

25 February 2010

Australian Securities Exchange  
Company Announcements Office  
20 Bridge Street  
Sydney NSW 2000

By electronic lodgment

Dear Sir/Madam

**Half-Year Financial Report for period ended 31 December 2009**

Please find attached M2 Telecommunications Group Ltd's Half-Year Financial Report for the period ended 31 December 2009, including:

- Appendix 4D
- Half Year Financial Report

The above documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the 2009 Annual Report.

Yours sincerely



Kellie Dean  
**Company Secretary**





M2 Telecommunications Group Ltd

ABN 74 091 575 021

ACN 091 575 021

## Appendix 4D

### Half-Year Report

#### For the period ended 31 December 2009

This information is provided to ASX under ASX Listing Rule 4.2A.3

#### 1. Details of the reporting period

Current Period: 1 July 2009 to 31 December 2009

Previous corresponding period: 1 July 2008 to 31 December 2008

#### 2. Results for announcement to the market

##### Revenue and Net Profit

\$'000

2.1	Revenue from ordinary activities	Up	115%	To	\$187,691
2.2	Profit from ordinary activities after tax attributable to members	Up	156%	To	\$8,187
2.3	Net profit for the period attributable to members	Up	156%	To	\$8,187

##### Dividend Information

	Amount per security	Franked amount per security
2.4	<b>Dividends paid and to be paid:</b>	
2009 final dividend per share	3.0c	3.0c
2010 interim dividend per share	5.0c	5.0c
2.5	<b>Record date for determination of entitlement to the dividends:</b>	
2009 final dividend	15 October 2009	
2010 interim dividend	22 March 2010	

## 2. Results for announcement to the market - continued

### Dividend Reinvestment Plan

The Board recently introduced a Dividend Reinvestment Plan ('DRP'), whereby shareholders may elect to reinvest part or all of their dividends in M2 shares.

Shares will be offered at a discount of 5% to the adjusted market price, which is the average of the daily volume weighted average market price per share sold on the ASX during the five consecutive trading days commencing on the next trading day after the record date.

The DRP is available for the interim dividend, which is payable on 14 April 2010. Election form noting participation must be received by the Company by the record date (22 March 2010).

### Explanation of Financial Results

The first half of the 2009/10 financial year was very pleasing in terms of financial results for the consolidated entity, performing in accordance with the directors' growth and earnings expectations for the year to date. The acquisitions of People Telecom and Commander telecom business assets have considerably increased both revenue and earnings in the period. The increases in M2's key financial performance areas, as compared with the previous corresponding, are illustrated in Table 1 (below).

**Table 1: Comparative Period Review**

(\$000's)	Actual (Reviewed) 6 months to 31/12/09	Actual (Reviewed) 6 months to 31/12/08	Variance
<b>Total Revenue</b>	187,691	87,283	115%
<b>EBITDA</b>	15,347	6,144	150%
<b>EBIT</b>	12,683	5,147	146%
<b>Net Profit After Tax</b>	8,187	3,193	156%

Below are brief summaries of the key contributing factors to the above Revenue and EBIT results for the period, together with the outlook for the remainder of the 2009/10 financial year.

#### (i) Revenue

Revenue for the half year grew by \$100 million to \$188 million, representing a 115% increase compared with the same period last year. A considerable contribution to this growth was due to the People Telecom and Commander telecom business assets acquisitions late in the 2008/9 financial year.

Other than the contribution made by the abovementioned acquisitions, new customer revenues are generated through a combination of cross-selling to existing customers and new sales acquired via the Company's dealer network.

(ii) **Earnings Before Interest & Tax (EBIT)**

EBIT for the period was \$12.7 million. This represents an increase of \$7.6 million or 146%, compared with the same period last year. EBIT as a percentage of revenue for the period to 31 December 2009 was 6.8% compared with 5.9% for the previous corresponding period, demonstrating the Company's improving operating efficiency.

**3. Net tangible assets per security**

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	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Net tangible assets per ordinary share	<b>(\$0.11)</b>	<b>(\$0.05)</b>

**4. Control changes over entities**

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Not applicable

Additional Appendix 4D disclosure requirements can be found in the notes to the half-year financial report.



**M2 Telecommunications Group Limited**

ABN 74 091 575 021

ACN 091 575 021

**CONDENSED CONSOLIDATED HALF YEAR  
FINANCIAL REPORT**

**For the period ended 31 December 2009**

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## Corporate Directory

### Directors

Craig Farrow - Chairman  
Vaughan Bowen – CEO/MD  
Max Bowen  
Dennis Basheer  
John Hynd  
Michael Simmons

### Company Secretary

Kellie Dean

### Registered Office

Level 10, 60 City Road  
Southbank VIC 3006  
Telephone: (03) 9674 6555  
Facsimile: (03) 9674 6599  
Web Site: [www.m2.com.au](http://www.m2.com.au)

### Auditor

Ernst & Young  
Level 23, 8 Exhibition Street  
Melbourne VIC 3000

### Legal Advisors

Lander & Rogers Lawyers  
Level 12, 600 Bourke Street  
Melbourne VIC 3000

### Share Registry

Link Market Services Limited  
Level 9, 333 Collins Street  
Melbourne VIC 3000

### Bankers

Bank of Western Australia Ltd (BankWest)

M2 Telecommunications Group Ltd's shares are listed on the Australian Securities Exchange (ASX) under the issue code 'MTU'.

## Directors' Report

The directors of M2 Telecommunications Group Ltd ('M2' or 'the Company') submit the following report for the half-year ended 31 December 2009. In accordance with the provisions of the Corporations Act 2001, the directors' report is as follows:

### Directors

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The names of the Company's directors in office during the half-year (unless otherwise noted) and until the date of this report are as below.

Mr. Craig Farrow	Chairman
Mr. Vaughan Bowen	Managing Director/Chief Executive Officer
Mr. Dennis Basheer	Non-Executive Director
Mr. Max Bowen	Non-Executive Director
Mr. John Hynd	Non-Executive Director
Mr. Michael Simmons	Non-Executive Director (appointed on 26 November 2009)

### Principal Activities

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The principal activity of the consolidated entity during the half year was the supply of fixed line voice, mobile telecommunications and broadband data services within the Australian and New Zealand markets through its Retail and Wholesale operating divisions.

### Rounding

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The amounts contained within this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available under the company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

## Review of Operations

The first half of the 2009/10 financial year was very pleasing in terms of financial results for the consolidated entity, performing in accordance with the directors' growth and earnings expectations for the year to date. The acquisitions of People Telecom and Commander business telecom assets have considerably increased both revenue and earnings in the period. The increases in M2's key financial performance areas, as compared with the previous corresponding period, are illustrated in Table 1 (below).

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Below are brief summaries of the key contributing factors to the above Revenue and EBIT results for the period, together with the outlook for the remainder of the 2009/10 financial year;

### (i) Revenue

Revenue for the half year grew by \$100 million to \$188 million representing a 115% increase compared with the same period last year. A considerable contribution to this growth was due to the People Telecom and Commander business telecom assets acquisitions late in the previous financial year.

Other than the contribution made by the abovementioned acquisitions, new customer revenues are generated through a combination of cross-selling to existing customers and via new sales generated by the Company's dealer network.

**(ii) Earnings Before Interest & Tax (EBIT)**

EBIT for the period was approximately \$12.7 million. This represents an increase of \$7.6 million or 146%, compared with the same period last year. EBIT as a percentage of revenue for the period to 31 December 2009 was 6.8% compared with 5.9% for the previous corresponding period, demonstrating the Company's improving operating efficiency.

**Interim Dividend**

On 24 February 2010, the directors declared an interim dividend on ordinary shares. The total amount of the dividend is \$5,503,199, which represents a fully franked dividend of 5.0 cents per share. The date of record for the interim dividend is Monday 22 March 2010. The intended date of payment is Wednesday 14 April 2010. The interim dividend has not been provided for in the 31 December 2009 financial statements, in accordance with normal practice.

**Dividend Reinvestment Plan**

The Board recently introduced a Dividend Reinvestment Plan ('DRP'), whereby shareholders may elect to reinvest part or all of their dividends in M2 shares.

Shares will be offered at a discount of 5% to the adjusted market price, which is the average of the daily volume weighted average market price per share sold on the ASX during the five consecutive trading days commencing on the next trading day after the record date.

The DRP is available for the interim dividend, which is payable on 14 April 2010. Election form noting participation must be received by the Company by the record date (22 March 2010).

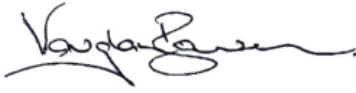
**Outlook for Remainder of 2009/10 Financial Year**

As at the date of this report, the directors are of the opinion that the business remains on track to deliver upon the forecast guidance previously issued for the full year to 30 June 2010, in light of the strong half year performance and the encouraging progress being made in terms of revenue growth, margin expansion and expense management.

### **Auditor's Independence Declaration**

The directors have received an auditor's independence declaration, which is attached on page 8 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read 'Vaughan Bowen'.

**Vaughan Bowen**

Managing Director / Chief Executive Officer

Melbourne, 24 February 2010

## Auditor's Independence Declaration to the Directors of M2 Telecommunications Group Limited

In relation to our review of the financial report of M2 Telecommunications Group Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'David Shewring'.

David Shewring  
Partner  
24 February 2010

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2009**

	Notes	CONSOLIDATED	
		31 DEC 2009	30 JUN 2009
		\$000	\$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	5,740	6,690
Trade and other receivables		54,698	50,114
Inventories		593	2,589
Other current assets		3,116	2,481
<b>TOTAL CURRENT ASSETS</b>		<u>64,147</u>	<u>61,874</u>
<b>NON-CURRENT ASSETS</b>			
Receivables		233	120
Deferred income tax asset		8,160	4,060
Property, plant and equipment		4,088	5,057
Intangible assets and goodwill		66,323	70,280
<b>TOTAL NON-CURRENT ASSETS</b>		<u>78,804</u>	<u>79,517</u>
<b>TOTAL ASSETS</b>		<u>142,951</u>	<u>141,391</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		53,835	55,793
Interest-bearing loans and borrowings	7	5,047	3,147
Deferred consideration	8	1,802	11,596
Income tax payable		83	(437)
Provisions		3,668	3,440
<b>TOTAL CURRENT LIABILITIES</b>		<u>64,435</u>	<u>73,539</u>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		418	620
Deferred consideration	8	3,935	4,852
Deferred tax liability		1,187	756
Interest-bearing loans and borrowings	7	18,678	13,113
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>24,218</u>	<u>19,341</u>
<b>TOTAL LIABILITIES</b>		<u>88,653</u>	<u>92,880</u>
<b>NET ASSETS</b>		<u>54,298</u>	<u>48,511</u>
<b>EQUITY</b>			
Contributed Equity	6	42,165	41,331
Retained earnings		11,344	6,466
Reserves		789	714
<b>TOTAL EQUITY</b>		<u>54,298</u>	<u>48,511</u>

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

		<b>CONSOLIDATED</b>	
	<b>Notes</b>	<b>6 MONTHS TO 31 DEC 2009</b>	<b>6 MONTHS TO 31 DEC 2008</b>
		<b>\$000</b>	<b>\$000</b>
<b>Revenue</b>	4(a)	187,691	87,123
Cost of Sales		(142,035)	(71,557)
<b>Gross Profit</b>		45,656	15,566
Other income		84	160
Employee benefits expenses		(20,941)	(6,705)
Depreciation and amortisation		(2,664)	(997)
Share based payments		(75)	(83)
Other expenses		(9,377)	(2,794)
<b>Profit from operations before tax and financing costs</b>		12,683	5,147
Financing costs		(1,080)	(411)
<b>Profit before income tax</b>		11,603	4,736
Income tax expense		(3,416)	(1,543)
<b>Profit after tax</b>		8,187	3,193
<b>Total comprehensive income for the period</b>		8,187	3,193
Earnings per share (cents)			
- basic for profit for the half-year		7.48	4.08
- diluted for profit for the half-year		7.39	3.94
- dividends paid per share		5.00	2.50

**STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

	Notes	CONSOLIDATED	
		6 MONTHS TO	6 MONTHS TO
		31 DEC 2009	31 DEC 2008
		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		185,823	80,545
Payments to suppliers and employees		(176,900)	(73,723)
Interest received		84	160
Interest paid		(1,080)	(411)
Income tax paid		(2,287)	(1,907)
Net cash flows from operating activities		5,640	4,664
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(535)	(114)
Purchase of intangibles		-	(282)
Payment of deferred consideration		(11,045)	(625)
Net cash flows used in investing activities		(11,580)	(1,021)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(3,035)	(1,055)
Proceeds from issue of shares		834	-
Proceeds from borrowings		10,500	-
Dividends paid		(3,309)	(2,358)
Net cash flows from/(used in) financing activities		4,990	(3,413)
Net (decrease)/increase in cash and cash equivalents		(950)	230
<b>Cash and cash equivalents at beginning of period</b>		6,690	6,893
<b>Cash and cash equivalents at end of period</b>	5	5,740	7,123

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

	Notes	Attributable to equity holders of the parent			
		Issued Capital \$000	Retained Earnings \$000	Equity Benefit Reserves \$000	Total Equity \$000
<b>CONSOLIDATED</b>					
<b>At 1 July 2009</b>		41,331	6,466	714	48,511
Profit for the period		-	8,187	-	8,187
		41,331	14,653	714	56,698
Share option reserves		-	-	75	75
Shares issued		834	-	-	834
Equity dividends		-	(3,309)	-	(3,309)
<b>At 31 December 2009</b>		42,165	11,344	789	54,298
<b>At 1 July 2008</b>		23,709	3,315	590	27,614
Profit for the period		-	3,193	-	3,193
		23,709	6,508	590	30,807
Share option reserves		-	-	53	53
Equity dividends		-	(2,358)	-	(2,358)
<b>At 31 December 2008</b>		23,709	4,150	643	28,502

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**NOTES  
FOR THE HALF-YEAR ENDED DECEMBER 2009**

## **1 CORPORATE INFORMATION**

The condensed financial report of M2 Telecommunications Group Ltd ("M2" or the "Company" or the "Group") for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 24 February 2010.

M2 is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

## **2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

### **Basis of preparation**

This general purpose condensed financial report for the half-year ended 31 December 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report should be read in conjunction with the annual report for the year ended 30 June 2009 and considered together with any public announcements made by M2 and its controlled entities during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the 2009 annual financial report.

### **Changes in accounting policies**

The Group has adopted the following Interpretation, mandatory for annual period beginning on or after 1 July 2009. Adoption of the interpretation did not have any material effect on the financial position or performance of the Group.

- AASB 8 Operating Segments
- AASB 101 Presentation of Financial Statements
- AASB 3 Business Combinations (revised 2008)
- AASB 127 Consolidated and Separate Financial Statements (revised 2008)
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from Annual Improvements Project
- AASB 2009-4 Amendments to Australian Accounting Standards arising from Annual Improvements Project

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**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

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The following Standards adopted are deemed to have an impact on the financial statements:

**AASB 8 Operating Segments**

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 5, including the related revised comparative information.

**AASB 101 Presentation of Financial Statements**

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

**Accounting Standards and Interpretations issued but not yet effective:**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for half-year ended 31 December 2009 are outline below:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 & 139)
- AASB 2009-7 Amendments to Australian Accounting Standards (AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17)
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions (AASB 2)
- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12)
- AASB 2009-12 Amendments to Australian Accounting Standards (AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052)

The Group has not elected to early adopt any new standards or amendments.

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**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

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### **3 OPERATING SEGMENTS**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (chief operating decisions makers) in assessing performance and in determining the allocation of resources.

The operating business units are organized and managed separately according to the nature of the market each business unit serves, with each segment representing a strategic business unit that offers different products and serves different markets.

The Retail business segment offers unique packaged telecommunications services, targeted particularly to small and medium sized enterprises, offering fixed line voice services, including line rental services, mobile voice and data services, terrestrial dial-up and high speed broadband internet services as well as mobile telephone hardware.

The Wholesale business segment offers the full suite of fixed line voice services, including line rental services, mobile voice and data services, terrestrial dial-up and high speed broadband internet services and mobile telephone hardware to the telecommunications reseller market at wholesale rates.

#### **Accounting policies and inter-segment transactions**

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior periods except as detailed below:

##### Inter-entity sales

Inter-entity sales are recognised at cost. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

##### Corporate charges

Corporate charges comprise non-segmental expenses such as corporate office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

##### Segment loans payable and loans receivable

Segment loans are initially recognised at the consideration received excluding transaction costs. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

##### Income tax expense

Income tax expense is calculated based on the segment operating net profit. Income tax expense includes the effect of deductible temporary differences.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**3 OPERATING SEGMENTS (continued)**

With the introduction of AASB 8 Operating Segments, which is effective for the M2 Group from 1 July 2009, the comparatives disclosed in the operating segment note have been adjusted to reflect the segmentation of M2 Telecommunications Group Ltd in accordance with how the executive management team (chief operating decision makers) review financial information in order to manage the business. The adjustment is a result of the realignment of business areas, notably the E-Direct business, which is reflected within the Wholesale segment in both the current and comparative year.

The following table present revenue and profit information for reportable segments for the half-years ended 31 December 2009 and 31 December 2008.

	Retail		Wholesale		Total	
	2009	2008	2009	2008	2009	2008
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>						
Sales to external customers	114,937	27,316	72,754	59,807	187,691	87,123
Inter-segment sales	21,311	-	1,355	321	22,666	321
<b>Total segment revenue</b>	<u>136,248</u>	<u>27,316</u>	<u>74,109</u>	<u>60,128</u>	<u>210,357</u>	<u>87,444</u>
Inter-segment elimination					(22,666)	(321)
Total revenue per the statement of comprehensive					<u>187,691</u>	<u>87,123</u>
<b>Result</b>						
Segment result	<u>9,375</u>	<u>1,632</u>	<u>1,275</u>	<u>2,157</u>	10,650	3,789
<b>Reconciliation of segment net profit after tax to net profit before tax</b>						
Income tax expense					3,416	1,543
Corporate charges - unallocated					(2,463)	(596)
Net profit before tax per the statement of comprehensive income					<u>11,603</u>	<u>4,736</u>

Income tax expense includes the effect of deductible temporary differences.

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**3 OPERATING SEGMENTS (continued)**

Segment assets and liabilities for the half-year ended 31 December 2009 and 31 December 2008 are as follows:

	Retail		Wholesale		Unallocated		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Segment assets</b>								
Segment operating assets	112,353	31,373	32,120	35,036	1,969	6,047	146,442	72,455
Other							(3,491)	1,156
Total assets per the statement of financial position							142,951	73,611
<b>Segment liabilities</b>								
Segment operating liabilities	56,481	9,209	10,401	22,550	25,240	13,350	92,122	45,109
Other							(3,469)	-
Total liabilities per the statement of financial position							88,653	45,109

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**4 REVENUE**

	<b>CONSOLIDATED</b>	
	<b>6 MONTHS TO</b>	<b>6 MONTHS TO</b>
	<b>31 DEC 2009</b>	<b>31 DEC 2008</b>
	<b>\$000</b>	<b>\$000</b>
Rendering of services	181,814	86,875
Rental revenue	5,463	19
License revenue	414	229
	<u>187,691</u>	<u>87,123</u>

**5 CASH AND CASH EQUIVALENTS**

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents comprise the following:

	<b>CONSOLIDATED</b>	
	<b>31 DEC 2009</b>	<b>30 JUN 2009</b>
	<b>\$000</b>	<b>\$000</b>
Cash at bank and in hand	4,149	4,712
Short-term deposits	1,591	1,978
	<u>5,740</u>	<u>6,690</u>

Included within short-term deposits is an amount of \$1.49M at 31 December 2009 (30 June 2009 \$1.46M), relating to the Phone & Fly travel dollars loyalty program.

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**6 CONTRIBUTED EQUITY**

<i>Movements in ordinary shares on issue</i>	<b>No. of shares</b>	<b>\$000</b>
At 1 July 2009	108,462	41,331
Shares issued	1,602	834
At 31 December 2009	110,064	42,165

**7 DIVIDENDS PAID AND PROPOSED**

	<b>CONSOLIDATED</b>	
	<b>31 DEC 2009</b>	<b>30 JUN 2009</b>
	<b>\$000</b>	<b>\$000</b>
(a) Dividends paid during the half-years on ordinary shares:		
Final <u>franked</u> dividend for financial year 30 June 2009: 3.0 cents	3,309	-
Final <u>franked</u> dividend for financial year 30 June 2008: 3.0 cents	-	2,367
(b) Dividends proposed and not recognised as a liability:		
Interim <u>franked</u> dividend for the half year ended 31 December 2009: 5.0 cents	5,503	-
Interim <u>franked</u> dividend for the half year ended 31 December 2008: 2.5 cents	-	1,959

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

## 8 BUSINESS COMBINATION

### People Telecom Ltd

On 24 April 2009, M2 Telecommunications Pty Ltd (a subsidiary of M2 Telecommunications Group Ltd) acquired 100% of the voting shares of ASX listed company People Telecom Ltd via a scheme of arrangement.

The total cost of the combination was \$19.4 million and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. M2 issued 28.6 million ordinary shares with a fair value of \$0.60 each, based on the quoted price of the shares of M2 at the date of exchange.

At the date of acquisition, M2 was involved in the retail and wholesale reselling of telecommunications services. As a result of the combination, it has increased the retail side of the business.

The fair value of the identifiable assets and liabilities of People Telecom as at the date of acquisition were:

	<b>CONSOLIDATED</b>	
	<b>Provisional</b>	<b>Final</b>
Property, plant and equipment	848	831
Cash and cash equivalents	1,765	1,765
Trade and other receivables	7,351	7,863
Other receivables	384	398
Deferred tax assets	-	6,128
Intangible assets	-	2,015
Inventories	110	110
	10,458	19,110
Trade and other payables	7,883	8,392
Income tax payable	70	70
Deferred tax liability	-	430
Provisions	321	321
	8,274	9,213
Fair value of identifiable net assets		9,897
Goodwill arising from acquisition		9,464
		19,361
Cost of the combination:		
Shares issued, at fair value		17,147
Cash paid		2,000
Direct costs relating to the acquisition		214
Total cost of the combination		19,361
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary		1,765
Cash paid		(2,214)
Net consolidated cash inflow		(449)

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**8 BUSINESS COMBINATION (continued)**

**M2 Commander Pty Ltd**

On 15 June 09, M2 Commander Pty Ltd (subsidiary of M2) acquired the small and medium business (SMB) assets and associated intellectual property of Commander Communications Limited (Receivers and Managers Appointed) (In Liquidation) ('Commander') a company based in Australia specialising in the retail of fixed line, mobile and data products.

The total cost of the combination of \$24.7 million comprised deferred consideration of \$16.4 million and the payment of cash and costs directly attributable to the combination of \$8.3 million.

At the date of acquisition, M2 was involved in the retail and wholesale reselling of telecommunications services. As a result of the combination, it has complimented the retail side of the business.

The fair value of the identifiable assets and liabilities of Commander as at the date of acquisition were:

	<b>CONSOLIDATED</b>	
	<b>Provisional</b>	<b>Final</b>
Property, plant and equipment	2,619	2,619
Trade and other receivables	-	7,780
Intangible assets	-	4,605
Deferred tax asset	2,118	1,004
Inventories	1,711	566
	<u>6,448</u>	<u>16,574</u>
Trade and other payables	-	7,912
Deferred tax liability	794	1,105
Provisions	3,348	3,348
	<u>4,142</u>	<u>12,365</u>
Fair value of identifiable net assets		4,210
Goodwill arising from acquisition		20,464
		<u>24,674</u>
Cost of the combination:		
Cash paid		8,030
Deferred consideration		16,393
Direct costs relating to the acquisition		251
Total cost of the combination		<u>24,674</u>

The provisional accounts for trade and other receivables and trade and other payables reflecting the recovery arrangements with the vendors were netted off and should be considered in tandem. These categories have been presented within the final accounts as a gross figure.

**NOTES continued**  
**FOR THE HALF-YEAR ENDED DECEMBER 2009**

**9 EVENTS AFTER BALANCE DATE**

**Share Options**

On 5 February 2010, M2 issued 1,750,000 share options to its executives pursuant to the M2 Executive Management Team Share Option Plan. The principal terms for these share options are:

	Exercise Price	Expiry Date
First tranche	\$1.75	1 January 2013
Second tranche	\$1.85	1 January 2014
Third tranche	\$1.95	1 January 2015

**Interim Dividend**

On 24 February 2010, the directors of M2 declared an interim dividend on ordinary shares. The total amount of the dividend is \$5,503,199, which represents a fully franked dividend of 5.0 cents per share. The date of record for the interim dividend is Monday 22 March 2010. The intended date of payment is Wednesday 14 April 2010. The interim dividend has not been provided for in the 31 December 2009 financial statements, in accordance with normal practice.

**Dividend Reinvestment Plan**

On 29 January 2010, the directors introduced a Dividend Reinvestment Plan ('DRP'), whereby shareholders may elect to reinvest part or all of their dividends in M2 shares.

Shares will be offered at a discount of 5% to the adjusted market price, which is the average of the daily volume weighted average market price per share sold on the ASX during the five consecutive trading days commencing on the next trading day after the record date.

The DRP is available for the interim dividend, which is payable on 14 April 2010. Election form noting participation must be received by the Company by the record date (22 March 2010).

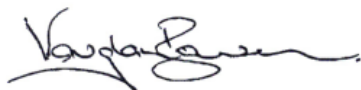
## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of M2 Telecommunications Group Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) give a true and fair view of the financial position as at 31 December 2009 and of the performance for the half year ended on that date of the consolidated entity; and
  - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Vaughan Bowen**  
**Managing Director/CEO**

Melbourne, 24 February 2010

To the members of M2 Telecommunications Group Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of M2 Telecommunications Group Limited which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

## Directors' Responsibility for the Half Year Financial Report

The directors 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 establishing and maintaining internal controls 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 Interim and Other Financial Reports 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 2009 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of M2 Telecommunications Group Limited and the entities it controlled during the half year, 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.

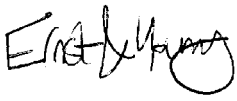
## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

## 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 M2 Telecommunications Group Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



David Shewring  
Partner  
Melbourne  
24 February 2010