revenue		
Income from rendering Telecommunications services	54,416,643	55,576,498
Other Revenue		
Interest income	<u>102,021</u>	<u>87,161</u>
Total revenue	<u>54,518,664</u>	<u>55,663,659</u>

Note 3. Segment Information

The consolidated entity operates in the one business segment, being the provision of telecommunications services to the Australian corporate and public markets.

Geographically, the consolidated entity operates in one segment, being the Australian market.

Note 4. Subsequent Event

Subsequent to 31 December 2006 and up to the date of these financial statements, no significant events have occurred.

Note 5. Contingent Liabilities and Contingent Assets

In pursuing debt recovery action against two former customers of the consolidated entity, the former customers have cross claimed against the consolidated entity and another party, for loss of profits (\$4.4 million), loss of opportunity (\$11.7 million) and costs incurred. The matter is at an early stage and full particulars of the cross claims by the former customers have yet to be obtained.

The Directors of the consolidated entity deny the allegations made in the cross claims and based on the information currently available are of the opinion that the consolidated entity will not suffer a material loss.

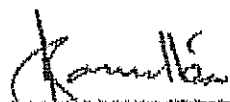
Directors' Declaration

The directors declare that the financial statements and notes set out on pages 5 to 10 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that People Telecom Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Barry Hamilton
Chairman

Melbourne
Date: 28 February 2007



PITCHER PARTNERS

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D M HODGKINSON
D S MCGILL
C R MILLINGTON
Y E PIETSCH
R M SHANLEY
D W STAPLES
D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PEOPLE TELECOM LIMITED

Report on the Interim Financial Report

We have reviewed the accompanying half year financial report of the consolidated entity, which comprises the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the director's declaration. The consolidated entity comprises both People Telecom Limited and the entities it controlled at the end of the half year or from time to time during the half year.

Director's Responsibility for the half year Financial Report

The Director's of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of People Telecom Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the consolidated entity is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Pitcher Partners

PITCHER PARTNERS

Mark Godlewski

MARK A GODLEWSKI

Partner

Sydney

28 February 2007



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AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of People Telecom Limited

As lead audit partner for the review of the financial statements of People Telecom Limited for the six months to 31 December 2006, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

MARK A GODLEWSKI

Partner
PITCHER PARTNERS
Sydney

28 February 2007