

Swiftel Limited

ACN 009 273 152

**CONSOLIDATED HALF YEAR
FINANCIAL REPORT**

31 December 2003

Swiftel Limited
ACN 009 273 152
and its controlled entities

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Company Directory

Directors

Christopher Gale	(Chief Executive Officer)
Dr Saliba Sassine	(Non Executive - Chairman)
David Vilensky	(Non Executive)
Adrian Paul	(Non Executive)
Malcolm Dick	(Non Executive)
Colin Marland	(Non Executive)

Company Secretary

Graeme Boden

Registered Office

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250 St Georges Terrace
PERTH WA 6000
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Facsimile: (08) 9480 1223
Email: mail@swiftel.com.au
Website: www.swiftel.com.au

Auditors

Ernst & Young
152 St Georges Terrace
PERTH WA 6000

Solicitors

Bowen Buchbinder Vilensky
Level 14, 251 Adelaide Terrace
PERTH WA 6000

Stock Exchange Listing

Swiftel Limited shares are listed on the Australian Stock Exchange (ASX: SWT)

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Australian Company Number

A.C.N. 009 273 152

Directors' Report

The Board of Directors of Swiftel Limited has pleasure in submitting its report in respect of the financial half year ended 31 December 2003.

Directors

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

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

Dr Saliba Sassine
Mr Christopher Gale
David Vilensky
Adrian Paul
Malcolm Dick (appointed 12 September 2003)
Colin Marland (appointed 12 September 2003)

Principal Activities

The principal activity of the consolidated entity during the half year was the provision of data communications services within the Australian market, predominantly in the central business district of Perth, and the provision of ADSL internet access services in Sydney, Perth, Melbourne and Brisbane.

Results from Operations

The consolidated net loss for the half year was \$1,212,743 (Dec 2002: \$867,673). Adjusting for the effects of interest, depreciation and amortisation, there being no tax payable, results in a loss before interest, tax and depreciation (EBITDA) of \$803,078 (Dec 2002: \$583,457)

The December 2003 results showed the following;

- Strong revenue growth to \$5,815,158, an increase of 248% in sales to the previous corresponding period of (\$1,669,070).
- The revenue of \$5,815,158 does not take into account income of \$996,536 invoiced in December but relating to January sales.
- The Corporate Division produced \$2,182,863 in sales, an increase of 40% from the previous corresponding period (\$1,554,300). This division produced a \$568,265 profit.
- The ADSL Division produced \$3,614,412 in sales with a \$671,903 loss.
- The net operating cash flow was a positive \$153,773 compared to a negative \$723,224 in the previous corresponding period.
- The cash position at the end of the financial period, including funds held on deposit, was \$2,392,571 compared to \$341,187 as at 30 June 2003.

Operational Review - ADSL Division

The number of activated subscribers of the ADSL Division at 31 December 2003 totalled 12,500 customers.

The initial number of customers expected and budgeted as at 31 December 2003 was 7,000.

The Swiftel ADSL network now encompasses Sydney, Melbourne, Brisbane and Perth. The dramatic growth of the customer base has meant that the Swiftel ADSL network has been rebuilt to cope with the increase of subscribers. The network capacity was increased from the initial design of handling 14,000 customers for the 2004 year to now have the capacity to handle over 50,000 customers. This capacity upgrade was implemented within the six months to 31 December 2003. In addition, during the six month period, the head office of Swiftel was relocated to Sydney and technical and sales call support staff numbers were doubled.

The ADSL operation can now handle 3,000 to 4,000 applications per month and Swiftel continues to receive average daily applications of over 100.

The Gross Profit is expected to increase as unit costs of the operation decrease due to new customers using presently installed capacity.

Corporate Division

The Corporate Division of Swiftel in Perth shows good growth, with sales of \$2,182,863 up 40% from the previous corresponding period (\$1,554,300) producing a profit of \$568,265.

The Corporate Division will be expanded to Sydney, with a Sales team developed to sell corporate products such as IP Virtual Private Networks (VPN) connections and bandwidth to business customers in Sydney.

New Products

The ADSL Division has trialed and will be launching a Voice over Internet Protocol product (VOIP) in the 4th quarter of the financial year. This product will be marketed to the 15,000 strong customer base and will be seen as a natural add on product to its ADSL Division.

Outlook for 2004

The outlook for the 2nd half of the financial year will be profitable as the ADSL network has been fully upgraded along with support staff. The scalability has now been built into the ADSL Division and should result in bottom line profit through this division.

Tax Consolidation

At the date of signing the financial report, the Group has not yet formally elected to form a tax consolidated group under the Tax Consolidation Regime ("TCR"). Any decision to enter into the TCR will not have an impact on the half-year financial report as the net future income tax benefit associated with carried forward tax losses has not been brought to account as an asset in the financial report.

Christopher Gale
Chief Executive Officer
Perth, 27 February 2004

Condensed Statement of Financial Position as at 31 December 2003

Consolidated

	31 December 2003 \$	30 June 2003 \$
Current Assets		
Cash assets	1,818,796	341,187
Receivables	2,152,358	853,833
Other financial assets – term deposits	573,775	-
Inventories	7,184	-
Other	140,031	312,311
Total Current Assets	<u>4,692,144</u>	<u>1,507,331</u>
Non-Current Assets		
Property, plant and equipment	3,827,191	3,376,739
Total Non-Current Assets	<u>3,827,191</u>	<u>3,376,739</u>
Total Assets	<u>8,519,335</u>	<u>4,884,070</u>
Current Liabilities		
Payables	2,875,740	1,466,006
Interest bearing liabilities	433,795	685,989
Provisions	167,215	116,589
Other – unearned revenue	996,536	318,774
Other	27,658	-
Total Current Liabilities	<u>4,500,944</u>	<u>2,587,358</u>
Non-Current Liabilities		
Interest bearing liabilities	270,599	327,665
Total Non-Current Liabilities	<u>270,599</u>	<u>327,665</u>
Total Liabilities	<u>4,771,543</u>	<u>2,915,023</u>
Net Assets	<u>3,747,792</u>	<u>1,969,047</u>
Equity		
Contributed equity	20,335,171	17,343,683
Reserves	814,508	814,508
Accumulated losses	(17,401,887)	(16,189,144)
Total Equity	<u>3,747,792</u>	<u>1,969,047</u>

The accompanying notes form an integral part of this condensed statement of financial position.

**Condensed Statement of Financial Performance
 for the half-year ended 31 December 2003**

	Notes	Consolidated	
		31 December 2003 \$	31 December 2002 \$
Revenues from ordinary activities	2	5,815,158	1,669,070
Expenses from ordinary activities			
Cost of sales		(4,498,470)	(897,599)
Employee benefits expenses		(790,961)	(555,723)
Depreciation and amortisation		(369,102)	(249,711)
Borrowing costs		(51,167)	(46,414)
Other operating expenses	2	(1,318,201)	(787,296)
Total expenses from ordinary activities		<u>(7,027,901)</u>	<u>(2,536,743)</u>
Loss from ordinary activities before income tax expense		<u>(1,212,743)</u>	<u>(867,673)</u>
Income tax relating to ordinary activities		-	-
Net loss attributable to members of Swiftel Limited		<u><u>(1,212,743)</u></u>	<u><u>(867,673)</u></u>
Share issue costs		<u>(148,512)</u>	-
Total revenues, expenses and valuation adjustments attributable to members of Swiftel Limited and recognised directly in equity		<u>(148,512)</u>	-
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Swiftel Limited		<u><u>(1,361,255)</u></u>	<u><u>(867,673)</u></u>
Basic loss per share (cents per share)		(0.8)	(1.0)
Diluted loss per share (cents per share)		(0.8)	(1.0)

The accompanying notes form an integral part of this condensed statement of financial performance.

**Condensed Statement of Cash Flows
for the half-year ended 31 December 2003**

	Consolidated	
	31 December 2003	31 December 2002
	\$	\$
	Inflows/(Outflows)	
Cash flow from operating activities		
Receipts from customers	5,151,333	1,347,788
Payments to suppliers and employees	(4,982,176)	(2,061,506)
Interest received	10,604	11,909
Interest and borrowing costs paid	(51,167)	(21,415)
GST received / (paid)	25,179	-
Net cash from (used in) operating activities	<u>153,773</u>	<u>(723,224)</u>
Cash flow from investing activities		
Payments for property, plant & equipment	(784,617)	(243,876)
Proceeds from sale of shares	-	97,898
Investment in term deposits	(573,775)	(40,000)
Net cash used in investing activities	<u>(1,358,392)</u>	<u>(185,978)</u>
Cash flows from financing activities		
Proceeds from share issues	3,140,000	-
Payment of share issue costs	(148,512)	-
Proceeds from borrowings	-	250,000
Repayment of borrowings	(56,228)	-
Drawdown of finance lease principal	-	150,624
Repayment of finance lease principal	(253,032)	(45,516)
Net cash provided by financing activities	<u>2,682,228</u>	<u>355,108</u>
Net increase (decrease) in cash held	<u>1,477,609</u>	<u>(554,094)</u>
Cash at the beginning of the financial period	341,187	961,202
Cash at the end of the financial period	<u>1,818,796</u>	<u>407,108</u>

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

Notes to the Half-Year Financial Statements

Note 1. Basis of Preparation:

These general purpose consolidated financial statements have been prepared for the half-year ended 31 December 2003 in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029: "Interim Financial Reporting" and Urgent Issues Group Consensus Views.

It is recommended that this report be read in conjunction with the 30 June 2003 Annual Report and any public announcements made by Swiftel Limited and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations of the Corporations Act 2001 and Australian Stock Exchange Listing Rules. The notes to the financial statements do not include all information normally contained within the notes to an annual financial report.

The accounting policies used are consistent with those applied in the 30 June 2003 annual report. This financial report has been prepared in accordance with the historical cost convention.

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

a) Going Concern

The consolidated entity has made a loss from ordinary activities of \$1,212,743 for the six months ended 31 December 2003.

The consolidated entity has prepared its half-year financial report on a going concern basis. In arriving at this position the directors have had regard to the following pertinent matters:

- (i) The consolidated entity has significantly increased its revenues and customer base from its ADSL business over the past six months and expects to continue to do so over the next twelve months.
- (ii) The consolidated entity has improved its net working capital position from a deficit of \$1,080,027 at 30 June 2003 to a positive position of \$191,200 at 31 December 2003, principally due to successful capital raisings of \$3,140,000 during the six month period.
- (iii) The consolidated entity expects to achieve positive cashflows from operations during the three month period ended 30 June 2004 as a result of improved margins in its ADSL business and via further growth in its customer base.
- (iv) Additional capital requirements of the consolidated entity, which are expected to be in the vicinity of \$1,295,000 over the next twelve month period will be primarily funded via finance lease facilities. Subsequent to 31 December 2003, the consolidated entity has entered into a finance lease amounting to approximately \$450,000, to fund its capital requirements for the period to 31 March 2004.
- (v) In the unlikely event the Directors require access to additional working capital to continue to grow the ADSL business, the Directors are confident, based on the successful capital raisings over the past six months, of their ability to secure this working capital via a further capital raising.

Notes to the Half-Year Financial Statements (continued)

Consolidated

	31 December 2003	31 December 2002
	\$	\$

Note 2. Operating Loss

Operating loss before income tax has been determined after crediting the following revenues and charging the following expenses:

Revenue from ordinary activities:

Operating Revenue

Income from rendering services	5,797,276	1,554,300
Sundry income	-	4,963
	<u>5,797,276</u>	<u>1,559,263</u>

Other Revenue

Interest income	10,604	11,909
Proceeds from share trading	-	97,898
Other	7,278	-
	<u>17,882</u>	<u>109,807</u>

Total revenue from ordinary activities

	<u>5,815,158</u>	<u>1,669,070</u>
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Expenses

Other expenses from ordinary activities include:

Consultancy, accountancy and admin fees	355,916	249,711
Administration & office expenditure	405,385	86,582
Auditors remuneration	26,014	49,178
Facilities based expenses	229,273	182,269
Marketing and public relations expenses	105,245	56,872
Cost of shares sold	-	59,363
Other	196,368	103,321
	<u>1,318,201</u>	<u>787,296</u>

Note 3. Segment Information

The consolidated entity's operating companies are organised separately according to the nature of the products and services they provide, with each business segment offering different products and serving different markets.

The ADSL segment provides broadband services to the residential and business market. The Communications segment provides data communication services to the corporate market.

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

	ADSL		Communications		Consolidated	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
Revenue						
Sales to customers outside the consolidated entity	3,614,412	-	2,182,863	1,554,300	5,797,276	1,554,300
Total segment revenue	<u>3,614,412</u>	<u>-</u>	<u>2,182,863</u>	<u>1,554,300</u>	<u>5,797,276</u>	<u>1,554,300</u>
Non-segment revenues					17,882	114,770
Total consolidated revenue					<u>5,815,158</u>	<u>1,669,070</u>
Result						
Segment result	<u>(671,903)</u>	<u>-</u>	<u>568,265</u>	<u>656,701</u>	(103,638)	656,701
Unallocated expenses					(1,109,105)	(1,524,374)
Consolidated entity loss from ordinary activities before income tax					<u>(1,212,743)</u>	<u>(867,673)</u>

Note 4. Subsequent Event

Subsequent to 31 December 2003 and up to the date of these financial statements, no significant events have occurred.

Note 5. Contingent Liabilities and Contingent Assets

There are no contingent liabilities or assets existing at the balance date.

Directors' Declaration

The directors declare that:

- (a) the financial statements and notes of the consolidated entity:
 - (i) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 31 December 2003 and the performance of the consolidated entity for the half year then ended; and
- (a) in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This report has been made in accordance with a resolution of directors.

Christopher Gale
Chief Executive Officer

Perth
Date: 27 February 2004

Independent review report to members of Swiftel Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements for the consolidated entity, comprising both Swiftel Limited ("the company") and the entities it controlled during the period, and the directors' declaration for the company, for the half-year ended 31 December 2003.

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 Standard AASB 1029 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Swiftel Limited and the entities it controlled during the half year ended 31 December 2003 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Gavin A. Buckingham
Partner
Perth
27 February 2004