Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report

for the year ended 30 June 2013

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Macquarie Telecom Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

DIRECTORS

The names and details of the directors of Macquarie Telecom Group Limited ("Macquarie Telecom" or the "Company") in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Robert Kaye (Chairman)	Robert is Chairman of Macquarie Telecom and was appointed as a director in 2001. He was British Telecom's director of market and business development for the Australasian region, a former managing director of British Telecom's Australian operations, and a director of Clear Communications Ltd in New Zealand, until retirement in June 2002. Robert has held CEO positions in the past with several major IT&T companies. Robert is chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee.
David Tudehope (Chief Executive)	David is Chief Executive and co-founder of Macquarie Telecom and has been a director since 1992. He is responsible for overseeing the general management and strategic direction of the Company, and is actively involved in the Company's participation in regulatory issues. He was previously a director of the Service Providers' Industry Association. He is a member of the Australian School of Business Advisory Council and the Australian Government's B20 Leadership Group. David holds a Bachelor of Commerce degree from the University of NSW. He is a member of the Corporate Governance, Nomination and Remuneration Committee. David received the Australian Telecommunication User Group's highest award in 2011 'the Charles Todd Medal'.
Aidan Tudehope (Managing Director – Hosting)	Aidan is co-founder of Macquarie Telecom and has been a director since 1992. He is the managing director of Macquarie Hosting with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the strategy and execution of the $60m investment in Intellicentre 2. As the former Chief Operating Officer for Macquarie, Aidan played an integral part in the strategy and direction of the Hosting business since its state-of-the-art data centre, the Intellicentre opened in 2001, as well as being instrumental in the development of Macquarie's data networking strategy. He holds a Bachelor of Commerce degree.
John Palfreyman (Non-Executive Director)	John's career spans more than 25 years in the IT industry. He was executive chairman of 90East Inc, an Australian supplier of managed security services to federal government agencies, until the company's successful trade sale in early 2004. Previously, John was managing director of Baltimore Technologies (Asia Pacific), the region's dominant supplier of public key infrastructure based e-commerce and enterprise security systems. He holds a Bachelor of Commerce degree and qualified as a chartered accountant in 1982. John joined the Board on 26 July 2004 and is chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.
Anouk Darling (Non-Executive Director)	Anouk is CEO of Moon Communications Group and a director of Hatch Entertainment, another STW company. With over 15 years' experience in marketing and brand strategy, she has been central to some of Australia's largest re-branding projects across a broad range of sectors including energy, finance, retail and airlines. She has a BA, MBA (major in Marketing), AICD, AIMIA and AIM memberships. Anouk joined the Board on 22 March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

DIRECTORS' REPORT

Peter James (Non-Executive Director)	Peter has over 30 years experience in the Technology, Telecommunications and Media industries. His experience includes over 20 years as a board member of a range of Australian publicly listed companies. In addition, Peter has 16 years experience in Chief Executive Officer roles including Computer Power Group Limited and Adcorp Australia Limited. Peter is currently non-executive director of iiNet Limited, Australia's second largest DSL Internet Services Provider. He has played a leading role in launching Ninefold, an Australian Cloud Technology business backed by Macquarie Telecom and he is also a successful investor in a number of Australian Technology and Social Media businesses, including the leading Australian group buying site JumpOnIt which was sold to US based LivingSocial in 2012. Peter has a BA with majors in Computer Studies and Business and is a Fellow of the Australian Institute of Company Directors. Peter joined the Board on 2 April 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

Directors' interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of the Company and related bodies corporate were as follows:

(a) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 12,501,390 (60%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;

(b) a director-related entity of D Tudehope and A Tudehope holds 7,183 ordinary shares issued under the Employee Discretionary Share Plan and Share Purchase Plan;

(c) a director-related entity of D Tudehope holds 319,699 ordinary shares. D Tudehope holds a further 133 shares issued under the Employee Discretionary Share Plan;

(d) R Kaye has an interest in 6,091 ordinary shares;

(e) a director-related entity of J Palfreyman holds 10,000 ordinary shares. J Palfreyman also has an interest in 40,000 ordinary shares.

COMPANY SECRETARIES

Michael Simmonds	Michael was appointed as Chief Financial Officer and company secretary of the Company in March 2006. Prior to this he held a number of positions as finance director in the UK. Michael has been a chartered accountant for over 20 years.
Richard Lutterbeck	Richard was appointed as company secretary of the Company in February 2009. In addition, he holds the position of Head of Strategy and Commercial. Richard has been with the Company since 2001. He holds a Bachelor of Economics degree and a Masters of Business Administration.

INDEPENDENT PROFESSIONAL ADVICE

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

Macquarie Telecom Group Limited is the head entity of a consolidated group comprising Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS"), Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS"), Ninefold Pty Limited ("Ninefold") and Macquarie Hosting (Singapore) Pte Ltd ("MHS").

The principal activities of the consolidated entity were the provision of telecommunication and hosting services to corporate and government customers within Australia.

EARNINGS PER SHARE

	2013 cents	**2012** cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share	54.0	93.4
Diluted earnings per share	54.0	93.4

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation ("EBITDA") of $35.1 million in the year ended 30 June 2013, down from $40.6 million in the corresponding period.

The following tables summarise the revenue and EBITDA performance of Macquarie Telecom's major lines of business for the past three comparable reporting periods.

REVENUE *(A$ million)*	**Full Year 2013**	Full Year 2012	Full Year 2011
Hosting			
Hosting Total	60.5	58.6	53.8
Telco			
Voice	65.8	76.2	86.3
Data	61.1	62.4	59.2
Mobiles	18.8	21.7	28.2
Telco Total	145.7	160.3	173.7
Total	206.2	218.9	227.5

DIRECTORS' REPORT

EBITDA *(A$ million)*	**Full Year 2013**	Full Year 2012	Full Year 2011
Hosting			
Hosting Total	11.1	15.3	14.5
Telco			
Voice	16.2	17.5	16.2
Data	11.2	10.4	8.8
Mobiles	2.0	3.4	3.6
Telco Total	29.4	31.3	28.6
Corporate Office			
Corporate Office Total	(5.4)	(6.0)	(5.9)
Total	35.1	40.6	37.2
Reconciliation of EBITDA to profit before income tax			
Total EBITDA	35.1	40.6	37.2
Interest revenue	0.6	2.3	3.1
Interest expense	(0.5)	(0.2)	-
Depreciation and amortisation expense	(19.8)	(16.2)	(15.4)
Profit before income tax	15.4	26.5	24.9

In the 12 months to 30 June 2013, Macquarie Telecom's service revenue was $206.2 million, a decrease of 5.8% compared to the corresponding period.

Macquarie Telecom's Hosting business revenue grew by 3.3% when compared to the previous corresponding period, contributing $60.5 million or 29.3% of total service revenue. The Hosting business recorded EBITDA of $11.1 million, a decrease of $4.2 million of the previous corresponding period. The decrease was primarily attributable to the combination of flat revenue in its Managed Hosting business caused by price reductions and the incremental costs associated with investments in automation, service assurance and other staff costs.

Macquarie Telecom's Telco (Data, Voice and Mobile) business is an important part of the Company's overall offering, delivering $145.7 million in revenue and EBITDA of $29.4 million, down 5.9% on the previous corresponding period. The Company remains focused on strict cost control and automation to maintain margins in the Telco business.

Capital expenditure for the full year was $51.5 million, of which approximately $29.0 million was spent on the expansion of Hosting capacity in Sydney and Canberra and approximately $22.5 million on business as usual capital expenditure. Prior year capital expenditure was $51.9 million.

Macquarie Telecom has generated operating cash flows of $26.1 million and held cash and cash equivalents of $9.7 million ($0.7 million net of debt) as at 30 June 2013.

The consolidated entity employed 412 employees at 30 June 2013 (2012: 419 employees).

DIRECTORS' REPORT

DIVIDENDS

Dividends paid to members during the financial year were as follows:

	2013 $'000	2012 $'000
(i) Final dividend for the year ended 30 June 2012 of 12 cents per share (year ended 30 June 2011: 12 cents) fully franked based on tax paid at 30%.	2,516	2,511
(ii) Interim dividend for the year ended 30 June 2013 of 12 cents per share (2012: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
	5,032	5,027

In addition to the above dividends, since the end of the financial year the directors declared the payment of a fully franked final dividend of $2.52 million (12 cents per fully paid ordinary share) to be paid on 10 October 2013 out of retained earnings at 30 June 2013.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will focus on execution of the following in fiscal year 2014:

- The delivery of Secure Internet Gateway services to contracted agency clusters Department of Agriculture, Fisheries and Forestry; and Department of the Prime Minister and Cabinet, in Macquarie Telecom's Canberra data centre facility, Intellicentre 4;
- Co-location sales into the Intellicentre 2 data centre facility;
- Continued automation of both Hosting and Telco products and services;
- Leveraging the Company's multi-carrier mobile offering;
- Continued investment in developing our cloud computing offerings.

The directors believe, on reasonable grounds, that to include in this report further information regarding likely developments in the operations of the consolidated entity and the expected results of those operations in years after the current year would be likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been included in this report. Further developments by the time of the Annual General Meeting will be reported in the Chairman's address to that meeting.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2013.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Refer to Note 29 for significant events occurring after the balance date.

SHARE OPTIONS

Details of options on issue at 30 June 2013 and movements in options on issue during the year are included in Note 17 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, the Company paid premiums in respect of a contract insuring all the directors of Macquarie Telecom against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premiums.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Macquarie Telecom.

Remuneration philosophy
The performance of the Company depends upon the quality of its directors and senior managers. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:
- Provide competitive rewards to attract high calibre senior managers;
- Link senior manager rewards to shareholder value;
- Significant portion of senior manager remuneration is 'at risk', dependent upon meeting predetermined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable senior manager remuneration.

Responsibility for evaluating the Board's performance falls to the Corporate Governance, Nomination and Remuneration Committee. The performance of key executives is evaluated by the Chief Executive and where considered appropriate, the Board as a whole.

Remuneration link to performance
Macquarie Telecom's remuneration philosophy directly aligns a percentage of short-term incentives, such as bonuses, and all long-term incentives granted to employees with key business outcomes such as investment returns, company profit growth and total shareholder return.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Use of remuneration consultants
In December 2012, the Board employed Hewitt Associates Pty Ltd ("AON Hewitt") to review market rates of remuneration for the position of Chief Executive. Under the terms of the engagement, AON Hewitt provided remuneration recommendations and was paid $3,000 for these services.
AON Hewitt has confirmed that the above recommendations have been made free from undue influence by members of the Group's key management personnel.
The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- AON Hewitt, in undertaking this report, did not have any dialogue with any Macquarie Telecom key management personnel; and
- AON Hewitt only liaised with Macquarie Telecom's Group Executive, Human Resources to obtain or verify factual data.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain non-executive directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
Each non-executive director is appointed via a letter of appointment. The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors will be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting held on 23 November 2012 when shareholders approved an aggregate remuneration of $750,000 per year.

REMUNERATION REPORT (cont'd)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst non-executive directors is reviewed annually.

Each non-executive director receives a fee for being a director of the Company.

The non-executive directors of the Company may hold shares and options over shares in the Company. The issue of any options to non-executive directors must be approved by shareholders at a general meeting.

The remuneration of non-executive directors for the period ending 30 June 2013 is detailed in the table on page 10 of this report.

Senior manager and executive director remuneration

Objective
The Company aims to reward senior managers with a level of remuneration commensurate with their position and responsibilities within the Company and so as to:
- Reward senior managers for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of the executives with those of the shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure
Service agreements have been entered into with each of the Chief Executive and the Managing Director – Hosting, but not with any other senior managers, each of whom is employed under the terms of a letter of appointment. Details of the service agreements are provided on page 9.
Remuneration for all senior managers consists of the following key elements:
- Fixed remuneration
- Variable remuneration
    - Short Term Incentive ("STI"); and
    - Long Term Incentive ("LTI").

Fixed remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Fixed remuneration of the Chief Executive and Managing Director – Hosting is reviewed annually by the Corporate Governance, Nomination and Remuneration Committee and the process consists of a review of Company-wide and individual performance; relevant comparative remuneration in the market; and internal and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

Structure
Senior managers are given the opportunity to receive their fixed (primary) remuneration in certain forms including cash and allowances such as motor vehicle allowances. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of the key management personnel is detailed on page 11.

Variable remuneration – Short Term Incentive ("STI")

Objective
The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the senior managers charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Structure
Actual STI payments granted to each senior manager and executive director depend on the extent to which specific operating targets set at the beginning of the financial year are met or exceeded. The operational targets consist of a number of Key Performance Indicators ("KPIs") covering both financial and non-financial measures of performance and may be based on Company, individual, business and personal objectives. All measures are classified under the following four categories: (a) financial; (b) customer-related; (c) operational; and (d) people management. The Company has predetermined benchmarks which must be met in order to trigger payments under the STI scheme. There is an overachievement element to these payments, meaning it is possible to achieve greater than 100% of the base incentive amount.

On a half-yearly basis, after consideration of performance against KPIs, an overall performance rating for the Company is approved by the Corporate Governance, Nomination and Remuneration Committee. The individual performance of each senior manager and executive director is also rated and taken into account when determining the amount, if any, of the STI component to be paid to each senior manager and executive director. This structure was in place for all financial years disclosed in this report, and continues for the present financial year.

Variable pay – Long Term Incentive ("LTI")

Objective
The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such, LTI grants are made to senior managers who are able to influence the generation of shareholders' wealth and thus have a direct impact on the Company's performance against the relevant long-term performance hurdle.

Structure
LTI grants to senior managers are delivered in the form of options, discretionary shares or cash payments.

Service agreements
The Chief Executive and the Managing Director – Hosting are each employed under a service agreement. The current agreements commenced in August 1999 and continue until terminated by either the Company or the Chief Executive or the Managing Director – Hosting (as the case may be). Under the terms of the present agreements:

- Each of the Chief Executive and the Managing Director - Hosting may resign from their position and thus terminate their agreement by giving six months' written notice;

- The Company may terminate the agreements by providing six months' written notice or provide payment in lieu of the notice period, based on the fixed component of the Chief Executive or the Managing Director – Hosting's remuneration (as the case may be). The Company may also terminate the agreements on a lesser period of notice if, for example, the Chief Executive or the Managing Director – Hosting (as the case may be) become incapacitated.

- The Company may terminate the agreements at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Chief Executive or the Managing Director – Hosting (as the case may be) is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

Details of shares issued to and held by key management personnel are disclosed in Note 23 to the financial statements.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Directors for the year ended 30 June 2013:

Directors		Short Term – Primary and bonus: Salary and Fees	Short Term – Primary and bonus: Cash Bonus	Short Term – Primary and bonus: Non – Monetary Benefits (i)	Short Term – Primary and bonus: Other (ii)	Short Term – Post Employ-ment: Super-annuation	Short Term – % Bonus Granted	Long Term – Share-based Payments: Options (iii)	Total	Total Perfor-mance Related	Long Term – Long Term Incentive Provision: Cash Bonus (iv)
R Kaye – Chairman	**2013**	**170,000**	**-**	**-**	**-**	**15,300**	**-**	**-**	**185,300**	**0.0%**	**-**
	2012	170,000	-	-	-	15,300	-	-	185,300	0.0%	-
D Tudehope – Chief Executive	**2013**	**512,716**	**113,269**	**(2,029)**	**42,390**	**16,470**	**55.0%**	**-**	**682,816**	**16.6%**	**87,581**
	2012	489,636	194,707	(36,389)	38,432	15,775	94.6%	-	702,161	27.7%	70,863
A Tudehope – Managing Director - Hosting	**2013**	**478,689**	**73,700**	**(9,980)**	**41,732**	**16,470**	**55.0%**	**-**	**600,611**	**12.3%**	**89,789**
	2012	456,056	127,969	16,570	38,432	15,775	95.5%	-	654,802	19.5%	62,383
J Palfreyman – Non-Executive Director	**2013**	**114,450**	**-**	**-**	**128,900**	**-**	**-**	**-**	**243,350**	**0.0%**	**-**
	2012	114,450	-	-	419,255	-	-	11,266	544,971	2.1%	-
A Darling – Non-Executive Director	**2013**	**100,000**	**-**	**-**	**-**	**9,000**	**-**	**-**	**109,000**	**0.0%**	**-**
	2012	27,692	-	-	-	2,492	-	-	30,184	0.0%	-
P James – Non-Executive Director	**2013**	**100,000**	**-**	**-**	**272,735**	**9,000**	**-**	**-**	**381,735**	**0.0%**	**-**
	2012	25,000	-	-	76,668	2,250	-	-	103,918	0.0%	-
Total Directors' Remuneration	**2013**	**1,475,855**	**186,969**	**(12,009)**	**485,757**	**66,240**		**-**	**2,202,812**		**177,370**
	2012	1,282,834	322,676	(19,819)	572,787	51,592		11,266	2,221,336		133,246

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Other Key Management Personnel for the year ended 30 June 2013:

		Short Term								Long Term
		Primary and bonus				**Post Employment**	**% Bonus Granted**	**Total**	**Total Perfor-mance Related**	**Long Term Incentive Provision**
Other Key Management Personnel		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)	Super-annuation				Cash Bonus (iv)
C Greig – Group Executive, Telco Business	**2013**	**330,743**	**80,367**	**1,136**	**19,494**	**16,470**	**65.9%**	**448,210**	**17.9%**	**-**
	2012	319,333	109,161	8,962	18,904	15,775	89.5%	472,135	23.1%	-
M Simmonds – Chief Financial Officer	**2013**	**323,135**	**88,950**	**10,595**	**16,000**	**16,470**	**68.4%**	**455,150**	**19.5%**	**116,099**
	2012	304,048	102,201	11,435	16,000	15,775	94.3%	449,459	22.7%	99,995
L Clifton - Group Executive, Sales	**2013**	**270,000**	**82,088**	**7,583**	**20,788**	**16,470**	**54.7%**	**396,929**	**20.7%**	**-**
	2012	241,553	111,675	9,431	23,086	15,775	74.5%	401,520	27.8%	-
S Butler[1] – Chief Operating Officer	**2013**	**130,794**	**30,921**	**3,285**	**-**	**7,259**	**61.2%**	**172,259**	**18.0%**	**-**
	2012	33,333	-	-	-	3,000	-	36,333	0.0%	-
Total Other Key Management Personnel Remuneration	**2013**	**1,054,672**	**282,326**	**22,599**	**56,282**	**56,669**		**1,472,548**		**116,099**
	2012	898,267	323,037	29,828	57,990	50,325		1,359,447		99,995

REMUNERATION REPORT (cont'd)

The terms "director" and "executive officer" have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the Company and the consolidated entity. Executives are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. All directors are paid through subsidiary entities.

Notes:
[1] Resigned as Non-Executive Director 31 October 2011 and appointed Chief Operating Officer 27 February 2013.

(i) The category "Non-Monetary Benefits" represent amounts accrued or released in respect of annual leave and long service leave.

(ii) The category "Other" includes the value of any non-cash benefits provided including motor vehicle allowances, and in the case of non-executive directors, consulting services to the consolidated entity. All amounts paid were on normal commercial terms and conditions and at market rates.

(iii) The directors have issued options over ordinary shares to a number of eligible directors and employees. The terms of the Employee Option Plan stipulate that options will vest over certain timeframes. The plan is designed to encourage superior performance and provide opportunity to all eligible employees to participate in the future success of the Company.

Whilst LTIs may include discretionary shares, no such shares have been issued either in this financial year or the previous year.

(iv) The Executive Long Term Discretionary Incentive Plan ("ELTDIP") has the following characteristics: (a) the period of the scheme is four years; and (b) the amount payable is determined with reference to a mix of financial measures including: (1) the achievement of budget net profit after tax for each year; (2) the achievement of budget net profit after tax accumulated for all four years; and (3) target share price for the fourth year. The minimum and maximum amounts payable to each member of the scheme in future reporting periods is nil and $300,000 respectively. If the senior executive leaves before the end of the period he forfeits all entitlements under the scheme.

Performance of Macquarie Telecom Group Limited

The following table shows earnings before interest, tax, depreciation and amortisation ("EBITDA"); net profit after tax ("NPAT"); share price performance; and key management personnel short-term incentives as a percentage of NPAT ("KMP STI as % of NPAT") over the last five years.

Year ended 30 June	**EBITDA**	**NPAT**	**Share Price**	**KMP STI as % of NPAT**
	(A$ million)	***(A$ million)***	***ASX Code: MAQ***	***%***
2013	35.1	11.3	7.91	4.1%
2012	40.6	19.6	8.36	3.3%
2011	37.2	17.7	10.20	7.7%
2010	29.0	17.9	4.62	4.9%
2009	25.0	7.4	2.41	12.3%

Equity compensation: granted and vested during the year
During the financial year there were nil options granted as equity compensation to directors and key management personnel (2012: nil).

Details of director-related interests in shares and other director-related transactions are included in Note 25.

Option holdings of key management personnel
There were nil options held by key management personnel at 30 June 2013 (2012: nil).

DIRECTORS' REPORT

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 was as follows:

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	18	4	2
Number of meetings attended:			
R Kaye	17	4	2
D Tudehope	17	-	2
A Tudehope	17	-	-
J Palfreyman	17	4	2
A Darling	18	4	2
P James	18	4	2

As at the date of this report, the Company had an Audit and Risk Management Committee and a Corporate Governance, Nomination and Remuneration Committee.

The members of the Audit and Risk Management Committee are R Kaye, J Palfreyman, A Darling and P James. The members of the Corporate Governance, Nomination and Remuneration Committee are R Kaye, J Palfreyman, A Darling, P James and D Tudehope.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

AUDIT INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 65.

NON-AUDIT SERVICES

Taxation advice and compliance work was provided by the entity's auditor, PricewaterhouseCoopers. 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 2001*. The nature and scope of each type of non-audit service provided did not compromise the auditor independence as none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

PricewaterhouseCoopers received or is due to receive the following amounts for the provision of non-audit services: $20,200 (2012: $19,300) as disclosed in Note 24.

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 21 August 2013

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board is responsible for the corporate governance practices of the Company. The major processes by which the Board fulfils that responsibility are described in this statement.

The Board considers that except to the extent expressly indicated in this statement, those corporate governance practices comply with the ASX Corporate Governance Council's ("ASXCGC") Corporate Governance Principles and Recommendations with 2010 Amendments. Also, except to the extent expressly indicated in this statement, those practices were followed throughout the year.

A copy of the Corporate Governance Statement, the Audit and Risk Management Committee Charter and the Company's Code of Conduct are available in the corporate governance section of the Company's website at www.macquarietelecom.com, together with all other information which the ASXCGC recommends be made publicly available.

Principle 1
Lay solid foundations for management and oversight by the Board

The Board acts on behalf of and is accountable to the shareholders. The expectations of shareholders together with regulatory and ethical expectations and obligations are taken into consideration when defining the Board's responsibilities.

The Board's key responsibilities are:

- establishing, monitoring and modifying the Company's corporate strategies;
- monitoring the performance of management;
- reporting to shareholders and the market;
- ensuring that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitoring financial results;
- reviewing business results and monitoring budgetary control and corrective actions (if required);
- authorising and monitoring budgets and major investments and strategic commitments;
- monitoring Board composition, director selection and Board processes and performance;
- reviewing the performance of the Chief Executive, the Managing Director – Hosting and senior management;
- endorsing key executive appointments and ensuring executive succession planning;
- reviewing and approving remuneration of the Chief Executive and the Managing Director – Hosting;
- reviewing and approving remuneration policies for senior management;
- overseeing and monitoring progress in relation to the Company's diversity objectives and compliance with its diversity policy; and
- ensuring best practice corporate governance.

The responsibility for the day-to-day operation and administration of the Company has been delegated to the Chief Executive and the executive team. The Board ensures that this team is appropriately qualified and experienced. The Board is also responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board.

A performance assessment for senior management last took place in July 2013. The process for these assessments is described in the Corporate Governance statement on the Company's website.

CORPORATE GOVERNANCE STATEMENT

Principle 2
Structure the Board to add value

The Board has adopted a policy of ensuring that it is composed of a majority of non-executive directors with an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience. Each of the current non-executive directors is an independent director for the purposes of the criteria for independence outlined by the ASXCGC. The Chairman is selected from the non-executive directors and appointed by the Board.

The same person does not exercise the roles of Chairman and Chief Executive. The Board has agreed the division of responsibilities between these roles. That division is sufficiently clear and understood as to not require a formal statement of position.

Information about the directors, including their qualifications, experience and special responsibilities, appears in the Directors' Report.

Directors and Board committees have the right in connection with their duties and responsibilities to seek independent professional advice at the Company's expense.

Principle 3
Promote ethical and responsible decision making

The Board is committed to the highest standards of conduct. To ensure that the Board, management and employees have guidance in the performance of their duties, the Board has adopted a Code of Conduct that reinforces the requirement that the business be conducted ethically and with professionalism.

In order to guard against the misuse of price sensitive information, the Board has established a share trading policy relating to the Board, senior managers and other employees dealing in the Company's shares.

Macquarie Telecom embraces diversity and believes it is a critical factor in our success. Diversity means all differences between people including gender, age, race, ethnicity, disability, sexual orientation, religion and culture. To attract and retain a diverse workforce, we are committed to promoting a culture, which celebrates diversity and an atmosphere in which all employees and candidates for employment are treated fairly, with respect and have equal access to opportunities at work.

The current proportion of female employees at Macquarie Telecom is as follows:

	Total Females	**% Females**
Number of females in entire organisation	102	25.2%
Number of females in people management positions	12	20.7%
Number of females on the Macquarie Telecom Board	1	16.7%

Macquarie Telecom recognises that by promoting a culture of diversity, the business benefits at multiple levels, by:

- attracting a high calibre and wide range of talent;
- increasing levels of engagement across the organisation;
- retaining and promoting highly skilled staff;
- increasing innovation which drives business results; and
- enhancing customer relationships.

CORPORATE GOVERNANCE STATEMENT

In accordance with the ASXCGC, Macquarie Telecom established objectives to promote diversity. The objectives and the progress toward achieving them are outlined below:

Objective	Outcome
Board and Executive	
Board and executive level vacancies: continue to aim to proactively source and consider a minimum of 30% female applicants for Board and executive level vacancies.	Macquarie Telecom has policies and practices in place to support our ongoing commitment to this objective.
Board composition: maintain female representation on the Macquarie Telecom Board of Directors.	We continue to have 16.7% female representation on the Macquarie Telecom Board of Directors.
General	
Ensure that Macquarie Telecom continues to have a Diversity Officer responsible for reviewing progress and report annually to the Board.	A HR employee continues to hold the position of Diversity Officer.
Aim to maintain a Macquarie Telecom female population of 26% or greater by June 2013.	Despite the high volume of hiring in Hosting related business units which attracted almost exclusively male candidates and accounted for one-third of all hires, we still achieved 25% female population.

Macquarie Telecom is committed to the development and career advancement of women. All managers, regardless of gender, have equal access to training, development and career opportunities. We will continue to raise the profile of gender diversity and further our efforts to date. For the financial year ending 30 June 2013, this included company-wide education sessions and women in business events.

Responsibility for ratifying diversity objectives will remain with the Board. The objectives set will be managed and reported by the Company's Diversity Officer.

Principle 4
Safeguard integrity in financial reporting

The Board has established an Audit and Risk Management Committee, which operates under a Charter approved by the Board in September 2003 and amended by the Board in August 2006. Each of the members of the Committee is an independent director. The names of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

The Chief Executive, Chief Financial Officer, Managing Director – Hosting, Company Secretary and the external auditor attend meetings at the discretion of the Committee. The Committee also meets privately with the external auditor without management present.

Minutes of all Committee meetings are provided to the Board.

The Board has delegated to the Committee responsibility for making recommendations on the appointment, evaluation and dismissal of the external auditor, setting its fees and ensuring that the auditor reports to the Committee and the Board.

The Company is committed to audit independence. The Committee reviews the independence and objectivity of the external auditors. Those reviews include:

- seeking confirmation that the auditor is, in their professional judgement, independent of the Company. The external auditor, PricewaterhouseCoopers, has declared its independence to the Board; and
- considering whether, taken as a whole, the various relationships between the Company and the external auditor impair the auditor's judgement or independence. The Committee is satisfied that the existing relationships between the Company and the external auditor do not give rise to any such impairment.

The Company's audit engagement partners will rotate every five years.

CORPORATE GOVERNANCE STATEMENT

Principle 5
Make timely and balanced disclosure

The Board has adopted a formal continuous disclosure plan, the object of which is to ensure that material information is identified and disclosed in a timely manner. The Board is advised of any notifiable events. In addition, the Board has developed a guidance paper on the Company's disclosure obligations, which is intended to provide guidance for all managers on those obligations.

The Board approves all releases that are made to ASX Limited.

The Company Secretary is responsible for communications with the ASX.

Principle 6
Respect the rights of shareholders

In addition to complying with its continuous disclosure obligations under the ASX Listing Rules, the Company ensures that shareholders are kept informed in a variety of other ways:

- shareholders can gain access to information about the Company, including Annual Reports and financial statements, half-year financial statements, Board commentaries on those financial statements, information provided to analysts during briefings on those financial statements, notices of meeting and explanatory materials and all relevant announcements made to the market, through the website at www.macquarietelecom.com;
- in conducting analyst briefings, the Company takes care to ensure that any information provided to analysts is made available to the market prior to it being provided to analysts;
- the principal method of communication with shareholders is through the provision of the Annual Report and financial statements, the half-year financial statements and Annual General Meetings. Shareholders are encouraged to use these meetings to ask questions on any matters related to the Company, its business and the performance of that business; and
- the Company requests the external auditor to attend the Annual General Meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

Principle 7
Recognise and manage risk

The Board is responsible for ensuring that the Company has in place a system of risk management and internal compliance and control that effectively safeguards assets and enhances the value of shareholders' investments.

The Board has adopted a formal risk management strategy and policy. In addition, the Company has established a formal framework for risk management and internal compliance, which includes the establishment of an internal business risk management function. The Audit and Risk Management Committee is responsible for reviewing and reporting to the Board on the effectiveness of the Company's management of risk, including systems for internal controls. The business risk management function reports to the Board on a quarterly basis as to the effectiveness of the Company's management of its material business risks.

The assets of the Company and its controlled entities are insured under a comprehensive insurance program which is reviewed annually.

The Chief Executive and the Chief Financial Officer have stated to the Board in writing:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANCE STATEMENT

Principle 8
Remunerate fairly and responsibly

The functions of the Corporate Governance, Nomination and Remuneration Committee include reviewing the remuneration arrangements for non-executive and executive directors and reviewing and approving the issue of shares and options under the Company's employee share and option plans. The Committee also reviews remuneration for the senior management team and monitors, reviews and makes recommendations to the Board as to the remuneration policies of the Company generally. The names of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

Non-executive directors receive fees determined by the Board, but within the aggregate limits approved by shareholders at general meetings of the Company.

The remuneration of senior managers consists of a combination of fixed and variable (at risk) remuneration. The bonus paid to a senior manager is based on a review of the individual manager's performance.

Details of shares and options issued to employees of controlled entities of the Company are included in Note 21 to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013	2012
		$'000	$'000
Revenue and other income	3	206,414	218,928
Expenses	3	(191,093)	(194,493)
Results from operating activities		15,321	24,435
Finance income		551	2,338
Finance costs		(508)	(236)
Profit before income tax		15,364	26,537
Income tax expense	5	(4,036)	(6,970)
Profit after income tax for the year attributable to owners of the parent		11,328	19,567
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(15)	-
Total comprehensive income for the year attributable to owners of the parent		11,313	19,567
		cents	cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	22	54.0	93.4
Diluted earnings per share	22	54.0	93.4

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013	2012
		$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	6	9,703	30,808
Receivables	7	6,872	6,213
Accrued income	8	5,026	5,600
Current tax receivable	5	1,509	-
Other	9	4,029	2,378
TOTAL CURRENT ASSETS		27,139	44,999
NON-CURRENT ASSETS			
Property, plant and equipment	10	96,211	69,275
Intangibles	11	13,445	8,387
Deferred tax assets	5	3,052	4,389
Other	12	656	959
TOTAL NON-CURRENT ASSETS		113,364	83,010
TOTAL ASSETS		140,503	128,009
CURRENT LIABILITIES			
Payables	13	30,278	29,826
Current tax liabilities	5	-	3,631
Provisions	15	1,443	1,239
Other	16	320	187
TOTAL CURRENT LIABILITIES		32,041	34,883
NON-CURRENT LIABILITIES			
Borrowings	14	9,000	-
Deferred tax liabilities	5	-	-
Provisions	15	1,277	1,124
Other	16	579	677
TOTAL NON-CURRENT LIABILITIES		10,856	1,801
TOTAL LIABILITIES		42,897	36,684
NET ASSETS		97,606	91,325
EQUITY			
Contributed equity	17	42,991	42,991
Reserves	18	179	194
Retained profit	18	54,436	48,140
TOTAL EQUITY		97,606	91,325

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2013

	Contributed Equity	Reserves	Retained Profit/(Loss)	Total
	$'000	$'000	$'000	$'000
At 1 July 2011	42,811	182	33,600	76,593
Total comprehensive income for the year	-	-	19,567	19,567
Transactions with owners in their capacity as owners:				
Share-based payments expense	-	12	-	12
Exercise of options	180	-	-	180
Dividends provided for or paid	-	-	(5,027)	(5,027)
	180	12	(5,027)	(4,835)
At 30 June 2012	42,991	194	48,140	91,325

	Contributed Equity	Reserves	Retained Profit/(Loss)	Total
	$'000	$'000	$'000	$'000
At 1 July 2012	42,991	194	48,140	91,325
Total comprehensive income for the year	-	(15)	11,328	11,313
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(5,032)	(5,032)
	-	-	(5,032)	(5,032)
At 30 June 2013	42,991	179	54,436	97,606

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013	2012
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		225,574	242,387
Payments to suppliers and employees		(191,866)	(204,546)
Interest received		663	2,564
Interest paid		(490)	(236)
Income tax paid		(7,841)	(6,236)
Other receipts		11	46
NET CASH FLOWS FROM OPERATING ACTIVITIES	19	26,051	33,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current assets		(51,493)	(51,872)
Proceeds from sale of non-current assets		-	-
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(51,493)	(51,872)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	180
Proceeds from borrowings		9,000	-
Dividends paid on ordinary shares		(5,032)	(5,027)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		3,968	(4,847)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(21,474)	(22,740)
Cash and cash equivalents at the beginning of the financial year		30,808	53,463
Effects of exchange rate changes on cash and cash equivalents		369	85
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	6	9,703	30,808

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Corporate information

The financial report of Macquarie Telecom Group Limited ("Macquarie Telecom" or the "Company") for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of directors on 21 August 2013. The directors have the power to amend and reissue the financial statements.

Macquarie Telecom Group Limited is the head entity of a consolidated group ("Group") comprising Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS"), Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS"), Ninefold Pty Limited ("Ninefold") and Macquarie Hosting (Singapore) Pte Ltd ("MHS"). All subsidiaries are wholly owned by the head entity.

Macquarie Telecom Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX (ASX Code: MAQ).

The nature of the operations and principal activities of the Group are described in Note 26.

(b) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations. Macquarie Telecom is a for-profit entity for the purpose of preparing the financial statements.

The Group had a current asset deficiency of $4.9 million at the end of the financial year. These financial statements have been prepared on a going concern basis as the directors believe the Group can pay its debts as and when they fall due. This conclusion is based on the following factors:

- The Group has access to a cash advance facility (Note 14) which allows the Group to draw down and roll over a further $21 million until 10 January 2015, and an additional $20 million until 10 July 2014;
- The Group is forecasting positive operating cash flows in the 2014 fiscal year.

The financial report has been prepared in accordance with the historical cost convention except for equity-based payments that have been measured at fair value.

Compliance with IFRS

This financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Macquarie Telecom Group Limited and all entities that Macquarie Telecom Group Limited controlled during the year and at balance sheet date. Consolidation is based on control, which is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as that of the parent entity, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full. Subsidiaries are deconsolidated from the date that control ceases.

(b) Significant accounting judgements, estimates and assumptions

In preparing the financial report, the consolidated entity is required to make estimates and assumptions about the carrying values of assets and liabilities. The key estimates and accounting judgements for Macquarie Telecom relate to income taxes and the depreciation and amortisation of non-current assets. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation of financial reports of overseas subsidiary

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Foreign currency differences on intra-group investments, including long-term loans, are also taken through the foreign currency translation reserve.

(d) Property, plant and equipment

Cost and valuation

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Property, plant and equipment includes costs in relation to infrastructure development projects where future benefits are probable to exceed these costs.

Depreciation

Depreciation is calculated on a straight-line basis on all property, plant and equipment commencing from the time the asset is ready for use.

The estimated useful lives are as follows:

Plant and equipment	1 to 25 years
Buildings	4 to 40 years

Leasehold improvements are amortised over the shortest of the lease term and the useful life of the assets. Land is not depreciated.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Intangibles

Cost and valuation

All assets reported as intangibles are held at cost less accumulated amortisation and impairment losses. Intangibles include costs in relation to the development of software systems and products where future benefits are expected to exceed these costs. Costs capitalised include external direct costs of materials and service and direct payroll and payroll-related costs of employees' time spent on the project during the development phase. Software and product development costs are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Amortisation

Amortisation is calculated on a straight-line basis on all intangibles commencing from the time the asset is ready for use.

Amortisation periods are:

Software	3 to 4 years
Product development	3 years

(f) Transmission capacity

Expenditure, relating to the acquisition of transmission capacity, is capitalised to the extent that it is expected to provide future economic benefits to the Company. Capitalised expenditure less rebates are amortised over 15 years, being the period in which the related benefits are expected to be realised.

(g) Impairment of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate 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 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.

Impairment losses are recognised in the income statement.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(i) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount, less a provision for any uncollectible debts. Trade receivables are generally due for settlement within 30 days.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(j) Accrued income

Accrued income represents the estimated amounts of unbilled services provided to all customers as at the balance date after taking into account all discounts as applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Payables

Liabilities for carrier suppliers (trade creditors) are carried at the net amount the consolidated entity expects to have to pay each carrier, in respect of the services received.

Liabilities for other trade creditors and other creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(l) 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

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

In the event that lease incentives are received to enter into non-cancellable operating leases, such incentives are recognised as a liability. Lease payments are allocated between rental expenses, reduction of the liability and, where appropriate, interest expense over the term of the lease.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the fair value of the leased property or, if lower, 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.

(m) Employee benefits

The liability for employees' benefits to wages, salaries, bonuses and annual leave is accrued to balance date based on the consolidated entity's present obligation to pay resulting from employees' services provided. The liability for other long-term employees' obligations is recognised in the provision for employee benefits and measured as the present value of expected future cash flows to be paid by the consolidated entity resulting from the employees' services provided.

(n) Share-based payment transactions

The consolidated entity provides benefits to employees, including directors, in the form of share-based payment transactions.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date at which they are granted. The fair value is determined using the Monte Carlo Simulation model for those options subject to performance hurdles.

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 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 based on non-market conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Contributed equity

Issued 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.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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. The following specific recognition criteria must also be met before revenue is recognised:

Service revenue

Service revenue is recognised when the telecommunication services have been provided to the customer. Revenue is recognised net of customer discounts and allowances.

Interest income

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(q) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.
Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.
Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(r) Taxes

Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Tax consolidation legislation

Macquarie Telecom Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Macquarie Telecom Group Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Macquarie Telecom Group 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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 5.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(ii) Goods and Services Tax (GST)

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 is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables 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 Statement of Cash Flows 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 are classified as operating cash flows.

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

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred in relation to the arrangement of a borrowings facility or directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, are capitalised and amortised on a straight-line basis over the term of the facility. All other borrowing costs are recognised as an expense when incurred.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group chief operating decision maker and for which discrete financial information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessment of the time value of money and the risks specific to the liability.

(v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of shares outstanding during the financial year.

Diluted earnings per share

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 and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Rounding of amounts

Amounts contained in the financial report have been rounded to the nearest $1,000, where rounding is applicable, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

(x) Parent entity financial information

The financial information for the parent entity, Macquarie Telecom Group Limited, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements except as set out in Note 2(r) above "Tax consolidation legislation".

Investments in subsidiaries are accounted for at the lower of cost or recoverable amount in the financial statements.

(y) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations are set out below.

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and AASB 9 and Transition Disclosures (effective from 1 January 2015)*
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 and is available for early adoption. The Group has not decided when to adopt AASB 9, however, when adopted it is not expected to have any impact on the Group's accounting for financial assets and financial liabilities.

(ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013)*
In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. The Group does not expect the new standard to have any impact on its composition.

AASB 11 introduces a principles-based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. As the Group is not party to any joint arrangements, this standard will not have any impact on the financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. The Group does not expect the new standard to have any impact on its financial statements.

(iii) *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2014. However, the Group does not expect the new standard to have material impact on its financial statements.

(iv) *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)*
In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(v) *AASB Interpretation 21 Levies (effective 1 January 2014)*
Interpretation 21 was issued by the AASB in June 2013. It sets out the accounting for an obligation to pay a levy imposed by a government in accordance with legislation. The interpretation clarifies that a liability must be recognised when the obligating event occurs, being the event that triggers the obligation to pay the levy. The Group has reviewed the levies it is currently paying and determined that the accounting for these levies will not be affected by the interpretation. No adjustments will therefore be necessary to any of the amounts recognised in the financial statements. The Group will apply the interpretation from 1 July 2014.

(vi) None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(z) Comparatives

Prior year comparatives have been restated where necessary to conform with current presentation.

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**

3. REVENUE AND EXPENSES

(a) Revenue and other income

	2013 $'000	2012 $'000
Revenue from services	206,081	218,863
Net profit on disposal of plant and equipment	2	-
Net foreign exchange gains	269	19
Other income	62	46
Total revenue and other income	206,414	218,928

(b) Expenses

	2013 $'000	2012 $'000
Amortisation of non-current assets		
Leasehold improvements	230	229
Intangibles	4,795	3,930
Transmission capacity	303	303
Depreciation of non-current assets		
Property, plant and equipment	14,474	11,705
Total depreciation and amortisation expense	19,802	16,167
Bad and doubtful debts – trade debtors	40	41
Operating lease rental	5,810	5,727
Employment costs	63,802	61,721
Carrier costs	81,071	92,123
Net loss on disposal of plant and equipment	-	1
Other expenses	20,568	18,713
	171,291	178,326
Total expenses	191,093	194,493

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**
4. DIVIDENDS		
(a) Dividends paid during the reporting period		
(i) Final dividend for the year ended 30 June 2012 of 12 cents per share (year ended 30 June 2011: 12 cents) fully franked based on tax paid at 30%.	2,516	2,511
(iii) Interim dividend for the year ended 30 June 2013 of 12 cents per share (2012: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
	5,032	5,027
(b) Dividends not recognised at the end of the reporting period		
Since year end, the directors declared the payment of a final dividend of 12 cents per share (2012: 12 cents) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 10 October 2013 out of retained earnings at 30 June 2013, but not recognised as a liability at year end, is	2,516	2,516
(c) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2012: 30%)	13,524	12,979

The above amount represents the balance of the franking account as at the reporting date, adjusted for:

(i) franking debits that will arise from the receipt of the amount of the income tax receivable, and

(ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.

The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $1,078,309 (2012: $1,078,309).

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**
5. INCOME TAX		
(a) Income tax expense		
Current tax	2,699	5,705
Deferred tax	1,337	1,265
	4,036	6,970
Income tax expense is attributable to:		
Profit from continuing operations	4,036	6,970
Deferred income tax (revenue)/expense included in income tax expense comprises:		
(Increase) in deferred tax assets	(215)	(201)
Increase in deferred tax liabilities	1,552	1,466
	1,337	1,265
(b) Numerical reconciliation of income tax expense to *prima facie* tax payable		
Profit from continuing operations before income tax expense	15,364	26,537
Prima facie tax at the Australian tax rate of 30% (2012: 30%)	4,609	7,961
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	172	218
Research and development incentive	(748)	(420)
Research and development concession – prior year	-	(756)
Adjustments to tax in respect of prior years	3	(33)
Income tax expense	4,036	6,970
CURRENT ASSETS – CURRENT TAX RECEIVABLE		
Current tax receivable	1,509	-
	1,509	-

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
5. INCOME TAX (cont'd)		
NON-CURRENT ASSETS – DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Tax losses	-	-
Foreign income tax offsets ("FITO")	-	-
Accelerated depreciation for accounting purposes	4,847	4,834
	4,847	4,834
Employee benefits	1,511	1,290
Accrued expenses	950	973
Provisions for doubtful debts and credit notes	429	468
Other assets	150	107
Fringe benefits tax	15	15
Subtotal other	3,055	2,853
Total deferred tax assets	7,902	7,687
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,850)	(3,298)
Net deferred tax assets	3,052	4,389
Deferred tax assets expected to be recovered within 12 months	2,512	2,658
Deferred tax assets expected to be recovered after more than 12 months	5,390	5,029
	7,902	7,687

Movements – Consolidated	Tax Losses	FITO	Accelerated Depreciation	Other	Total
At 1 July 2011	-	90	4,488	2,908	7,486
Charged/(credited) to the income statement	-	(90)	346	(55)	201
At 30 June 2012	-	-	4,834	2,853	7,687
Charged to the income statement	-	-	13	202	215
At 30 June 2013	-	-	4,847	3,055	7,902

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
5. INCOME TAX (cont'd)		
CURRENT LIABILITIES – CURRENT TAX LIABILITIES		
Current tax liabilities	-	3,631
	-	3,631
NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Accelerated depreciation for tax purposes	4,212	2,997
	4,212	2,997
Other debtors	559	280
Prepayments	79	21
Subtotal other	638	301
Total deferred tax liabilities	4,850	3,298
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,850)	(3,298)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	1,853	1,672
Deferred tax liabilities expected to be recovered after more than 12 months	2,997	1,626
	4,850	3,298

Movements – Consolidated	Accelerated Depreciation	Prepayments	Other	Total
At 1 July 2011	1,626	45	161	1,832
Charged/(credited) to the income statement	1,371	(24)	119	1,466
At 30 June 2012	2,997	21	280	3,298
Charged to the income statement	1,215	58	279	1,552
At 30 June 2013	4,212	79	559	4,850

Tax consolidation

Macquarie Telecom Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002. Macquarie Telecom Group Limited is the head entity of the tax consolidated group. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax obligations. At balance date, the possibility of default is remote.

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 consolidated group in accordance with their accounting profit/(loss) for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with AASB 112 *Income Taxes* and UIG 1052 *Tax Consolidation Accounting*.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	$’000	$’000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	6,777	12,704
Short-term deposits	2,926	17,600
Restricted cash*	-	504
	9,703	30,808

* Bank deposits held by financial institutions as security against letters of credit.

7. RECEIVABLES

CURRENT		
Trade debtors	6,989	6,631
Provision for doubtful debts	(973)	(1,095)
Provision for credit notes	(507)	(507)
Other receivables	1,363	1,184
	6,872	6,213

(a) Terms and conditions relating to the above financial instruments:

(i) Sales are normally on 14 day terms; and

(ii) Details of impairment of trade receivables are set out in Note 27(b).

(b) Movements in provision for doubtful debts/credit notes are as follows:

At 1 July	(1,602)	(1,559)
Amounts written off	163	104
Net additional amounts provided	(41)	(147)
At 30 June	(1,480)	(1,602)

8. ACCRUED INCOME

Accrued income	5,026	5,600

9. OTHER CURRENT ASSETS

Prepayments	4,029	2,378

	CONSOLIDATED	
	2013	2012
	$'000	$'000
10. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements		
At cost	2,281	2,221
Accumulated amortisation	(1,618)	(1,388)
	663	833
Plant and equipment		
At cost	118,877	102,585
Accumulated depreciation	(91,821)	(83,456)
	27,056	19,129
Land and buildings		
At cost	55,507	-
Accumulated amortisation	(1,206)	-
	54,301	-
Land, buildings, plant & equipment under construction		
At cost	14,191	49,313
Accumulated depreciation	-	-
	14,191	49,313
Total written down amount	96,211	69,275

Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year:

	2013	2012
Leasehold improvements		
Opening balance	833	828
Additions	60	234
Amortisation expense	(230)	(229)
Closing balance	663	833
Plant and equipment (i)		
Opening balance	19,129	20,192
Additions	15,814	10,643
Transfers (ii)	5,381	-
Disposals	-	(1)
Depreciation expense	(13,268)	(11,705)
Closing balance	27,056	19,129

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**
10. PROPERTY, PLANT AND EQUIPMENT (cont'd)		
Land and buildings		
Opening balance	-	-
Additions	6,516	-
Transfers [ii]	48,991	-
Depreciation expense	(1,206)	-
Closing balance	54,301	-
Land, buildings, plant and equipment under construction		
Opening balance	49,313	12,612
Additions	19,931	36,701
Transfer to plant and equipment [ii]	(5,381)	-
Transfer to land and buildings [ii]	(48,991)	-
Transfer to intangibles - software [ii]	(681)	-
Closing balance	14,191	49,313

(i) During the year, fully depreciated plant and equipment of $4.9 million were retired.
(ii) Transfers upon completion of land, buildings, plant and equipment under construction.

11. INTANGIBLES

	2013 $'000	2012 $'000
Software		
At cost	29,320	20,042
Accumulated amortisation	(16,731)	(12,563)
	12,589	7,479
Product development		
At cost	6,471	6,999
Accumulated amortisation	(5,615)	(6,091)
	856	908
Total written down amount	13,445	8,387

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

11. INTANGIBLES (cont'd)

Reconciliations

Reconciliation of the carrying amounts of intangibles at the beginning and end of the current financial year:

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**
Software (i)		
Opening balance	7,479	7,158
Additions – internal development	7,426	3,250
Additions – acquisition	1,261	358
Transfers – internal development (ii)	594	-
Transfers – acquisition (ii)	87	-
Amortisation expense	(4,258)	(3,287)
Closing balance	12,589	7,479
Product development (i)		
Opening balance	908	865
Additions – internal development	485	686
Disposals	-	-
Amortisation expense	(537)	(643)
Closing balance	856	908

(i) During the year, fully amortised software of $0.1 million and product development of $1.0 million were retired.
(ii) Transfers from property, plant and equipment upon completion of land, buildings, plant and equipment under construction.

12. OTHER NON-CURRENT ASSETS

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**
Transmission capacity	4,722	4,722
Accumulated amortisation	(4,066)	(3,763)
	656	959

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

		CONSOLIDATED	
		2013	**2012**
		$'000	**$'000**
13. PAYABLES			
CURRENT			
Trade creditors		16,572	16,530
Other creditors and accruals		11,405	11,358
Annual leave entitlements		2,301	1,938
		30,278	29,826
(a) Australian dollar equivalents			
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:			
- New Zealand dollars		27	-
- Singapore dollars		275	-
- United States dollars		186	279

(b) Included in trade creditors are amounts payable to various telecommunications carriers. The Company disputes certain charges levied by some of its carriers. Included in trade creditors are the amounts the Company believes are its obligations for the services provided, after a careful review of the carrier billings.

(c) Terms and conditions relating to the above financial instruments:

(i) Trade liabilities are normally settled on 30 to 60 day terms.

14. BORROWINGS			
NON-CURRENT			
Cash advance facility (a)	19(c)	9,000	-
		9,000	-

(a) Borrowings represent the consolidated entity's cash advance facility balance at the reporting date. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 10 January 2015; and an additional $20 million in $500,000 parcels for interest periods of one, three and six months ending on 10 July 2014.

The terms of the facility includes a cross guarantee and indemnity between group entities and a negative pledge stating that the consolidated entity will not (subject to certain exceptions) provide any other security over its assets. The consolidated entity must also ensure certain financial ratios and conditions are met.

The consolidated entity complied with all the covenants of its borrowing facilities during the 2013 reporting period.

		CONSOLIDATED	
		2013	2012
	Notes	$'000	$'000
15. PROVISIONS			
CURRENT			
Employee benefits (a)	21	1,443	1,239
NON-CURRENT			
Employee benefits (a)	21	1,277	1,124

(a) A reconciliation of the movements in the provision balance are as follows:

Long service leave		
At 1 July	2,363	2,199
Net additional amounts provided	586	621
Amounts used during the period	(229)	(457)
At 30 June	2,720	2,363

16. OTHER LIABILITIES			
CURRENT			
Lease incentive	20(b)	320	187
NON-CURRENT			
Lease incentive	20(b)	579	677

	CONSOLIDATED	
	2013	2012
	$'000	$'000

17. CONTRIBUTED EQUITY

(a) Share capital

Ordinary shares authorised and fully paid (no par value)	42,991	42,991

	Notes	2013 Number of shares	2013 $	2012 Number of shares	2012 $
(b) Movements in shares on issue					
Balance at beginning of year		20,967,121	42,990,744	20,912,121	42,811,294
Conversion of share options	17(c)	-	-	55,000	179,450
Balance at end of year		20,967,121	42,990,744	20,967,121	42,990,744

(c) Share options

Options over ordinary shares

There were no options over ordinary shares issued during the year.

At the end of the year, there were nil (2012: nil) unissued ordinary shares in respect of which options were outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

No share options are held by the parent entity or its subsidiaries (2012: nil).

Information with respect to the number of options issued by Macquarie Telecom Group Limited is as follows:

	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of year	-	-	55,000	3.26
Granted	-	-	-	-
Forfeited/expired	-	-	-	-
Exercised	-	-	(55,000)	3.26
Balance at end of year	-	-	-	-
Exercisable at end of year	-	-	-	-

17. CONTRIBUTED EQUITY (cont'd)

(d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group utilises a cash advance borrowing facility to provide funds for working capital requirements and to support future growth opportunities. The Group regularly monitors the level of borrowings to ensure compliance with facility covenants and minimisation of financing costs.

	Notes	CONSOLIDATED	
		2013	**2012**
		$'000	**$'000**
18. RESERVES AND RETAINED EARNINGS			
Other reserves	18(a)	179	194
Retained profits	18(b)	54,436	48,140

(a) Other reserves

(i) Nature and purpose of reserves

The foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries.

The employee equity benefits reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to Note 21 for further details of these plans.

(ii) Movements in reserves

	2013	2012
Foreign currency translation reserve:		
Balance at beginning of year	-	-
(Loss) on translation of foreign controlled entity	(15)	-
Balance at end of year	(15)	-
Employee equity benefits reserve:		
Balance at beginning of year	194	182
Share-based payments expense	-	12
Balance at end of year	194	194
	179	194

	CONSOLIDATED	
	2013	2012
	$'000	$'000

18. RESERVES AND RETAINED EARNINGS (cont'd)

(b) Retained profits

	2013 $'000	2012 $'000
Balance at beginning of year	48,140	33,600
Net profit for the year	11,328	19,567
Total available for appropriation	59,468	53,167
Dividends paid or provided for	(5,032)	(5,027)
Balance at end of year	54,436	48,140

19. STATEMENT OF CASH FLOWS

(a) Reconciliation of the profit after income tax expense to the net cash flows from operating activities

	2013 $'000	2012 $'000
Profit after income tax expense	11,328	19,567
Amortisation of non-current assets	5,328	4,462
Depreciation of non-current assets	14,474	11,705
(Profit)/loss on sale of plant and equipment	(2)	1
Share-based payments expense	-	12
Net foreign currency gains	(384)	(85)
Changes in assets and liabilities		
(Increase)/decrease in:		
Trade receivables	(480)	410
Accrued income	574	2,276
Current tax receivable	(1,509)	-
Prepayments	(1,651)	(306)
Deferred tax assets	1,337	1,265
Other receivables	(179)	(296)
Increase/(decrease) in:		
Trade and other creditors	453	(4,492)
Current tax liabilities	(3,631)	(441)
Deferred tax liabilities	-	-
Provisions	358	(34)
Other liabilities	35	(65)
Net cash flow from operating activities	26,051	33,979

(b) Non-cash investing activities

There were no non-cash investing activities during the financial year.

	CONSOLIDATED	
	2013	2012
	$'000	$'000

19. STATEMENT OF CASH FLOWS (cont'd)

(c) Financing facilities available

	2013 $'000	2012 $'000
Total facilities:		
- bank guarantee facility	3,800	3,667
- cash advance facility	50,000	30,000
	53,800	33,667
Facilities used at reporting date:		
- bank guarantee facility	3,248	3,667
- cash advance facility	9,000	-
	12,248	3,667
Facilities unused at reporting date:		
- bank guarantee facility	552	-
- cash advance facility	41,000	30,000
	41,552	30,000
Facilities used at reporting date	12,248	3,667
Facilities unused at reporting date	41,552	30,000
Total facilities	53,800	33,667

Bank guarantee facility

The consolidated entity has a guarantee facility with a financial institution for rental bonds.

Cash advance facility

On 13 December 2012, the consolidated entity increased its cash advance facility with a financial institution to $50 million. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 10 January 2015; and an additional $20 million in $500,000 parcels for interest periods of one, three and six months ending on 10 July 2014.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

	CONSOLIDATED	
	2013	**2012**
	$'000	**$'000**

20. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2013 $'000	2012 $'000
Not later than one year		
- Plant and equipment	3,533	1,710
- Land and buildings	1,212	-
- Land, buildings, plant and equipment under construction	809	3,522
- Software	14	-
Payable later than one year	-	-
	5,568	5,232

(b) Lease expenditure commitments

Operating leases

All operating leases relate to premises, parking spaces and office equipment in various locations and have a lease term of between 12 months and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

	2013 $'000	2012 $'000
Minimum lease payments:		
Not later than one year	5,890	5,754
Later than one year and not later than five years	6,355	10,674
Later than five years	26	-
	12,271	16,428
Aggregate expenditure commitments comprise:		
Amounts provided for:		
Lease incentive liability – current	320	187
Lease incentive liability – non-current	579	677
Amounts not provided for:		
Rental commitments	12,271	16,428
	13,170	17,292

	Notes	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000

21. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee benefits

	Notes	2013 $'000	2012 $'000
The aggregate employee benefits liability is comprised of:			
Accrued wages, salaries, annual leave and on costs		7,136	6,947
Provisions (current)	15	1,443	1,239
Provisions (non-current)	15	1,277	1,124
		9,856	9,310

Employee share schemes

The consolidated entity has adopted the following three employee share plans:

(a) Employee Option Plan;

(b) Discretionary Share Plan; and

(c) Share Purchase Plan.

Full-time and part-time employees of Macquarie Telecom or its subsidiaries are eligible to participate in these plans at the discretion of the directors. Directors, both executive and non-executive, are also eligible to participate in the plans. However, their participation is subject to the *Corporations Act 2001* and the ASX Listing Rules. The plans are administered by the Board, which determines the directors or employees that will be made offers to participate in the plans and the terms of those offers. There are currently 412 employees and directors eligible for these plans.

Each of the plans contains provisions dealing with matters such as administration of the plans, variation of the plan rules, and termination or suspension of the plans. The plans are subject to the overriding application of the *Corporations Act 2001* and the ASX Listing Rules.

The plans restrict the total number of shares issued under all of the plans, including as a result of the exercise of options, in the previous five years and the number of unexercised options issued to no more than 5% of the issued share capital of Macquarie Telecom.

During the year, there were nil options (2012: nil) issued under the Employee Option Plan to eligible employees. At 30 June 2013, there were nil (2012: nil) options on issue under this plan. During the year, nil options were exercised (2012: 15,000) and nil (2012: nil) options were forfeited. Employee options are contingent on: (a) the employee remaining in employment with the Company; and (b) the Company's share price reaching an amount equal to or greater than 25% higher than the option exercise price for 20 consecutive days prior to the date of exercise.

During the year, there were nil shares (2012: nil) issued under the Discretionary Share Plan to eligible employees, and nil shares (2012: nil) issued under the Share Purchase Plan. Ordinary shares issued under the Discretionary Share Plan are not disposable for two years from the date of issuance. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie Telecom, or three years from the date of issuance.

The market value of Macquarie Telecom shares closed at $7.91 on 30 June 2013.

No other equities in any of the entities within the consolidated entity were acquired by or issued to employees during the year in relation to any other ownership-based remuneration scheme.

The maximum contractual life of each option granted is five years. There are no cash settlement alternatives.

21. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (cont'd)

Information in respect to the number of options granted under the Employee Option Plan is as follows:

	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of year	-	-	15,000	0.92
Granted	-	-	-	-
Forfeited/expired	-	-	-	-
Exercised	-	-	(15,000)	0.92
Balance at end of year	-	-	-	-
Exercisable at end of year	-	-	-	-

(a) Options held at the beginning of the reporting period

There were nil options held by employees as at 1 July 2012.

(b) Options granted during the reporting period

There were nil options granted by the Company to employees during the year.

(c) Options exercised during the reporting period

There were nil options exercised by employees during the year.

(d) Options held at the end of the reporting period

There were nil options held by employees as at 30 June 2013.

(e) Superannuation commitments

MT makes contributions in accordance with the superannuation law in respect of each eligible employee. At the end of the financial year, contributions of up to 9% (2012: 9%) of employees' salaries and wages are legally enforceable in Australia.

22. EARNINGS PER SHARE

	CONSOLIDATED	
	2013	**2012**
	cents	**cents**
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	54.0	93.4
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	54.0	93.4

	2013	**2012**
	$'000	**$'000**
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	11,328	19,567

	2013	**2012**
	Number of shares	**Number of shares**
(d) Weighted average number of ordinary shares used in calculating basic earnings per share	20,967,121	20,941,162
Effect of dilutive securities:		
Share options	-	14,381
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	20,967,121	20,955,543
Number of options that are not dilutive and not included in the calculation of diluted earnings per share		
- Options over ordinary shares	-	-

Since the end of the financial year, no ordinary shares have been issued upon the exercise of options.

23. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel

Key management personnel of the consolidated group are defined as those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly.

Directors:

R Kaye	Chairman
D Tudehope	Chief Executive
A Tudehope	Managing Director – Hosting
J Palfreyman	Non-Executive Director
A Darling	Non-Executive Director
P James	Non-Executive Director

Other Key Management Personnel:

C Greig	Group Executive, Telco Business
M Simmonds	Chief Financial Officer
L Clifton	Group Executive, Sales
S Butler[1]	Chief Operating Officer

[1] Resigned as Non-Executive Director 31 October 2011 and appointed Chief Operating Officer 27 February 2013.

(b) Compensation of Key Management Personnel

(i) Compensation policy

The Corporate Governance, Nomination and Remuneration Committee comprise all the non-executive directors and the Chief Executive. Its main responsibilities are to review all matters relating to the appointment, retirement and performance of the Board, the Board Committees and the Chief Executive and Managing Director – Hosting of the Company.

The Committee addresses the people management processes and reviews the remuneration arrangements for non-executive directors, executive directors and senior managers. The Committee also reviews and approves the issue of shares and options under the Company's share and option plans. The Managing Director – Hosting joins the Committee to determine the remuneration policy for the senior management team.

Further details of remuneration policy and service contracts in place are outlined in the Directors' Report under the heading "Remuneration Report".

23. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(ii) Compensation by category

	CONSOLIDATED 2013 $	CONSOLIDATED 2012 $
Short-term employee benefits	3,552,451	3,529,725
Long-term employee benefits	293,469	199,797
Post employment benefits	122,909	109,805
Termination payments	-	6,346
Share-based payments	-	11,266
	3,968,829	3,856,939

Information regarding individual directors' and executives' remuneration is provided in the Remuneration Report on pages 7 to 12.

(c) Shareholdings of key management personnel

	Balance 1 July 2011	*On exercise of options*	*Net change other*	*Balance 30 June 2012*	*Net change other*	*Balance 30 June 2013*
Directors						
R Kaye	30,000	-	-	30,000	(23,909)	6,091
D Tudehope[1]	323,291	-	133	323,424	-	323,424
A Tudehope[1]	3,591	-	-	3,591	-	3,591
D & A Tudehope 25(c)(i)	12,501,390	-	-	12,501,390	-	12,501,390
J Palfreyman[1]	50,000	40,000	-	90,000	(40,000)	50,000
A Darling	-	-	-	-	-	-
P James	-	-	-	-	-	-
Executives						
C Greig	22,500	-	-	22,500	(7,500)	15,000
M Simmonds	50,000	-	-	50,000	(40,000)	10,000
L Clifton	-	-	-	-	-	-
S Butler[2]	30,000	-	(30,000)	-	4,399	4,399
Total	13,010,772	40,000	(29,867)	13,020,905	(107,010)	12,913,895

[1] Includes holdings by director-related entities.
[2] Resigned as Non-Executive Director 31 October 2011 and appointed Chief Operating Officer 27 February 2013.

All options and shareholdings referred to above are ordinary shares in the Company.

(d) Shares granted as remuneration

During the financial year there were nil shares (2012: nil) granted to key management personnel as remuneration.

(e) Shares issued on exercise of compensation options

During the financial year there were nil shares (2012: 40,000) issued to key management personnel on exercise of compensation options.

(f) Other transactions and balances with key management personnel

Services provided by any related party have been disclosed in Note 25(b).

	CONSOLIDATED	
	2013	**2012**
	$	**$**
24. AUDITOR'S REMUNERATION		
The auditor of Macquarie Telecom is PricewaterhouseCoopers.		
Amounts received or due and receivable by the auditor of Macquarie Telecom for:		
– an audit or review of the financial report of the Company and any other entity in the consolidated entity	244,500	225,000
– other services in relation to the Company and any other entity in the consolidated entity	20,200	19,300
	264,700	244,300

25. RELATED PARTY DISCLOSURES

(a) Key Management Personnel:

Disclosures relating to key management personnel are set out in Note 23.

(b) The following related party transactions occurred during the financial year:

Transactions with related parties in the wholly owned group

Business Development Agreement

On 29 June 1998, the Company entered into a Business Development Agreement with its wholly owned subsidiary, Macquarie Telecom Pty Limited ("MT"). Under this agreement, the Company can charge MT a fee for the provision of services to customers and can be charged a management fee by MT for servicing any customers contracted to the Company. No such fees were levied during the current financial year (2012: nil).

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Macquarie Telecom Group Limited and its 100% owned Australian tax resident subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned Australian tax resident subsidiaries based on their accounting profit/(loss) for the period. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

Amounts due from/payable to wholly owned entities

On 30 June 2013, the Company had non-current receivables with a carrying value of $75,729,507 (2012: $84,111,201) due from Macquarie Telecom Pty Limited ("MT"), which was a result of tax consolidations and advances made to MT in relation to normal commercial transactions.
On 30 June 2013, the Company had an amount payable to Ninefold Pty Limited ("Ninefold") of $4,552,003 (2012: $2,619,976), which was a result of tax consolidations.
On 30 June 2013, the Company had an amount receivable from Macquarie Hosting (Singapore) Pte Ltd ("MHS") of $16,579 (2012: nil), which was a result of tax consolidations.

Transactions with director-related entities

Services

A director-related entity of J Palfreyman was paid $128,900 (2012: $419,255) for the provision of consulting services to the consolidated entity.
P James was paid $267,947 (2012: $75,000) for the provision of consulting services to the consolidated entity. On 30 June 2013, the Company had an amount payable to P James of $55,000.
All amounts paid were on normal commercial terms and conditions and at market rates.

25. RELATED PARTY DISCLOSURES (cont'd)

(c) Equity instruments of directors

Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at 30 June 2013, being the number of instruments held, were:

(i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 12,501,390 (60%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;

(ii) a director-related entity of D Tudehope and A Tudehope holds 7,183 ordinary shares issued under the Employee Discretionary Share Plan and Share Purchase Plan;

(iii) a director-related entity of D Tudehope holds 319,699 ordinary shares. D Tudehope holds a further 133 shares issued under the Employee Discretionary Share Plan;

(iv) R Kaye has an interest in 6,091 ordinary shares;

(v) a director-related entity of J Palfreyman holds 10,000 ordinary shares. J Palfreyman also has an interest in 40,000 ordinary shares.

(d) Terms and conditions

All transactions with key management personnel were made on normal commercial terms and conditions and at market rates.

26. SEGMENT INFORMATION

Segment description

The consolidated entity operates in four primary operating segments providing services to corporate and government customers. The Voice segment relates to the provision of voice telecommunications services. The Data segment relates to the provision of services utilising the Macquarie Telecom data network. The Hosting segment relates to the provision of services utilising Macquarie Telecom's data hosting facilities. The Mobile segment relates to the provision of mobile telecommunications services.

All activities are principally conducted in Australia.

Segment accounting policies

Segment accounting policies are the same as the consolidated entity's policies described in Note 2.

26. SEGMENT INFORMATION (cont'd)

Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Consolidated	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Revenue										
Sales to customers outside the consolidated entity	65,814	76,199	61,050	62,428	60,371	58,530	18,846	21,706	206,081	218,863
Other income	-	-	2	16	93	49	-	-	95	65
Total segment revenue	65,814	76,199	61,052	62,444	60,464	58,579	18,846	21,706	206,176	218,928
Unallocated revenue									238	-
Total consolidated revenue									206,414	218,928
Results										
Segment result before income tax	16,127	17,243	6,132	5,231	67	7,819	1,706	3,156	24,032	33,449
Unallocated revenue and expenses									(8,711)	(9,014)
Profit before income tax and finance costs									15,321	24,435
Finance income									551	2,338
Finance costs									(508)	(236)
Consolidated entity profit before income tax									15,364	26,537
Income tax expense									(4,036)	(6,970)
Consolidated entity profit after income tax									11,328	19,567

26. SEGMENT INFORMATION (cont'd)

Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Consolidated	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Depreciation	79	195	4,044	4,217	9,418	6,445	11	28	13,552	10,885
Unallocated depreciation									922	820
Total depreciation									14,474	11,705
Amortisation	22	51	993	922	1,662	1,120	241	169	2,918	2,262
Unallocated amortisation									2,410	2,200
Total amortisation									5,328	4,462

	Voice		Data		Hosting		Mobiles		Consolidated	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Other segment information										
Acquisition of property, plant and equipment and intangible assets	40	69	5,626	4,491	42,611	44,039	424	239	48,701	48,838
Unallocated acquisitions									2,792	3,034
Total acquisitions									51,493	51,872

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27. FINANCIAL RISK MANAGEMENT

Objectives and policies

The consolidated entity's principal financial instruments comprise cash, short-term deposits and borrowings (cash advance facility).

The main purpose of these financial instruments was to provide additional funding capacity for the consolidated entity's operations.

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

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

Interest rate risk

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through use of financing facilities.

Credit risk

Information regarding the consolidated entity's credit risk policies and objectives is set out in Note 27(b).

Foreign exchange risk

The consolidated entity is exposed to changes in foreign exchange risk in relation to the earnings of its international data operations and payments to overseas suppliers, which have not been hedged on the basis of its significance to the Group's results.

The consolidated entity holds the following financial instruments all categorised as financial instruments at amortised cost:

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	9,703	30,808
Trade and other receivables	6,872	6,213
Accrued income	5,026	5,600
Other current assets	4,029	2,378
	25,630	44,999
Financial liabilities		
Trade and other payables	30,278	29,826
Borrowings	9,000	-
	39,278	29,826

27. FINANCIAL RISK MANAGEMENT (cont'd)

a) Market risk

(i) Foreign exchange risk

The consolidated entity operates primarily in Australia and is exposed to foreign exchange risk arising mainly from its international data operation and overseas suppliers. Commercial transactions in Australia are mainly in Australian dollars. Foreign currency transactions are not significant to the consolidated operations. As such, the consolidated entity chooses not to hedge its foreign exchange risk using forward exchange contracts. The consolidated entity's exposure to foreign currency risk at the reporting date was as follows:

	2013			2012		
	$'000 USD	$'000 SGD	$'000 NZD	$'000 USD	$'000 SGD	$'000 NZD
Cash and cash equivalents	4,020	64	-	2,600	-	-
Trade and other receivables	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-
Accrued income	-	-	-	-	-	-
Trade and other payables	186	275	27	279	-	-
Borrowings	-	-	-	-	-	-

Consolidated entity sensitivity

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the consolidated entity's post-tax profit for the year would have been $467,000 higher/$382,000 lower (2012: $320,000 higher/$262,000 lower) mainly as a result of foreign exchange gains/losses on translation of US denominated financial assets as detailed in the above table.

(ii) Interest rate risk

The consolidated entity's and parent entity's main interest risk arises from cash and cash equivalents with banks and floating-rate borrowings (cash advance facility).

Based on the cash and cash equivalents, and floating-rate borrowings at 30 June 2013, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been $7,000 higher/lower (2012: $56,000 higher/lower) as a result of higher/lower interest income from these financial assets.

(iii) Other price risk

The consolidated entity does not carry any other price risk.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

27. FINANCIAL RISK MANAGEMENT (cont'd)

(iv) Cash flow and fair value interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: Over 1 to 5 years		Fixed interest rate maturing in: More than 5 years		Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 % pa	2012 % pa
(i) Financial assets														
Cash	6,776	12,703	2,926	18,104	-	-	-	-	1	1	9,703	30,808	1.95	4.85
Receivables – trade	-	-	-	-	-	-	-	-	6,872	6,213	6,872	6,213	N/A	N/A
Accrued income	-	-	-	-	-	-	-	-	5,026	5,600	5,026	5,600	N/A	N/A
Other – current	-	-	-	-	-	-	-	-	4,029	2,378	4,029	2,378	N/A	N/A
Total financial assets	6,776	12,703	2,926	18,104	-	-	-	-	15,928	14,192	25,630	44,999		
(ii) Financial liabilities														
Payables	-	-	-	-	-	-	-	-	30,278	29,826	30,278	29,826	N/A	N/A
Borrowings	9,000	-	-	-	-	-	-	-	-	-	9,000	-	3.91	-
Total financial liabilities	9,000	-	-	-	-	-	-	-	30,278	29,826	39,278	29,826		

N/A: Not applicable for non-interest bearing financial instruments.

27. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers including receivable and committed transactions. Customers are assessed for their creditworthiness by using a third party credit rating agency. If there are no independent credit ratings available, credit risk is assessed by taking into account the financial position of the Company, past experience and other factors. The consolidated entity mitigates the credit risk of the top 20 customers through trade credit insurance. The credit quality of the financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 56.

	Consolidated	
	2013	2012
	$'000	$'000
Trade receivables		
Group 1	5,438	4,984
Group 2	1,551	1,647
Provision for doubtful debts	(973)	(1,095)
	6,016	5,536

Group 1	Aged 0–30 days including past due, but not impaired.
Group 2	Aged 30+ days against which provision has been made.

(c) Liquidity risk

The consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally invested on investment account and short-term deposit.

Cash advance facility

On 13 December 2012, the consolidated entity increased its cash advance facility with a financial institution to $50 million. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 10 January 2015; and an additional $20 million in $500,000 parcels for interest periods of one, three and six months ending on 10 July 2014.

Maturities of financial liabilities

	Less than 6 months	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flow
Consolidated entity at 30 June 2013	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing	30,278	-	-	-	-	30,278
Variable rate	-	-	9,000	-	-	9,000
Fixed rate	-	-	-	-	-	-
	30,278	-	9,000	-	-	39,278

(d) Fair value estimation

The carrying value of all financial instruments is assumed to approximate their fair value given their short-term nature.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

28. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for Macquarie Telecom Group Limited, the parent entity, show the following aggregate amounts:

	2013 $'000	2012 $'000
Statement of financial position		
Current assets	1,503	-
Total assets	136,667	143,539
Current liabilities	4,629	6,361
Total liabilities	4,629	6,361
Shareholders' equity		
Contributed equity	42,991	42,991
Reserves		
Employee equity benefits reserve	194	194
Retained profit	88,853	93,993
	132,038	**137,178**
Loss for the year	**(108)**	**(53)**
Total comprehensive loss	**(108)**	**(53)**

(b) Guarantees entered into by the parent entity

Macquarie Telecom Group Limited (the "Company"), Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS") and Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS") (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2005**.** The effect of the deed is that the Company has guaranteed to pay any deficiency in the event of winding up of MT, MH, MTCS and MTNCS. MT, MH, MTCS and MTNCS have also given a similar guarantee in the event that the Company is wound up. The Deed of Cross Guarantee was amended on 20 July 2011 to include Ninefold Pty Limited and as such, Ninefold Pty Limited entered the Closed Group on that date.

(c) Contingent liabilities of the parent entity

The Company has guaranteed MT's performance, including payments owed, under various wholesale supply agreements between MT and Telstra Corporation Limited ("Telstra"). It is not practical to disclose the maximum amount payable under the guarantee.

(d) Contractual commitments for the acquisition of property, plant or equipment

Macquarie Telecom Group Limited did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2013 or 30 June 2012.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of $3.1 million at the end of the financial year. The financial statements for the Company have been prepared on a going concern basis as the directors believe the Company can pay its debts as and when they fall due. The current asset deficiency includes an amount payable to a wholly owned entity of $4.6 million.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2013

29. EVENTS OCCURING AFTER THE REPORTING DATE

On 21 August 2013, the directors declared a fully franked final dividend of 12 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2013, to be paid to the shareholders on 10 October 2013. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $2.52 million.

The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $1,078,309.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Macquarie Telecom Group Limited, we state that:

(1) In the opinion of the directors:

   (a) the financial report, the additional disclosures included in the directors' report designated as audited, and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements.

   (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 period ending 30 June 2013.

(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(b) 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.

Note 1(b) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

On behalf of the Board:

David Tudehope
Chief Executive

Sydney, 21 August 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACQUARIE TELECOM GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of Macquarie Telecom Group Limited (the company), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Macquarie Telecom Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Macquarie Telecom Group Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 12 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
21 August 2013

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2013, 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 audit.

This declaration is in respect of Macquarie Telecom Group Limited and the entities it controlled during the period.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
21 August 2013

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