

# PowerTel Limited

ABN 69 001 760 103

## Appendix 4E

Comprising Results for Announcement to the Market, Managing Director's Operational Review, and Financial Report for the Year Ended 31 December 2006

### Results for Announcement to the Market

Year Ended 31 December 2006

(Corresponding Period Ending 31 December 2005)

				\$A'000
Revenues from ordinary activities	up	2.9%	to	199,365
Profit from ordinary activities after tax attributable to members	up	n/c*	to	10,014
Profit for the period attributable to members	up	n/c*	to	10,014
	Current Period	Previous Corresponding Period		
Net tangible asset backing per ordinary security	83.6			51.3

\*the percentage change cannot be calculated because in the previous corresponding period, a loss was recorded.

### Dividends

The Company is not proposing to pay any dividends.

### Note

The attached Financial Report for the year ended 31 December 2006 has been audited and the Independent Audit Report is attached.

### Attachments

Managing Director's Operational Review  
Financial Report for the Year Ended 31 December 2006

# **POWERTEL LIMITED**

**ABN 69 001 760 103**

**ANNUAL FINANCIAL REPORT**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

## MANAGING DIRECTOR'S OPERATIONAL REVIEW : PAUL BROAD

2006 saw some significant events for PowerTel. In the first half we achieved our first net profit, exceeded our EBITDA guidance and made a strategic investment in iiNet. We built on this result in the second half by cementing our net profit with an even better second half result, once again exceeding our EBITDA guidance and forming a wholesale strategic alliance with Telecom New Zealand ("Telecom"). This has led to a proposal from Telecom in January 2007 to acquire 100% of PowerTel.

We achieved our profit turnaround due to disciplined cost management and focus on profitable revenue growth. We've done this despite a highly competitive market where we are seeing strong price erosion coupled with a challenging regulatory environment. This is where we consistently see the benefits of having our own network and our exclusive wholesale access to the iiNet network. We have the flexibility to deliver more services on-net than ever before and we can be highly competitive on price due to our low cost structure.

I will discuss the scheme of arrangement with Telecom and the strategic investment in iiNet in detail later in this review.

The focus of my team in 2006 has been on leveraging our network assets, improving our customer service, support and automation and delivering product innovation focused on the business segment. The key achievements for 2006 include:

- ✓ The wholesale strategic alliance with Telecom, leading to a proposal from Telecom to acquire PowerTel in January 2007
- ✓ The strategic investment in and wholesale commercial agreement with iiNet
- ✓ Achieving net profit of \$10.0M, a turnaround of \$18.0M
- ✓ EBITDA growth of 47.4% to \$39.8M
- ✓ Strong gross margin of 48.5%
- ✓ Operating cash flow increase of \$17.9M, to \$35.3M, a 103% improvement
- ✓ The increase of our Westpac debt facility to \$97.3M to fund our capital management program.

PowerTel is continuing with the successful strategy of not competing against its wholesale channels. As a result ISPs and voice resellers have a true alternative that won't undercut them at the retail level.

### Scheme of Arrangement between Telecom New Zealand and PowerTel

On 31 January 2007 the PowerTel Board of Directors resolved to recommend (in the absence of a superior offer), in the form of a Scheme of Arrangement, a 100% takeover proposal from Telecom.

The background to this proposed transaction is summarised below:

- In November 2006 Telecom and PowerTel finalised a comprehensive network access services agreement
- At that time both PowerTel and Telecom entered into a non-binding agreement designed to establish a broader strategic relationship, including development of a virtual network operator commercial arrangement and rationalisation of the respective network infrastructure
- Evaluation of the strategic opportunities available through a significant Telecom/PowerTel relationship have since seen these discussions evolve to a proposal for PowerTel to enter into a scheme of arrangement whereby Telecom will acquire 100% of PowerTel at a cash price of \$2.30 per share (less any agreed capital return).

PowerTel's directors have unanimously recommended the proposal in the absence of a superior proposal. TVG, PowerTel's major shareholder, has granted Telecom an option over 10% of PowerTel's shares subject to certain conditions. The scheme documents, including an Independent Expert's report, will be sent to PowerTel shareholders in late March and shareholders will have the opportunity to vote on the scheme in late April.

The Telecom offer represents fair value for PowerTel shareholders based on standard benchmarks and provides shareholders with the opportunity to exit for cash at a price reflecting a control premium. The contemplated transaction represents a positive outcome for our shareholders and also our customers, partners and employees as the larger combined company will be better placed to compete in the Australian market.

## iiNet Strategic Investment

Our investment in iiNet has delivered great opportunities. We hold approximately 18.3% of iiNet and have board representation.

The alliance has provided PowerTel with exclusive wholesale access to over 300 exchanges making us the second largest DSL access network in Australia. In addition iiNet has the largest high speed ADSL2+ network in the country. This combined with PowerTel's substantial nationwide network has enabled us to be a significant alternative wholesale competitor in the Australian market.

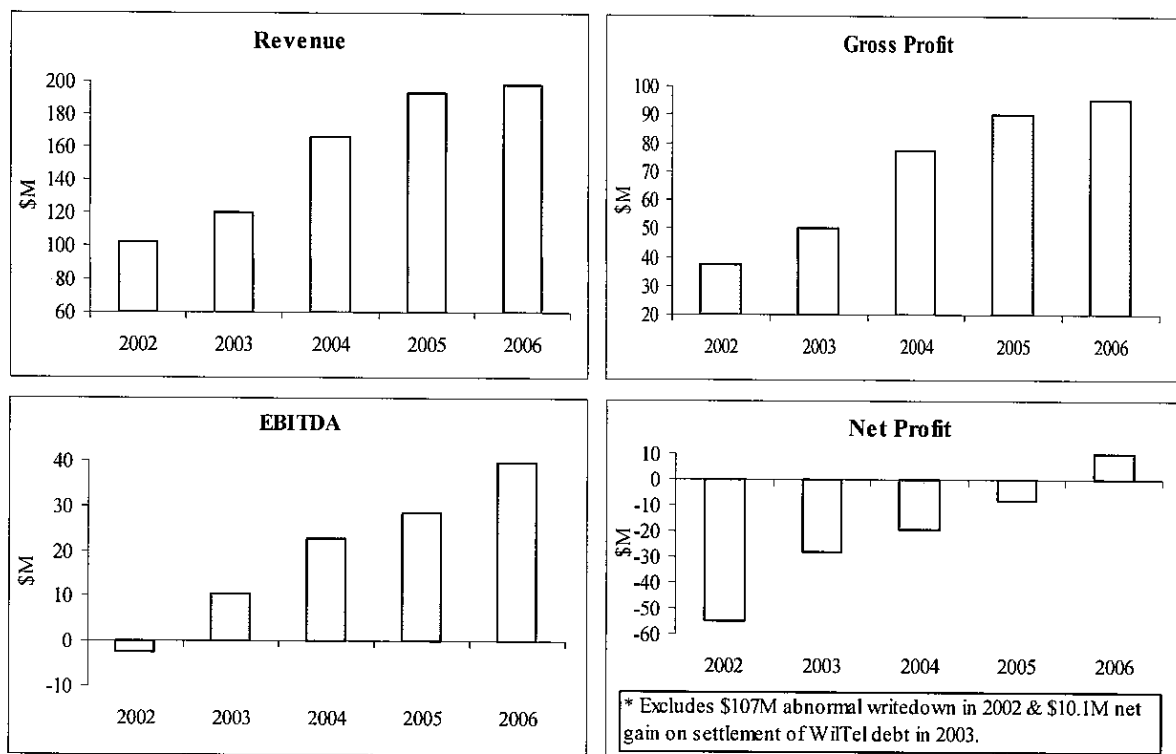
We have successfully implemented our wholesale residential Broadband ADSL2+ product offering via the iiNet network and we are scheduled to complete the implementation of business grade wholesale voice and data products by the end of the first quarter of 2007. The broader coverage delivered through the iiNet investment coupled with our wholesale residential broadband product has enabled PowerTel to sign some major ISPs such as dodo, Exetel and AAPT.

We have recently provisioned over 1,000 Broadband ADSL services of which over 75% are on the iiNet network and we anticipate that we will deliver over 50,000 Broadband ADSL services in total this year.

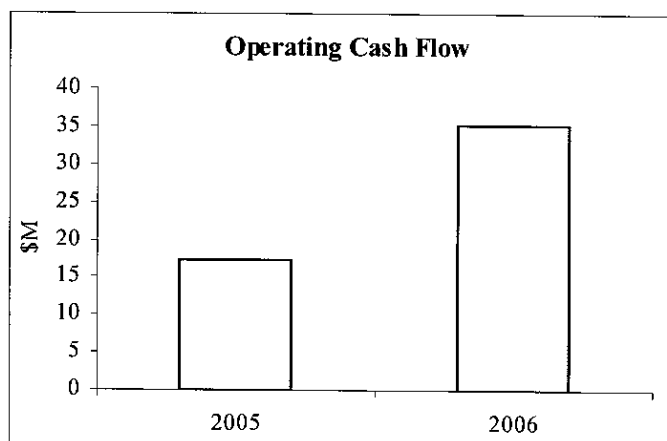
## Financial Performance

Our year on year performance continues to tell a very positive story. We exceeded our full year EBITDA guidance range of \$37M - \$39M with a result of \$39.8M and we met the high end of the range for our Revenue guidance of \$196M to \$200M with a result of \$199.4M.

For the first time PowerTel has achieved net profit. The 2006 result was \$10.0M an improvement of \$18.0M over the 2005 loss of \$8.0M. Year on year EBITDA grew 47.4% as a result of network optimisation and disciplined cost management. Despite strong price pressure in the market place Gross Profit grew by 7.0% and Gross Margin improved 190 basis points or 4.1%. Wholesale revenue grew by 16.9% by leveraging our indirect sales channels to up sell voice services. Corporate revenue has declined due to a focus on removing unprofitable customers. To minimise the impact of this we have continued to grow our profitable large corporate customer base. Year on year EPS improved from (\$0.063) in 2005 to \$0.078 in 2006.



Operating cash flow grew to \$35.3M in 2006, up from \$17.4M in 2005.

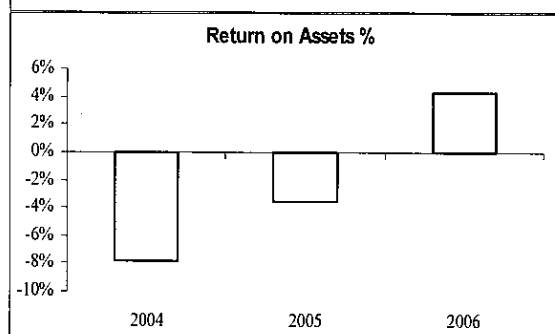
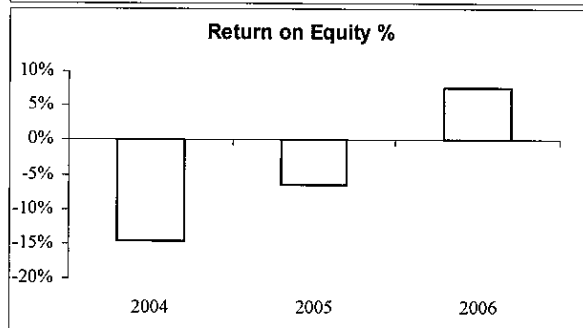
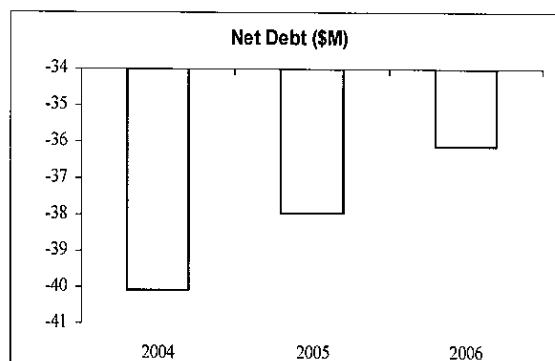
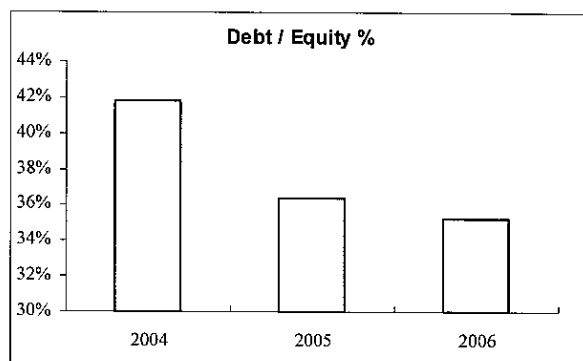


In June we increased our debt facility with Westpac to fund \$13.3M of our investment in iiNet. In December we further increased our facility to a total of \$97.3M, and refreshed the term of the entire debt to 3 years. The additional funding will be used to help fund various value creation initiatives, which may include:

- An on-market share buy back program of up to 10% of PowerTel's share base
- Capital return(s)
- Ongoing merger and consolidation initiatives.

To date we have bought back 680,993 shares at a cost of approximately \$1.0M funded through cash. Final notice of suspension of the on-market share buy back program was lodged on 2 February 2007 pending completion of the Telecom transaction.

#### Key Balance Sheet Metrics



In accordance with accounting policy our investment in Macquarie Telecom has been deemed to be permanently impaired due to the prolonged and significant decline in its share price below our purchase cost and as such has been written down to market value as at December 31 2006. The amount written off is \$1.9M. This does not reflect on Macquarie Telecom's importance to PowerTel as one of our strategic customers. In addition, due to

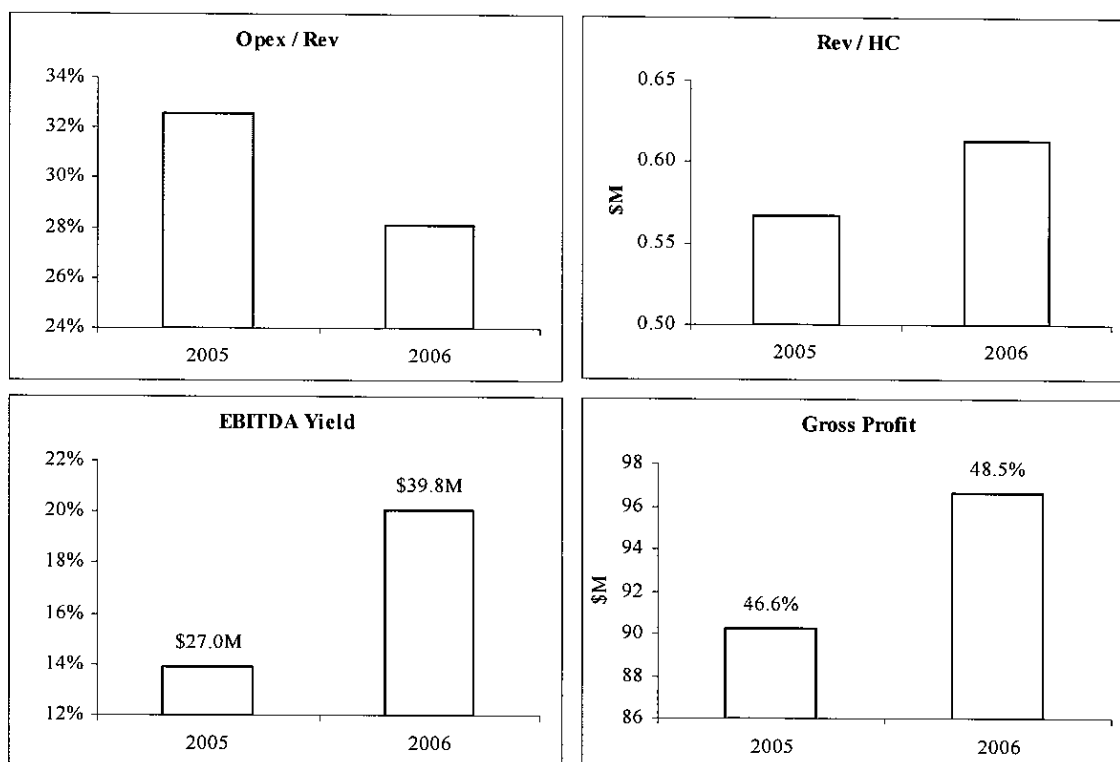
PowerTel's current and forecast performance we are able to recognise the tax benefit of our prior year losses. Accordingly a tax benefit of \$6.7M was recognised for the year.

### Operating Leverage

In 2005 the focus was on restructuring and aligning accountability across the company. In 2006 we focused on leveraging our network asset to deliver our products in the most cost effective manner. A cross-functional project team was formed to identify opportunities for streamlining and automating our service delivery platform. The team reported their project progress regularly to management and the board. As a result of the project:

- We have increased our on-net services
- We have increased our IP transit network utilisation
- We have rationalised third party services not required by our customers.

One of the incidental benefits has been the empowerment of operational staff to identify and implement operational efficiencies. The result of this work has been an improvement in year on year gross margin.

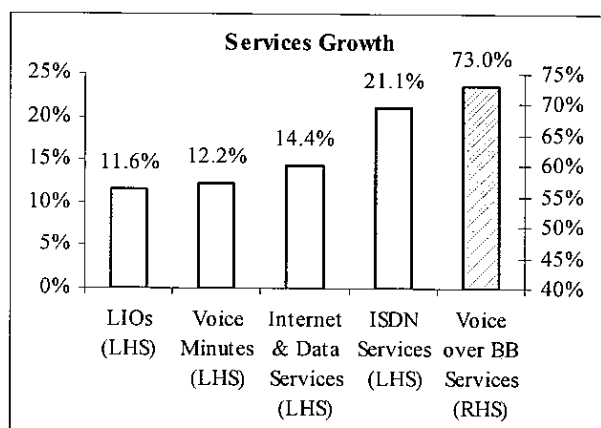


We have also been focused on planning, designing and implementing many network initiatives to support and increase our capacity and product offerings. The metro optical access network rollout is over 50% complete. Our mid-range Ethernet product offers speeds up to 45 Mbps to a large portion of our customers. We have implemented a significant increase in the coverage, robustness and resilience within our IP and MPLS network including integrating our DSL network with the iiNet network. The nationwide VOIP network upgrade is complete and we are now delivering our business grade voice services over IP.

## Services Growth

We have focused much of our attention on improving our efficiency in delivering and servicing our product suite with particular concentration on the high volume wholesale products that are experiencing significant growth. Aligning our business processes with our highly successful business model is enabling our wholesale partners to run their businesses more efficiently and making their decision to choose PowerTel an even easier one.

To illustrate the extent of the growth in volume of key products the following graph shows our services growth December 2006 vs. December 2005.



As you can see PowerTel continues to leverage its network coverage to deliver significant growth in services. Products such as voice over broadband that are experiencing the highest volume growth have had a considerable amount of system development effort to deliver products with 'low touch' and 'ease of use' functionality. At the same time we have improved the systems we use to serve customers, such as the customer portal and B2B interfaces.

## Outlook

2006 has been a strong year for PowerTel. We have delivered on the great progress made in 2005 by achieving net profit in 2006. In addition to our excellent financial results we made the strategic investment in iiNet and entered into a wholesale alliance with Telecom that has led to the proposal from Telecom to acquire PowerTel.

We continue to face challenges in our industry due to technological change, the challenging regulatory environment and continuing competitive pressures driving down margins. Because of our network ownership we have always had an advantage over our competitors. This coupled with our exclusive wholesale access to the iiNet network means we are not as dependant on reselling services, our support systems and capabilities are in place for the wholesale market and we will be leveraging our network build with our own wholesale customer growth along with Telecom services to deliver sustainable profits.

For 2007 we will be focused on delivering high volume services growth via our wholesale channels and migrating existing and new AAPT services on to the PowerTel network. The recent launch of our wholesale residential Broadband ADSL2+ product offering coupled with the delivery of business grade wholesale voice and data products on the iiNet network, by the end of Q107, will drive significant services growth in 2007. We have also developed a 2-4 line DSL delivered voice product which is due for launch in H107. This product will significantly increase our addressable SME market.

Our customer focus will be on growth through major ISPs such as dodo, Exetel and AAPT and our wholesale partners who can gain leverage from our expanded access network, automated B2B processes and SME aligned product suite.

The acquisition of PowerTel by Telecom will represent a meaningful step towards the consolidation of the Australian telecommunications market. PowerTel will be able to leverage its substantial nationwide network and experience as a wholesale provider to deliver services to the Telecom customer base. The benefits of improved access economics and network scale will provide a stronger platform for competition in the Corporate, SME and wholesale market segments.

## **DIRECTORS' REPORT**

The directors of PowerTel Limited (the 'Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'consolidated group') for the year ended 31 December 2006 and the auditor's report thereon.

### **Directors**

The names and particulars of the directors of the Company during or since the end of the financial year are:

#### **Mr John C Conde, AO**

##### **Chairman**

Mr Conde was appointed as a non-executive director of PowerTel on 3 March 2005 and was appointed Chairman on 29 May 2006. Mr Conde is Chairman of both Energy Australia and MBF Australia Ltd, President of the Commonwealth Remuneration Tribunal, and a board member of the Sydney Symphony Orchestra and the Australian Elizabethan Theatre Trust. Mr Conde was formerly the Chairman of Pacific Power and a director of the Broken Hill Proprietary Company Ltd, BHP Billiton Ltd, BHP Billiton plc, Lumley General Insurance Ltd and Optus Communications Pty Ltd.

#### **Mr John W Troy**

Mr Troy was appointed as a non-executive director of PowerTel on 19 August 2003. Mr Troy is Managing Director and co-founder of TVG Capital Partners Ltd (TVG), an international private equity firm with US\$700 million under management focused exclusively on investing in the communication, media and technology (CMT) sectors in Asia. He has been involved in the establishment and start-up of several leading Asian communications companies. Previously, Mr Troy was a founding member of the Asian Infrastructure Fund (AIF) and was responsible for its US\$350 million telecom portfolio. Prior to AIF, Mr Troy was Director of Finance and CFO of NYNEX Asia Pacific (now Verizon). He started his career as an engineer at the New York Telephone Co. Mr Troy holds an Electrical Engineering Degree from Merchant Marine Academy and an MBA from New York University. Mr Troy is a US Chartered Financial Analyst.

#### **Mr Edward F Sippel**

Mr Sippel was appointed as a non-executive director of PowerTel on 19 August 2003. Mr Sippel is currently a Managing Director with TVG Capital Partners Ltd (TVG) where he has worked since the firm's inception. Prior to TVG, Mr Sippel was formerly an Associate with the Asian Infrastructure Fund in its Telecom Group and with Morgan Stanley in that firm's Global Communications Group. Mr Sippel has led the deal teams for several CMT investments throughout Asia and has been involved in Asian private equity in the CMT sector for over 8 years. Mr Sippel holds a BA Degree from Georgetown University and is a Board member of several leading unlisted CMT companies in Australia and Asia.

#### **Mr Paul A Broad**

Mr Broad was appointed Managing Director of PowerTel Limited on 25 November 2004. Mr Broad was Managing Director of Energy Australia from 1997 to 2004 and was a non-executive director of PowerTel from August 1998 until May 2004. Before this, he was Managing Director of Sydney Water from 1993 to 1997 where he introduced significant changes in business principles and values, leading to its corporatisation in 1995. Previously he had implemented similar reform as Managing Director of the Hunter Water Corporation. Mr Broad holds a Master of Commerce degree from Newcastle University.

#### **Mr Justus H Veeneklaas**

Mr Veeneklaas was appointed as a non-executive director of PowerTel on 22 June 2004. Mr Veeneklaas is a former Chairman and Managing Director of Philips Electronics Australia from 1990 to 1998 and was a director of Cochlear Ltd (from 1995 to 2006) and Sugar Australia Pty Ltd as well as a member of the Sydney Symphony Council.

#### **Mr Mark J Brennan (Alternate Director)**

Mr Brennan is associated with TVG Consolidations Holdings Ltd and acts as an alternate non-executive director for Mr Troy and Mr Sippel. Mr Brennan was appointed as an alternate director on 17 September 2003.

#### **Mr Richard M Griffin, AM**

##### **Chairman - retired**

Mr Griffin, was a director and Chairman from the beginning of the financial year until his planned retirement at the conclusion of the Annual General Meeting on 29 May 2006. Mr Griffin was appointed as a non-executive



**DIRECTORS' REPORT (continued)**

director in March 2000 and was appointed Chairman on 19 August 2003. He was until recently a director of Australian Worldwide Exploration Ltd, is currently a director of Electrolux Home Products Ltd and is Chairman of the Official Establishments Trust. He has a Bachelor of Commerce degree from the University of New South Wales.

Unless indicated otherwise, all directors held their position as a director throughout the entire financial year and up until the date of this report.

**Company Secretaries**

Simon McEgan was appointed Company Secretary on 30 January 2001. Mr McEgan was admitted to the New South Wales Roll of Solicitors in June 1990 and has extensive experience in telecommunications and law. Prior to joining PowerTel, he worked for Telstra Corporation Limited and Baker McKenzie.

James Orlando was appointed Company Secretary on 27 September 2004. Mr Orlando has an MBA from Wharton School of Finance and a BS Industrial Relations from Cornell University. Prior to joining PowerTel, he worked for AT&T Corporation, Lucent Technologies and Santera Systems Inc.

**Directors' interests in share capital**

As at the date of this report the interests of the directors in the share capital of the Company were:

	<b>Ordinary Shares</b>
J C Conde	74,000
J H Veeneklaas	47,226
J W Troy <sup>(i)</sup>	81,033,194
P A Broad <sup>(ii)</sup>	3,117,545

(i) Refer to note 29(d).

(ii) Shares issued under Executive Long Term Incentive Plan Refer note 26(c).

Details of shares issued during or since the end of the financial year are set out in note 26 of the financial statements and form part of this report.

**PRINCIPAL ACTIVITIES**

The principal activities of the consolidated group consisted of the provision of business telecommunications services to the corporate, wholesale and small to medium enterprise markets in Australia. There have been no significant changes in the nature of those activities during the year.

**EARNINGS PER SHARE**

The basic earnings per share for the year ended 31 December 2006 was 7.8 cents (year ended 31 December 2005: loss 6.3 cents)

**DIVIDENDS**

The directors of the Company recommend that no dividend for ordinary shares be declared or paid for the year ended 31 December 2006. (2005: nil)

**REVIEW OF OPERATIONS**

A detailed review of operations and the results of those operations are set out in the Managing Director's Operational Review at the beginning of this report.

**EMPLOYEES**

The consolidated group employed 324 employees as at 31 December 2006 (2005: 320 employees)

**DIRECTORS' REPORT (continued)**

**CHANGES IN STATE OF AFFAIRS**

The Group formed a strategic alliance with iiNet Limited ("iiNet"), the third largest Internet Service Provider in Australia and New Zealand. The alliance commenced on 2 June 2006 and provides the Group with the exclusive right to wholesale broadband services over the iiNet access network.

*iiNet – Current Holding*

The Group currently holds 22,950,901 shares of iiNet at an average price of 79.4 cents per share.

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On 31 January 2007 Telecom New Zealand announced its proposal to acquire 100% of the ordinary shares in PowerTel Limited for \$2.30 per share cash.

The acquisition is to be implemented by way of a scheme of arrangement and PowerTel's directors unanimously recommend acceptance of the proposal in the absence of a superior proposal.

Preparation for the necessary shareholders' meetings are underway including the preparation of the scheme booklet and Independent Expert's opinion. It is expected that shareholders will receive the scheme documents in late March and vote on the proposal in late April.

The directors have made certain judgements and assessments in preparing these financial statements. The completion of the above proposed transaction, if it occurs, may impact those judgements and assessments, the effect of which, cannot be determined.

**FUTURE DEVELOPMENTS AND EXPECTED RESULTS**

Likely developments in the operations of the consolidated group in future financial years and the expected results of those operations are referred to in the Managing Director's Operational Review at the beginning of this report.

**SHARE ISSUED UNDER EXECUTIVE LONG TERM INCENTIVE PLAN**

Shares issued under the Executive Long Term Incentive Plan are accounted for as options in the financial statements until vested. Details of these shares issued or cancelled during or since the end of the financial year are set out in note 26(c) of the financial statements and form part of this report.

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

During the financial year the Company has paid premiums to insure directors and officers of the Company against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The insurance contract specifically prohibits disclosure of the nature of the insurance cover and the amount of the premium.

## REMUNERATION REPORT

This report outlines the Board's policy in relation to, and details of, the remuneration of the Company's key management personnel ("KMP") being the Company Directors and the senior executives having the greatest authority and responsibility for planning, directing and controlling the activities of the Company, including the five executives receiving the highest remuneration during the financial year.

The term "remuneration" used in this report has the same meaning as compensation as prescribed in the accounting standard AASB 124.

This report provides the disclosures which meet the remuneration reporting requirements of the Corporations Act 2001 and the Accounting Standard AASB 124.

The PowerTel Remuneration Report for 2006, as presented below, has been prepared for consideration by shareholders and contains the following information:

- PowerTel Remuneration Policy
- Executive Remuneration Approval Process
- Executive Remuneration Structure
  - Overview of Executive Remuneration Structure
  - Fixed Pay
  - Short Term Incentives
  - Company Performance and Short Term Incentives
  - Long Term Incentives
  - Company Performance and Long Term Incentives
  - Company Performance and Shareholder Wealth
- Executive Service Agreements
  - Group Executives
  - Managing Director & Chief Financial Officer
- Executive Directors and Executive Officers – Remuneration Tables
  - Total Remuneration
  - Shares
  - At Risk Remuneration
- Non-executive Directors Remuneration Policy and Structure
- Non-executive Directors Remuneration Tables

### PowerTel Remuneration Policy

The PowerTel remuneration policy is based on the following principles and strategies:

- The remuneration framework is structured to support the PowerTel vision and business strategies and reward performance that enhances shareholder value on a sustainable basis;
- Individuals are rewarded on the basis of their contribution to PowerTel's overall performance and the achievement of personal, business unit and corporate objectives in the context of PowerTel's cultural objectives and strategies;
- Business performance factors that are measurable and directly linked to the vision and business strategies, are the basis for determining the level of variable or at risk pay;
- The remuneration system is a component in the overall Employee Value Proposition through which high performing employees are attracted and retained;
- The remuneration system, when coupled with PowerTel's performance management system, should encourage PowerTel's objective of embedding a high performing, customer focused team culture.

The policy applies to the remuneration arrangements for all persons employed by PowerTel including executive directors, company secretaries and senior managers. The remuneration policy relating to non-executive directors is discussed in the 'Non-Executive Directors Remuneration Policy and Structure' section of this report.

The Remuneration Committee, which comprises three non-executive directors, is responsible for making recommendations to the Board on remuneration policy. Further information on the role of this committee, its responsibilities and membership, is contained in the Corporate Governance Statement, of this Directors' Report.

## REMUNERATION REPORT (Continued)

### Executive Remuneration Approval Process

The following approval processes apply in relation to establishing performance targets, assessing performance against targets and setting remuneration outcomes within the PowerTel remuneration framework.

- The Board (in absence of the executive director) approves the remuneration of the Managing Director, based on the recommendations of the Remuneration Committee.
- The Remuneration Committee approves the remuneration of Group Executives, based on the recommendations of the Managing Director.
- The Managing Director approves the performance targets and remuneration of the General Managers, based on the recommendations of the Group Executives. The Managing Director also approves the performance targets of the Group Executive.

### Executive Remuneration Structure

#### *Overview of the executive remuneration structure*

The PowerTel executive remuneration structure as explained below applies to the Managing Director and Group Executives who report directly to the Managing Director (including the Company Secretary). As at 31 December 2006 there were 7 executives in this group.

The executive remuneration structure comprises a fixed component and a variable or ‘at risk’ component. The proportion of fixed and variable remuneration varies between levels of management, with the proportion of variable remuneration increasing in line with the experience and skills required of the role.

The short and long term incentive schemes described below represent the variable component of executive remuneration and those schemes are structured to ensure outcomes are linked to actual and expected Company performance. In summary, the short-term incentive scheme (“STI”) is designed to reward individual performance on an annual basis and a key measure in determining the amount available for distribution is the performance of the Company gauged by its performance against budget for Revenue, Gross Margin, EBITDA and Net profit during that period. The long term incentive scheme (“LTI”) is designed to reward executives on the basis of the PowerTel’s performance. The key measure on which performance is assessed is the performance of the growth in PowerTel shareholder return comparative to the growth in the ASX 300 index over the same period.

#### *Fixed pay*

This component of the remuneration structure is focused on the complexity of the executives role, the core role responsibilities and market relativities.

Fixed remuneration for executives is represented by a Total Employment Cost (TEC). TEC generally comprises a cash salary and superannuation contributions equivalent to 11% of the cash salary. Group Executives can elect to receive some of their cash salary in the form of novated car leases. However all employees are entitled to nominate a percentage of their cash salary be paid as additional superannuation contributions or to acquire PowerTel shares under the Exempt and Deferred Employee Share Plans.

The level of fixed remuneration paid to the Managing Director and Group Executives reflects the core responsibilities of each role and is reviewed each year in the context of the market in which PowerTel competes.

Market relativity is an important consideration if PowerTel is to attract and retain an executive team capable of achieving and sustaining a level of performance above both our business competitors and those companies with which we compete for capital.

#### *Reporting fixed pay outcomes*

Shareholders should note when reviewing the remuneration outcomes for the year, as disclosed in the ‘Executive Directors’ and Executive officers – Remuneration Tables’ section, that the fixed pay outcomes reflect decisions by the Remuneration Committee, made 12 months earlier.

## REMUNERATION REPORT (Continued)

### Short Term Incentives (STI)

PowerTel has short-term performance-based pay schemes for all eligible full time employees. This component of the remuneration structure is focused on individual performance over a short period (normally a calendar year), assessed in the context of the team, business unit and Company performance and based on operational and financial measures.

The actual STI payment to each executive depends on the extent to which specific operating targets are met. The operational targets consist of a number of key performance indicators (KPI's) covering both the financial and non-financial measures of performance.

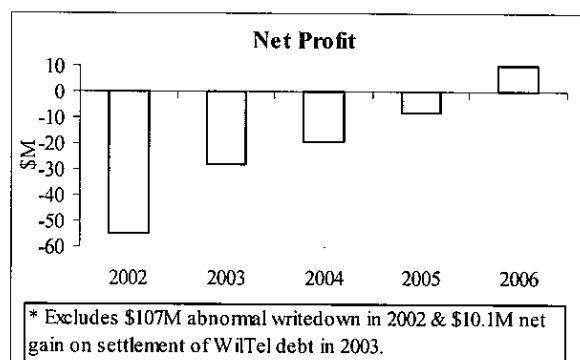
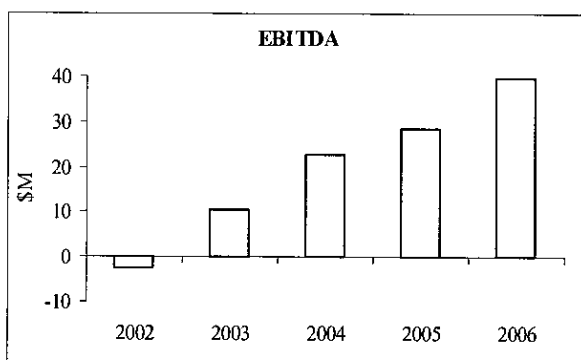
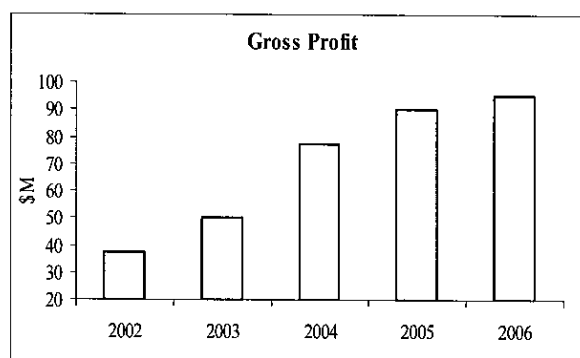
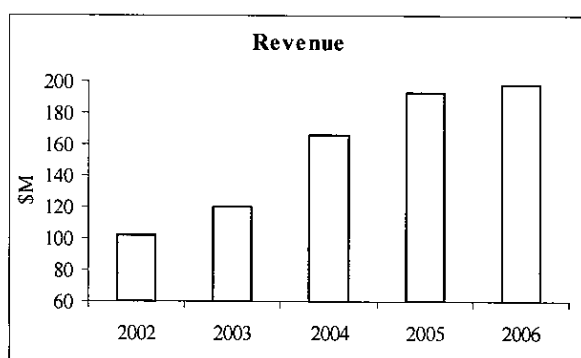
On an annual basis, after consideration of performance against KPI's, the Remuneration Committee recommends for approval by the Board, an overall rating for the Company, each individual business unit and each Executive based on the recommendation of the Managing Director. The Remuneration Committee also makes a recommendation to the Board regarding the STI outcome for the Managing Director. All three ratings are taken into account when determining the amount, if any, of the STI allocated to each executive.

The maximum amount available for allocation as an STI payment to an individual is based on a percentage of fixed remuneration and varies between levels of management in proportion to the capacity of each level of management to influence the group's performance.

PowerTel's short-term incentive schemes applicable to all employees are designed with the same outcomes in mind and are based on the same principles outlined above.

### Company Performance and Short Term Incentives

In determining the size of the Group STI pool, the Remuneration Committee gives consideration to the financial performance of the group, a key measure of which is the group's performance on Revenue, Gross Margin, EBITDA and Net profit. Below is a summary of the last 5 years performance.



## REMUNERATION REPORT (continued)

### Long Term Incentives (LTI)

This component of remuneration is focussed on corporate performance and creating shareholder value over a multi-year period. However long term incentives are also used to balance short-term performance objectives with long term shareholder value.

#### Objective:

Whilst short-term incentives reward past performance, it is essential that executives and senior management, which as a group has responsibility for achievement of sustained performance and strategy, have reward incentives linked to longer-term Company performance, to creating value for shareholders and retaining key executives. PowerTel has established the Executive Long Term Incentive Share Plan as a vehicle to achieve these objectives.

#### Structure:

LTI shares are issued to the Executives at the weighted average price at which those shares were traded on the ASX over the one-week period before the date of invitation. The number of shares issued is based on a multiple of executives TEC.

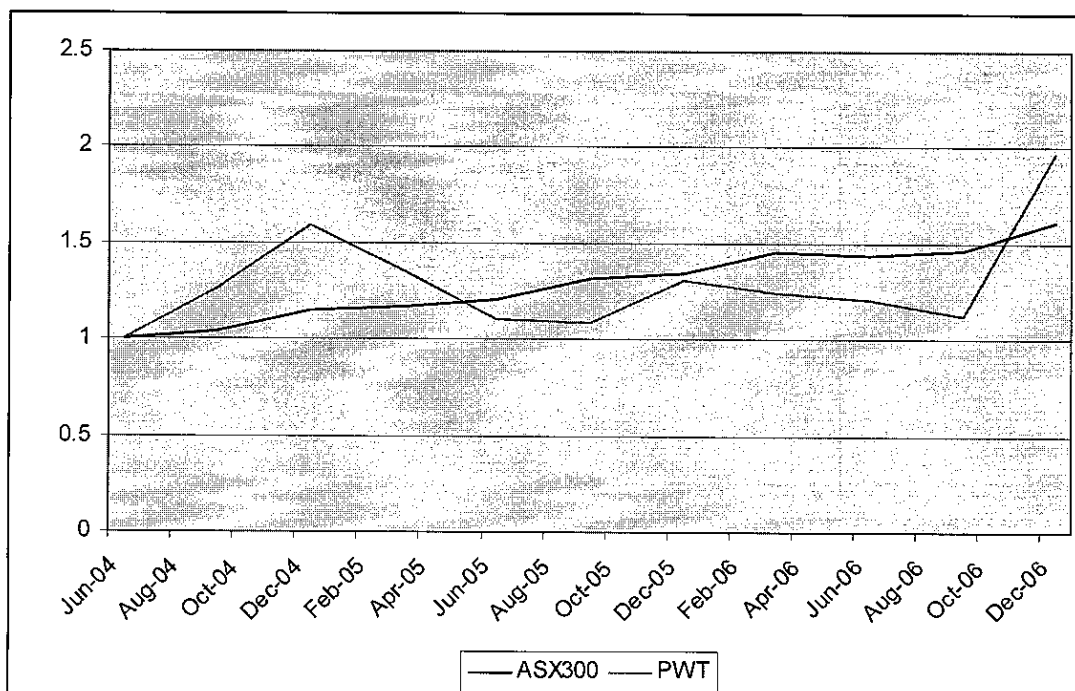
A non-recourse loan is provided by the Company to the executive to fund the acquisition cost of the shares. The shares are registered in the name of the Executive, but remain subject to restrictions on dealing until the Executive becomes entitled to withdraw the shares from the LTI share plan. Withdrawal of the shares requires settlement of the related loan and also, except in the case of Special Circumstances, the satisfaction of certain performance criteria and minimum tenure periods.

The LTI share issues to executives vest at a rate of 25% after 24 months and 25% per annum thereafter. The first 25% are not subject to the satisfaction of performance criteria. The LTI share issues to the Managing Director vest at a rate of 33.33% after 12 months and 33.33% per annum thereafter. The first 33.33% are not subject to the satisfaction of performance criteria.

The percentage of the remaining shares available for withdrawal after vesting is determined via a comparison between the Company's total shareholder return (TSR) and the return generated by the Standard and Poors / ASX (S&P/ASX) 300 Accumulation Index. A Company TSR percentage growth performance of between 100% and 125% of the percentage growth of the S&P/ASX 300 Accumulation Index results in 50% vesting, plus 2% of the shares being available for vesting, for each 1% that the Company result exceeds 100% of the percentage growth of the S&P/ASX 300 Accumulation Index.

### Company Performance and Long Term Incentives

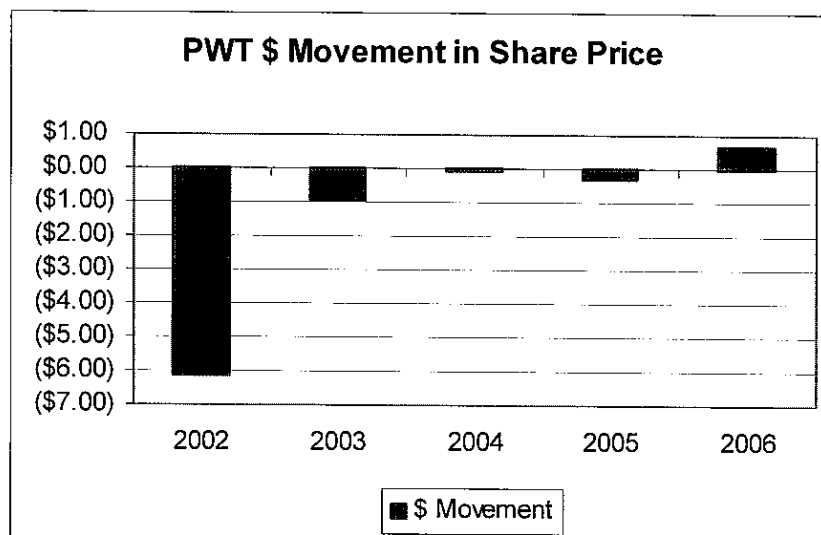
At the time of implementation of the LTI plan, the ASX300 was considered to be the most appropriate hurdle. Below is a summary of the Company's performance since the inception of the Long Term Incentive plan in June 2004 to December 2006.



## REMUNERATION REPORT (continued)

### Company Performance and Shareholder Wealth

The impact of the performance of the Company on shareholder's wealth for each of the past five years (including the current period) is demonstrated below:



As no dividends or capital returns have occurred, impact on shareholder wealth is measured solely through movement in share price. Movement in share price is calculated on the basis of 40:1 consolidation which occurred in 2004.

### Executive Service Agreements

#### *Group Executives*

The following arrangements apply to those executives (excluding the Managing Director and Chief Financial Officer) whose remuneration is disclosed in the 'Executive Directors' and Executive Officers' – Remuneration Tables' section of this report.

Group Executives enter into an executive agreement generally with a term for a fixed five year period. The contracts can be terminated by either the employer or by the employee giving six months notice. Those Group Executives that are not on a fixed term are also entitled to severance payments on a fixed scale with a maximum of 16 weeks for 8 years of service, with an additional week if the executive is over 45 years of age and has at least two years continuous service.

The Board has discretion to make further payments to executives in the event of a "Special Circumstance" as defined in the LTI plan or upon termination of an executive, but is under no obligation to do so. For example, the Board may consider making a further discretionary payment in the case of the retrenchment of an executive resulting from that executive's role ceasing to exist. The Board has exercised its discretion to approve transaction incentives and the vesting of all LTI shares for certain executives in the event of a Special Circumstance, which involves a change of control on terms approved by the Board.

Remuneration of an executive (as for all salaried employees) is established on appointment having regard to market rates of remuneration and where appropriate, independent remuneration or recruitment advice. Thereafter any review of salary, the payment of a performance bonus or the grant of long term incentives in the form of deferred shares is entirely at the discretion of the Remuneration Committee. The basis on which fixed pay is determined and performance bonuses are paid and long term incentives are granted is discussed in earlier sections of this report.

REMUNERATION REPORT (continued)

*Managing Director & Chief Financial Officer*

The Managing Director and the Chief Financial Officer are subject to an executive agreement with a term of 3 and 4 years respectively. The contracts can be terminated by either the employer or by the employee giving twelve months notice. A pro-rata payment of the STI is also payable to the Chief Financial Officer on early termination.

**Executive Directors and Executive Officers – Remuneration Tables (Audited)**

**Total Remuneration**

During the year the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for planning, directing and controlling the activities of the company. This includes the executives who received the highest remuneration for the year. There are no other executives employed by entities within the consolidated group that receive higher remuneration.

Paul Broad – Managing Director

James Orlando – Chief Financial Officer

Nick Saphin – Sales Director

David Yuile – Director of Technology & Strategy

Simon McEgan – Director, Corporate Services & Company Secretary

Geoff Lindner – Director, Information Systems & Customer Service

Jonathan Brine – Director, Network Operations

		Primary		Post Employ- ment	Long term	Term- ination	Share Based Payments		Total
		Salary & Fees	Cash Bonus (A)	Super- annuation	Long Service Leave		Deferred Shares	ELTIP (B)	
		\$	\$	\$	\$	\$	\$	\$	\$
<i>Executive director</i>									
P Broad	2006	600,000	330,000	65,214	-	-	-	308,056	1,303,270
	2005	600,000	110,000	66,000	-	-	121,000	305,489	1,202,489
<i>Executives</i>									
J Orlando	2006	438,813	240,000	-	-	-	12,192	116,901	807,906
	2005	438,813	135,000	-	-	-	66,000	120,122	759,935
N Saphin (C)	2006	370,000	185,000	40,700	-	-	10,280	156,804	762,784
	2005	340,635	55,000	37,470	-	-	60,500	129,947	623,552
E Shaw (D)	2006	-	-	-	-	-	-	-	-
	2005	262,872	77,718	28,916	5,918	295,093	-	67,021	737,538
D Yuile (E)	2006	300,000	175,000	32,402	-	-	8,335	127,138	642,875
	2005	275,000	50,000	30,250	-	-	46,343	105,362	506,955
S McEgan	2006	250,000	150,000	27,500	8,375	-	-	68,307	504,182
	2005	222,155	42,500	24,437	4,444	-	39,391	58,569	391,496
G Lindner	2006	218,800	109,000	24,068	4,763	-	-	57,243	413,874
	2005	209,429	35,000	23,037	4,158	-	38,500	45,261	355,385
J Brine (F)	2006	231,193	104,037	25,431	4,767	-	-	58,258	423,686
	2005	-	-	-	-	-	-	-	-
Total	2006	2,408,806	1,293,037	215,315	17,905	-	30,807	892,707	4,858,577
	2005	2,348,904	505,218	210,110	14,520	295,093	371,734	831,771	4,577,350

(A) The cash bonus is for performance during the 31 December 2006 financial year. Payments will be made within 3 months of the end of the financial year.

(B) The fair value of the shares issued under ELTIP program are calculated at the date of grant using a Black Scholes model and allocated to each reporting period from grant date to vesting date. The value disclosed above is the portion of the fair value allocated to this reporting period. It does not reflect a taxable value to the executive and vesting of the shares are subject to performance hurdles. Refer note 26(c)



**REMUNERATION REPORT (continued)**

(C) N Saphin commenced employment in January 2005.

(D) E Shaw's employment ceased in April 2006 as a result of a restructure announced in December 2005. Remuneration was recognised at the date of restructure with payment made on date of termination.

(E) D Yuile commenced employment in February 2005.

(F) J Brine was appointed Director, Network Operations in January 2006.

**Shares (Audited)**

Details of shares granted under the Executive Long Term Incentive Plan ("ELTIP") in this or previous years which affect remuneration this year for executive directors and executives are detailed below. There were no shares issued to non-executive directors.

	Number	Grant Date	Fair value per share at grant date (A) \$	Maximum Value \$	Vested in year %	Forfeited in year %	Financial years in which grant vests
<i>Executive Director</i>							
P Broad	999,100	26 May 2005	0.37	369,667	100	-	31 December 2006
	999,100	26 May 2005	0.185	184,834	-	-	31 December 2007
	999,100	26 May 2005	0.185	184,834	-	-	31 December 2008
<i>Named Executives</i>							
J Orlando	212,926	27 June 2004	0.45	95,817	100	-	31 December 2006
	212,926	27 June 2004	0.225	47,908	-	-	31 December 2007
	212,926	27 June 2004	0.225	47,908	-	-	31 December 2008
	212,925	27 June 2004	0.225	47,908	-	-	31 December 2009
	74,093	18 Feb 2005	0.63	46,679	-	-	31 December 2007
	74,094	18 Feb 2005	0.315	23,340	-	-	31 December 2008
	74,093	18 Feb 2005	0.315	23,340	-	-	31 December 2009
	74,094	18 Feb 2005	0.315	23,340	-	-	31 December 2010
	41,260	27 Feb 2006	0.45	18,567	-	-	31 December 2008
	41,260	27 Feb 2006	0.225	9,284	-	-	31 December 2009
	41,260	27 Feb 2006	0.225	9,284	-	-	31 December 2010
	41,260	27 Feb 2006	0.225	9,284	-	-	31 December 2011
N Saphin	214,951	9 Feb 2005	0.63	135,419	-	-	31 December 2007
	214,951	9 Feb 2005	0.315	67,710	-	-	31 December 2008
	214,951	9 Feb 2005	0.315	67,710	-	-	31 December 2009
	214,952	9 Feb 2005	0.315	67,710	-	-	31 December 2010
	79,285	11 May 2005	0.51	40,435	-	-	31 December 2007
	79,285	11 May 2005	0.255	20,218	-	-	31 December 2008
	79,285	11 May 2005	0.255	20,218	-	-	31 December 2009
	79,285	11 May 2005	0.255	20,218	-	-	31 December 2010
E Shaw	167,031	27 June 2004	0.45	75,164	-	100	31 December 2006
	167,030	27 June 2004	0.225	37,582	-	100	31 December 2007
	167,031	27 June 2004	0.225	37,582	-	100	31 December 2008
	167,030	27 June 2004	0.225	37,582	-	100	31 December 2009
D Yuile	174,285	9 Feb 2005	0.63	109,800	-	-	31 December 2007
	174,285	9 Feb 2005	0.315	54,900	-	-	31 December 2008
	174,285	9 Feb 2005	0.315	54,900	-	-	31 December 2009
	174,284	9 Feb 2005	0.315	54,900	-	-	31 December 2010
	64,285	11 May 2005	0.51	32,785	-	-	31 December 2007
	64,285	11 May 2005	0.255	16,393	-	-	31 December 2008
	64,285	11 May 2005	0.255	16,393	-	-	31 December 2009
	64,286	11 May 2005	0.255	16,393	-	-	31 December 2010

**REMUNERATION REPORT (continued)**

	Number	Grant Date	Fair value per share at grant date (A) \$	Maximum Value \$	Vested in year %	Forfeited in year %	Financial years in which grant vests
S McEgan	113,047	27 June 2004	0.45	50,872	100	-	31 December 2006
	113,046	27 June 2004	0.225	25,435	-	-	31 December 2007
	113,047	27 June 2004	0.225	25,435	-	-	31 December 2008
	113,046	27 June 2004	0.225	25,435	-	-	31 December 2009
	44,975	11 May 2005	0.51	22,937	-	-	31 December 2007
	44,976	11 May 2005	0.255	11,468	-	-	31 December 2008
	44,975	11 May 2005	0.255	11,468	-	-	31 December 2009
	44,976	11 May 2005	0.255	11,468	-	-	31 December 2010
	45,493	27 Feb 2006	0.45	20,472	-	-	31 December 2008
	45,493	27 Feb 2006	0.225	10,236	-	-	31 December 2009
	45,493	27 Feb 2006	0.225	10,236	-	-	31 December 2010
	45,494	27 Feb 2006	0.225	10,236	-	-	31 December 2011
G Lindner	112,800	27 June 2004	0.45	50,760	100	-	31 December 2006
	112,800	27 June 2004	0.225	25,380	-	-	31 December 2007
	112,800	27 June 2004	0.225	25,380	-	-	31 December 2008
	112,801	27 June 2004	0.225	25,380	-	-	31 December 2009
	73,784	27 Feb 2006	0.45	33,203	-	-	31 December 2008
	73,785	27 Feb 2006	0.225	16,602	-	-	31 December 2009
	73,784	27 Feb 2006	0.225	16,601	-	-	31 December 2010
	73,785	27 Feb 2006	0.225	16,602	-	-	31 December 2011
J Brine	120,311	27 June 2004	0.45	54,140	100	-	31 December 2006
	120,312	27 June 2004	0.225	27,070	-	-	31 December 2007
	120,311	27 June 2004	0.225	27,070	-	-	31 December 2008
	120,312	27 June 2004	0.225	27,070	-	-	31 December 2009
	41,865	18 Feb 2005	0.63	26,375	-	-	31 December 2007
	41,866	18 Feb 2005	0.315	13,188	-	-	31 December 2008
	41,866	18 Feb 2005	0.315	13,188	-	-	31 December 2009
	41,866	18 Feb 2005	0.315	13,188	-	-	31 December 2010

(A) Shares issued under the ELTIP are treated as options under the accounting policy until exercised. Their fair value is estimated at the date of grant using a modified Black-Scholes valuation. Refer to note 26 of the financial statements for details of the valuation approach.

**At risk remuneration (Audited)**

Details of the proportion of remuneration at risk for each specified executive are detailed below:

	2006		2005	
	Proportion of remuneration performance related %	Value of shares as proportion of remuneration %	Proportion of remuneration performance related %	Value of shares as proportion of remuneration %
<i>Executive Director</i>				
P Broad	49.0	23.6	45.0	35.5
<i>Executives</i>				
J Orlando	44.2	16.0	42.2	24.5
N Saphin	44.8	21.9	39.4	30.5
D Yuile	47.0	21.1	39.8	29.9
E Shaw	n/a	n/a	19.6	9.1
S McEgan	43.3	13.5	35.9	25.0
G Lindner	40.2	13.8	33.4	23.6
J Brine	38.3	13.8	n/a	n/a

## REMUNERATION REPORT (continued)

### Non-Executive Directors' Remuneration Policy and Structure

#### Remuneration Policy

The Remuneration committee has responsibility for recommending to the Board, appropriate remuneration arrangements for non-executive directors. Those recommendations are based on a number of considerations, including:

- The overall performance of PowerTel
- The demands placed on directors in performing their role; and
- Advice from independent remuneration consultants on the remuneration practices and fee structures of comparable companies.

Overall these arrangements are designed to ensure the fee structure for non-executive directors remains sufficiently competitive to attract and retain suitably qualified and experienced directors, within a framework appropriate for PowerTel, given its size and complexity.

#### Non-executive director remuneration table for the year ended 31 December 2006 (Audited)

		Primary Benefits Salary & Fees	Post Employment Superannuation	Retire- ment	Total
		\$	\$	\$	\$
J C Conde	2006	99,687	-	-	99,687
	2005	55,141	-	-	55,141
J W Troy	2006	50,000	-	-	50,000
	2005	50,000	-	-	50,000
E F Sippel	2006	70,000	-	-	70,000
	2005	70,000	-	-	70,000
J H Veeneklaas	2006	70,000	7,700	-	77,700
	2005	70,000	7,700	-	77,700
M Brennan	2006	-	-	-	-
	2005	-	-	-	-
R M Griffin (A)	2006	54,304	-	40,968	95,272
	2005	123,300	9,900	-	133,200

(A) R M Griffin retired at the Annual General Meeting held on 29 May 2006.

#### Remuneration Structure

##### (a) Total Remuneration Limit

Decisions by the Board in relation to non-executive director remuneration must be determined within the maximum aggregate limit approved by the shareholders, which is currently \$500,000 per annum. That limit was approved by shareholders in 15 May 2000 and includes superannuation guarantee payments but excludes retirement benefits.

Non-executive director remuneration comprises a fixed component only, paid as directors' fees as explained below and although the performance of the Company is considered whenever director remuneration is reviewed, non-executive directors do not participate in any performance incentive plans.

##### (b) Directors Fees

The fee structure for non-executive directors was reviewed in June 2004 following a change to the structure of the Board committees. On the basis of the committee structures the following fee structure was adopted:

Role	Current Fee per annum*
Chairman	\$100,000
Non Executive Director	\$ 50,000
Committee Member per Committee	\$ 10,000

\* Fee excludes superannuation guarantee charge.

**DIRECTORS REPORT (continued)**

**DIRECTORS' MEETINGS**

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Where a director did not attend all meetings of the Board or relevant committee during the year, the number of meetings for which the director was eligible to attend is shown in the "Held" column.

	Directors' Meetings		Audit & Compliance Committee Meetings		Remuneration Committee Meetings	
	Attended	Held	Attended	Held	Attended	Held
<b>Current Directors</b>						
J C Conde	16	17	3	3	2	2
J W Troy	15	17	-	-	-	-
E F Sippel	17	17	2	3	4	4
P A Broad	17	17	-	-	-	-
J H Veeneklaas	17	17	3	3	4	4
M J Brennan	15	17	1	3	-	-
<b>Former Directors</b>						
R M Griffin	7	7	1	1	2	2

The Company has an Audit and Compliance Committee and a Remuneration Committee to assist in the execution of the Board's corporate governance responsibilities. Details of the functions and memberships of the committees of the board are presented in the Statement of Corporate Governance Practices.

**TAX CONSOLIDATION**

Effective January 1 2004, for the purposes of income taxation, PowerTel and its 100% owned subsidiaries have formed a tax consolidation group. The entities within the tax consolidation group have entered into a tax sharing agreement. The terms of this agreement specify the methods of allocating any tax liability in the event of default by the PowerTel entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains within the PowerTel entity.

**ROUNDING**

The Company is a Company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest hundred thousand dollars.

**DIRECTORS' REPORT (continued)**

**AUDITOR INDEPENDENCE**

The directors received the following declaration from the auditor of PowerTel Limited.



**Auditors Independence Declaration to the Directors of PowerTel Limited**

In relation to our audit of the financial report of PowerTel Limited for the financial year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditors independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

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

Ernst & Young

A handwritten signature in black ink, appearing to read 'Craig M. Jackson'.

Craig M. Jackson  
Partner  
26 February 2007

Liability limited by a scheme approved under Professional Standards Legislation.

**NON-AUDIT SERVICES**

The following non-audit services were provided by the entity's auditor Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance	\$87,443
Other services	\$91,747

Signed in accordance with a resolution of the directors.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'J C Conde'.

J C Conde AO  
Director  
Sydney  
26 February 2007

## **CORPORATE GOVERNANCE STATEMENT**

### **ROLE OF THE BOARD**

The Board is responsible for setting the strategic direction and establishing the policies of PowerTel Limited. It is responsible for overseeing the financial position and monitoring the business of the Company on behalf of the shareholders, to whom they are accountable. It also is responsible for ensuring appropriate internal controls and risk management policies are in place.

#### **Responsibilities of the Board**

In particular the Board is responsible for the following:

1. Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
2. Monitoring financial outcomes and the integrity of reporting, in particular approval of annual budgets and longer-term strategic and business plans including any acquisitions or divestments;
3. Setting specific limits of authority for management to commit to new expenditure and capital management;
4. Reviewing and ratifying systems of risk management and internal audit compliance and controls;
5. Appointing and removing the Managing Director, determining his/her conditions of service and monitoring his/her performance against established objectives;
6. Ratifying the appointment (and, if appropriate, the removal from office) of the Chief Financial Officer and the Company Secretary;
7. Appointing and removing the external and internal auditor on advice from the Audit Committee;
8. Reviewing succession plans for directors and senior management.

To assist it in carrying out its responsibilities, the Board has established the following standing committees of its members:

- Audit and Compliance Committee; and
- Remuneration Committee.

#### **Delegation by the Board**

The Board delegates responsibility for implementing the strategic direction and for managing the day-to-day operations of the consolidated group to the Managing Director. There are clear lines of communication established between the Chairman and Managing Director to ensure that the responsibilities and accountabilities of each are clearly understood.

The Managing Director and the Chief Financial Officer (and other senior management) have service contracts setting out their duties, responsibilities, conditions of service and termination entitlements.

The Board manages delegation to senior management by setting specific limits of authority for management to commit to new expenditure and capital management.

### **BOARD STRUCTURE**

The names of the directors of the Company in office at the date of this statement are set out in the Director's Report which also outlines each director's skill, experience and expertise and their status in terms of independence.

The members of the Board are:

- Mr John C Conde AO (Chairman & Independent)
- Mr Justus H Veeneklaas (Independent)
- Mr Edward F Sippel
- Mr John W Troy
- Mr Paul A Broad (Managing Director)
- Mr Mark J Brennan (Alternate Director)

The Board determines Board size and composition, subject to limits imposed by the Company's Constitution. The Constitution provides for a minimum of three directors and a maximum of ten.

**CORPORATE GOVERNANCE STATEMENT (Continued)**

Other than the requirement for re-election every three years, no director currently has a fixed term of office. Directors appointed by the Board are required by the Constitution to submit themselves for re-election by shareholders at the next General Meeting after appointment. The Constitution also provides for one-third of the directors to retire and stand for re-election each year at the Annual General Meeting.

The Chairman is selected by the full Board.

The Managing Director is a director of the Company.

**Nomination Committee**

The Company does not have a nomination committee. As recommended by the ASX principles the Board's structure and size has not warranted the establishment of a nomination committee to date. The nomination and selection process for the appointment of Board members is currently conducted by the full Board. The Board seeks to identify candidates with appropriate skills and experience to contribute to the effective direction of the Company.

**Board Meetings**

The Board normally has at least eight scheduled meetings a year, but would also meet at other times to deal with specific issues. The Board has guidelines to ensure that all directors receive papers for consideration and regular reports in advance of meetings to enable them to participate in an informed manner.

Senior members of management normally attend Board meetings to present reports on, or seek approvals within, their areas of responsibility. However part of each meeting may be taken up in private session (with only the Board members present) to discuss management issues or matters of a particularly sensitive nature. The external auditor meets with the Audit and Compliance Committee on behalf of the Board as part of the half-year and full year financial reporting process.

**Independent advice to directors**

To assist directors in carrying out their duties effectively, they are entitled to seek independent professional advice at the expense of the Company, after appropriate consultation with the Chairman. All directors are made aware of the professional advice sought and obtained.

**Independence of Chairman and Directors**

The Board has adopted the suggested criteria for assessment of independence as set out in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice recommendations released in March 2003 ("ASX Principles").

In assessing such criteria, a non-executive director's relationship with a substantial shareholder would be presumed material in the absence of evidence or convincing argument to the contrary. A non-executive director's relationship with a customer, supplier, consultant or professional adviser is presumed immaterial when it generates less than 5% of revenue and is presumed material when it generates more than 10% of revenue, over a 12 month period, in the absence of evidence or convincing argument to the contrary.

In considering such evidence or argument the Company considers the strategic value and other material but non-quantitative aspects of the relationship in question.

The Board does not comply with the best practice recommendation of a majority of independent directors. However a majority of five out of six directors are non-executives. On 29 May 2006 Richard Griffin AM resigned as a Director. Up to 29 May 2006, the board consisted of six directors, of whom three were independent, including the Chairman who had a second or casting vote in the event of a voting deadlock. The Board considered a number of candidates to fill an independent director position at that time, but has not proceeded to an appointment as of the date of this report.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

### **PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

#### **Share Trading**

The Company has a code of conduct and policies on share trading by directors and employees. The Code of Conduct and Share Trading Policy are published on the Company's website.

#### **Integrity**

It is the Board's policy that all dealings with staff, customers, regulatory authorities and the community should be conducted honestly, fairly, diligently and in accordance with all applicable laws. Any departure from such practice would be treated very seriously.

#### **Conflict of Interest**

In the event that a potential conflict of interest may arise, the conflicted director must withdraw from all deliberations concerning the matter. A conflicted director is not permitted to exercise any influence over other Board members or receive relevant Board papers.

### **INTEGRITY OF FINANCIAL REPORTING**

#### **Representations by Managing Director and Chief Financial Officer**

A representation letter from the Managing Director and Chief Financial Officer is provided to the external auditors and to the Board acknowledging their responsibility for ensuring that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

#### **Audit and Compliance Committee**

The Audit and Compliance Committee consists of three non-executive members of the Board and has a majority of independent directors. The Audit and Compliance Committee has at least three scheduled meetings a year, but would also meet at other times to deal with specific issues.

The Audit & Compliance Committee members are:

- Mr Justus Veeneklaas (Chairman)
- Mr John Conde, AO
- Mr Edward Sippel

The Audit and Compliance Committee is responsible for assessing the adequacy of the consolidated group's internal control and risk management environment including accounting, financial and operating controls and the appropriateness of its accounting policies and practices. It acts as a link between the Board and the external and internal auditors, reviewing on a half yearly and yearly basis the financial results and reports to the Board on findings prior to publication and release to the market. The Audit and Compliance Committee also ensures that where major deficiencies or breakdowns in internal controls or procedures have been identified, that appropriate and prompt remedial action is taken by management.

The Audit and Compliance Committee has a formal charter. The charter is published on the Company's website.

### **MAKE TIMELY AND BALANCED DISCLOSURE**

The Company has in place a policy and procedure to ensure matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner. The Company Secretary reports to the Board matters notified to the ASX.

In addition, direct reports to the Managing Director confirm in writing, on a monthly basis, matters which might need to be disclosed. These matters are then brought to the attention of the Company Secretary for review.

In the event a decision is made not to notify the ASX of a particular event or development, the reasons for non-notification are advised to the Board. Directors receive copies of all announcements immediately after notification to the ASX. All announcements are posted on the Company's website.



**CORPORATE GOVERNANCE STATEMENT (continued)**

**RESPECT THE RIGHTS OF SHAREHOLDERS**

The Board aims to ensure that the shareholders are informed of major developments affecting the consolidated group's state of affairs.

Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The annual report includes relevant information about the operations of the consolidated group during the year, changes in the state of affairs and details of future developments in addition to the other disclosures required by the Corporations Act.
- Half yearly reports contain summarised financial information and a brief review of the operations of the consolidated group during the period. Half yearly financial reports undergo independent review and are lodged with the ASX Limited and the Australian Securities and Investments Commission. The half yearly report is sent to any shareholder that requests it.
- Advising shareholders of key issues affecting the Company.
- Publishing regular news articles and performance updated on the Company's website.
- Proposed major changes in the Company which may significantly impact on share ownership rights are submitted to a vote of the shareholders as and when required by the Corporations Act and the ASX listing rules.
- The Board encourages full participation of shareholders at the Annual General Meeting and any Extraordinary General Meeting to ensure a high level of accountability and identification with the consolidated group's strategy and goals. In the interests of clarity, the Chairman, Directors and Managing Director may answer questions on Company matters.
- The external auditor attends the Company's Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

**RECOGNISE AND MANAGE RISK**

PowerTel's Risk Management framework is based on the culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects.

PowerTel has adopted a structured and disciplined approach to risk management by developing and implementing a risk management program in accordance with the AS/NZS 4360:2004 Risk Management Standard.

**Risk Management Policy**

PowerTel uses best practise guidelines as the basis for risk management to support and enhance activities in all areas of the Company. Risk management is an integral part of the decision making process, using a structured program to minimise reasonably foreseeable disruption to business operations, harm to human resources and damage to environment and property. The risk management policy encourages employees to identify risks in order to take advantage of opportunities and minimise adverse effects.

It is PowerTel's policy to provide full training to employees to enable the implementation of the risk management program effectively across the business in order to strive to improve the risk management practices and processes.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### **Responsibilities for Risk Management**

The PowerTel Board of Directors have the overall responsibility for monitoring and reviewing the risk management program. The role of the Audit and Compliance Committee is to be accountable and responsible for the risk management program and provide constant reporting to the Board of Directors. The Risk Management Committee is responsible to the Audit & Compliance Committee for co-ordinating PowerTel's risk management initiative. The Chief Financial Officer is the executive sponsor for the risk management program. All personnel of PowerTel have been enabled to manage and be responsible for risk in their area of the business.

### **Risk Management Approach**

The approach to risk adopted by PowerTel consists of the following:

- Continually identify Financial and Non-financial risks associated in each sphere of the business
- Rank each risk identified in terms of their likelihood and potential impact
- Analyse and rank existing compensating internal controls to evaluate the effectiveness in mitigating risk
- Determine the residual risk rating for each identified risk based on a traffic light approach
- Identify further actions and controls required to reduce or eliminate identified risks
- Determine the monitoring criteria and governance of identified risks
- Document identified risks in a risk register
- Present to the Audit and Compliance Committee with regular assessments of risks facing the Company

### **Status of Risk Management during 2006**

Based on the risk management policies and procedures and internal controls in place during the year, the Managing Director and Chief Financial Officer have provided undertakings to the Board, pursuant to the ASX Corporate Governance Council's Best Practice Recommendation 7.2, that:

- The statement given in accordance with Best Practice Recommendation 4.1 (the integrity of the financial statements) is founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board
- PowerTel's risk management and internal compliance and control systems were operating efficiently and effectively in all material aspects during the year

## **ENCOURAGE ENHANCED PERFORMANCE**

The Company has processes in place to review the performance of senior management and Board members.

Each senior manager, including the Managing Director, has personal performance objectives as well as objectives related to business units and the Company as a whole. They are assessed against those objectives on at least an annual basis.

The Chairman assesses and monitors the Managing Director with the assistance of the Remuneration Committee. A report is provided to, and discussed in detail by the Board. The Managing Director assesses and monitors the senior managers and reports his findings to the Chairman and the Remuneration Committee.

Each year the Board devotes time to consideration of broad corporate governance matters, including the continuing relevance of existing committees, and to reviewing its own performance. The Chairman is responsible, in the first instance, for monitoring the contribution of individual directors and counselling them as appropriate.

Subject to normal privacy requirements, directors have unfettered access to Company records and information, to the Company Secretary and other relevant senior officers. They receive regular detailed reports on financial and operational aspects of the Company's business and may request elaboration or explanation of those reports at any time.

Directors and senior management are encouraged to broaden their knowledge of the Company's business and to keep abreast of developments in the business and in the industry generally.

**CORPORATE GOVERNANCE STATEMENT (continued)**

**REMUNERATE FAIRLY AND RESPONSIBLY**

The Board has established a Remuneration Committee to consider and report on, among other things, remuneration policies applicable to the Board members and to senior managers of the Company.

The Remuneration Committee also reviews the remuneration policies and practices for the consolidated group generally and takes into consideration market conditions and rates to attract, retain and motivate directors, executives and employees of the highest calibre and quality.

The members of the Remuneration Committee are:

- Mr J C Conde (Chairman)
- Mr E Sippel
- Mr J H Veeneklaas

The Managing Director attends meetings of the Remuneration Committee by invitation when required to report on, and discuss, senior management performance and remuneration matters.

The Committee is empowered to seek external professional advice on any matter within its terms of reference.

Non-executive directors fees are determined by the Board, but within the aggregate limit approved by Shareholders at a General Meeting.

Senior managers of the Company receive a balance of fixed and variable ('at risk') remuneration. The proportions vary at different levels within the Company, reflecting the capacity of the senior managers to influence the overall outcome of the Company's operations and returns to Shareholders.

The variable component is based on the economic profit earned by the Company and a series of Key Performance Indicators. Part of the remuneration is in the form of a short-term incentive, payable in cash, and part is in the form of a long-term incentive, payable in shares subject to vesting provisions. The aggregate of short and long-term incentives is subject to a maximum limit.

The Company operates an Executive Long Term Incentive Plan and two General Employee Share Plans.

The purpose of Executive Long Term Incentive Plan is to encourage employees to share in the ownership of the Company, in order to promote the long-term success of the Company as a goal shared by employees. Under the plan, employees are provided with non-interest bearing loans to purchase shares valued at the issue price. Access to shares is dependent on a number of performance hurdles. Generally, one quarter of the shares vest after 2 years from the date of issue and a further quarter each year thereafter.

The Company also has an Exempt Employee Share Plan and a Deferred Employee Share Plan. These plans provide incentives to a broad range of PowerTel employees, including Directors on the following terms:

The Exempt Employee Share plan offers up to \$1,000 worth of shares per year to all permanent employees, subject to certain qualifying conditions, on a tax exempt basis. PowerTel will acquire on market or issue a percentage (as determined by the Board) of these shares on behalf of the employees funded by way of salary sacrifice and PowerTel will acquire on market or issue (as determined by the Board) the balance as matching shares (directors are not entitled to matching shares). The shares are subject to a 3-year restriction on transfer while the employee remains with PowerTel.

The Deferred Employee Share Plan enables employees and Directors to acquire shares on a tax deferred basis. Offerees can choose how much to contribute by way of salary sacrifice to this plan each year, with a minimum of \$2,000 and a maximum of 25% of base salary. The Company acquires on market or issues (as determined by the Board) matching shares of up to a maximum of \$5,000 per employee (but not to directors), per year. Shares under this plan are subject to restrictions on transfer of at least 2 years, and potentially up to 10 years.

Employees and directors may elect to participate in either plan but are not entitled to participate in both plans in any one-tax year.

**CORPORATE GOVERNANCE STATEMENT (continued)**

**RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS**

The Company has a Code of Conduct that sets out the behaviour required of directors, employees and contractors. The full Code is published on the Company's website.

**BEST PRACTICE RECOMMENDATIONS**

The table below identifies the ASX Corporate Governance Council - Best Practice Recommendations and whether or not the Company has complied with the recommendations during the reporting period:

		Complied	Note
1.1	Formalise and disclose the functions reserved to the board and those delegated to management	✓	
2.1	A majority of the board members should be independent directors	X	1
2.2	The chairperson should be an independent director	✓	
2.3	The roles of the chairperson and Chief Executive Officer should not be exercised by the same individual	✓	
2.4	The board should establish a nomination committee	X	2
2.5	Provide the information indicated in Guide to reporting on Principle 2	✓	
3.1	Establish a code of conduct to guide directors, the Chief Executive officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	✓	
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees	✓	
3.3	Provide the information indicated in Guide to reporting on principle 3	✓	
4.1	Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with accounting standards	✓	
4.2	The board should establish an audit committee	✓	
4.3	Structure the audit committee so that it consists of: - only non-executive directors - a majority of independent directors - an independent chairperson, who is not chairperson of the board - at least 3 members	✓	
4.4	The audit committee should have a formal charter	✓	
4.5	Provide the information indicated in Guide to reporting on Principle 4	✓	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for compliance	✓	

**CORPORATE GOVERNANCE STATEMENT (continued)**

5.2	Provide the information indicated in Guide to reporting on Principle 5	✓	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report	✓	
7.1	The board or appropriate board committee should establish policies on risk oversight and management	✓	
7.2	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements policies adopted by the board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	✓	
7.3	Provide the information indicated in Guide to reporting on Principle 7	✓	
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives	✓	
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance	✓	
9.2	The board should establish a remuneration committee	✓	
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives	✓	
9.4	Ensure the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	✓	
9.5	Provide the information indicated in Guide to reporting on Principle 9	✓	
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	✓	
<p><b>Note 1:</b></p> <p>The Board does not comply with the best practice recommendation of a majority of independent directors. However a majority of five out of six directors are non-executives. On 29 May 2006 Richard Griffin AM resigned as a Director. Up to 29 May 2006, the board consisted of six directors, of whom three were independent, including the Chairman who had a second or casting vote in the event of a voting deadlock.</p> <p><b>Note 2:</b></p> <p>The Board of Directors does not have a nomination committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by a nomination committee can be and are performed by the full board.</p>			

## CONSOLIDATED FINANCIAL REPORT

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**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>					
Communications revenue		198,168	193,479	142,311	133,378
Rental subleases		656	-	656	-
Finance income	3(b)	541	313	526	266
Dividends received		-	-	63,129	-
		<b>199,365</b>	<b>193,792</b>	<b>206,622</b>	<b>133,644</b>
Cost of sales		<b>(102,732)</b>	<b>(103,505)</b>	<b>(102,628)</b>	<b>(72,050)</b>
<b>Gross profit</b>		<b>96,633</b>	<b>90,287</b>	<b>103,994</b>	<b>61,594</b>
Other income	3(a)	232	2,671	105	1,418
Staff and related costs	3(c)	(40,104)	(42,630)	(40,104)	(41,137)
Depreciation		(29,827)	(31,738)	(26,695)	(26,903)
Network operating & maintenance costs		(4,822)	(6,417)	(4,822)	(5,732)
General & administrative expenses		(3,994)	(4,737)	(3,994)	(4,713)
Rental costs		(3,672)	(3,955)	(3,706)	(3,757)
Universal service obligation & numbering charges		(1,138)	(2,108)	(1,138)	(2,108)
Restructuring costs		(449)	(1,621)	(449)	(1,600)
Impairment of available for sale financial asset	11	(1,872)	-	(1,872)	-
Reversal of provision for non recovery of loans to related companies	7	-	-	23,987	-
Other operating expenses		(2,638)	(3,158)	(2,273)	(2,497)
<b>Profit/(Loss) before tax and finance costs</b>		<b>8,349</b>	<b>(3,406)</b>	<b>43,033</b>	<b>(25,435)</b>
Finance costs	3(b)	(5,014)	(4,598)	(5,014)	(4,564)
<b>Profit/(Loss) before income tax</b>		<b>3,335</b>	<b>(8,004)</b>	<b>38,019</b>	<b>(29,999)</b>
Income tax benefit	4	6,679	-	6,679	-
<b>Profit/(Loss) attributable to members of the parent entity</b>	21	<b>10,014</b>	<b>(8,004)</b>	<b>44,698</b>	<b>(29,999)</b>
<b>Earnings per share (cents per share)</b>					
- Basic earnings per share (cents per share)	5	7.8	(6.3)		
- Diluted earnings per share (cents per share)	5	7.3	(5.8)		

*The above Income Statement should be read in conjunction with the accompanying notes.*

**BALANCE SHEET  
AS AT 31 DECEMBER 2006**

	Notes	CONSOLIDATED 2006 \$'000	2005 \$'000	POWERTEL LIMITED 2006 \$'000	2005 \$'000
<b>Current assets</b>					
Cash and cash equivalents	6	10,636	7,481	10,374	6,378
Trade and other receivables	7	29,974	35,562	29,974	28,257
Other assets	8	9,394	6,303	9,114	6,333
Derivative financial instruments	9	86	-	86	-
<b>Total current assets</b>		<b>50,090</b>	<b>49,346</b>	<b>49,548</b>	<b>40,968</b>
<b>Non-current assets</b>					
Other receivables	7	-	-	505	328,884
Available for sale financial assets	11	23,042	1,953	23,042	1,953
Other financial assets	12	-	-	42,652	42,652
Derivative financial instruments	9	19	-	19	-
Property, plant and equipment	13	122,640	136,707	121,056	132,406
Deferred tax assets	4	6,679	-	6,679	-
Intangibles	14	32,222	32,222	-	-
Other assets	8	4,498	2,807	4,498	2,706
<b>Total non-current assets</b>		<b>189,100</b>	<b>173,689</b>	<b>198,451</b>	<b>508,601</b>
<b>Total assets</b>		<b>239,190</b>	<b>223,035</b>	<b>247,999</b>	<b>549,569</b>
<b>Current liabilities</b>					
Trade and other payables	15	27,787	29,631	27,787	30,400
Interest bearing loans and borrowings	16	1,150	12,220	1,150	12,142
Deferred revenue	17	12,837	11,314	10,544	4,419
Provisions	18	5,461	4,986	4,950	3,871
<b>Total current liabilities</b>		<b>47,235</b>	<b>58,151</b>	<b>44,431</b>	<b>50,832</b>
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	16	45,615	33,233	45,615	33,233
Deferred tax liability	4	726	-	726	-
Deferred revenue	17	2,472	3,004	2,472	3,004
Provisions	18	3,693	3,765	3,163	3,058
Other liabilities	19	-	-	132,809	489,910
<b>Total non-current liabilities</b>		<b>52,506</b>	<b>40,002</b>	<b>184,785</b>	<b>529,205</b>
<b>Total liabilities</b>		<b>99,741</b>	<b>98,153</b>	<b>229,216</b>	<b>580,037</b>
<b>Net assets / (liabilities)</b>		<b>139,449</b>	<b>124,882</b>	<b>18,783</b>	<b>(30,468)</b>
<b>Equity</b>					
Issued capital	20	591,135	591,501	591,135	591,501
Accumulated losses	21	(455,860)	(465,874)	(576,526)	(621,224)
Other reserves	22	4,174	(745)	4,174	(745)
<b>Total equity / (deficiency)</b>		<b>139,449</b>	<b>124,882</b>	<b>18,783</b>	<b>(30,468)</b>

The above Balance Sheet should be read in conjunction with the accompanying notes.



**STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	CONSOLIDATED		POWERTEL LIMITED	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Total equity at beginning of the financial year</b>		<b>124,882</b>	<b>131,629</b>	<b>(30,468)</b>	<b>(1,726)</b>
Changes in the fair value of available-for-sale financial assets, net of tax	22	3,948	(1,643)	3,948	(1,643)
Net income recognised directly in equity		3,948	(1,643)	3,948	(1,643)
Profit/(Loss) for the year	21	10,014	(8,004)	44,698	(29,999)
<b>Total recognised income and expense for the year</b>		<b>13,962</b>	<b>(9,647)</b>	<b>48,646</b>	<b>(31,642)</b>
Shares purchased on market and cancelled		(1,044)	-	(1,044)	-
Shares issued under employee share plans		678	660	678	660
Shares vested under ELTIP		-	857	-	857
Share based benefits		971	1,383	971	1,383
<b>Total transactions with equity holders in their capacity as equity holders</b>		<b>605</b>	<b>2,900</b>	<b>605</b>	<b>2,900</b>
<b>Total equity at the end of the financial year</b>		<b>139,449</b>	<b>124,882</b>	<b>18,783</b>	<b>(30,468)</b>

*The above Statement of Changes in Shareholders Equity should be read in conjunction with the accompanying notes.*

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>					
Receipts from customers		220,653	207,522	155,719	117,130
Payments to suppliers and employees		(181,165)	(184,197)	(180,596)	(130,544)
Corporate expansion and restructure costs		(715)	(1,260)	(715)	(1,239)
Interest received from unrelated party		512	351	497	306
Interest and other finance costs paid		(3,980)	(5,004)	(3,980)	(4,969)
<b>Net operating cash flows</b>	24	<b>35,305</b>	<b>17,412</b>	<b>(29,075)</b>	<b>(19,316)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(12,434)	(13,615)	(12,434)	(13,615)
Receipts for sale of property, plant and equipment		228	2,825	228	2,825
Corporate restructure costs		(494)	(4,144)	(494)	(3,402)
Purchase of available-for-sale financial assets	24(c)	(4,908)	-	(4,908)	-
<b>Net investing cash flows</b>		<b>(17,608)</b>	<b>(14,934)</b>	<b>(17,608)</b>	<b>(14,192)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares	20	-	857	-	857
Share buy-back	20	(1,044)	-	(1,044)	-
Advances to related parties		-	-	(497)	(52,632)
Advances from related parties		-	-	65,718	88,738
Loan establishment costs		(511)	(1,324)	(511)	(1,195)
Repayment of borrowings		(11,500)	(7,825)	(11,500)	(7,825)
Repayment of finance lease principal		(1,487)	(1,600)	(1,487)	(1,136)
<b>Net financing cash flows</b>		<b>(14,542)</b>	<b>(9,892)</b>	<b>50,679</b>	<b>26,807</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,155</b>	<b>(7,414)</b>	<b>3,996</b>	<b>(6,701)</b>
Cash and cash equivalents at the beginning of the year		7,481	14,895	6,378	13,079
<b>Cash and cash equivalents at the end of the year</b>	6	<b>10,636</b>	<b>7,481</b>	<b>10,374</b>	<b>6,378</b>

*The above Cash Flow Statement should be read in conjunction with the accompanying notes.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The financial report of PowerTel Limited for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 26 February 2007.

PowerTel Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 32.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of this financial report are:

#### (a) Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on the basis of historical cost basis, except for derivative financial instruments and available-for-sale assets which have been measured at fair value.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgement made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 2(y).

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard (IFRS).

Australian Standards not yet effective that have not been adopted for the financial reporting period ending 31 December 2006 are:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117 <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time Adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
New Standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007

\*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of PowerTel Limited and its subsidiaries as at 31 December each year ('the Group').

The results of subsidiaries are included from the date the parent Company obtained control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the financial year during which the parent Company has control of the subsidiary. Acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

### (d) Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated group are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the ruling rate at the end of financial year. All resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **(e) Cash and cash equivalents**

Cash and term deposits in the balance sheet comprise cash at bank and in hand and term deposits with an original maturity of twelve months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents as disclosed above.

### **(f) Trade and other receivables**

Trade receivables, which generally have 30-45 day terms, are recognised and carried at original invoice amount less a provision for any uncollectible debts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off in the reporting period as incurred and recognised in the income statement.

Receivables from related parties are recognised and carried at the nominal amount less a provision for any uncollectible debts.

### **(g) Investments**

All investments are recognised initially at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition investments that have been classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale assets are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be permanently impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments traded in an active organised financial market, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

### **(h) Inventory**

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### **(i) Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal assessment of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Property, plant and equipment

Plant and Equipment is stated at cost less accumulated depreciation and any impairment in value.

Buildings are measured at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Depreciation period in years are:	2006	2005
Buildings - Strata Title Office	n/a	5-25
Leasehold Improvements	5	5
Plant and Equipment:		
Fibre Optic Cable	30	30
Fibre Optic Equipment	7-10	7-10
Computer Hardware	3	3
Other Plant and Equipment	2-8	2-8

#### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when event or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement in the cost of sales line item.

#### *Capital works in progress*

The cost of assets constructed in-house is accumulated as capital works-in-progress until the asset is ready for use. Cost includes the relevant proportion of directly attributable overheads, incurred in construction of an asset. Where assets from partially completed projects are placed in service, depreciation is recorded from the date of first use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

Where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, the lease is classified as an operating lease. Operating lease assets are not capitalised. The minimum lease payments are recognised as an expense on a straight-line basis.

#### *Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability, with the interest expense calculated using the interest rate implicit in the lease and charged directly to the income statement.

The cost of improvements to or on leasehold property are capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### (l) Acquisition and provision of bandwidth capacity

Costs associated with acquiring bandwidth capacity are recognised, as other debtors and prepayments, and expensed on a straight-line basis over the periods of their expected benefit, not being longer than the term of capacity.

Proceeds from the provision of bandwidth capacity to customers are recognised as deferred revenue and brought to the income statement as revenue on a straight-line basis over the term of the customer contract.

### (m) Goodwill

Goodwill on acquisition is measured initially at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the combinations' synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(n) Interest Bearing Loans and Borrowings**

All loans and borrowings are recognised initially at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest bearing loans and borrowings are measured subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

### **(o) Derivative Financial Instruments**

The Group uses an interest rate collar derivative financial instrument to hedge its risks associated with interest rate fluctuations, where material, this financial instrument is stated at fair value.

Accounting standards include specific documentation, designation and effectiveness testing before a derivative instrument can qualify for hedge accounting. The Group's treasury transactions are undertaken to achieve economic outcomes in line with its hedging policy. The AIFRS documentation, designation and effectiveness requirements cannot be met in all circumstances. Accordingly the collar instruments do not qualify for hedge accounting and are recorded at fair value through the income statement.

### **(p) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

### **(q) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### **(r) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Refer to accounting policy on Acquisition and Provision of Bandwidth Capacity for revenue recognition policy on the provision of bandwidth capacity.

#### *Rendering of Services*

Fixed Line Communication Revenue is recognised based on electronic evidence that a communication service has been provided to a customer. Installation revenue is deferred and amortised over the period the consolidated entity expects to receive benefit from the services rendered.

#### *Interest & Dividend*

Interest income is recorded when received in cash, or accrued at the rate applicable to the financial instrument on which it is earned. Dividend income is recognised when dividends are declared.

#### *Sublease income*

Sublease income is recognised as income in the periods in which it is earned.

### (t) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Tax Consolidation Legislation*

PowerTel Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

The head entity, PowerTel Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, PowerTel Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

### (u) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (v) Share Based Payment transactions

Benefits are provided to employees in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). Shares issued under the Executive Long Term Incentive Plan (ELTIP) are 'equity-settled transactions' and have the characteristic of an option to buy shares and are therefore treated as options.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model taking into account the terms and conditions upon which they were granted and reflecting the probability of meeting the market performance condition.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, will vest ultimately. This opinion is formed based on the best available information at balance date. No

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Share Based Payment transactions (continued)

adjustment is made for the likelihood of market performance conditions being met as the effect of those conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not vest ultimately, except for awards where vesting is conditional upon a market condition.

The dilutive effect, if any, of non-vested shares is reflected as additional share dilution in the computation of earnings per share (see note 5).

Shares issued are deducted from equity until vested.

### (w) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, long service leave and workers' compensation. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
- Other types of employee benefits

Are recognised against profits on a net basis in their respective categories.

### (x) Earnings per share

Basic earnings per share is determined by dividing the operating profit or loss after income tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares. In addition, the weighted average number of shares assumed to have been issued for no consideration, in relation to dilutive potential ordinary shares, is also taken into account.

### (y) Critical accounting estimates and significant judgements

The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or where assumptions are significant to the Group financial report such as:

#### (1) Estimates of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(m). The recoverable amounts of cash-generating units have been determined by using the fair value less costs to sell method refer note 25.

#### (2) Income taxes

The Group recognises an amount for prior year tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This amount is evaluated on an annual basis to ensure an accurate representation is made in respect of recovery of tax losses refer note 4.

**3. REVENUES AND EXPENSES**

	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Other Income</b>				
Gain on settlement of lease obligations	127	1,253	-	-
Gain on disposal of property, plant and equipment	-	1,418	-	1,418
Gain on fair value adjustment for derivatives	105	-	105	-
	<b>232</b>	<b>2,671</b>	<b>105</b>	<b>1,418</b>
<b>(b) Finance (costs)/income</b>				
Interest expense - other persons/corporations	(3,515)	(3,745)	(3,515)	(3,730)
Finance charges - lease liability	(292)	(455)	(292)	(438)
Borrowing costs	(1,207)	(391)	(1,207)	(389)
Other	-	(7)	-	(7)
Total finance costs expensed	<b>(5,014)</b>	<b>(4,598)</b>	<b>(5,014)</b>	<b>(4,564)</b>
Bank interest received	541	313	526	266
Total finance income	<b>541</b>	<b>313</b>	<b>526</b>	<b>266</b>
<b>(c) Staff and related costs</b>				
Wages and Salaries	(32,139)	(33,901)	(32,139)	(32,609)
Workers' compensation costs	(199)	(329)	(199)	(324)
Superannuation costs	(2,937)	(3,167)	(2,937)	(3,117)
Share based payments expense	(1,406)	(1,615)	(1,406)	(1,615)
Other	(3,423)	(3,618)	(3,423)	(3,472)
Total staff and related costs	<b>(40,104)</b>	<b>(42,630)</b>	<b>(40,104)</b>	<b>(41,137)</b>
<b>(d) Operating lease rentals – minimum lease payments</b>				
Occupancy	(3,247)	(3,366)	(3,247)	(3,259)
Motor vehicles	(422)	(364)	(422)	(364)
Equipment	(248)	(200)	(248)	(200)
	<b>(3,917)</b>	<b>(3,930)</b>	<b>(3,917)</b>	<b>(3,823)</b>

#### 4. INCOME TAX

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>(a) Income tax expense</b>				
Current tax expense	1,492	(823)	11,898	(1,006)
Origination and reversal of temporary differences	(8,171)	823	(18,577)	1,006
Total income tax benefit reported in income statement	(6,679)	-	(6,679)	-
<b>(b) Numerical reconciliation of income tax expense/(benefit) and profit/(loss) before income tax</b>				
Profit/(loss) before income tax expense	3,335	(8,004)	38,019	(29,999)
Tax at the Australian tax rate 30% (2005 – 30%)	1,000	(2,401)	11,406	(9,000)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible items	109	181	109	172
Non-assessable income	(38)	(426)	(38)	(426)
Share-based payments	421	484	421	484
Deferred tax asset not recognised	1,636	1,823	(4,565)	8,248
Prior year tax losses not recognised now Recouped	(3,128)	-	(7,333)	-
Prior year tax losses recognised	(6,679)	-	(6,679)	-
Sundry Items	-	339	-	522
<b>Income tax benefit</b>	<b>(6,679)</b>	<b>-</b>	<b>(6,679)</b>	<b>-</b>
<b>(c) Amounts recognised directly in equity</b>				
Deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to equity				
Unrealised gain on available for sale assets	726	-	726	-
Income tax expense reported in equity	726	-	726	-
<b>(d) Recognised deferred tax asset and liabilities</b>				
<i>(i) Deferred tax liabilities</i>				
Unrealised gain on available for sale assets	726	-	726	-
<i>(ii) Deferred tax assets</i>				
Prior year tax losses recognised	6,679	-	6,679	-

Set-off of deferred tax assets and deferred tax liabilities has not occurred due to the expected timing differences of the recovery or settlement of these items.

#### 4. INCOME TAX (Continued)

##### (e) Tax losses

###### (i) Capital Losses

The Group has capital losses for which no deferred tax asset is recognised on the balance sheets that arose in Australia of \$6,059,371 (2005: \$6,059,371) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

###### (ii) Tax Losses

The Group has recognised an amount for prior year tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This amount will be evaluated on an annual basis to ensure an accurate representation is made in respect of recovery of tax losses. (refer note 33)

Unused tax losses for which no deferred tax asset has been recognised amounts to \$232.8 million (2005: \$265.6 million) and are available indefinitely for offset against future taxable profit subject to continuing to meet relevant statutory tests. All losses were incurred by Australian entities.

##### (f) Unrecognised temporary differences

The Group has temporary differences for which no deferred tax asset or deferred tax liabilities have been recognised amounting to \$103.9 million (2005: \$98.5 million). There is a potential tax benefit at the rate of 30% of \$31.2 million (2005: \$29.5 million).

##### (g) Tax Consolidation

Effective 1 January 2004 PowerTel Limited and its 100% owned subsidiaries, all of which are registered in Australia, formed a tax consolidation group. PowerTel Limited, as the head entity of the tax consolidated group, recognises tax entries for all entities in the group in addition to its own.

The tax consolidated group have entered into tax sharing and funding agreements, which specify the methods of allocating any tax liability in the event of default by PowerTel Limited on its group payment obligations and the treatment where a subsidiary member exits the tax consolidated group. At the balance date, the possibility of default is remote. Otherwise, the tax liability of the tax consolidated group remains with PowerTel Limited.

It is anticipated that the nominal amount of tax losses disclosed above will not be available to fully offset taxable income as it is derived. As a result, the tax consolidated group will become tax paying earlier than the quantum of nominal tax losses may suggest.

##### Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidation group in accordance with their accounting profit/(loss) for the period, while deferred taxes are allocated to members of the tax consolidation group in accordance with the principles of AASB 112 *Income Taxes* and UIG 1052 *Tax Consolidation Accounting*.

# Applicable tax rate 30% (2005:30%)

## 5. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive ordinary shares issued under the Executive Long Term Incentive Plan. Shares issued under this plan are accounted for as options and therefore equity increases only when vested.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	CONSOLIDATED	
	2006 \$'000	2005 \$'000
Net profit/(loss) attributable to equity holders from continuing operations	10,014	(8,004)
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share:	127,867,340	127,590,402
Effect of dilution:		
Executive Long Term Incentive Plan	9,279,873	9,375,149
Adjusted weighted average number of ordinary shares for diluted earnings per share	137,147,213	136,965,551
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share.	747,427	508,197

There have been no significant transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements.

## 6. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		POWERTEL LIMITED	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand	10,438	6,400	10,374	6,378
Short-term deposits	198	1,081	-	-
	<b>10,636</b>	<b>7,481</b>	<b>10,374</b>	<b>6,378</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits mature within two and five months and earn interest rates of between 5 and 5.9%.

**7. TRADE AND OTHER RECEIVABLES**

	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>				
Trade debtors (i)	31,024	36,890	31,024	29,585
Provision for doubtful debts	(1,050)	(1,328)	(1,050)	(1,328)
<b>Total current receivables</b>	<b>29,974</b>	<b>35,562</b>	<b>29,974</b>	<b>28,257</b>

(i) Our policy requires trade debtors to pay us in accordance with agreed payment terms. Depending on the customer segment, our generally agreed terms are 30 to 45 days from date of invoice. All credit and recovery risk associated with trade debtors has been provided for in the balance sheet.

**Non-Current**

Loans to related corporations - wholly owned group	-	-	22,313	374,679
Less: provision for non recovery of loans to related companies	-	-	(21,808)	(45,795)
<b>Total non-current receivables</b>	<b>-</b>	<b>-</b>	<b>505</b>	<b>328,884</b>

The loans to related entities are non-interest bearing and are repayable at call.

**8. OTHER ASSETS**

	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>				
Prepaid bandwidth capacity	852	542	802	462
Inventory	428	590	428	590
Prepayments and other debtors	8,066	5,096	7,840	5,212
Other	48	75	44	69
<b>Total other current assets</b>	<b>9,394</b>	<b>6,303</b>	<b>9,114</b>	<b>6,333</b>

A benefit of \$510,652 was recognised for inventory obsolescence due to a reversal of provision from prior year (2005: (\$624,636)) for the Group and the parent company. This benefit/(expense) is included in the cost of sales line item in the Income Statement.

**Non-current**

Prepaid bandwidth capacity	4,498	2,756	4,498	2,706
Prepayments and other debtors	-	51	-	-
<b>Total other non-current assets</b>	<b>4,498</b>	<b>2,807</b>	<b>4,498</b>	<b>2,706</b>



9. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED POWERTEL LIMITED			
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>				
Interest rate collar contracts – cash flow hedges	86	-	86	-
<b>Total current Derivative financial assets</b>	<b>86</b>	<b>-</b>	<b>86</b>	<b>-</b>
<b>Non-current assets</b>				
Interest rate collar contracts – cash flow hedges	19	-	19	-
<b>Total non-current Derivative financial assets</b>	<b>19</b>	<b>-</b>	<b>19</b>	<b>-</b>

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (note 10).

*Interest rate collar contracts – cash flow hedges*

Bank loans of the Group currently bear an average variable interest rate of 7.7%. It is the policy of the Group to protect part of the loans from exposure to fluctuating interest rates.

To manage this in a cost effective manner, the Group enters into interest rate collars, in which the Group agrees to settle on a quarterly basis where the floating rate (based upon AUD-BBR-BBSY) is above (below) the cap (floor) rate.

The hedging instruments were originally contracted to coincide with the settlement dates of the underlying debt. Due to the change in the facilities agreement (refer note 23), the hedging instruments no longer coincide exactly with the underlying debt and are therefore determined to be ineffective instruments.

The ineffective portion of gain or loss from remeasuring the hedging instruments at fair value is recognised immediately in the profit and loss.

At balance date, 53% (2005 75%) of the groups exposure to interest rate risk on its borrowing is hedged and these hedging instruments were assets with a fair value of \$104,968 (2005 - \$0). In the year ended 31 December 2006 there was a gain from the increase in fair value of \$104,968 during the year.

At balance date, the notional principal amounts and period of expiry of the interest rate collar contracts are as follows:

	Consolidated		PowerTel Limited	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
1-2 years	23,625	30,375	23,625	30,375

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Fair values

Market values have been used to determine the fair value of listed available-for-sale financial assets and interest rate collars. The carrying amounts of bank deposits, trade receivables, listed and unlisted investments, trade payables, bank loans and lease liabilities approximate net fair value.

(c) Interest rate risk

The consolidated group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

Financial Instruments	Floating interest rate		Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
<i>(i) Financial assets</i>								
Cash and Deposits	10,636	7,481	-	-	10,636	7,481	5.31%	5.20%
Receivables (Current)	-	-	29,974	35,562	29,974	35,562	N/A	N/A
Listed shares	-	-	22,992	1,953	22,992	1,953	N/A	N/A
Unlisted investments	-	-	50	-	50	-	N/A	N/A
Total financial assets	10,636	7,481	53,016	37,515	63,652	44,996	-	-

Financial Instruments	Interest rate maturing in:				Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	1 year or less		Over 1 to 5 years							
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
(ii) Financial liabilities										
Trade and other creditors	-	-	-	-	27,787	29,631	27,787	29,631	N/A	N/A
Floating rate										
Borrowings – Bank loan	-	11,036	44,449	30,920	-	-	44,449	41,956	7.72%	7.95%
Fixed rate										
Finance Leases	1,150	1,184	1,166	2,313	-	-	2,316	3,497	10.9%	11.1%
Total financial liabilities	1,150	12,220	45,615	33,233	27,787	29,631	74,552	75,084	-	-

## 10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance and operating leases, cash and short term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate collars. The purpose is to manage the interest rate risks arising from the Group's sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Groups accounting policies in relation to derivatives are set out in note 2(o).

### *Interest rate risk*

The Group's exposure to market risk changes in interest rates relates primarily to the Group's long term debt obligations.

The group's policy is to only enter into a hedging programme for specific commitments and exposures. The group's hedging position is reviewed by the board on a quarterly basis and no hedging programme can be entered into without the approval of the board. Hedging must also take account of any bank loan covenants the group has in place.

Refer note 9 for details on the group's hedging programme.

### *Foreign currency risk*

The Group's exposure to currency risk is minimal.

### *Credit risk*

The Group trades with only recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through use of the bank overdrafts, bank loans, finance and operating leases.

# 11. AVAILABLE FOR SALE FINANCIAL ASSETS

	CONSOLIDATED POWERTEL LIMITED			
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Non-current</b>				
<b>At fair value:</b>				
Shares				
Listed on prescribed stock exchange	22,992	1,953	22,992	1,953
Other	50	-	50	-
<b>Total non-current available for sale financial assets</b>	<b>23,042</b>	<b>1,953</b>	<b>23,042</b>	<b>1,953</b>

## Listed Shares

Listed shares represent a material investment in Macquarie Telecom Group Limited and iiNet Limited.

\$1.872 million has been recognised as an expense to the income statement during the period to reflect the permanent impairment of Macquarie Telecom Group Limited. An investment is deemed to be permanently impaired if the fair value has declined significantly below the acquisition price for a prolonged period of time. The fair value is determined by reference to the bid price as quoted on the Australian Stock Exchange as at 31 December 2006.

# 12. OTHER FINANCIAL ASSETS

	CONSOLIDATED POWERTEL LIMITED			
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Non-current</b>				
<b>Investments in controlled entities</b>				
Unlisted shares	-	-	53,676	53,676
Provision for diminution in value	-	-	(11,024)	(11,024)
	-	-	42,652	42,652

### 13. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Leasehold improvements</b>				
At cost	3,923	4,267	3,553	3,611
Accumulated depreciation	(2,374)	(2,527)	(2,011)	(1,910)
	<u>1,549</u>	<u>1,740</u>	<u>1,542</u>	<u>1,701</u>
<b>Plant and equipment</b>				
At cost	340,548	327,214	316,543	300,728
Accumulated depreciation	(226,311)	(201,417)	(203,883)	(179,193)
	<u>114,237</u>	<u>125,797</u>	<u>112,660</u>	<u>121,535</u>
<b>Leased Plant and equipment</b>				
At capitalised cost	6,842	6,577	6,842	6,577
Accumulated depreciation	(5,038)	(3,665)	(5,038)	(3,665)
	<u>1,804</u>	<u>2,912</u>	<u>1,804</u>	<u>2,912</u>
<b>Capital works in progress</b>	<u>5,050</u>	<u>6,258</u>	<u>5,050</u>	<u>6,258</u>
<b>Total property, plant and equipment</b>	<u><u>122,640</u></u>	<u><u>136,707</u></u>	<u><u>121,056</u></u>	<u><u>132,406</u></u>

	Leasehold improvements	Capital Work in Progress	Plant and Equipment	Plant and Equipment, Under Lease	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>					
<b>Year Ended 31 December 2006</b>					
At 1 January 2006, net of accumulated depreciation	1,740	6,258	125,797	2,912	136,707
Additions	-	13,356	2,139	265	15,760
Disposals	-	-	-	-	-
Transfers	-	(14,564)	14,564	-	-
Depreciation charge for the year	(191)	-	(28,263)	(1,373)	(29,827)
At 31 December 2006, net of accumulated depreciation	<u>1,549</u>	<u>5,050</u>	<u>114,237</u>	<u>1,804</u>	<u>122,640</u>

#### PARENT ENTITY

At 1 January 2006, net of accumulated depreciation	1,701	6,258	121,535	2,912	132,406
Additions	-	13,356	1,724	265	15,345
Disposals	-	-	-	-	-
Transfers	-	(14,564)	14,564	-	-
Depreciation charge for the year	(159)	-	(25,163)	(1,373)	(26,695)
At 31 December 2006, net of accumulated depreciation	<u>1,542</u>	<u>5,050</u>	<u>112,660</u>	<u>1,804</u>	<u>121,056</u>

### 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Strata Title Office Premises \$'000	Leasehold improvements \$'000	Capital Work in Progress \$'000	Plant and Equipment \$'000	Plant and Equipment, Under Lease \$'000	Total \$'000
<b>CONSOLIDATED</b>						
<b>Year Ended 31 December 2005</b>						
At 1 January 2005, net of accumulated depreciation	928	1,515	15,138	134,365	3,975	155,921
Additions	-	442	12,603	-	296	13,341
Disposals	(817)	-	-	-	-	(817)
Transfers	(12)	12	(21,483)	21,483	-	-
Depreciation charge for the year	(99)	(229)	-	(30,051)	(1,359)	(31,738)
At 31 December 2005, net of accumulated depreciation	-	1,740	6,258	125,797	2,912	136,707
<b>PARENT ENTITY</b>						
At 1 January 2005, net of accumulated depreciation	928	1,498	12,346	125,697	3,975	144,444
Additions	-	346	12,154	-	296	12,796
Disposals	(817)	-	-	-	-	(817)
Transfers	(12)	12	(21,128)	21,128	-	-
Transfers from subsidiaries	-	-	2,886	-	-	2,886
Depreciation charge for the year	(99)	(155)	-	(25,290)	(1,359)	(26,903)
At 31 December 2005, net of accumulated depreciation	-	1,701	6,258	121,535	2,912	132,406

### 14. INTANGIBLES - GOODWILL

		<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
	Notes	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Non Current</b>					
Goodwill, at cost		<b>32,222</b>	32,222	-	-
Impairment	25	-	-	-	-
<b>Total intangibles</b>		<b>32,222</b>	32,222	-	-

### 15. TRADE AND OTHER PAYABLES

<b>Current</b>				
Trade creditors (unsecured) (i)	27,586	29,059	27,586	29,828
Other creditors (unsecured) (i)	-	174	-	174
Interest payable (ii)	201	398	201	398
<b>Total current payables</b>	<b>27,787</b>	<b>29,631</b>	<b>27,787</b>	<b>30,400</b>

- (i) Trade creditors and other creditors are non-interest bearing liabilities. Trade creditor terms vary according to the supplier, our general terms are 30 days from date of invoice.
- (ii) Interest payable is normally settled quarterly throughout the financial year.

## 16. INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Borrowings secured by fixed and floating charge				
- bank loans (a)	-	11,036	-	11,036
Obligations under finance leases (b)	1,150	1,184	1,150	1,106
<b>Total current interest bearing loans and borrowings</b>	<b>1,150</b>	<b>12,220</b>	<b>1,150</b>	<b>12,142</b>
<b>Non-current</b>				
Borrowings secured by fixed and floating charge				
- bank loans (a)	44,449	30,920	44,449	30,920
Obligations under finance leases (b)	1,166	2,313	1,166	2,313
<b>Total non-current interest bearing loans and borrowings</b>	<b>45,615</b>	<b>33,233</b>	<b>45,615</b>	<b>33,233</b>

### (a) Bank Loan Facility

The Group amended its existing loan facility with Westpac Banking Corporation on 2 June 2006 and 20 December 2006. The amendments made available additional facilities of \$15,000,000 and \$40,000,000 respectively. In addition, the requirement for compulsory repayments of principal to be made on a quarterly basis was removed and the expiration of the facility term was revised to December 2009.

As a result of amending the facility on 20 December 2006, the Group accelerated the recognition of the loan establishment charges on the initial facility in accordance with accounting policy. This resulted in recognition of \$704,567 in loan establishment charges.

### (b) Finance Leases

Obligations under finance leases have an average life of 3 years with an option to purchase the asset at the completion of the lease for the asset's market value, return the equipment or refinance for a further period. The average discount rate implicit in the lease is 10.9%, (2005: 11.1%)

## 17. DEFERRED REVENUE

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Revenue in Advance	333	1,609	333	1,609
Billed unearned	12,504	9,705	10,211	2,810
<b>Total current deferred revenue</b>	<b>12,837</b>	<b>11,314</b>	<b>10,544</b>	<b>4,419</b>
<b>Non-current</b>				
Revenue in Advance	2,472	3,004	2,472	3,004
<b>Total non-current deferred revenue</b>	<b>2,472</b>	<b>3,004</b>	<b>2,472</b>	<b>3,004</b>

# 18. PROVISIONS

	Employee Benefits	Makegood on operating leases	Restructuring costs	Total
	\$'000	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>				
At 1 January 2006	4,232	2,336	2,183	8,751
Arising during the year	1,544	1	-	1,545
Utilised	-	-	(1,142)	(1,142)
At 31 December 2006	5,776	2,337	1,041	9,154
Current 2006	4,695	255	511	5,461
Non-current 2006	1,081	2,082	530	3,693
	5,776	2,337	1,041	9,154
Current 2005	3,394	116	1,476	4,986
Non-current 2005	838	2,220	707	3,765
	4,232	2,336	2,183	8,751
<b>PARENT</b>				
At 1 January 2006	4,232	2,336	361	6,929
Arising during the year	1,544	1	109	1,654
Utilised	-	-	(470)	(470)
At 31 December 2006	5,776	2,337	-	8,113
Current 2006	4,695	255	-	4,950
Non-current 2006	1,081	2,082	-	3,163
	5,776	2,337	-	8,113
Current 2005	3,394	116	361	3,871
Non-current 2005	838	2,220	-	3,058
	4,232	2,336	361	6,929

## Employee Benefits

Please refer to note 2(w).

## Makegood on Operating Leases

In accordance with premise related contracts entered into, the Group must restore the leased premises to their original condition. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated using a discount rate of 5.15%.

## Restructuring Costs

The restructuring provision relate to the acquisition of ABN 73 080 394 695 Pty Ltd (formerly NTT Australia IP Pty Limited) and relates to the early shutdown of the acquired network and any exit costs associated with the shutdown.



# 19. OTHER LIABILITIES

		CONSOLIDATED		POWERTEL LIMITED	
	Notes	2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
<b>Non-current</b>					
Loans from wholly owned corporations (unsecured)		-	-	132,809	489,910
<b>Total liabilities non-current</b>		-	-	132,809	489,910

The loans from related corporations are non-interest bearing and are repayable at call.

# 20. ISSUED CAPITAL

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Ordinary Shares</b>				
Ordinary shares fully paid	591,135	591,501	591,135	591,501
<b>Total contributed equity</b>	<b>591,135</b>	<b>591,501</b>	<b>591,135</b>	<b>591,501</b>

## Movements in contributed equity for the year:

		Number of Ordinary shares	
		2006 '000	2005 '000
On issue at start of year		128,383	126,959
Shares Purchased on Market and Cancelled		(681)	-
Issued under Employee Share Ownership Scheme	26	604	565
Vested under Executive Long Term Incentive Plan	26	-	859
On issue at end of year		128,306	128,383
		Ordinary shares	
		2006 \$'000	2005 \$'000
On issue at start of year		591,501	589,984
Shares Purchased on Market and Cancelled		(1,044)	-
Issued under Employee Share Ownership Scheme	26	678	660
Vested under Executive Long Term Incentive Plan	26	-	857
On issue at end of year		591,135	591,501

## 21. ACCUMULATED LOSSES

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Accumulated losses at the beginning of the year	(465,874)	(457,870)	(621,224)	(591,225)
Net profit/(loss) attributable to members of PowerTel Limited	10,014	(8,004)	44,698	(29,999)
Accumulated losses at the end of the year	(455,860)	(465,874)	(576,526)	(621,224)

## 22. OTHER RESERVES

	CONSOLIDATED			POWERTEL LIMITED		
	Net unrealised profit/(losses) reserve	Employee equity benefits reserve	Total	Net unrealised profit/(losses) reserve	Employee equity benefits reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2005	(611)	126	(485)	(611)	126	(485)
Share Based Payment	-	1,383	1,383	-	1,383	1,383
Net loss on available for sale assets	(1,643)	-	(1,643)	(1,643)	-	(1,643)
As at 31 December 2005	(2,254)	1,509	(745)	(2,254)	1,509	(745)
Share Based Payment	-	971	971	-	971	971
Permanent Impairment recognised in the Income Statement	1,872	-	1,872	1,872	-	1,872
Net gain on available for sale assets	2,076	-	2,076	2,076	-	2,076
As at 31 December 2006	1,694	2,480	4,174	1,694	2,480	4,174

### Nature and purpose of reserves

#### *Net unrealised losses reserve*

This reserve records movements in fair value of available-for-sale financial assets. During the year a permanent impairment was recognised directly into the Income Statement as per accounting policy. Refer to note 11.

#### *Employee equity benefits reserve*

This reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to note 26 for further detail of these plans.

## 23. FINANCING ARRANGEMENTS

The consolidated entity has access to the following financing facilities:

	CONSOLIDATED			POWERTEL LIMITED		
	Accessible \$'000	Drawn down \$'000	Unused \$'000	Accessible \$'000	Drawn down \$'000	Unused \$'000
<b>31 December 2006</b>						
Bank loan facilities	97,330	46,893	50,437	97,330	46,893	50,437
<b>31 December 2005</b>						
Bank loan facilities	50,000	44,626	5,374	50,000	44,626	5,374

### *Bank Loan Facility*

The Group amended its existing loan facility with Westpac Banking Corporation on 2 June 2006 and 20 December 2006. The amendments made available additional facilities of \$15,000,000 and \$40,000,000 respectively. In addition, the requirement for compulsory repayments of principal to be made on a quarterly basis was removed and the expiration of the facility term was revised to December 2009.

As a result of amending the facility on 20 December 2006, the Group accelerated the recognition of the loan establishment charges on the initial facility in accordance with accounting policy. This resulted in recognition of \$704,567 in loan establishment charges.

### *Interest Rate Hedges*

Refer note 9.

## 24. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>(a) Reconciliation of the net loss after tax to net cash flows from operations</b>				
Net profit/(loss) after tax	10,014	(8,004)	44,698	(29,999)
Depreciation of non-current assets	29,827	31,738	26,695	26,903
Gain on sale of property, plant & equipment	-	(1,418)	-	(1,418)
Gain on settlement of lease obligations	(127)	(1,253)	-	-
Fair value movement in derivatives	(105)	-	(105)	-
Equity based expenses	1,406	1,615	1,406	1,615
Permanent impairment of available for sale financial assets	1,872	-	1,872	-
<b>Changes in assets and liabilities</b>				
(Increase)/Decrease in trade & other receivables	5,626	(4,713)	(2,371)	(4,612)
(Increase)/Decrease in inventory	162	(579)	162	(590)
(Increase)/Decrease in prepayments & other assets	(4,331)	444	(4,071)	(1,126)
(Increase)/Decrease in deferred tax assets	(6,679)	-	(6,679)	-
Increase/(Decrease) in trade & other payables	(4,536)	(3,480)	(5,236)	15,849
Increase/(Decrease) in inter-company accounts	-	-	(92,224)	(30,514)
Increase/(Decrease) in revenue received in advance	991	1,269	5,593	596
Increase/(Decrease) in provisions	1,185	1,793	1,185	3,980
Net cash flow provided by/(used in) operating activities	35,305	17,412	(29,075)	(19,316)
<b>(b) Reconciliation of cash and cash equivalents</b>				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.				
<b>Cash and cash equivalents balance comprises:</b>				
- Cash on hand	3	3	3	3
- Deposits at call	10,435	6,397	10,371	6,375
- Bank Bills	198	1,081	-	-
<b>Cash balance at the end of the financial year</b>	<b>10,636</b>	<b>7,481</b>	<b>10,374</b>	<b>6,378</b>
<b>(c) Non-cash financing and investing activities</b>				
Purchase of available for sale financial assets paid directly by lending institution on behalf of the PowerTel Group	13,328	-	13,328	-
<b>(d) Other non-cash transactions</b>				
During the year entities within the PowerTel group entered into certain transactions in order to simplify the group structure. As a consequence, the parent entity, PowerTel Limited was party to the following non-cash transactions with related entities.				
i) the settlement of amounts, totalling \$352.4m, due from wholly owned subsidiaries as a result of the settlement of equivalent amounts due to wholly owned subsidiaries.				
ii) the payment of dividends, totalling \$63.1m from wholly owned subsidiaries to the parent entity.				

## **25. IMPAIRMENT TESTING**

PowerTel operates as a single Cash Generating Unit (“CGU”) and as a result goodwill is allocated to the single CGU for impairment testing.

### **Carrying amount of goodwill**

	<b>CONSOLIDATED</b>		<b>POWERTEL LIMITED</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Carrying amount of goodwill	<b>32,222</b>	<b>32,222</b>	<b>-</b>	<b>-</b>

The recoverable amount of the CGU has been determined by its fair value less costs to sell and no impairment was booked during the year (2005: \$Nil).

The determination of the fair value less costs to sell was based upon the market value of the Company as quoted on the Australian Stock Exchange as at 29 December 2006 less an estimate for costs that would be incurred in the event of a sale such as investment banking, legal costs and stamp duty.

## **26. EMPLOYEE BENEFITS**

### **a) Superannuation plans**

PowerTel Ltd primarily contributes to the BT Lifetime Super - Employer Plan, an externally managed, multi-employer, defined contribution superannuation plan under which employees or their dependants are entitled to benefits on retirement, disability or death. The Company makes contributions as specified in the rules of the fund and contributes to the plan at various agreed amounts or percentages of employees' gross salaries which are at least equal to those required under the Superannuation Guarantee Charge legislation. These contributions are fully vested. Subject to the terms of the rules of the funds and all relevant legislation, PowerTel Ltd is obliged to contribute to the fund. The BT Lifetime Super - Employer Plan is not a defined benefits plan and PowerTel Ltd is under no legal obligation to make up any shortfall in the plan's assets to meet payments due to employees. In addition PowerTel Ltd contributes to a number of employee nominated superannuation funds.

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Employer contribution expense	<b>2,937</b>	<b>3,167</b>

### **b) Employee Share Incentive Schemes**

Commencing on 1 July 2004, PowerTel operates 2 employee share plans – the Exempt Employee Share Plan and the Deferred Employee Share Plan. These plans provide incentives to a broad range of PowerTel employees, including directors on the following terms:

The Exempt Employee Share plan offers up to \$1,000 worth of shares per year to all permanent employees, subject to certain qualifying conditions, on a tax exempt basis. PowerTel will acquire on market or issue (as determined by the Board) these shares on behalf of the employees. The shares are subject to a 3 year restriction on transfer while the employee remains with PowerTel.

The Deferred Employee Share Plan offers shares to employees and directors on a tax deferred basis. Offerees can choose how much to contribute by way of salary sacrifice to this plan each year, with a minimum of \$2,000 and a maximum of 25% of base salary. PowerTel will acquire on market or issue (as determined by the Board) matching shares of up to a maximum of \$5,000 per employee (but not to directors) per year. Shares under this plan will be subject to restrictions on transfer of at least 2 years, and potentially up to 10 years.

Employees may elect to participate in either plan but are not entitled to participate in both plans in any one-tax year.

**26. EMPLOYEE BENEFITS (Continued)**

**b) Employee Share Incentive Schemes (Continued)**

Information with respect to the number of shares issued under the employee share incentive scheme is as follows:

	<b>2006 Number</b>	<b>2006 \$</b>	<b>2005 Number</b>	<b>2005 \$</b>
Shares Issued during the year	603,946	678,059	564,553	660,511

**c) Executive Long Term Incentive Plan (ELTIP)**

At the 28 May, 2004 Annual General Meeting, shareholders approved the PowerTel ELTIP. The purpose of the plan is to encourage employees to share in the ownership of the Company, in order to promote the long-term success of the Company as a goal shared by employees. Under the plan, employees are provided with non-interest bearing loans to purchase shares at the issue price. Access to shares is dependent on a number of performance hurdles. One quarter of the shares vest after 2 years from the date of issue and a further quarter each year thereafter. Shares issued under the plans have the same rights as normal shareholders including the right to vote and receive dividends. In accordance with accounting policy, shares issued under this plan are accounted for as options and therefore equity increases only when vested.

Information with respect to the number of shares issued, cancelled and vested under the ELTIP is as follows:

	<b>Fair value (A)</b>	<b>Exercise Price</b>	<b>2006 Number</b>	<b>2006 \$</b>	<b>2005 Number</b>	<b>2005 \$</b>
Accessible at start of year		\$1.148	11,129,536	12,780,827	5,506,312	5,570,299
<b>Issued</b>						
February 9 2005	\$0.39	\$1.433	-	-	1,556,943	2,231,100
February 18 2005	\$0.39	\$1.433	-	-	622,116	891,493
May 11 2005	\$0.32	\$1.167	-	-	1,106,209	1,290,946
May 26 2005	\$0.23	\$1.111	-	-	2,997,300	3,330,000
November 15 2005	\$0.35	\$1.249	-	-	497,945	621,933
March 1 2006	\$0.28	\$0.943	642,151	605,549	-	-
April 4 2006	\$0.34	\$1.163	152,709	177,600	-	-
<b>Cancelled</b>						
July 7 2005		\$0.998	-	-	(298,371)	(297,744)
Feb 14 2006		\$0.998	(142,365)	(142,080)	-	-
April 2 2006		\$0.998	(668,122)	(666,786)	-	-
July 31 2006		\$0.998	(177,479)	(177,124)	-	-
Sept 21 2006		\$0.998	(127,905)	(127,649)	-	-
<b>Vested</b>						
May 31 2005		\$0.998	-	-	(858,918)	(857,200)
Accessible at end of year		\$1.152	10,808,525	12,450,337	11,129,536	12,780,827

(A) Weighted average of the fair value calculation

## 26. EMPLOYEE BENEFITS (Continued)

### c) Executive Long Term Incentive Plan (ELTIP) (Continued)

The fair value of the employee benefit provided under the ELTIP plan is estimated at the date of grant using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the shares were granted and reflecting the probability of meeting the performance condition. The key assumptions are:

	2006	2005
	Range	Range
Expected Volatility (%)	45.9 to 46.2%	40.3 to 41.0%
Risk-free interest rate (%)	5.22 to 5.41%	5.23 to 5.526%
Time to Expiry	5 years	3 or 5 years
Dividend rate	0%	0%
Performance against ASX 300 Index	Equal	Equal

Volatility is a measure of the degree to which the underlying asset's market price changes during a period of time. The trading history of PowerTel and the significant events which would affect the share price and its volatility were examined. The volatility selected to value the grants is reflective of the expected future volatility of the stock over the remaining life of the grant.

The risk free interest rate has been based on the Australian Government Bond Rate as at each respective share issue date with a life equivalent to the length of expiry of the grant.

PowerTel has not paid any dividends to shareholders in the last 5 years. Accordingly, the dividend rate applied in the valuations is 0%.

## 27. COMMITMENTS

	Notes	CONSOLIDATED		POWERTEL LIMITED	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000

### Capital commitments

The commitments contracted for at balance date but not provided for

Within one year		4,082	3,911	4,082	3,911
Aggregate capital commitments at balance date		4,082	3,911	4,082	3,911

### Lease commitments

#### (i) Operating leases (non-cancellable)

Minimum lease payments

- not later than one year		3,795	3,999	3,795	3,999
- later than one year and not later than five years		5,317	8,304	5,317	8,304
- later than five years		556	931	556	931

Aggregate operating lease expenditure contracted for at balance date

	9,668	13,234	9,668	13,234
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Operating leases include building and motor vehicle leases.

#### (ii) Finance leases (non-cancellable)

- not later than one year	16	1,331	1,488	1,331	1,409
- later than one year and not later than five years	16	1,212	2,542	1,212	2,542

Aggregate finance expenditure contracted for at balance date

	2,543	4,030	2,543	3,951
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Less amounts representing finance charges

	(227)	(533)	(227)	(532)
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Present value of minimum lease payments

	2,316	3,497	2,316	3,419
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Present value of payments

- not later than one year	16	1,150	1,184	1,150	1,106
- later than one year and not later than five years	16	1,166	2,313	1,166	2,313

Aggregate finance expenditure contracted for at balance date

	2,316	3,497	2,316	3,419
--	-------	-------	-------	-------

Finance leases include network and communication equipment leases.

### Lease commitments receivable

The Group has entered into sub-lease arrangements consisting of the Groups surplus leased office space.

#### (i) Operating sub-leases (non-cancellable)

Minimum lease receivables

- not later than one year		656	-	656	-
- later than one year and not later than five years		792	-	792	-

Aggregate operating lease contracted for at balance date

	1,448	-	1,448	-
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## 28. RELATED PARTY DISCLOSURES

The consolidated financial statements at 31 December 2006 include the following controlled entities. The financial years of all controlled entities are the same as that of the parent entity.

Name	Country of Incorporation	Percentage of Equity Interest Held by the Parent Entity		
		2006 %	2005 %	
Natcorp Partners Ltd	Aus	100	100	(i)(ii)
Spectrum Technology Services Pty Ltd	Aus	100	100	(i)(ii)
Natcorp Securities Ltd	Aus	100	100	(i)(ii)
Gilead Pty Ltd	Aus	100	100	(i)(ii)
Natspin Pty Ltd	Aus	100	100	(i)(ii)
Spectrum Chile Pty Ltd	Aus	100	100	(i)(ii)
Spectrum Network Services Pty Ltd	Aus	100	100	(ii)
Spectrum Mobile Pty Ltd	Aus	100	100	(ii)
Myline Pty Ltd	Aus	100	100	(ii)
Spectrum Satellite Services Pty Ltd	Aus	100	100	(i)(ii)
Mobiletrack Pty Ltd	Aus	100	100	(ii)
Polar Securities Pty Ltd	Aus	100	100	(i)(ii)
Herbury Pty Ltd	Aus	100	100	(i)(ii)
Votraint No 63 Pty Ltd	Aus	100	100	(i)(ii)
Ellipsat Australia Pty Ltd	Aus	80	80	
Spectrum Global Telecommunications Pty Ltd	Aus	100	100	(ii)
Hontas Pty Ltd	Aus	100	100	(ii)
The Talk Shop Pty Ltd	Aus	100	100	(ii)
Request Broadband Pty Limited	Aus	100	100	(i)
Request Business Solutions Pty Limited	Aus	100	100	(i)
ABN 73 080 394 645 Pty Limited	Aus	100	100	
Magna Data Australia Pty Limited	Aus	100	100	
Magna Systems Pty Limited	Aus	100	100	

(i) Pursuant to Class Order 98/1418, relief has been granted to those wholly-owned subsidiaries marked "(i)" in the above table, (Closed Group) from the Corporations Act for preparation, audit and lodgement of financial reports. As a condition of the Class Order, PowerTel Limited and the controlled entities subject to the Class Order, 98/1418, entered into deeds of indemnity on 16 April, 1992 and 23 May, 1995. The effect of the deed is that PowerTel Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entity. The controlled entity has also given a similar guarantee in the event that PowerTel Limited is wound up. The aggregate assets and liabilities of the companies are subject to the deeds.

(ii) A deed of cross guarantee was entered into by those wholly owned subsidiaries marked (ii) in the above table on 18<sup>th</sup> August 2000.

On 22<sup>nd</sup> December 2004 the deed of cross guarantee was amended to include Request Broadband Pty Ltd.

Application has been made in January 2007 to ASIC for the voluntary deregistration of Votraint No 63 Pty Ltd, Herbury Pty Ltd and Polar Securities Pty Ltd.

**28. RELATED PARTY DISCLOSURES (Continued)**

The Income Statement and Balance Sheet of the entities which are members of the Closed Group are as follows:

	2006	2005
	\$'000	\$'000
<b>INCOME STATEMENT (CLOSED GROUP)</b>		
<b>Revenue</b>		
Communications revenue	189,202	178,098
Rental Subleases	656	-
Finance income	526	268
Dividends Received	10,181	-
	<u>200,565</u>	<u>178,366</u>
Cost of sales	(102,628)	(88,098)
<b>Gross Profit</b>	<u>97,937</u>	<u>90,268</u>
Other income	105	1,432
Staff and related costs	(40,104)	(41,657)
Depreciation	(29,827)	(31,737)
Network operating & maintenance costs	(4,822)	(6,345)
General & administrative expenses	(3,994)	(4,806)
Rental costs	(3,705)	(3,917)
Universal service obligation & numbering charges	(1,138)	(2,108)
Restructuring costs	(449)	(1,600)
Impairment of available for sale financial asset	(1,872)	-
Reversal of provision for non recovery of loans to related companies	3,776	-
Other operating expenses	(2,435)	(3,422)
<b>Profit/(Loss) before tax and finance costs</b>	<u>13,472</u>	<u>(3,892)</u>
Finance costs	(5,013)	(4,598)
<b>Profit/(Loss) before income tax</b>	<u>8,459</u>	<u>(8,490)</u>
Income tax benefit	6,679	-
<b>Net profit/(loss) attributable to members of the closed group</b>	<u>15,138</u>	<u>(8,490)</u>

28. RELATED PARTY DISCLOSURES (Continued)

	2006	2005
	\$'000	\$'000
<b>BALANCE SHEET as at 31 December 2006</b>		
<b>(CLOSED GROUP)</b>		
<b>Current assets</b>		
Cash and cash equivalents	10,386	6,891
Trade & other receivables	29,743	33,637
Other assets	9,339	6,179
Derivative financial instruments	86	-
<b>Total current assets</b>	<b>49,554</b>	<b>46,707</b>
<b>Non-current assets</b>		
Other receivables	4,205	274,232
Available for sale financial assets	23,042	1,953
Property, plant and equipment	122,640	137,122
Derivative financial instruments	19	-
Intangibles	29,472	29,472
Deferred tax assets	6,679	-
Other assets	4,498	2,706
<b>Total non-current assets</b>	<b>190,555</b>	<b>445,485</b>
<b>Total assets</b>	<b>240,109</b>	<b>492,192</b>
<b>Current liabilities</b>		
Trade & other payables	32,413	31,917
Interest bearing loans and borrowings	1,150	12,220
Deferred revenue	7,808	4,533
Provisions	4,950	3,871
<b>Total current liabilities</b>	<b>46,321</b>	<b>52,541</b>
<b>Non-current liabilities</b>		
Other payables	57,329	335,563
Interest bearing loans and borrowings	45,615	33,233
Deferred tax liability	726	-
Deferred revenue	2,472	3,004
Provisions	3,163	3,058
<b>Total non-current liabilities</b>	<b>109,305</b>	<b>374,858</b>
<b>Total liabilities</b>	<b>155,626</b>	<b>427,399</b>
<b>Net assets</b>	<b>84,483</b>	<b>64,793</b>
<b>Equity</b>		
Issued Capital	591,135	591,501
Accumulated losses	(510,826)	(525,963)
Other reserves	4,174	(745)
<b>Total equity</b>	<b>84,483</b>	<b>64,793</b>

**28. RELATED PARTY DISCLOSURES (Continued)**

(1) Interest-free loans made by PowerTel Ltd., repayable at call to related parties aggregating \$22,313,297 (2005: \$374,677,262)

Loans were made to the following wholly-owned subsidiaries:

Spectrum Satellite Services Pty. Ltd.  
Natcorp Securities Pty Ltd  
Gilead Pty. Ltd  
Spectrum Mobile Pty. Ltd  
Mobiletrack Pty. Ltd.  
Spectrum Chile Pty. Ltd.  
Spectrum Technology Pty. Ltd.  
Natspin Pty. Ltd.

Loans were made to the following controlled entity (partly owned):

Ellipsat Australia Pty. Ltd.

(2) Interest-free loans, repayable at call , were received from related entities aggregating \$132,809,225 (2005: \$489,909,885)

Loans were received from the following wholly-owned subsidiaries:

Myline Pty Ltd  
Hontas Pty Ltd  
ABN 73 080 394 645 Pty Ltd (formerly NTT Australia IP Pty Ltd)  
Natcorp Partners Ltd.  
Natspin Pty. Ltd.  
Spectrum Talkshop Pty. Ltd.  
Request Broadband Pty Ltd  
Spectrum Global Telecommunications Pty Ltd  
Spectrum Network Services Pty. Ltd.

Details of transactions between the parent entity and wholly owned subsidiaries undertaken during the year are described in note 24(d).

(3) Agency services, provided by PowerTel Limited, to companies within the wholly owned group. In June 2004 the arrangement was altered so that some of the revenues are now owned by PowerTel instead of acting as the subsidiary agent. Where PowerTel acts/acted as agent it collects the subsidiary's revenue as agent for them and assumes responsibility for, and meets, all liabilities, relating to the businesses operated by each of the subsidiaries and on-charges to the subsidiaries the cost of payments made to external providers of telecom services provided to the subsidiaries. PowerTel does not charge the cost of telecom service it provides to subsidiaries from its own network.

## 28. RELATED PARTY DISCLOSURES (Continued)

(4) The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

Related Party	Sales to related parties \$'000	Purchases from related parties \$'000	Amounts owed by related parties \$'000	Amounts owed to related parties \$'000
TVG	53	-	10	-
TransACT Communications Pty Ltd	644	146	62	23
Neighbourhood Cable & Wireless Pty Ltd	344	-	30	-
	1,041	146	102	23

All sales to related parties are in relation to the provision of Telecommunication services and rent. Purchases from related parties include provision of data services. All transactions are at arm's length.

### *Entities with significant influence over the group*

#### TVG

TVG owns 58.25% of the ordinary shares in PowerTel Limited (2005: 57.66%)

### **(b) Ultimate controlling entity**

The parent entity of the consolidated group in Australia is PowerTel Limited.

## 29. KEY MANAGEMENT PERSONNEL

### (a) Key Management Personnel

The following have been identified as key management personnel:

#### *Non-executive directors*

J.C. Conde, AO	Chairman
J.W. Troy	Director
E.F. Sippel	Director
J.H. Veeneklaas	Director
M.J. Brennan	Alternate Director
R.M. Griffin, AM	Chairman – retired 29 May 2006

#### *Executive director*

P.A. Broad	Managing Director
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#### *Senior Executives*

J. Orlando	Chief Financial Officer
N. Saphin	Director Sales
D. Yuile	Director of Technology & Networks
S. McEgan	Director Corporate Services & Company Secretary
G. Lindner	Director Information Systems & Customer Service
J. Brine	Director Network Operations

### (b) Compensation by category

	Consolidated	
	2006	2005
	\$	\$
Short- Term	4,045,834	3,222,563
Post Employment	223,015	227,710
Other Long Term	17,905	14,520
Termination Benefits	40,968	295,093
Share-Based Payment	923,514	1,203,505
	<u>5,251,236</u>	<u>4,963,391</u>

PowerTel Limited has applied the option under the Corporation Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration report section of the Director's report. These transferred disclosures have been audited.

29. KEY MANAGEMENT PERSONNEL (continued)

(c) Equity Compensation: Granted and vested during the year

31 Dec 2006	Vested	Granted	Terms & Conditions for each Grant				
	No.	No.	Grant Date	Fair value per share at grant date (A) \$	Exercise price per share \$	First Exercise Date	Last Exercise Date
P Broad	999,100	-	-	-	-	-	-
J Orlando	212,926	165,040	27 Feb 2006	0.45	0.943	27 Feb 2008	27 Feb 2011
N Saphin	-	-	-	-	-	-	-
D Yuile	-	-	-	-	-	-	-
S McEgan	113,047	181,973	27 Feb 2006	0.45	0.943	27 Feb 2008	27 Feb 2011
G Lindner	112,800	295,138	27 Feb 2006	0.45	0.943	27 Feb 2008	27 Feb 2011
J Brine	120,312	-	-	-	-	-	-
<b>Total</b>	<b>1,558,185</b>	<b>642,151</b>					

31 Dec 2005	Vested	Granted	Terms & Conditions for each Grant				
	No.	No.	Grant Date	Fair value per share at grant date (A) \$	Exercise price per share \$	First Exercise Date	Last Exercise Date
P Broad	-	2,997,300	26 May 2005	0.25	1.111	26 May 2006	26 May 2008
J Orlando	-	296,374	18 Feb 2005	0.39	1.433	16 Feb 2007	16 Feb 2010
N Saphin	-	859,805	9 Feb 2005	0.39	1.433	9 Feb 2007	9 Feb 2010
	-	317,140	11 May 2005	0.32	1.167	11 May 2007	11 May 2010
D Yuile	-	697,139	9 Feb 2005	0.39	1.433	9 Feb 2007	9 Feb 2010
	-	257,141	11 May 2005	0.32	1.167	11 May 2007	11 May 2010
S McEgan	-	179,902	11 May 2005	0.32	1.167	11 May 2007	11 May 2010
G Lindner	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>5,604,801</b>					

(A) Weighted average of the fair value calculation

29. KEY MANAGEMENT PERSONNEL (continued)

(d) Equity holdings

The number of shares held by directors and key management executives of the Company in the Company are set out below <sup>(1)</sup>.

	Balance 01-Jan-06	Received as Remuneration <sup>(2)</sup>	Net Change Other	Balance 31-Dec-06
<b>Directors</b>				
<i>Executive Directors</i>				
P A Broad	2,997,300	120,245	-	3,117,545
<i>Non-executive directors</i>				
J C Conde, AO	-	-	74,000	74,000
R M Griffin, AM (Retired)	20,000	-	-	20,000
J W Troy <sup>(3)</sup>	81,033,194	-	-	81,033,194
J Veeneklaas <sup>(4)</sup>	47,226	-	-	47,226
<b>Executives</b>				
J V Orlando	1,203,688	178,417	-	1,382,105
N Saphin	1,227,922	11,279	-	1,239,201
D Yuile	1,000,623	9,145	-	1,009,768
E Shaw	668,122	-	(668,122)	-
S McEgan	672,274	181,973	-	854,247
G Lindner	483,641	295,138	-	778,779
J Brine	648,709	-	-	648,709
	Balance 01-Jan-05	Received as Remuneration <sup>(2)</sup>	Net Change Other	Balance 31-Dec-05
<b>Directors</b>				
<i>Executive Directors</i>				
P A Broad	-	2,997,300	-	2,997,300
<i>Non-executive directors</i>				
R M Griffin AM	20,000	-	-	20,000
J W Troy <sup>(3)</sup>	71,699,937	-	9,333,257	81,033,194
J Veeneklaas <sup>(4)</sup>	56,522	-	(9,296)	47,226
<b>Executives</b>				
J.V. Orlando	851,703	351,985	-	1,203,688
N. Saphin	-	1,227,922	-	1,227,922
D. Yuile	-	1,000,623	-	1,000,623
E. Shaw	668,122	-	-	668,122
S. McEgan	452,981	219,293	-	672,274
G.Lindner	451,201	32,440	-	483,641

(1) The number of shares disclosed for executive directors and executives may include shares issued under the Executive Long Term Incentive Plan and therefore beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.

(2) For executive directors and specified executives, includes shares allocated under the Executive Long Term Incentive Plan. These shares are recorded in the Company's share register in the executives name when allocated, but the shares vest only when performance hurdles are met.

(3) TVG Consolidation Holdings SPRL (TVG) is the registered holder of 81,033,194 ordinary shares. TVG is a special purposes vehicle incorporated specifically for the investment in PowerTel Limited. TVG is owned 99.5% by the TVG Asian Communication Fund II, L.P. (Fund) and 0.5% by Rosebud Securities Limited. Telecom Venture Group, LLC is the general partner of the Fund. Telecom Venture Group, LLC has a relevant interest under s608(3) of the Corporations Act, being a relevant interest held through a body corporate that Telecom Venture Group, LLC controls. Mr Troy is a shareholder of Telecom Venture Group, LLC. Mr Troy has a relevant interest under s608(3) of the Corporations Act. Mr Troy is not a registered holder of PowerTel shares and Mr Troy's ability to vote or dispose of those shares is qualified accordingly.

(4) 47,226 shares were transferred from Archall Pty Limited as trustee of an employee share plan trust known as PowerTel RB Employee Share Trust. The original directors notice incorrectly estimated beneficial holding of 56,522 ordinary shares held by trustee.



### 30. AUDITORS' REMUNERATION

	CONSOLIDATED		POWERTEL LIMITED	
	2006	2005	2006	2005
	\$	\$	\$	\$
Remuneration received, or due and receivable, by the auditors of PowerTel Limited for:				
<b>Audit and Review</b>				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	247,500	247,500	247,500	247,500
Total audit and review	247,500	247,500	247,500	247,500
<b>Other Services</b>				
- services provided for taxation advice	87,443	17,965	87,443	17,965
- services provided for financial due diligence	83,747	-	83,747	-
- services provided in relation to accounting advice	-	23,000	-	23,000
- services provided in relation to other compliance matters	8,000	12,000	8,000	12,000
Total other services	179,190	52,965	179,190	52,965
<b>Total auditors' remuneration</b>	<b>426,690</b>	<b>300,465</b>	<b>426,690</b>	<b>300,465</b>

### 31. CONTINGENT LIABILITIES

#### Deeds of Indemnity

In addition to the deeds of indemnity entered into on 16 April 1992 and 23 May 1995, which relieves certain wholly-owned controlled entities from the requirements to prepare audited financial statements, PowerTel Limited has entered into approved Deeds of Cross Guarantee, on 18 August 2000 and on 22 December 2004, with each of the following wholly owned controlled entities:

Natcorp Partners Ltd  
 Natcorp Securities Ltd  
 Gilead Pty Ltd  
 Natspin Pty Ltd  
 Spectrum Chile Pty Ltd  
 Spectrum Network Services Pty Ltd  
 Spectrum Satellite Services Pty Ltd  
 Polar Securities Pty Ltd  
 Herbury Pty Ltd  
 Votraint No 63 Pty Ltd  
 Request Broadband Pty Ltd

#### Third Party Claims

PowerTel has been involved in various claims incidental to the ordinary course of business. Where considered appropriate, legal advice has been obtained. The consolidated entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

### **32. SEGMENT INFORMATION**

The consolidated group operates in one business segment being business telecommunication services and in one geographical segment being Australia.

### **33. EVENTS AFTER THE BALANCE SHEET DATE**

On 31 January 2007 Telecom New Zealand announced its proposal to acquire 100% of the ordinary shares in PowerTel for \$2.30 per share cash offer.

The acquisition is to be implemented by way of a scheme of arrangement and PowerTel's directors unanimously recommend acceptance of the proposal in the absence of a superior proposal.

Preparation for the necessary shareholder's meetings are well underway including the preparation of the scheme booklet and Independent Expert's opinion. It is expected that shareholders will receive the scheme documents in late March and vote on the proposal in late April.

The directors have made certain judgments and assessments in preparing these financial statements. The completion of the above proposed transaction, if it occurs, may impact those judgments and assessments, the effect of which, cannot be determined.

### **34. ECONOMIC DEPENDENCY**

The consolidated group is party to a strategic alliance with Macquarie Telecom Group Limited. A significant portion of the consolidated group's operating revenue for the year ended 31 December 2006 was received from Macquarie Telecom Group Limited under this strategic alliance.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of PowerTel Limited, I state that:

- (1) In the opinion of the directors:
  - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and 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.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2006.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 28 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the directors



J.C. Conde, AO

Director

Sydney

26 February 2007

## Independent audit report to members of PowerTel Limited

### Scope

#### *The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for PowerTel Limited (the company) and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 15 to 18 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion:

1. the financial report of PowerTel Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of PowerTel Limited and the consolidated entity at 31 December 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 15 to 18 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Craig M. Jackson  
Partner  
26 February 2007