m2 telecommunications

28 February 2011

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 2010

Please find attached M2 Telecommunications Group Ltd's Half-Year Financial Report for the period ended 31 December 2010, 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 2010 Annual Report.

Yours sincerely

K J Dean

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 2010

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

1. Details of the reporting period

Current Period:	1 July 2010 to 31 December 2010
Previous corresponding period:	1 July 2009 to 31 December 2009

2. Results for announcement to the market

Revenue and Net Profit					$'000
2.1	Revenue from ordinary activities	Up	15%	To	$215,682
2.2	Profit from ordinary activities after tax attributable to members	Up	40%	To	$11,447
2.3	Net profit for the period attributable to members	Up	40%	To	$11,447

Dividend Information		Amount per security	Franked amount per security
2.4	Dividends paid and to be paid:		
	2010 final dividend per share	5.0c	5.0c
	2011 interim dividend per share	7.0c	7.0c
2.5	Record date for determination of entitlement to the dividends:		
	2010 final dividend	8 October 2010	
	2011 interim dividend	22 March 2011	

2. Results for announcement to the market - continued

Explanation of Financial Results

The first half of the 2010/11 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 assets of Clever Communications and Bell Networks have contributed to 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).

Table 1: Comparative Period Review

($000's)	Actual (Reviewed) 6 months to 31/12/10	Actual (Reviewed) 6 months to 31/12/09	Variance
Total Revenue	215,682	187,691	15%
EBITDA	20,083	15,347	31%
EBIT	17,422	12,683	37%
Net Profit After Tax*	11,447	8,187	40%

*Net profit after tax attributable to members only

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 2010/11 financial year;

(i) Revenue

Revenue for the half year grew by $28 million to $216 million representing a 15% increase compared with the same period last year. A considerable contribution to this growth was due to the organic growth within the business and the additional revenue from the acquisitions of the assets of Clever Communications and Bell Networks.

(ii) Earnings Before Interest & Tax (EBIT)

EBIT for the period was approximately $17.4 million. This represents an increase of $4.7 million or 37%, compared with the same period last year. EBIT as a percentage of revenue for the period to 31 December 2010 was 8.1% compared with 6.8% for the previous corresponding period, demonstrating the Company's improving operating efficiency.

3. Net tangible assets per security

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share	$0.06	($0.11)

4. Control changes over entities

Not applicable

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

M2 Telecommunications Group Ltd

ABN 74 091 575 021

ACN 091 575 021

CONDENSED CONSOLIDATED HALF YEAR FINANCIAL REPORT

For the period ended 31 December 2010

Table of Contents

Corporate Directory

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

Company Secretary
Kellie Dean

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Level 10, 60 City Road
Southbank VIC 3006
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Facsimile: (03) 9674 6599
Web Site: 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
Westpac Banking Corporation Ltd
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 2010. In accordance with the provisions of the Corporations Act 2001, the directors' report is as follows:

Directors

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 (resigned 29 October 2010)
Mr. Max Bowen	Non-Executive Director
Mr. John Hynd	Non-Executive Director
Mr. Michael Simmons	Non-Executive Director

Principal Activities

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

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 2010/11 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 assets of Clever Communications and Bell Networks have contributed to 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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***Net profit after tax attributable to members only**

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(i) Revenue

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(ii) Earnings Before Interest & Tax (EBIT)

EBIT for the period was approximately $17.4 million. This represents an increase of $4.7 million or 37%, compared with the same period last year. EBIT as a percentage of revenue for the period to 31 December 2010 was 8.1% compared with 6.8% for the previous corresponding period, demonstrating the Company's improving operating efficiency.

Interim Dividend

On 25 February 2011, the directors declared an interim dividend on ordinary shares in respect of the half year period ended 31 December 2010. The total amount of dividend is $8,597,940, which represents a fully franked dividend of 7.0 cents per share (on shares issued as at 31 December 2010). This dividend will be paid on 22 March 2011. The interim dividend has not been provided for in the 31 December 2010 financial statements in accordance with normal practice.

Outlook for Remainder of 2010/11 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 2011, in light of the strong half year performance and the encouraging progress being made in terms of revenue growth, margin control 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

Vaughan Bowen
Managing Director / Chief Executive Officer
Melbourne, 25 February 2011

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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 2010, 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.

Ernst & Young

David Shewring
Partner
25 February 2011

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	CONSOLIDATED 31 DEC 2010 $000	30 JUN 2010 $000
ASSETS			
Current Assets			
Cash and cash equivalents	5	19,538	15,064
Trade and other receivables		57,236	55,752
Inventories		395	338
Other current assets		8,428	7,312
Total Current Assets		85,597	78,466
Non-Current Assets			
Receivables		50	62
Deferred income tax asset		5,727	6,747
Plant and equipment		3,752	3,720
Intangible assets and goodwill		76,852	70,457
Total Non-Current Assets		86,381	80,986
TOTAL ASSETS		171,978	159,452
LIABILITIES			
Current Liabilities			
Trade and other payables		65,656	54,225
Interest-bearing loans and borrowings		5,132	5,129
Deferred consideration		-	2,930
Income tax payable		2,968	413
Provisions		3,542	3,584
Total Current Liabilities		77,298	66,281
Non-Current Liabilities			
Interest-bearing loans and borrowings		8,875	11,445
Deferred consideration		-	2,980
Deferred tax liability		1,176	1,274
Provisions		527	470
Total Non-Current Liabilities		10,578	16,169
TOTAL LIABILITIES		87,876	82,450
NET ASSETS		84,102	77,002
EQUITY			
Contributed equity		64,678	62,936
Reserves		296	288
Retained earnings		19,115	13,778
Parent interests		84,089	77,002
Non-controlling interests		13	-
TOTAL EQUITY		84,102	77,002

STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED	
		6 MONTHS TO 31 DEC 2010 $000	6 MONTHS TO 31 DEC 2009 $000
Revenue	4	215,682	187,691
Cost of Sales		(168,976)	(142,035)
Gross profit		46,706	45,656
Other income		620	84
Employee benefits expenses		(17,894)	(20,941)
Depreciation and amortisation		(2,661)	(2,664)
Share based payments		(141)	(75)
Other expenses		(9,208)	(9,377)
Profit from operations before tax and financing costs		17,422	12,683
Financing costs		(765)	(1,080)
Profit before income tax		16,657	11,603
Income tax expense		(5,205)	(3,416)
Profit after tax		11,452	8,187
Total comprehensive income for the period		11,452	8,187
Total comprehensive income for the period attributable to:			
- Non-controlling interest		5	-
- Owners of the parent		11,447	8,187
		11,452	8,187
Earnings per share (cents)			
- basic for profit for the half year		9.37	7.48
- diluted for profit for the half year		9.21	7.39
- dividends per share		7.00	5.00

STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED 6 MONTHS TO 31 DEC 2010 $000	6 MONTHS TO 31 DEC 2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		210,276	185,823
Payments to suppliers and employees		(183,858)	(176,900)
Interest received		620	84
Interest paid		(765)	(1,080)
Income tax (paid)/refunded		(2,129)	(2,287)
Net cash flows from operating activities		24,144	5,640
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(791)	(535)
Purchase of intangibles		(6,287)	-
Payment of deferred consideration		(5,539)	(11,045)
Net cash flows used in investing activities		(12,617)	(11,580)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(2,567)	(3,035)
Proceeds from issue of shares		543	834
Proceeds from borrowings		-	10,500
Dividends paid		(5,029)	(3,309)
Net cash flows from/(used in) financing activities		(7,053)	4,990
Net (decrease)/increase in cash and cash equivalents		4,474	(950)
Cash and cash equivalents at beginning of period		15,064	6,690
Cash and cash equivalents at end of period		19,538	5,740

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

		CONSOLIDATED						
	Note	Issued Capital $000	Retained Earnings $000	Employee Benefit Reserves $000	Foreign Exchange Reserves $000	Owners of the Parent $000	Non-Controlling Interest $000	Total Equity $000
At 1 July 2010		62,936	13,778	342	(54)	77,002	-	77,002
Profit for the period		-	11,447	-	-	11,447	5	11,452
		62,936	25,225	342	(54)	88,449	5	88,454
Options exercised		664	-	(121)	-	543	-	543
Share option reserves		-	-	141	-	141	-	141
Net translation during the year		-	-	-	(12)	(12)	-	(12)
Shares issued		-	-	-	-	-	8	8
Dividends paid		-	(6,110)	-	-	(6,110)	-	(6,110)
Dividend reinvestment plan		1,081	-	-	-	1,081	-	1,081
Deferred tax adjustment		(3)	-	-	-	(3)	-	(3)
At 31 December 2010		64,678	19,115	362	(66)	84,089	13	84,102
At 1 July 2009		41,331	6,485	714	(19)	48,511	-	48,511
Profit for the period		-	8,187	-	-	8,187	-	8,187
		41,331	14,672	714	(19)	56,698	-	56,698
Share option reserves		-	-	75	-	-	-	-
Currency translation reserve adjustment		-	32	-	(32)	-	-	-
Shares issued		834	-	-	-	834	-	834
Dividends paid		-	(3,309)	-	-	(3,309)	-	(3,309)
At 31 December 2009		42,165	11,395	789	(51)	54,223	-	54,223

NOTES
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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 2010 was authorised for issue in accordance with a resolution of the directors on 25 February 2011.

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 2010 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 2010 and considered together with any public announcements made by M2 and its controlled entities during the half-year ended 31 December 2010 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 2010 annual financial report.

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Changes in accounting policies

The Group has adopted the following Interpretation, mandatory for annual period beginning on or after 1 July 2010. Adoption of the interpretation did not have any material effect on the financial position or performance of the Group.

- 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 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions (AASB 2)
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 & 139)
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

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 2010 are outlined below:

- AASB 2009-12 Amendments to Australian Accounting Standards (AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052)
- AASB 124 Related Party Disclosures
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1. 7, 101, 134 and Interpretation 13)

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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 Group has two operating segments, Retail and Wholesale. The Group's risks and rates of return are affected predominantly by differences in the markets served by these business units.

The operating business units are organised and managed separately according to the nature of the market each business units 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:

<u>Corporate charges</u>
Corporate charges comprise non-segmental expenses such as corporate employee benefits, general and administrative expenses and interest. These unallocated expenses are pertain to transactions that benefit the Group as a whole and cannot be directly associated to any of the segments.

<u>Income tax expense</u>
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 31 DECEMBER 2010

3 OPERATING SEGMENTS (continued)

The following table present revenue and profit information for reportable segments for the half-years ended 31 December 2010 and 31 December 2009.

	Retail		Wholesale		Total	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Revenue						
Sales to external customers	119,607	114,937	96,075	72,754	215,682	187,691
Inter-segment sales	-	21,311	1,321	1,355	1,321	22,666
Total segment revenue	119,607	136,248	97,396	74,109	217,003	210,357
Inter-segment elimination					(1,321)	(22,666)
Total revenue per the statement of comprehensive income					215,682	187,691
Result						
Segment net operating profit after tax	8,855	9,375	3,753	1,275	12,608	10,650
Reconciliation of segment net profit after tax to net profit before tax						
Income tax expense					5,205	3,416
Corporate charges - corporate employee benefits					(1,131)	(2,190)
Corporate charges - miscellaneous					(25)	(273)
Net profit before tax per the statement of comprehensive income					16,657	11,603

	Retail		Wholesale		Unallocated		Total	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Depreciation	765	845	2	89	-	-	767	934
Amortisation	1,593	1,766	301	347	-	(383)	1,894	1,730
Income tax expense	5,039	4,018	1,549	546	(1,383)	(1,148)	5,205	3,416

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

3 OPERATING SEGMENTS (continued)

Segment assets and liabilities as of 31 December 2010 and 30 June 2010 are as follows:

	Retail		Wholesale		Total	
	DEC 2010 $000	JUN 2010 $000	DEC 2010 $000	JUN 2010 $000	DEC 2010 $000	JUN 2010 $000
Segment assets						
Segment operating assets	133,416	126,358	32,999	32,744	166,415	159,102
Corporate working capital					5,214	76
Corporate - other					349	274
Total assets per the statement of financial position					171,978	159,452

	Retail		Wholesale		Total	
	DEC 2010 $000	JUN 2010 $000	DEC 2010 $000	JUN 2010 $000	DEC 2010 $000	JUN 2010 $000
Segment liabilities						
Segment operating liabilities	56,835	50,950	18,866	16,024	75,701	66,974
Corporate liabilities					12,175	15,476
Total liabilities per the statement of financial position					87,876	82,450

NOTES continued

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

4 REVENUE

	CONSOLIDATED	
	DEC 2010 $000	**DEC 2009 $000**
Rendering of services	215,156	187,277
License fees	526	414
	215,682	187,691

5 CASH AND CASH EQUIVALENTS

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

	CONSOLIDATED	
	DEC 2010 $000	**JUN 2010 $000**
Cash at bank and in hand	12,839	13,390
Short-term deposits	6,699	1,674
	19,538	15,064

Included within short-term deposits is an amount of $1.5M at 31 December 2010 (30 June 2010 $1.6M), which is held in trust for the Phone & Fly travel dollars loyalty program.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6 DIVIDENDS PAID

	CONSOLIDATED	
	DEC 2010 $000	JUN 2010 $000
(a) Dividends declared and paid during the half-year on ordinary shares:		
Final franked dividend for the financial year ended 30 June 2010: 5.0 cents, paid 29 October 2010 (2009: 3.0 cents)	6,110	3,308
(b) Dividends proposed and not yet recognised as a liability:		
Interim franked dividend for the half-year ended 31 December 2010: 7.0 cents, proposed to be paid 22 March 2011 (2009: 5.0 cents)	8,598	5,503

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

7 BUSINESS COMBINATION

Clever Communications
In May 2010, People Telecommunications Pty Ltd, a wholly owned subsidiary of M2, acquired the selected business assets of Clever Communications Australia Ltd ("Clever") for a total final determined cash consideration of $4.8 million, comprised of an upfront and deferred payment. The acquisition of Clever's selected business assets, which includes off-net fixed, mobile and data and virtual private network SMB customer contracts complements the Group's core focus on SMB.

	CONSOLIDATED	
	Provisional	Final
Intangible assets	1,298	1,090
Deferred tax liability	-	(327)
Provisions	(7)	(7)
Fair value of identifiable net assets	1,291	756
Goodwill arising from acquisition	3,709	4,052
	5,000	4,808
Cost of the combination:		
Deferred consideration	1,250	1,058
Cash paid	3,750	3,750
Total cost of the combination	5,000	4,808

From the date of acquisition, Clever has contributed $0.6 million to the net profit of the Group.

Key factors contributing to the $4.1 million goodwill are the synergies existing within the acquired business, and the synergies expected to be achieved as a result of combining with the retail segment.

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

7 BUSINESS COMBINATION (continued)

Bell Networks
In August 2010, People Telecommunications Pty Ltd, a wholly owned subsidiary of M2, completed the acquisition of the business assets of Bell Networks Voice & Data Pty Ltd ("Bell") for a final determined consideration of $3.7 million (less certain adjustments) payable in cash, comprised of an upfront and deferred payment, which is subject to certain conditions relating to the performance of the assets over an agreed period. Bell also has an opportunity to receive additional bonus consideration based on the performance of business assets in the 12 months post-completion. The principle assets acquired were the SMB customer contracts of Bell.

	CONSOLIDATED Provisional
Intangible assets	1,300
Deferred tax liability	(390)
Fair value of identifiable net assets	910
Goodwill arising from acquisition	2,749
	3,659
Cost of the combination:	
Cash paid - upfront payment	2,075
Cash paid - deferred payment	160
Payment adjustments	1,424
Total cost of the combination	3,659

From the date of acquisition, Bell has contributed $0.3 million net profit to the Group.

If the combination had taken place at the beginning of the year, the net profit from the continuing operations of the Group would have been $11.5 million.

Due to the timing of this acquisition, the fair values currently established are provisional and are subject to further review during the next financial year.

Key factors contributing to the $2.7 million goodwill are the synergies existing within the acquired business, and the synergies expected to be achieved as a result of combining with the retail segment.

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

7 BUSINESS COMBINATION (continued)

Coast to Coast

In November 2010, M2 Commander Pty Ltd completed the acquisition of customer contracts of Coast to Coast Telecoms Pty Ltd for a consideration of $180,000 paid by offsetting against amount owed to M2.

Black and White

In December 2010, the Group acquired certain assets of Black and White Group Limited ("B&W"). The purchase was completed via issue of shares of M2 NZ Limited ("M2NZ") to B & W shareholders. Following the issue of shares, the ownership structure of M2NZ is 70% owned by the Group and 30% owned by B & W.

8 EVENTS AFTER BALANCE SHEET DATE

Interim Dividends

On 25 February 2011, the directors declared an interim dividend on ordinary shares in respect of the half year period ended 31 December 2010. The total amount of dividend is $8,597,940, which represents a fully franked dividend of 7.0 cents per share (on shares issued as at 31 December 2010). This dividend will be paid on 22 March 2011. The interim dividend has not been provided for in the 31 December 2010 financial statements in accordance with normal practice.

Clear Telecoms Acquisition

In 1 February 2011, the Group acquired all of the business assets of Clear Telecoms (Aust) Pty Ltd ("Clear"), comprising of all customer contracts, operating systems, brands and all other related intellectual property.

The transaction involves a net cash consideration of $24.5 million payable over 3 payment tranches. The first tranche is payable immediately while the remaining tranches are payable in September 2011 and March 2012. The amount of the remaining tranches is subject to minimum performance milestones being achieved.

A variable bonus consideration may also be payable in the event that specific performance milestones are exceeded. The consideration for the Clear assets is funded by a draw-down on M2's available debt facilities.

Information required to determine the provisional values of the business assets acquired is not available. Thus, it is impracticable to comply with the disclosure requirements of AASB 3 Business Combination.

NOTES continued
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

8 EVENTS AFTER BALANCE SHEET DATE (continued)

Austar Acquisition
In 22 February 2011, Southern Cross Telco Ltd ("SCT"), a wholly-owned subsidiary of M2, had entered into an asset sale deed with Austar United Mobility Ltd ("Austar") to acquire certain assets of Austar. The principal assets to be acquired are mobile customer contracts and related customer records.

The net cash consideration to be paid to Austar is approximately $2 million (less applicable adjustments), payable in cash, to be funded wholly from M2's operating cash flows.

Information required to determine the provisional values of the assets acquired is not available. Thus, it is impracticable to comply with the disclosure requirements of AASB 3 Business Combination.

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 2010 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, 25 February 2011

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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 2010, 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 it 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 circumstance.

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 2010 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 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 2010 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
25 February 2011