



**PIPE Networks Limited**  
ABN 21 099 104 122  
**Appendix 4D**  
**ASX Half Yearly Report**  
**31 December 2006**  
Lodged with the ASX under Listing Rule 4.2A

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## **Directors' Report**

Your directors' present their report on PIPE Networks Limited (the Company) for the six month period ended 31 December 2006 and the auditor's report thereon.

### **Directors**

The following persons were Directors of the Company during the whole of the financial period and up to the date of this report, unless stated otherwise:

Roger Clarke	Chairman - Non-executive
Bevan Slattery	CEO/Managing Director - Executive
Stephen Baxter	Director - Executive
Greg Baynton	Director - Non-executive
Lloyd Ernst	Director - Non-executive

### **Review and results of operations**

A profit after tax of \$2.35 million was recorded for the period. This represented a 234% increase over the previous half year result of \$0.7 million.

Profit growth has occurred faster than revenue growth due to strong cost controls and improved margins from greater utilisation rates for core assets. Total revenue growth of 151% from operating activities for the half year was \$11.16 million in 2006, up from \$4.44 million in 2005.

The Company continued to see strong growth in Dark Fibre revenue in line with expectations over the half year to December 2006. Key contracts signed during 2006 came online and were revenue generating at balance date, the impact of which can be seen in the significant increase in total revenue from the previous corresponding period.

All other revenue sources maintained steady growth over the period as expected. The strong growth in Dark Fibre revenue can be directly linked to both an increase in capacity in the Sydney and Melbourne markets as well as higher utilisation rates in all markets.

The full impact of increased costs associated with the network expansion from 171 cable kilometres as at December 2005 to over 724 cable kilometres as at December 2006 can be seen in the increases in direct costs, network costs and depreciation for this period. While this represents a fourfold increase in physical cable and capacity, economies of scale and cost containment have ensured costs have not risen at the same rate.

Continued growth in employee numbers to service the expanded Sydney and Melbourne markets has lead to a corresponding increase in employee related expenses over the previous half year period from \$1.11 million in 2005 to \$1.90 million in 2006.

Investment in new network and other revenue generating assets can be seen in the growth in Property, plant and equipment to \$28.26 million as at December 2006, up from \$6.96 million as at December 2005. These assets include significant expansion of the Sydney and Melbourne networks and a new Dark Fibre link connecting Brisbane CBD to Springfield during the 2006 calendar year. The previously announced construction of new \$2 million co-location facility in Brisbane is set to start no later than February 2007.

Internal cash generation remains strong with Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the half year to December 2006 being \$4.1 million up from \$1.3 million at December 2005.

The continued strong performance of the Company remains in line with our forecasts.

## Directors' Report (*continued*)

### Auditor's declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is attached to this Directors' Report for the half year ended 31 December 2006.

### Rounding of amounts

The Company is a company to which ASIC Class Order 98/100 applies, and accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company.

### Events subsequent to reporting date

No matters or circumstances have arisen since 31 December 2006 that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

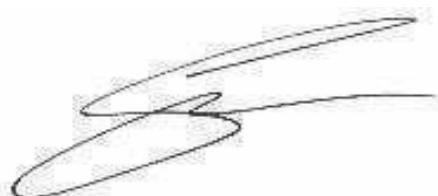
### Future developments

As announced at the Company's Annual General Meeting, the Company will be constructing a \$2 million data centre in Brisbane. Construction works on the new centre are scheduled to commence in February 2007, with completion expected in June 2007. Based on this schedule, the directors believe the project will not have a significant revenue impact until the 2008 financial year. The costs of the project will be reflected as Capital work in progress during the construction phase and transferred to fixed assets upon completion.

The Company is currently conducting research to determine the feasibility of construction of a submarine cable linking Australia to Guam in an effort to offer alternative international internet capacity to the Australian market. The Company will continue to update the market in accordance with continuous disclosure obligations.

Other likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to be prejudicial to the commercial interests of the Company.

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



Bevan Slattery

**Managing Director**  
2 February 2007



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2 February 2007

The Chairman  
The Board of Directors  
PIPE Networks Limited  
Level 9, 127 Creek Street  
Brisbane QLD 4001

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

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of PIPE Networks Limited.

As lead audit partner for the review of the financial report of PIPE Networks Limited for the half-year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the review.

Yours faithfully

  
**Hacketts**

**Hacketts**

  
**Liam J Murphy**  
**Audit Partner**

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## Results for Announcement to the Market

### Summary of Financial Information

Extracts from this report for announcement to the market:

	6 months ended 31-Dec-06 \$ (,000)	6 months ended 31-Dec-05 \$ (,000)	Movement \$ (,000)	Movement %
Revenue from continuing operations	11,162	4,442	6,720	151%
Profit (loss) after income tax for the half year attributable to members	2,349	702	1,647	234%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	4,101	1,304	2,797	215%

	6 months ended 31-Dec-06 Cents	6 months ended 31-Dec-05 Cents
Basic earnings per security	5.99	2.28
Diluted earnings per security	5.98	2.28
Net tangible assets per security	58.57	18.74

#### Interim Dividend Distribution

Dividends (distributions)	Amount per security	Franked amount per security
<b>Current period</b> Interim dividend **	0 cents	N/A
<b>Previous period</b> Final dividend (paid 13 November 2006) Interim dividend	2 cents 0 cents	100% N/A

\*\* No interim dividend has been proposed or declared in respect of the 6 months ended 31 December 2006.

### Highlights of Results

A profit after tax of \$2.35 million was recorded for the period representing a 234% increase over the previous half year result of \$0.7 million. This is on revenue growth of 151% from operating activities for the half year being \$11.16 million in 2006, up from \$4.44 million in 2005. Revenue growth is primarily due to the completion of key customer Dark Fibre contracts and billing of related installation and service provisioning charges. Profit margin has shown improvement due to improved on-net sales leading to higher utilisation of the existing asset base.

Further revenue growth is forecast in the 2007 calendar year, with key customer contracts coming online and meeting revenue recognition criteria. Additional sales personnel have been employed in key markets to continue focusing on improved utilisation of our core fibre optic network assets.

The fibre optic network has considerable capacity available to meet future revenue growth in Dark Fibre services. Co-location facilities will have increased capacity due to investment in a state-of-the-art Data Centre to be constructed in Brisbane as previously announced. While the new Data Centre facility will be operational within the financial year, it will not contribute significantly to this year's results and has had no significant impact on the half year results.

Capital investment continued during the period with Investment in Property, plant and equipment of \$8.5 million as per the Statement of cashflows. This represents the closing stages of the major Dark Fibre network rollout commenced in the 2006 calendar year. Further investment is planned at this stage for the above mentioned Brisbane Data centre project in addition to continuing construction works on the diverse dark fibre links in the outer Sydney region.

A significant increase in network footprint compared to the previous corresponding period, being 724km at December 2006 compared to 171km December 2005, has led to an increase in direct costs, network costs and depreciation. Growth in employee numbers to increase market awareness in Sydney and Melbourne markets has led to an increase in employment related expenses over the previous half year period from \$1.08 million to \$1.90 million in the current period.

## Half Yearly Financial Statements

### Condensed Income Statement for the half year ended 31 December 2006

	Note	6 months ended 31 December 2006 \$ (,000)	6 months ended 31 December 2005 \$ (,000)
Revenue	2	<b>10,987</b>	4,043
Other income	2	<b>175</b>	399
		<b>11,162</b>	4,442
Direct costs of providing services	2	(3,472)	(1,159)
Network operating and maintenance costs		(391)	(206)
Marketing and advertising costs		(178)	(108)
Employee benefits expense		(1,897)	(1,111)
Depreciation and amortisation expense		(749)	(323)
Finance costs		(181)	(12)
Building and equipment rental costs		(267)	(168)
Corporate and administrative costs		(410)	(197)
Other expenses		<b>(289)</b>	<b>(161)</b>
<b>Profit before income tax</b>		<b>3,328</b>	997
Income tax expense		<b>(979)</b>	<b>(295)</b>
<b>Profit for the year</b>		<b>2,349</b>	702
<b>Profit attributable to members of PIPE Networks Limited</b>		<b>2,349</b>	<b>702</b>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
- Basic earnings per share	8	5.99	2.28
- Diluted earnings per share	8	5.98	2.28

*The accompanying notes form part of these financial statements.*

## Condensed Balance Sheet as at 31 December 2006

		31 December 2006	30 June 2006
	Note	\$ (,000)	\$ (,000)
<b>Current assets</b>			
Cash and cash equivalents	6	3,556	9,000
Trade and other receivables		<b>6,327</b>	3,866
Prepayments		616	271
Other current assets		229	188
<b>Total current assets</b>		<b>10,728</b>	13,325
<b>Non-current assets</b>			
Property, plant and equipment		28,262	20,537
Deferred tax assets		330	354
Other non-current assets		231	231
<b>Total non-current assets</b>		<b>28,823</b>	21,122
<b>Total assets</b>		<b>39,551</b>	34,447
<b>Current liabilities</b>			
Trade and other payables		3,065	3,836
Accrued expenses		1,343	2,318
Borrowings		13	13
Prepaid revenue		912	861
Current tax liabilities		522	303
Provisions		169	178
<b>Total current liabilities</b>		<b>6,024</b>	7,509
<b>Non-current liabilities</b>			
Borrowings		8,053	3,560
Prepaid revenue		2,067	1,593
Deferred tax liabilities		5	2
Provisions		29	16
<b>Total non-current liabilities</b>		<b>10,154</b>	5,171
<b>Total liabilities</b>		<b>16,178</b>	12,680
<b>Net assets</b>		<b>23,373</b>	21,767
<b>Equity</b>			
Issued capital	5	17,407	17,311
Reserves		80	132
Retained profits		5,886	4,324
<b>Total equity</b>		<b>23,373</b>	21,767

The accompanying notes form part of these financial statements.

## Condensed Statement of Changes in Equity for the half year ended 31 December 2006

	Note	31 December 2006 \$ (,000)	31 December 2005 \$ (,000)
<b>Issued capital</b>			
Ordinary share capital at beginning of period		17,311	3,691
Share capital issued during period		89	-
Cost of share options exercised transferred from options reserve		43	-
Transaction costs		(36)	(12)
<b>Balance of share capital at end of period</b>		<b>17,407</b>	<b>3,679</b>
 <b>Options reserve</b>			
Options reserve at beginning of period		132	40
Share options expensed during the period		-	-
Share options exercised during the period		(43)	-
Share options forfeited during the period		(9)	-
<b>Balance of options reserve at end of period</b>		<b>80</b>	<b>40</b>
 <b>Retained earnings</b>			
Retained earnings at beginning of period		4,324	1,486
Profit attributable to members of the entity		2,349	702
Dividends paid during the period		(787)	-
<b>Retained earnings at end of period</b>		<b>5,886</b>	<b>2,188</b>
 <b>Total equity at the end of the period</b>		<b>23,373</b>	<b>5,907</b>

*The accompanying notes form part of these financial statements.*

## Condensed Statement of Cash Flows for the half year ended 31 December 2006

	31 December 2006	31 December 2005
Note	\$ (,000)	\$ (,000)
<b>Cash flows related to operating activities</b>		
Receipts from customers (inclusive of GST)	<b>10,150</b>	4,529
Payments to suppliers and employees (inclusive of GST)	<b>(10,856)</b>	<b>(2,237)</b>
	(706)	2,292
Finance costs	(181)	-
Interest received	158	29
<b>Net operating cash flows</b>	<b>(729)</b>	<b>2,321</b>
 <b>Cash flows related to investing activities</b>		
Payment for property, plant and equipment	<b>(8,511)</b>	<b>(3,500)</b>
<b>Net investing cash flows</b>	<b>(8,511)</b>	<b>(3,500)</b>
 <b>Cash flows related to financing activities</b>		
Proceeds from issues of shares and other equity securities	89	-
Proceeds from borrowings	4,494	1,520
Advances to financial institutions to secure borrowings	-	(1,500)
Dividends paid	(787)	-
<b>Net financing cash flows</b>	<b>3,796</b>	<b>20</b>
<b>Net increase (decrease) in cash held</b>	<b>(5,444)</b>	<b>(1,159)</b>
Cash and cash equivalents at beginning of period	<b>9,000</b>	<b>2,116</b>
<b>Cash and cash equivalents at end of period</b>	<b>6</b>	<b>3,556</b>
		957

*The accompanying notes form part of these financial statements.*

## **Corporate Information**

PIPE Networks Limited is a company incorporated in Australia, limited by shares which are traded on the Australia Stock Exchange.

The financial report for the half year ended 31 December 2006 was authorised in accordance with a resolution of the directors on 2 February 2007.

### **Note 1 Basis of accounting**

This half yearly financial report is a general purpose financial report prepared in accordance with the listing rules and AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by PIPE Networks Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current year financial amounts and other disclosures.

#### **(a) Basis of preparation of half year financial report**

The principal accounting policies adopted in the preparation of the financial report are consistent with the most recent Annual Financial Report for the year ended 30 June 2006. Adoption of new or amending standards mandatory for the periods beginning on or after 1 July 2006 has not resulted in any changes to accounting policy.

##### *Historical cost convention*

The half year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

## Note 2 Revenue and expenses from ordinary activities

	6 months ended 31 December 2006 \$ (,000)	6 months ended 31 December 2005 \$ (,000)
Note		
<b>a) Operating activities:</b>		
Lease income from Dark fibre operating leases	9,369	2,824
Lease income from Tele-housing operating leases	<u>657</u>	<u>484</u>
	<b>10,026</b>	3,308
Other sales and services	<u>961</u>	<u>735</u>
<b>Total revenue</b>	<b><u>10,987</u></b>	<b>4,043</b>
 <b>b) Non-operating activities:</b>		
Interest revenue	158	29
Gain on settlement of liability	-	370
Other revenue	<u>17</u>	<u>-</u>
<b>Other income</b>	<b><u>175</u></b>	<b>399</b>
 <b>c) Profit for the period</b>		
The following expense items are relevant in explaining the financial performance for the interim period:		
Bad and doubtful debts expense	(13)	(15)
Direct costs of providing services	(3,472)	(1,159)
Operating lease rental expense	(267)	(168)
Finance costs	(181)	(12)
Depreciation expense	(749)	(323)

## Note 3 Dividends

A final dividend of 2 cents per share fully franked was paid on 13 November 2006 in respect of the year ended 30 June 2006.

No Dividend has been paid for the half-year ending 31 December 2006. As at 31 December 2006, the directors had made no recommendation concerning dividends for the half year or any period thereafter.

## Note 4 Segment Information

PIPE Networks Limited operates predominantly in one business segment being Telecommunication services. PIPE Networks Limited's customers are located predominantly in Australia.

## Note 5 Issued and quoted securities at 31 December 2006

Category of securities	31 December 2006		31 December 2005	
	No. of shares	\$,000s	No. of shares	\$,000s
<b>Ordinary securities</b>				
Balance at beginning of financial period	39,143,297	17,311	30,750,000	3,691
Issued during period				
- Executive and employee options exercised	5,000	9		-
- Share options exercised by Orbit Capital	200,000	80		-
Cost of Share options transferred from options reserve		43		-
Less transaction costs on shares issued		(36)		(12)
<b>Total ordinary securities</b>	<b>39,348,297</b>	<b>17,407</b>	<b>30,750,000</b>	<b>3,679</b>

## Note 6 Reconciliation of cash and cash equivalents

	31 December 2006 \$ (,000)	31 December 2005 \$ (,000)
Cash on hand and at bank	3,556	957
<b>Total cash and cash equivalents at end of period</b>	<b>3,556</b>	<b>957</b>

## Note 7 Contingent assets and liabilities

During the period, the Company received invoices from a supplier for services to the value of \$286,866, alleged to have been received by the Company in prior financial periods. It is the Company's opinion, after reviewing available evidence and documented history, that the invoices are not able to be supported and there is insufficient certainty to include these amounts in the accounts. Any amount which may be required to settle the dispute cannot be reliably estimated at this stage and is dependent on whether or not the supplier is able to substantiate any of the charges to the satisfaction of the Company, and if not, whether the supplier will pursue the matter further.

No amount in relation to the dispute is reflected in the accounts for the half year ended 31 December 2006. Due to the uncertain nature of the existence and measurement of any liability, the board of directors believe it prudent to disclose the matter as a contingent liability.

## Note 8 Earnings per security (EPS)

	31 December 2006 Cents	31 December 2005 Cents
	\$ (,000)	\$ (,000)
Basic EPS	5.99	2.28
Diluted earnings per security	5.98	2.28
Earnings used in calculation of both basic and diluted EPS	<u>2,349</u>	<u>702</u>
Weighted average number of ordinary shares used in calculation of Basic earnings per security	Shares <u>39,213,460</u>	Shares 30,750,000
Adjustment for calculation of diluted earnings per share:		
Options	<u>38,938</u>	93,528
Weighted average number of ordinary shares used in calculation of Diluted earnings per security	<u>39,252,398</u>	30,843,528

## Note 9 Events occurring after balance date

No other matters or circumstances have arisen since 31 December 2006 that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

## Further Information

### Ratios

	Current period %	Previous corresponding period %
<b>Profit before tax / revenue</b>		
Profit (loss) from ordinary activities before tax as a percentage of revenue	30%	22%
<b>Profit after tax / equity interests</b>		
Net profit (loss) from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	10%	12%

### NTA backing

	Current period Cents	Previous corresponding period Cents
Net tangible asset backing per ordinary security	58.57	18.74

## **Directors' declaration**

In the opinion of the directors of PIPE Networks Limited:

- (a) The half year financial statements and notes of the Company, set out on pages 6 to 13 are in accordance with the Corporations Act 2001 including:
  - (i) giving a true and fair view of the financial position of the Company as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows, for the half year ended that date; and
  - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Act 2001 and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

**PIPE Networks Limited**



Bevan Slattery  
**Managing Director**

Dated at Brisbane  
2 February 2007

# Independent Review Report

## Scope

We have reviewed the financial report of PIPE Networks Limited (the Company) for the half-year ended 31 December 2006 in the form of Appendix 4D of the Australian Stock Exchange (ASX) Listing Rules, consisting of the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration, but excluding the following sections:

- (a) Material factors affecting the revenue and the expenses of the economic entity for the current period; and
- (b) Compliance statement, ratios and NTA backing.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report of the Company in accordance with the *Corporations Act 2001* and that complies with AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia, statutory requirements and ASX Listing Rules as they relate to Appendix 4D. 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.

We conducted an independent review 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 AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia, statutory requirements and ASX Listing Rules as they relate to Appendix 4D, so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and cash flows, and so as to enable the Company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investment Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the Company's 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*. We have given the Directors of the Company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

## Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year report of PIPE Networks Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia and ASX Listing Rules as they relate to Appendix 4D.

HACKETTS CHARTERED ACCOUNTANTS

Dated: Brisbane, 2 February 2007

Liam Murphy  
Partner