ANNUAL REPORT 2015

OUR STRATEGIC OBJECTIVE IS TO BE AUSTRALIA'S LEADING MANAGED HOSTING, CLOUD AND TELECOMMUNICATIONS PROVIDER TO BUSINESS AND GOVERNMENT CUSTOMERS THROUGH THE DELIVERY OF SERVICE EXCELLENCE.

HOSTING - BUSINESS

Macquarie Telecom's Hosting Business Division focuses on providing secure, scalable, high-availability, co-location, fully managed hosting and cloud services for our customers' mission critical application.

HOSTING - GOVERNMENT

Macquarie Telecom's Hosting Government Division protects Australian government departments from cyber threats with specialised Gateway, Hosting infrastructure and a range of secure cloud services.

TELCO

Macquarie Telecom's Telco Division provides a full range of telecommunication services to corporate and government customers including fixed line voice, data networks and mobility services through a range of carriers offering choice, control and cost reduction with an outstanding customer service model.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the members of Macquarie Telecom Group Limited be held at Macquarie Telecom's Sydney office (Level 15, 2 Market Street, Sydney) on Friday, 20 November 2015 at 9.00am.

Front cover: Intellicentre 4 Bunker facade

CONTENTS

COMPANY HIGHLIGHTS	04
CHAIRMAN'S MESSAGE	06
COMPANY FEATURE	07
CHIEF EXECUTIVE'S MESSAGE	10
FINANCIAL STATEMENTS	12

Diesel rotary uninterruptible power supply (DRUPS), Intellicentre 2

$26.3M

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION OF $26.3 MILLION

$23.8M

OPERATING CASH FLOW OF $23.8MILLION

25C

FULLY FRANKED ORDINARY DIVIDEND OF 25 CENTS PER SHARE

+56

NET PROMOTER SCORE OF +56 FOR THE SECOND HALF OF THE YEAR

OUR STRATEGY IS TAKING EFFECT AND IS BUILDING MOMENTUM

- Structural reorganisation implemented during the first half of the financial year; an improved second half was experienced as our strategy gained traction.

- Capital infrastructure phase is complete; the company is now in a position to leverage its investments for revenue growth and improved profit performance.

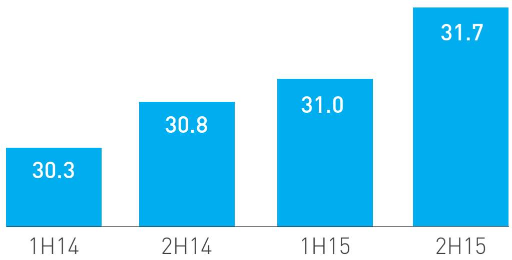
- Sale of land, shell and core building of Intellicentre 2 for consideration of $43.3 million completed on 10 August 2015 and at the same time the signing of a triple net lease for 20 years with two five year options.

Financial Summary

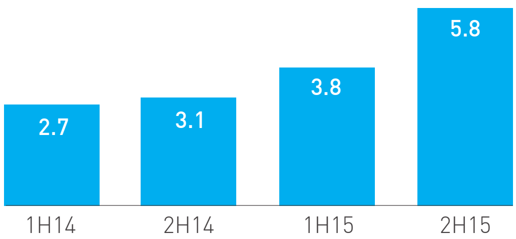
By financial half year, in $m

	1H14	2H14	1H15	2H15
Service revenue	99.8	97.0	95.3	97.1
EBITDA	13.3	12.2	11.8	14.5
EBIT	1.0	(1.9)	(3.0)	(2.0)
Net profit after tax	0.4	(1.2)	(2.5)	(1.8)
Operating cash flow	5.8	13.2	9.0	14.8

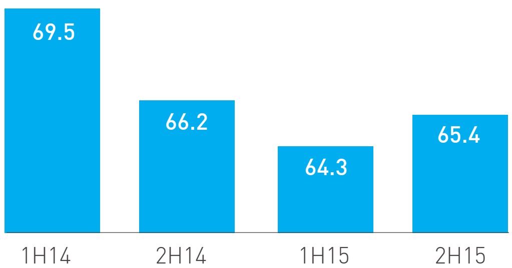
Hosting Revenue ($m)



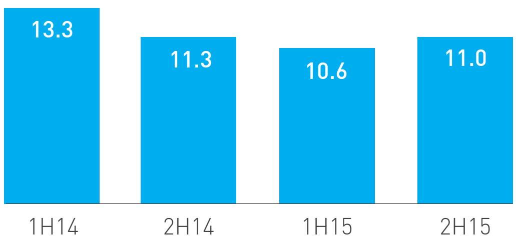
Hosting EBITDA ($m)



Telco Revenue ($m)



Telco EBITDA ($m)



CHAIRMAN'S MESSAGE

It is with pleasure that I present a return to growth in EBITDA for the full year and, of particular note, an increase in revenue and EBITDA in the second half of the financial year compared to the prior half.

Full year EBITDA profit was $26.3 million, which represents an improvement of $0.8 million on fiscal 2014. Importantly, revenue and EBITDA in the second half of the fiscal year grew by $1.8 million and $2.7 million, respectively, compared to the previous corresponding period. This result reflects the completion of the capital investment program that has positioned the company for sustainable growth.

Our Hosting divisions continued to leverage our infrastructure investments, growing revenue by $1.6 million (3.7%) on 2014 and contributing $62.7 million, or 32.6%, of total revenue. It is also pleasing to note that EBITDA for the divisions was $9.6 million, an increase of $3.7 million (63.9%) on 2014, highlighting the Board and management focus on continuing to improve operational efficiency.

Revenue for our Telco division decreased by $6.0 million (4.4%) on 2014, however, the division performed well in the second half of the fiscal year showing signs of growth by the end of the half. In the second half of the financial year Telco revenue and EBITDA increased by $1.1 million and $0.4 million, respectively. The highly competitive environment that this business operates in emphasises that the strategy we have in place is working and is taking effect.

The improvement in the Company's performance has resulted in operating cash flows of $23.8 million, an increase of 25.3% compared to 2014.

The announcement of the resumption of dividends and the declaration of a 25cps fully franked final dividend for FY15 supports our confidence that our strategy has begun to take effect and that we believe our business is well positioned for revenue growth and increased profit performance in the coming year.

During the financial year the company announced the conditional sale of land, shell and core building of Intellicentre 2. We will continue to manage the facility which remains key to our ongoing and future operations. We purchased the land and constructed the original building and state of the art data centre in 2011. However, our strategic intention has been to release the capital through a sale at an appropriate juncture. This sale became unconditional on August 10, 2015 and after the first tranche of funds ($40.3 million) was received net cash was approximately $25 million. This has allowed the company to fully repay borrowings and provides the opportunity to consider further investment opportunities as they arise.

Guidance for the coming year has been provided for the first time at the full year result announcement indicating the Board's confidence in the Company's strategy. EBITDA for fiscal 2016 is expected to be in the range of $28 to $32 million with depreciation of $24 to $26 million and maintenance capex to remain steady.

In conclusion, we enter the new financial year confident that our strategies are working and that our significant capital investment in data centres and cloud computing technology will provide the platform for continued growth.

Peter James
Chairman

UNITED WAY

UNITED WAY AUSTRALIA IS A NOT-FOR-PROFIT, WORKING AS PART OF A GLOBAL NETWORK THAT BELIEVES EVERYONE DESERVES THE OPPORTUNITY TO REACH THEIR FULL POTENTIAL.

The charity mobilises people, organisations and communities to improve the lives of Australians living in disadvantage, via early interventions that ensure children and young people read, learn and succeed in life.

Macquarie Telecom is one of United Way Australia's longest supporters. This year we celebrate 20 years together – a wonderful achievement in a time when charitable partnerships often only last a year or two. Over the past 20 years we have mobilised employees to volunteer, raised almost $500,000 through appeals and payroll giving, organised book drives and Christmas gift donations, and created champions and advocates to support United Way's work.

> "**AT MACQUARIE TELECOM** WE FULLY APPRECIATE OUR ROLE AS A CORPORATE PARTNER OF UNITED WAY. THIS PARTNERSHIP ALLOWS OUR STAFF AN OUTLET FOR VOLUNTEERING AND GIVING WHICH CONTRIBUTES TO THE LIVES OF MANY PEOPLE LESS FORTUNATE THAN US."
>
> **Craig Lowe**
> General Manager, Customer Operations at Macquarie Telecom

Approximately one third of Macquarie Telecom employees make an ongoing contribution through payroll giving which provides United Way with almost $30,000 every year for its early intervention projects in disadvantaged communities throughout Australia.

Craig Lowe, who leads Macquarie Telecom's Community and Workplace Giving Programs reflects: "I have always felt the need to give back to community. I think the best way to judge an organisation is by what they do for their staff, customers and the wider community. At Macquarie I think we have the balance right."

Macquarie Telecom employees also agree that the balance is right. Key to the organisation's Community Program is providing employees with the opportunity to volunteer and use their skills and experience to mentor young people from vulnerable communities. Earlier this year, a group of students visited Intellicentre 2 at Macquarie Park. Several staff took part in the activity which included a tour of the data centre as well as an opportunity to hear about the various careers that are available within the ICT industry. The Facilities Manager at the data centre said, "I really enjoy taking time out of my day to day work to give back and spend time with the Year 10 students. I feel really proud of the fact that my company gives me the opportunity to do that."

If you would like to find out more about United Way Australia, as well as opportunities to support children and young people across Australia, please visit **www.unitedway.com.au**.

CUSTOMER CASE STUDY

UNIVERSITY OF TECHNOLOGY SYDNEY

Colocation | Managed Hosting

UTS has a bold vision to be a world-leading university of technology, known for their industry focus, practice-based teaching and real world research. They are preparing students to become global thinkers, leaders and innovators.

The Situation

In response to the shifts occurring in the education sector and the disruptive threats presented by Massive Open Online Courses, UTS set out to build a truly modern university and place IT at the core of that strategy.

UTS had some key goals when they embarked on this project including:

- Providing students and teachers with the adaptable high tech services they demand;
- Reducing the costs of managing ageing hardware and legacy applications;
- Reducing the timeframe for implementing new IT projects;
- Focusing on supporting the university with its future growth plans; and
- Finding a partner that will work alongside them and help the university to continue to grow in the future.

“**MACQUARIE TELECOM NOW** FEEL LIKE PART OF THE UTS FAMILY, WHICH MAKES THE MANAGEMENT PROCESS MUCH EASIER.”

Steve McEwan
Technical Services Manager – UTS

The Macquarie Solution

UTS selected Macquarie Telecom to provide a colocation and managed hosting solution which has enabled them to change the way IT is embraced and used within the institution.

The key elements of why UTS chose Macquarie Telecom's solution include:

- The flexibility of a colocation data centre allows the university to quickly react to changing circumstances, giving greatly expanded capacity to meet the foreseeable demands of teachers, students, and researchers; and
- The increased scalability, by adopting cloud strategies, allows the university to consider potential IT projects and data storage options.

The Results

UTS now spends less time on commoditised facilities management and hardware management, allowing for smaller, more nimble systems and solutions to be deployed faster and be more resilient.

The key results that UTS achieved include:

- A long term saving of expenditure that might otherwise have been required to build or invest in their own infrastructure;
- The ability to gain economies of scale for business units, while delivering improved and sustainable services; and
- The ability to quickly deliver and scale new services, which allows the university to manage their peak demand.

Our expert advice, seamless technical delivery and integrated approach has assisted UTS in achieving their goals and has provided them with the opportunity to focus on their strategic operations.

NSW GOVERNMENT

Macquarie Telecom is currently securing internet traffic to and from the NSW Parliament's network after a successful on time, on budget migration project.

Importantly, the deal represents the first major contract at state government level to provide internet security services directly equivalent to those provided to Federal Government.

Secure internet gateways are independently certified by the Australian Signals Directorate (ASD) and provide clean internet and email to connect organisations to the world wide web.

The NSW Parliament will benefit from the high standards laid out in the Australian Signals Directorate's Information Security Manual for secure internet access, aimed at reducing the risk of malicious cyber attacks.

"Improving network speed, security and user experience is a priority for the NSW Parliament" says Simon Chalmers, Director Information Services within the Department of Parliamentary Services.

"Our clients rely on an ever-broadening range of internet services to do their work. The Parliament continually seeks to maximise value from its technology investments, and increasingly this involves consideration of cloud services. Ensuring a fast, secure network with the support of a responsive security vendor is both critical to our operation and also a key enabler to making the most of the cloud.

"The Parliament's arrangement with Macquarie Telecom has delivered an eightfold increase in bandwidth to the internet, with flexibility to scale up higher during peak-demand periods, while also offering enhanced cyber security capability" Mr Chalmers said.

"Following a competitive tender process, Macquarie Telecom's flexible commercial model, value for money offering, and experience convinced us it was the preferred choice as our gateway provider. The professionalism of the Macquarie Telecom delivery team during the transition phase was excellent."

Aidan Tudehope, Macquarie Telecom's Managing Director - Hosting, says "We are delighted to be providing specialist online security services to the NSW Parliament for this mission-critical work.

"This is our first real foray at state government level and demonstrates how governments at all levels in Australia are serious about responding to the cyber security threat.

> "**THIS IS AN IMPORTANT STEP** FORWARD IN LIFTING THE NATIONAL CYBER SECURITY STANCE BY LEVERAGING THE SKILLS AND STANDARDS THE FEDERAL GOVERNMENT HAS INVESTED HEAVILY TO ESTABLISH."
>
> **Aidan Tudehope**
> Managing Director
> – Hosting, Macquarie Telecom

"We are aware that ASD is encouraging governments at all levels to consider ways of lifting their cyber security posture.

"Cyber criminals are not concerned by jurisdictional borders, and citizens' data held at a state level is just as sensitive as data held in Canberra.

"In that sense, the nation's cyber security stance is only as strong as its weakest link."

Macquarie Telecom is a recognised specialist in the end-to-end management of secure internet gateway services for government with over a decade of experience as an ASD certified provider.

"NSW Parliament has set a precedent on the benefits of referencing the improved standards in the ISM to mitigate cyber security risks. We anticipate that state-based government agencies may choose to leverage NSW Parliament's leadership to their advantage."

“OUR STRATEGIC AND OPERATIONAL PLAN HAS RESULTED IN A RETURN TO GROWTH IN EBITDA DURING THE FINANCIAL YEAR.”

I am pleased that our strategic and operational plan, resulting from the completion of our infrastructure expansion program and a review of the company's business structure during the financial year, has resulted in a return to growth in EBITDA during the financial year.

During the year we implemented a new company structure with each division differentiated by their value proposition, competitor environment and skills sets required to support customer's needs and requirements, namely Hosting, Government and Telecom. An improvement in net sales performance and a growth in revenue and EBITDA has been experienced in the second half of the fiscal year as the new strategy gains traction.

Our strategic focus for the coming year will centre on continuing the growth in Telco revenue which began in the second half of fiscal 2015 and on continuing the development of the Hosting product offering. Specifically, this will be continuing to drive increased performance in the core managed Hosting division by leveraging the industry move from dedicated managed server infrastructure offerings to lower cost Virtual Private Clouds and continuing to increase Secure Internet Gateway revenue and introduce other products to existing Government customer agencies.

An important tenet of the company has been our continued focus on world's best customer service. Our industry leading Net Promoter Score (NPS) of +56 for the second half of the fiscal year is a measure of our success in this area. We are seeing the NPS metric being increasingly demanded by customers who are now understanding that at last they have a way of measuring the customer service promise before they join. We have observed an improvement in customer retention and price degradation and I am confident that this will translate to further improve sales performance as we leverage this strategic advantage and continue to maintain our NPS above +50 across all business segments.

On the Industry front, the final technology mix and rollout program of the National Broadband Network (NBN) is becoming clearer, and the rollout continues to gather momentum. While this is bringing the challenges of migration for all in the industry, we believe increasing bandwidth speeds will elevate the importance of mission critical web applications in business and fuel growth in Hosting. In addition, the NBN open access model means Telco competition is focused around customer service and innovation in product and services rather than infrastructure, which is beneficial for Macquarie Telecom and our customers and aligns with our strong focus on leading the industry in customer service. We intend to embrace the opportunities the NBN offers our customers for higher speed business broadband at more affordable prices.

In closing, I would like to express my gratitude to the management team and Macquarie Telecom staff for their dedication and hard work during the past year and thank our business partners, customers and shareholders for their ongoing support.

David Tudehope
Chief Executive

Secure, lockable colocation cabinets, Intellicentre 2

FINANCIAL STATEMENTS

DIRECTORS' REPORT	13
CORPORATE GOVERNANCE STATEMENT	25
STATEMENT OF COMPREHENSIVE INCOME	30
STATEMENT OF FINANCIAL POSITION	31
STATEMENT CHANGES IN EQUITY	32
STATEMENT OF CASH FLOWS	33
NOTES TO THE FINANCIAL STATEMENTS	34
DIRECTORS' DECLARATION	65
INDEPENDENT AUDITOR'S REPORT	66
AUDITOR'S INDEPENDENCE DECLARATION	67
ASX ADDITIONAL INFORMATION	68

Cooling and air conditioning system, Intellicentre 2

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 2015.

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:

PETER JAMES
Chairman

Peter was appointed as Chairman of Macquarie Telecom on 22 July 2014. He has been a director since 2012. Peter has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies, particularly in emerging technologies, digital disruption, e-commerce and media. He is an experienced business leader with significant strategic and operational expertise. Peter travels extensively reviewing innovation and consumer trends primarily in the US and Asia and he is a successful investor in a number of Digital Media and Technology businesses in Australia and the US. Peter has a particular interest in building high performance customer-focused teams and is one of the judges for the annual Aon Hewitt Best Employers program. Peter is a Fellow of the AICD and a Member of the Computer Society of Australia. Peter was appointed Chairman of the Corporate Governance, Nomination and Remuneration Committee on 24 July 2014 and is 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 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. 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 Group with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the strategy and execution of the investment in Intellicentre 2, and more recently, Intellicentre 4 Bunker. He leads the Government Business, encompassing Macquarie's Secure Government Cloud and Secure Internet Gateway offerings. 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, Intellicentre 1, opened in 2001, as well as being instrumental in the development of Macquarie's data networking strategy. He holds a Bachelor of Commerce degree.

ANOUK DARLING
Non-Executive Director

Anouk is a partner in the strategic consultancy DNA-LAB (a subsidiary of Generation Alliance) solving business and brand problems across a variety of industry sectors and countries. Her most recent executive role was chairman of Moon Communications Group, an STW Group company, where she was placed for a decade, first as Strategic Director and then as Chief Executive Officer. 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 is a non-executive director of Discovery Holiday Parks, majority owned by superannuation fund Sunsuper, which has more than one million members and $27 billion in funds under management. She has recently been appointed as a non-executive director to the Great Southern Rail board (operators of transcontinental passenger rail services; The Ghan, The Indian Pacific and The Overland), majority owned and managed by a fund of private equity firm, Allegro Funds Pty Ltd. She has a BA, MBA (major in Marketing), and an AICD membership. Anouk is on the advisory panel as technology and digital advisor to a Hong Kong based e-comm start-up; Idecorateshop. 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 cont.

BART VOGEL
Non-Executive Director

Bart's 33 year business career includes 20 years experience in the management consulting industry and 13 years as a leader in the IT and telecommunications industries. He was the CEO of Asurion Australia, a partner of Bain & Co, and for a period of 7 years was the CEO of Lucent Technologies in Australia and Asia Pacific. He holds a Bachelor of Commerce (Hons) Degree and qualified as a Chartered Accountant in 1982. He is also a graduate member of the Australian Institute of Company Directors. Bart joined the board in July 2014 and is Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.

ROBERT KAYE

Robert resigned as Chairman and Director on 22 July 2014.

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;

(c) (a director-related entity of D Tudehope holds 323,649 ordinary shares and D Tudehope holds a further 133 shares;

(d) P James holds 10,000 ordinary shares; and

(e) a director-related entity of B Vogel holds 7,757 ordinary shares.

COMPANY SECRETARIES

RICHARD LUTTERBECK

Richard was appointed as company secretary of the Company in February 2009. In addition, he holds the position of Commercial Director. Richard has been with the Company since 2001. He holds a Bachelor of Economics degree and a Masters of Business Administration.

MICHAEL SIMMONDS

Michael resigned as Chief Financial Officer and company secretary on 30 June 2015.

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.

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

	2015 cents	2014 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share	(20.4)	(3.7)
Diluted earnings per share	(20.4)	(3.7)

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation ("EBITDA") of $26.3 million in the year ended 30 June 2015, compared to $25.5 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 2015	Full Year 2014	Full Year 2013
Hosting	62.7	61.1	60.5
Telco			
Voice	48.6	55.6	65.8
Data	58.7	60.5	61.1
Mobiles	22.4	19.6	18.8
Telco Total	129.7	135.7	145.7
Total	192.4	196.8	206.2

EBITDA

(A$ million)	Full Year 2015	Full Year 2014	Full Year 2013
Hosting	9.6	5.9	11.1
Telco	21.6	24.6	29.4
Corporate Office	(4.9)	(5.0)	(5.4)
Total	26.3	25.5	35.1
Reconciliation of EBITDA to profit/(loss) before income tax			
Total EBITDA	26.3	25.5	35.1
Interest revenue	0.1	0.2	0.6
Interest expense	(1.5)	(1.3)	(0.5)
Depreciation and amortisation expense	(31.3)	(26.4)	(19.8)
Profit/(loss) before income tax	(6.4)	(2.0)	15.4

DIRECTORS' REPORT cont.

In the 12 months to 30 June 2015, Macquarie Telecom's service revenue was $192.4 million, a decrease of 2.2% compared to the corresponding period.

Macquarie Telecom's Hosting business revenue grew by 2.6% when compared to the previous corresponding period, contributing $62.7 million or 32.6% of total service revenue. The Hosting business recorded EBITDA of $9.6 million, an increase of $3.7 million on the previous corresponding period. The increase was attributable to increased revenue, a lower cost base in supporting managed cloud revenue and a lower loss from Ninefold due to the closing down of US operations.

Macquarie Telecom's Telco business is an important part of the Company's overall offering, delivering $129.7 million in revenue and EBITDA of $21.6 million, down 12.2% on the previous corresponding period. Cost control initiatives and an improved net sales performance has resulted in revenue and EBITDA growth in the second half of the financial year.

Capital expenditure for the full year was $19.9 million, of which approximately $5.2 million was spent on the expansion of Hosting capacity in Sydney and continued investment in our cloud computing offerings, and approximately $14.7 million on business as usual capital expenditure. Prior year capital expenditure was $33.5 million.

Macquarie Telecom has generated operating cash flows of $23.8 million and held cash and cash equivalents of $6.4 million as at 30 June 2015. The consolidated entity employed 318 employees at 30 June 2015 (2014: 378 employees).

DIVIDENDS

No dividend has been paid, declared or recommended by the company during the financial year ending 30 June 2015. On 25 August 2015, the directors declared a fully franked dividend of 25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2015, to be paid to the shareholders on 13 October 2015. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $5.2 million. The impact of the franking account of this dividend will be a reduction in the franking account of $2.2 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will prioritise the execution of the following in fiscal year 2016:

- Telco - continue the growth in revenue experienced in H2;
- Hosting Business – continue to drive increased performance in the core managed hosting business leveraging the industry move from dedicated managed server infrastructure offering to lower cost Virtual Private Cloud;
- Hosting Government – continue to increase Secure Internet Gateway revenue and introduce other products to existing Government customer agencies such as secure cloud;
- Across all businesses maintain Net Promoter Score greater than +50.

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 2015.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

SHARE PERFORMANCE RIGHTS

Details of share performance rights are included in Note 22 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.

REMUNERATION REPORT

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, customer satisfaction 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.

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.

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 over shares in the Company.

The remuneration of non-executive directors for the period ending 30 June 2015 is detailed in the table on pages 20-21 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.

DIRECTORS' REPORT cont.

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 19.

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 pages 20-21.

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.

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 share performance rights 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.

DIRECTORS' REPORT cont.

REMUNERATION REPORT cont.

Remuneration of Directors for the year ended 30 June 2015:

Directors

		Short Term			
		Primary and bonus			
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)
R Kaye[1] – Chairman	**2015**	**14,167**	**-**	**-**	**-**
	2014	170,000	-	-	-
P James[2]– Chairman	**2015**	**169,397**	**-**	**-**	**64,302**
	2014	100,000	-	-	253,538
D Tudehope – Chief Executive	**2015**	**470,573**	**149,307**	**31,100**	**44,647**
	2014	501,958	97,668	(22,334)	43,682
A Tudehope – Managing Director - Hosting	**2015**	**493,417**	**92,929**	**(31,257)**	**38,468**
	2014	490,350	62,310	18,945	42,102
A Darling – Non-Executive Director	**2015**	**100,000**	**-**	**-**	**-**
	2014	100,000	-	-	4,810
B Vogel[3] – Non-Executive Director	**2015**	**99,481**	**-**	**-**	**-**
	2014	-	-	-	-
Total Directors' Remuneration	**2015**	**1,347,035**	**242,236**	**(157)**	**147,417**
	2014	1,362,308	159,978	(3,389)	344,132

Remuneration of Other Key Management Personnel for the year ended 30 June 2015:

Other Key Management Personnel

		Short Term			
		Primary and bonus			
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)
M Simmonds[4] – Chief Financial Officer	**2015**	**335,457**	**108,843**	**8,675**	**16,000**
	2014	340,358	82,323	14,322	16,000
L Clifton – Group Executive, Macquarie Corporate	**2015**	**295,279**	**124,267**	**1,902**	**21,820**
	2014	271,688	94,275	1,672	20,788
J Mystakidis – Group Executive, Hosting	**2015**	**291,813**	**79,853**	**(7,020)**	**6,667**
	2014	-	-	-	-
H Tropman – Group Executive, Carrier & Operations	**2015**	**290,000**	**80,865**	**10,180**	**21,820**
	2014	-	-	-	-
C Greig[5] – Group Executive, Telco Business	**2015**	**29,640**	-	-	**62**
	2014	338,564	71,980	(3,809)	19,634
S Butler[6] – Chief Operating Officer	**2015**	**132,993**	**-**	**(18,424)**	**-**
	2014	381,501	97,114	15,139	-
Total Other Key Management Personnel Remuneration	**2015**	**1,375,182**	**393,828**	**(4,687)**	**66,369**
	2014	1,332,111	345,692	27,324	56,422

				Long Term		Total
Post Employment	% Bonus Granted	Total	Total Performance Related	Share-based Payments	Long Term Incentive Provision	
Superannuation				Performance Rights [iii]	Cash Bonus [iv]	
1,346	-	15,513	0.0%	-	-	15,513
15,725	-	185,725	0.0%	-		185,725
16,093	-	249,792	0.0%	-	-	249,792
9,250	-	362,788	0.0%	-	-	362,788
18,783	72.5%	714,410	20.9%	-	(25,605)	688,805
17,775	47.4%	638,749	15.3%	-	68,607	707,356
18,783	69.4%	612,340	15.2%	-	(22,171)	590,169
17,775	46.5%	631,482	9.9%	-	71,380	702,862
9,500	-	109,500	0.0%	-	-	109,500
9,250	-	114,060	0.0%	-	-	114,060
9,451	-	108,932	0.0%	-	-	108,932
-	-	-	-	-	-	-
73,956		1,810,487		-	(47,776)	1,762,711
69,775		1,932,804		-	139,987	2,072,791

				Long Term		Total
Post Employment	% Bonus Granted	Total	Total Performance Related	Share-based Payments	Long Term Incentive Provision	
Superannuation				Performance Rights	Cash Bonus [iv]	
18,783	83.7%	487,758	22.3%	-	-	487,758
17,775	63.3%	470,778	17.5%	-	53,346	524,124
18,783	95.6%	462,051	28.6%	10,882	-	472,933
17,775	62.9%	406,198	23.2%	-	-	406,198
18,783	88.7%	390,096	22.6%	10,882	-	400,978
-	-	-	-	-	-	-
18,783	89.9%	421,648	21.2%	10,882	-	432,530
-	-	-	-	-	-	-
131	-	29,883	-	-	-	29,833
17,775	59.0%	444,144	16.2%	-	-	444,144
7,078	-	121,647	-	-	-	121,647
17,775	64.7%	511,529	19.0%	-	-	511,529
82,341		1,913,033		32,646	-	1,945,679
71,100		1,832,649		-	53,346	1,885,995

DIRECTORS' REPORT cont.

REMUNERATION REPORT cont.

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 Chairman and Director on 22 July 2014.

[2] Appointed as Chairman on 22 July 2014.

[3] Appointed as Director on 22 July 2014

[4] Resigned on 30 June 2015.

[5] Resigned on 1 July 2014.

[6] Resigned on 17 October 2014.

(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 Company has issued performance rights over ordinary shares to executives and senior managers as part of their long term incentives. The performance rights have a vesting date of 31 December 2017. The plan is designed to encourage superior performance against targeted performance conditions over the vesting period. If the rights holder leaves before the vesting date they forfeit all entitlements under the scheme.

(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. A total of $480,000 was paid to members of the plan who have exited the scheme during the year. In addition, $400,000, which has been fully provided for, will be payable in financial year 2016.

Shareholdings of key management personnel

	Balance 1 July 2013	Net change other	Balance 30 June 2014	Net change other	Balance 30 June 2015
Directors					
D Tudehope[1]	327,374	-	327,374	-	327,374
A Tudehope[2]	3,591	-	3,591	-	3,591
D & A Tudehope 25(c)(i)	12,501,390	-	12,501,390	-	12,501,390
A Darling	-	-	-	-	-
P James[2]	-	-	-	10,000	10,000
B Vogel[3]	-	-	-	7,757	7,757
Executives					
M Simmonds	10,000	(3,000)	7,000	-	7,000
L Clifton	-	-	-	-	-
J Mystakidis	-	-	-	4,250	4,250
H Tropman	-	-	-	-	-
Total	12,842,355	(3,000)	12,839,355	22,007	12,861,362

[1] Includes holdings by director-related entities.

[2] Appointed as Chairman on 22 July 2014.

[3] Appointed as Director on 22 July 2014.

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

Transactions with director-related entities

P James was paid $60,000 (2014: $248,750) for the provision of consulting services to the consolidated entity. At 30 June 2015, the amount payable to P James was nil.

All amounts paid were on normal commercial terms and conditions and at market rates.

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.

	EBITDA	NPAT	Share Price	KMP STI as % of NPAT
Year ended 30 June	(A$ million)	(A$ million)	ASX Code: MAQ	%
2015	26.3	(4.3)	6.15	(14.9%)
2014	25.5	(0.8)	5.80	(65.2%)
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%

Equity compensation: granted and vested during the year

During the financial year the Company issued 120,000 equity-settled performance rights (2014: nil) as compensation to executives with a vesting date of 31 December 2017. At the end of the financial year 90,000 remain vesting. Refer to Note 22(a) for further details of this plan.

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

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:

		Meetings of Committees	
	Directors' Meetings	Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	15	4	2
Number of meetings attended:			
R Kaye[1]	1	-	-
D Tudehope	15	-	2
A Tudehope	15	-	-
A Darling	15	4	2
P James	15	4	2
B Vogel	14	4	1

Notes:

[1] Resigned as Chairman and Director on 22 July 2014.

DIRECTORS' REPORT cont.

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 B Vogel, A Darling and P James.

The members of the Corporate Governance, Nomination and Remuneration Committee are P James, D Tudehope, A Darling, and B Vogel.

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 67.

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: $33,497 (2014: $20,500) as disclosed in Note 24.

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 25 August 2015

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 3rd Edition 2014 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

The Board acts on behalf of and is accountable to the security holders. The expectations of security holders 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 security holders 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 and senior executives;
- endorsing key executive appointments and ensuring executive succession planning;
- reviewing and approving remuneration of the Chief Executive and senior executives including policies and benchmarking;
- 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.

The Company's human resources policies require that background checks are performed on all persons prior to their appointment, or putting forward candidates for election, as a director. Security holders are provided with all material information about a director standing for election or re-election in the explanatory memorandum to the Notice of Annual General Meeting.

All persons who are invited and agree to act as a director do so by a formal notice of consent. Non-executive directors have received formal notices of appointment and each of the executive directors is party to a formal executive service agreement with the Company.

The Company Secretary is appointed by the Board as a whole. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters relating to the proper functioning of the Board. Each director has the right to communicate directly with the Company Secretary.

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 that 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.

CORPORATE GOVERNANCE STATEMENT cont.

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

	Total Females	% Females
Number of females in entire organisation	93	28.1%
Number of females in people management positions	13	23.6%
Number of females on the Macquarie Telecom Board	1	20.0%

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.

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

Board and Executive

Objective	Outcome
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 female representation on the Macquarie Telecom Board of Directors. Female representation is currently equivalent to 20.0%.

General

Objective	Outcome
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 2015.	Macquarie Telecom currently has a female population of 28.1%.
Aim to maintain current ratio of female people managers (as reported in FY14 Annual Report).	The proportion of female people managers is currently 23.6%, this is an increase compared to 20.0% in FY14.

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 2015, this included a Macquarie Telecom sponsored women in business event.

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

The performance of the Board, its committees and individual directors is reviewed on a regular basis. Performance is evaluated with regard to the fulfilment of the Board, and its committees, responsibilities.

The performance of senior executives is reviewed on a half-yearly basis against agreed measurable and qualitative indicators as part of the company-wide performance and development review process. Details of the measurable indicators and the manner in which they are linked to performance are set out in the remuneration report to the Directors' Report. Qualitative indicators include the extent to which a senior executive's performance has been aligned to the Company values.

Responsibility for evaluating the Board's performance falls to the Corporate Governance, Nomination and Remuneration Committee (refer to Principle 2). The performance of senior executives is evaluated by the Chief Executive and Managing Director - Hosting, and, where considered appropriate, the Board as a whole.

A performance assessment for senior management last took place in July 2015.

Principle 2

Structure the Board to add value

The Board has established a Corporate Governance, Nomination and Remuneration Committee. The majority of the members of the Committee are independent directors. The names of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

In relation to Nomination matters, the Committee supports and advises the Board in fulfilling its responsibilities to security holders by ensuring that the Board is comprised of individuals who are best able to discharge their responsibilities of directors having regard to the law and the highest standards of governance by:

- assessing the skills and diversity required on the Board;
- assessing the extent to which the required skills are represented on the Board;
- establishing a process for the review of the performance of individual directors and the Board as a whole, having regard to the Board's key responsibilities; and
- establishing the processes for the identification of suitable candidates for appointment to the Board.

The Board encourages a mix of skills in its directorship. It currently has a diverse range of skills amongst its directors including extensive IT, Telecommunications, industry and Government experience. Skills include corporate leadership, strategic and operational management, experience with other boards, strategic brand strategy, marketing and digital, chartered accounting and risk management.

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.

An induction process exists whereby new directors are inducted in the strategies, objectives, business plans, values and culture of the company including meeting with key executives and senior management personnel across all business functions. The continuing professional development of directors is encouraged and support is provided to address skills gaps where they are identified.

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

Act ethically and responsibly

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 executives and other employees dealing in the Company's shares.

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.

CORPORATE GOVERNANCE STATEMENT cont.

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.

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.

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 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 the ASX and the Company Secretary is responsible for these communications.

Principle 6

Respect the rights of security holders

The Company provides security holders access to information about its governance and performance, including Annual Reports, full-year and half-year financial statements, directors' commentaries and analyst briefings through its website at **www.macquarietelecom.com**.

In addition to this, the principal methods of communication with security holders are through Annual General Meetings and investor day presentations. The Board encourages security holders to use these events to ask questions and make comments on the business, operations and management of the Company. Security holders that are unable to attend the Annual General Meeting are provided with the opportunity to provide questions and comments to the Chairman and the auditor of the Company.

Security holders have the option to receive communications from, and send communications to, the Company and its security registry electronically.

Principle 7

Recognise and manage risk

The Audit and Risk Management Committee (refer to Principle 4) is responsible for reviewing and reporting to the Board on the effectiveness of the Company's management of risk, including systems for internal controls, that effectively safeguards assets and enhances the value of security holders' investments.

The Board has adopted a formal risk management strategy and policy that takes into account the Company's risk profile and the material business risks it faces. This strategy and policy is reviewed is at least annually as part of the annual strategic planning and budgeting process and is formally adopted by the Board. The latest review of the company's risk profile and material business risks was completed at the end of the reporting period.

The Company does not have an internal audit function, however assurance is gained as:

- the Board has direct oversight of the key areas of the organisation and have the capacity, expertise and access to information to assess those areas properly;
- the Company has established an internal business risk management function which reports to the Audit and Risk Management Committee on the adequacy of the Company's risk framework and changes in the Company's risk profile and material business risks;
- a standardised approach to risk assessment is used across the Company to ensure that risks are consistently assessed and reported to Board if required; and
- directors are provided with detailed financial information and reports by executives on a monthly basis, and have the right to request additional information as required to support informed decision making.

The Board does not believe that the Company has any material exposure to economic, environmental or social sustainability risks. The Company manages a series of operational risks which it believes to be inherent in the industry in which it operates including service interruption and network reliability, management of outsourcing, emerging technology and delivery platforms and regulatory framework.

Principle 8

Remunerate fairly and responsibly

The functions of the Corporate Governance, Nomination and Remuneration Committee (refer to Principle 2) 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 executive 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 executives consists of a combination of fixed and variable (at risk) remuneration. The bonus paid to a senior executive is based on a review of their individual performance.

Details of shares issued to employees of controlled entities of the Company are included in Note 22 to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2015

	Notes	Consolidated 2015 $'000	Consolidated 2014 $'000
Revenue and other income	3	192,393	196,792
Expenses	3	(197,366)	(197,665)
Results from operating activities		(4,973)	(873)
Finance income		119	175
Finance costs		(1,582)	(1,307)
(Loss) before income tax		(6,436)	(2,005)
Income tax credit	5	2,154	1,229
(Loss) after income tax for the year attributable to owners of the parent		(4,282)	(776)
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(55)	(7)
Total comprehensive (loss) for the year attributable to owners of the parent		(4,337)	(783)

		cents	cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	23	(20.4)	(3.7)
Diluted earnings per share	23	(20.4)	(3.7)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Notes	Consolidated 2015 $'000	2014 $'000
Current Assets			
Cash and cash equivalents	6	6,410	4,715
Receivables	7	7,790	9,793
Accrued income	8	5,081	4,489
Current tax receivable	5	-	605
Assets held for sale	9	43,275	-
Other	10	4,157	5,167
Total current assets		66,713	24,769
Non-Current Assets			
Property, plant and equipment	11	51,679	102,012
Intangibles	12	11,065	15,052
Deferred tax assets	5	6,201	4,047
Other	13	51	353
Total non-current assets		68,996	121,464
Total assets		135,709	146,233
Current liabilities			
Payables	14	23,011	27,357
Borrowings	15	21,000	-
Current tax liabilities	5	-	-
Provisions	16	1,595	1,588
Other	17	229	299
Total current liabilities		45,835	29,244
Non-current liabilities			
Borrowings	15	-	23,500
Deferred tax liabilities	5	-	-
Provisions	16	865	991
Other	17	1,503	707
Total non-current liabilities		2,368	25,198
Total liabilities		48,203	54,442
Net assets		87,506	91,791
Equity			
Contributed equity	18	42,991	42,991
Reserves	19	169	172
Retained earnings	19	44,346	48,628
Total equity		87,506	91,791

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

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2015

	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
At 1 July 2013	42,991	179	54,436	97,606
Total comprehensive (loss) for the year	-	(7)	(776)	(783)
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(5,032)	(5,032)
Total	-	-	(5,032)	(5,032)
At 30 June 2014	42,991	172	48,628	91,791
At 1 July 2014	42,991	172	48,628	91,791
Total comprehensive (loss) for the year	-	(55)	(4,282)	(4,337)
Transactions with owners in their capacity as owners:				
Share based payment	-	52	-	52
Total	-	52	-	52
At 30 June 2015	42,991	169	44,346	87,506

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

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2015

	Notes	Consolidated 2015 $'000	2014 $'000
Cash Flows From Operating Activities			
Receipts from customers		212,585	212,587
Payments to suppliers and employees		(188,107)	(193,734)
Interest received		120	179
Interest paid		(1,608)	(1,277)
Income tax refunded/(paid)		605	1.138
Other receipts		245	118
Net Cash Flows From Operating Activities	20	23,840	19,011
Cash Flows From Investing Activities			
Acquisition of non-current assets		(19,922)	(33,487)
Proceeds from the sale of non-current assets		8	-
Net Cash Flows (Used In) Investing Activities		(19,914)	(33,487)
Cash Flows From Financing Activities			
(Repayments of)/proceeds from borrowings		(2,500)	14,500
Dividends paid on ordinary shares		-	(5,032)
Net Cash Flows From Financing Activities		(2,500)	9,468
Net increase/(decrease) in cash and cash equivalents		1,426	(5,008)
Cash and cash equivalents at the beginning of the financial year		4,715	9,703
Effects of exchange rate changes on cash and cash equivalents		269	20
Cash And Cash Equivalents At The End Of Year	6	6,410	4,715

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2015

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 2015 was authorised for issue in accordance with a resolution of directors on 25 August 2015. 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 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 the determination of the useful lives of non-current assets and the estimation uncertainty associated with determining the recoverable amount 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.

Recoverable amount of non-current assets

The major sources of estimation uncertainty in assessing the recoverable amount of non-current assets are judgements relating to future sales order growth and pricing and the utilisation of data centre capacity, the Company's ability to manage operating and capital expenditure and the cost of capital. Should the future performance of the Company differ from these estimations the assessment of the recoverable amount of non-current assets would be different and may impact the impairment testing result.

(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.

(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

NOTES TO THE FINANCIAL STATEMENTS cont.

(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.

(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.

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(m) Employee benefits

The liability for employees' benefits to wages, salaries, bonuses and annual leave is accrued at 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 instruments 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.

(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 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.

NOTES TO THE FINANCIAL STATEMENTS cont.

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.

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 group chief operating decision maker is the Board.

(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 can be 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.

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.

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

(y) New accounting standards and interpretations

The group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2014:

(i) AASB Interpretation 21 Accounting for Levies;

(ii) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;

(iii) AASB 2013-3 Amendments to Australian Accounting Standards – Limited amendment of impairment disclosures;

(iv) AASB 2014-1 Part A Amendments to Australian Accounting Standards arising from Annual Improvements 2010-2012 and 2011-2013 Cycles; and

(v) ASX Corporate Governance Principles and Recommendations with 3rd Edition 2014 Amendments

None of the new standards and amendments to standards adopted for the first time for the financial year beginning 1 July 2014 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

NOTES TO THE FINANCIAL STATEMENTS cont.

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2015 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 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not mandatory until 1 January 2018 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 15 Revenue from contracts with customers is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard is not mandatory until 1 January 2017 and is available for early adoption. The Group has not decided when to adopt AASB 15 and, at this stage, is not able to estimate the impact of the new rules on the Group's financial statements.

(z) Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of the carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from other assets in the balance sheet.

3. Revenue and Expenses

	Consolidated 2015 $'000	2014 $'000
(a) Revenue and other income		
Revenue from services	192,077	196,667
Net profit on disposal of plant and equipment	8	-
Net foreign exchange gains	50	-
Other income	258	125
Total revenue and other income	192,393	196,792
(b) Expenses		
Amortisation of non-current assets		
Leasehold improvements	766	766
Intangibles	10,640	7,237
Transmission capacity	303	303
Depreciation of non-current assets		
Property, plant and equipment	19,559	18,076
Total depreciation and amortisation expense	31,268	26,382
Bad and doubtful debts (released)/expensed	(368)	559
Operating lease rental	6,734	6,293
Employment costs	57,660	62,802
Carrier costs	82,831	80,166
Net foreign exchange losses	-	42
Other expenses	19,241	21,421
	166,098	171,283
Total expenses	197,366	197,665

NOTES TO THE FINANCIAL STATEMENTS cont.

4. Dividends

	Consolidated 2015 $'000	2014 $'000
(a) Dividends paid during the reporting period		
(i) Nil final dividend for the year ended 30 June 2014 per share (year ended 30 June 2013: 12 cents) fully franked based on tax paid at 30%.	-	2,516
(ii) Nil interim dividend for the year ended 30 June 2015 per share (2014: 12 cents) fully franked based on tax paid at 30%.	-	2,516
	-	5,032
(b) Dividends not recognised at the end of the reporting period		
Since year end, the directors declared the payment of a final dividend of 25 cents per share (2014: nil) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 13 October 2015 out of retained earnings at 30 June 2015, but not recognised as a liability at year end, is	5,242	-
(c) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2014: 30%)	11,133	11,133

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.

5. Income Tax

	Consolidated 2015 $'000	2014 $'000
(a) Income tax expense		
Current tax	-	(234)
Deferred tax	(2,154)	(995)
	(2,154)	(1,229)
Income tax expense is attributable to:		
(Loss) from continuing operations	(2,154)	(1,229)
Deferred income tax (revenue)/expense included in income tax expense comprises:		
(Increase) in deferred tax assets	(580)	(802)
(Decrease) in deferred tax liabilities	(1,574)	(193)
	(2,154)	(995)
(b) Numerical reconciliation of income tax expense to *prima facie* tax payable		
(Loss) from continuing operations before income tax expense	(6,436)	(2,005)
Prima facie tax at the Australian tax rate of 30% (2014: 30%)	(1,931)	(602)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	134	165
Research and development incentive	(355)	(691)
Adjustments to tax in respect of prior years	-	(103)
Other	(2)	2
Income tax (credit)/expense	(2,154)	(1,229)
Current Assets – Current Tax Receivable		
Current tax receivable	-	605
Non-Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Research and development tax offset carried forward	2,441	1,720
Depreciation due to timing differences for accounting purposes	4,163	3,841
Employee benefits	1,278	1,359
Accrued expenses	1,136	1,111
Provisions for doubtful debts and credit notes	161	368
Other assets	106	306
Fringe benefits tax	-	-
Total deferred tax assets	9,285	8,705
Set-off of deferred tax liabilities pursuant to set-off provisions	(3,084)	(4,658)
Net deferred tax assets	6,201	4,047
Deferred tax assets expected to be recovered within 12 months	4,734	3,349
Deferred tax assets expected to be recovered after more than 12 months	4,551	5,356
	9,285	8,705

NOTES TO THE FINANCIAL STATEMENTS cont.

5. Income Tax cont.

Movements - Consolidated

	R&D Tax Offset	Accelerated Depreciation	Other	Total
At 30 June 2013	-	4,847	3,055	7,902
Charged to the income statement	1,720	(1,006)	89	803
At 30 June 2014	1,720	3,841	3,144	8,705
Charged to the income statement	721	323	(464)	580
At 30 June 2015	2,441	4,164	2,680	9,285

	Consolidated 2015 $'000	Consolidated 2014 $'000
Current Liabilities – Current Tax Liabilities		
Current tax liabilities	-	-
Non-Current Liabilities – Deferred Tax Liabilities		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for tax purposes	2,131	3,494
Other debtors	823	1,042
Prepayments	130	122
Total deferred tax liabilities	3,084	4,658
Set-off of deferred tax liabilities pursuant to set-off provisions	(3,084)	(4,658)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	1,984	445
Deferred tax liabilities expected to be recovered after more than 12 months	1,100	4,213
	3,084	4,658

Movements - Consolidated

	Accelerated Depreciation	Prepayments	Other	Total
At 30 June 2013	4,212	79	559	4,850
Charged to the income statement	(718)	43	483	(192)
At 30 June 2014	3,494	122	1,042	4,658
Charged to the income statement	(1,363)	8	(219)	(1,574)
At 30 June 2015	2,131	130	823	3,084

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*.

6. Cash and Cash Equivalents

	Consolidated 2015 $'000	2014 $'000
Cash at bank and on hand	6,410	4,715

7. Receivables

	2015 $'000	2014 $'000
Current		
Trade debtors	5,577	7,912
Provision for doubtful debts	(419)	(1,033)
Provision for credit notes	(116)	(249)
Other receivables	2,748	3,163
	7,790	9,793

(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:

	2015 $'000	2014 $'000
At 1 July	(1,282)	(1,480)
Amounts written off	479	499
Net additional amounts provided	268	(301)
At 30 June	(535)	(1,282)

8. Accrued Income

	2015 $'000	2014 $'000
Accrued income	5,081	4,489

9. Assets held for sale

	2015 $'000	2014 $'000
Land and buildings		
At cost	45,603	-
Accumulated depreciation	(2,328)	-
	43,275	-

On 27 May 2015 a contract for the sale of land and the shell and core building of Intellicentre 2 at Macquarie Park was signed and exchanged however the settlement and transfer of title was not completed by 30 June 2015 due to a condition precedent requiring Macquarie Telecom to register the Ausgrid sub-station lease and easement for the existing high voltage electricity connection to the site. The sale became unconditional on 10 August 2015.

NOTES TO THE FINANCIAL STATEMENTS cont.

10. Other Current Assets

	Consolidated	
	2015 $'000	2014 $'000
Prepayments	4,157	5,167

11. Property, Plant and Equipment

	2015 $'000	2014 $'000
Leasehold improvements		
At cost	10,562	10,253
Accumulated amortisation	(3,150)	(2,384)
	7,412	7,869
Plant and equipment		
At cost	149,055	140,269
Accumulated depreciation	(120,610)	(105,498)
	28,445	34,771
Land and buildings		
At cost	18,032	62,040
Accumulated depreciation	(2,210)	(2,668)
	15,822	59,372
Total written down amount	51,679	102,012

Reconciliations

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

	2015 $'000	2014 $'000
Leasehold improvements		
Opening balance	7,869	663
Additions	309	184
Transfers [ii]	-	7,788
Amortisation expense	(766)	(766)
Closing balance	7,412	7,869

	2015 $'000	2014 $'000
Plant and equipment [i]		
Opening balance	34,771	27,056
Additions	11,365	15,358
Transfers [ii]	-	8,970
Depreciation expense	(17,691)	(16,613)
Closing balance	28,445	34,771

	Consolidated 2015 $'000	2014 $'000
Land and buildings		
Opening balance	59,372	54,301
Additions	1,595	6,534
Transfers [ii]	-	-
Assets classified as held for sale [iii]	(43,275)	-
Depreciation expense	(1,870)	(1,463)
Closing balance	15,822	59,372
Land, buildings, plant and equipment under construction		
Opening balance	-	14,191
Additions	-	4,072
Transfer to leasehold improvements [ii]	-	(7,788)
Transfer to plant and equipment [ii]	-	(8,970)
Transfer to land and buildings [ii]	-	-
Transfer to intangibles – software [ii]	-	(1,300)
Transfer to intangibles – product development [ii]	-	(205)
Closing balance	-	-

(i) During the year, fully depreciated plant and equipment of $2.6 million were retired.

(ii) Transfers upon completion of land, buildings, plant and equipment under construction.

(iii) Refer to note 9 for further detail of assets held for sale.

12. Intangibles

	2015 $'000	2014 $'000
Software		
At cost	42,739	36,644
Accumulated amortisation	(33,028)	(23,300)
	9,711	13,344
Product development		
At cost	7,920	7,705
Accumulated amortisation	(6,566)	(5,997)
	1,354	1,708
Total written down amount	11,065	15,052

NOTES TO THE FINANCIAL STATEMENTS cont.

12. Intangibles cont.

	Consolidated	
	2015 $'000	2014 $'000
Reconciliations		
Reconciliation of the carrying amounts of intangibles at the beginning and end of the current financial year:		
Software		
Opening balance	13,344	12,589
Additions – internal development	4,976	5,588
Additions – acquisition	1,118	436
Transfers – internal development (ii)	-	533
Transfers – acquisition (ii)	-	767
Amortisation expense	(9,727)	(6,569)
Closing balance	9,711	13,344
Product development *(i)*		
Opening balance	1,708	856
Additions – internal development	559	1,315
Transfers (ii)	-	205
Amortisation expense	(913)	(668)
Closing balance	1,354	1,708

(i) During the year, fully amortised product development of $0.3 million was retired.

(ii) Transfers from property, plant and equipment upon completion of land, buildings, plant and equipment under construction.

13. Other Non-current Assets

Transmission capacity	4,722	4,722
Accumulated amortisation	(4,671)	(4,369)
	51	353

14. Payables

	Consolidated 2015 $'000	2014 $'000
Current		
Trade creditors	13,066	14,256
Other creditors and accruals	8,064	11,150
Annual leave entitlements	1,881	1,951
	23,011	27,357
(a) Australian dollar equivalents		
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:		
- Singapore dollars	-	162
- United States dollars	37	95

(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.

15. Borrowings

	Note	2015 $'000	2014 $'000
Current			
Cash advance facility (a)	20(c)	21,000	-
		21,000	-
Non-Current			
Cash advance facility (a)	20(c)	-	23,500
		-	23,500

(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 12 January 2016; and an additional cash facility of $10 million subject to an annual review.

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 2015 reporting period.

NOTES TO THE FINANCIAL STATEMENTS cont.

16. Provisions

	Notes	Consolidated 2015 $'000	Consolidated 2014 $'000
Current			
Employee benefits (a)	22	1,595	1,588
Non-Current			
Employee benefits (a)	22	865	991
(a) A reconciliation of the movements in the provision balance are as follows:			
Employee benefits			
At 1 July		2,579	2,720
Net additional amounts provided		466	439
Amounts used during the period		(585)	(580)
At 30 June		2,460	2,579

17. Other Liabilities

	Notes	2015 $'000	2014 $'000
Current			
Lease incentive	21(b)	229	299
Non-Current			
Lease incentive	21(b)	1,503	707

18. Contributed Equity

	Consolidated 2015 $'000	2014 $'000
(a) Share capital		
Ordinary shares authorised and fully paid (no par value)	42,991	42,991

	Notes	2015 No. of shares	2015 $	2014 No. of shares	2014 $
(b) Movements in shares on issue					
Balance at beginning of year		20,967,121	42,990,744	20,967,121	42,990,744
Conversion of share options	18(c)	-	-	-	-
Balance at end of year		20,967,121	42,990,744	20,967,121	42,990,744

(c) Share performance rights

Performance rights over ordinary shares

At the end of the year, there were 144,000 (2014: nil) unissued ordinary shares in respect of performance rights to executives and senior managers with a vesting date of 31 December 2017. Refer to Note 22(a) for further details of this plan.

(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 TO THE FINANCIAL STATEMENTS cont.

19. Reserves and Retained Earnings

	Notes	Consolidated 2015 $'000	2014 $'000
Other reserves	19(a)	169	172
Retained earnings	19(b)	44,346	48,628

(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 22 for further details of these plans.

(ii) Movements in reserves

	2015	2014
Foreign currency translation reserve:		
Balance at beginning of year	(22)	(15)
(Loss) on translation of foreign controlled entity	(55)	(7)
Balance at end of year	(77)	(22)
Employee equity benefits reserve:		
Balance at beginning of year	194	194
Share-based payments expense	52	-
Balance at end of year	246	194
	169	172

(b) Retained earnings

	2015	2014
Balance at beginning of year	48,628	54,436
Net (loss) for the year	(4,282)	(776)
Total available for appropriation	44,346	53,660
Dividends paid or provided for	-	(5,032)
Balance at end of year	44,346	48,628

20. Statement of Cash Flows

	Consolidated 2015 $'000	2014 $'000
(a) Reconciliation of the profit after income tax expense to the net cash flows from operating activities		
(Loss)/profit after income tax expense	(4,282)	(776)
Amortisation of non-current assets	11,709	8,306
Depreciation of non-current assets	19,559	18,076
(Profit) on sale of plant and equipment	(8)	-
Share based payment	52	-
Net foreign currency gains	(323)	(26)
Changes in assets and liabilities		
(Increase)/decrease in:		
Trade receivables	1,588	(1,121)
Accrued income	(592)	537
Current tax receivable	605	904
Prepayments	1,010	(1,138)
Deferred tax assets	(2,154)	(995)
Other receivables	415	(1,800)
Increase/(decrease) in:		
Trade and other creditors	(4,346)	(2,922)
Provisions	(119)	(141)
Other liabilities	726	107
Net cash flow from operating activities	23,840	19,011

(b) Non-cash investing activities

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

(c) Financing facilities available

	2015 $'000	2014 $'000
Total facilities:		
- bank guarantee facility	3,800	3,800
- cash advance facility	40,000	50,000
	43,800	53,800
Facilities used at reporting date:		
- bank guarantee facility	2,490	2,407
- cash advance facility	21,000	23,500
	23,407	25,907
Facilities unused at reporting date:		
- bank guarantee facility	1,310	1,393
- cash advance facility	19,000	26,500
	20,393	27,893
Facilities used at reporting date	23,407	25,907
Facilities unused at reporting date	20,393	27,893
Total facilities	43,800	53,800

NOTES TO THE FINANCIAL STATEMENTS cont.

20. Statement of Cash Flows cont.

Bank guarantee facility

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

Cash advance facility

At the end of the financial year the consolidated entity held two cash advance facilities with a financial institution which allows it 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 12 January 2016; and an additional cash facility of $10 million subject to an annual review.

21. Expenditure Commitments

	Consolidated	
	2015 $'000	2014 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Not later than one year		
- Plant and equipment	531	1,256
- Land and buildings	-	3,136
- Software	-	-
Payable later than one year	-	-
	531	4,462
(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.		
Minimum lease payments:		
Not later than one year	4,494	6,464
Later than one year and not later than five years	7,343	8,883
Later than five years	3,634	4,846
	15,471	20,193
Aggregate expenditure commitments comprise:		
Amounts provided for:		
Lease incentive liability – current	229	299
Lease incentive liability – non-current	1,503	707
Amounts not provided for:		
Rental commitments	15,471	20,193
	17,203	21,199
(c) Other expenditure commitments		
The consolidated entity had other expenditure commitments at the reporting date relating to support and maintenance costs:		
Not later than one year	893	470
Later than one year and not later than five years	-	-
Later than five years	-	-
	893	470

22. Employee Benefits and Superannuation Commitments

	Notes	Consolidated 2015 $'000	Consolidated 2014 $'000
Employee benefits			
The aggregate employee benefits liability is comprised of:			
Accrued wages, salaries, annual leave and on costs		5,987	6,542
Provisions (current)	16	1,595	1,588
Provisions (non-current)	16	865	991
		8,447	9,121

Employee share schemes

(a) Equity-settled performance rights

On 25 September 2014, the Company issued 180,000 equity-settled performance rights (2014: nil) which have a vesting date of 31 December 2017, to executives and senior managers as part of their long term incentives. The performance rights on issue were valued using the Monte Carlo Simulation model. The value of each right in Tranche 1 was $1.19 and Tranche 2 was $1.74. A total of 36,000 performance rights were cancelled during the year (2014: nil) due to employee resignations. The total value of outstanding performance rights is $224,160 amortised over 3.3 years from the grant date. The amount of performance rights amortisation expense for the period was $52,235 (2014: nil).

(b) Superannuation commitments

The Group 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 9.50% (2014: 9.25%) of employees' salaries and wages are legally enforceable in Australia.

NOTES TO THE FINANCIAL STATEMENTS cont.

23. Earnings Per Share

	Consolidated 2015 cents	Consolidated 2014 cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	(20.4)	(3.7)
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	(20.4)	(3.7)

	2015 $'000	2014 $'000
(c) Reconciliation of earnings used in calculating earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	(4,282)	(776)

	2015 No. of shares	2014 No. of shares
(d) Weighted average number of ordinary shares used in calculating basic earnings per share	20,967,121	20,967,121
Effect of dilutive securities:		
Share performance rights	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	20,967,121	20,967,121

24. Auditor's Remuneration

	2015 $'000	2014 $'000
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	225,000	246,855
– other services in relation to the Company and any other entity in the consolidated entity	33,497	20,500
	258,497	267,355

25. Related Party Disclosures

(a) Key Management Personnel:

Disclosures relating to key management personnel are set out in the Directors Report.

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

Transactions with director-related entities

Services

P James was paid $60,000 (2014: $248,750) for the provision of consulting services to the consolidated entity. At 30 June 2015, the amount payable to P James was nil.

Transactions with substantial shareholders

Services

Vocus Communications Limited, which holds 3,358,511 (16%) of the ordinary shares of Macquarie Telecom, was paid $443,358 (2014: $616,227) for the provision of telecommunications services to the consolidated entity. At 30 June 2015, the amount payable to Vocus Communications Limited was nil.

All amounts paid were on normal commercial terms and conditions and at market rates.

(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 2015, 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;

(iii) a director-related entity of D Tudehope holds 323,649 ordinary shares and D Tudehope holds a further 133 shares;

(iv) P James holds 10,000 ordinary shares; and

(v) a director-related entity of B Vogel holds 7,757 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 two primary operating segments providing services to corporate and government customers. The Telco segment relates to the provision of voice and mobiles telecommunications services and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS cont.

26. Segment Information cont.

Segment information on primary operating segments

	Telco		Hosting		Consolidated	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Revenue						
Sales to customers outside the consolidated entity	129,708	135,689	62,369	60,978	192,077	196,667
Other income	-	-	258	125	258	125
Total segment revenue	129,708	135,689	62,627	61,103	192,335	196,792
Unallocated revenue					58	-
Total consolidated revenue					192,393	196,792
Results						
Segment result before income tax	15,723	18,577	(12,146)	(11,212)	3,577	7,365
Unallocated revenue and expenses					(8,550)	(8,238)
(Loss) before income tax and finance costs					(4,973)	(873)
Finance income					119	175
Finance costs					(1,582)	(1,307)
Consolidated entity (loss) before income tax					(6,436)	(2,005)
Income tax credit					2,154	1,229
Consolidated entity (loss) after income tax					(4,282)	(776)
Depreciation	4,388	4,663	14,502	12,559	18,890	17,222
Unallocated depreciation					669	854
Total depreciation					19,559	18,076
Amortisation	1,506	1,403	7,278	4,511	8,784	5,914
Unallocated amortisation					2,925	2,392
Total amortisation					11,709	8,306
Other segment information						
Acquisition of property, plant and equipment and intangible assets	4,257	5,447	11,149	25,133	15,406	30,580
Unallocated acquisitions					4,516	2,907
Total acquisitions					19,922	33,487

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	
	2015 $'000	2014 $'000
Financial assets		
Cash and cash equivalents	6,410	4,715
Trade and other receivables	7,791	9,793
	14,201	14,508
Financial liabilities		
Trade and other payables	23,011	27,357
Borrowings	21,000	23,500
	44,011	50,857

NOTES TO THE FINANCIAL STATEMENTS cont.

27. Financial Risk Management cont.

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:

	2015		2014	
	$'000 USD	$'000 SGD	$'000 USD	$'000 SGD
Cash and cash equivalents	1,564	163	1,098	-
Trade and other receivables	-	-	-	-
Trade and other payables	37	-	95	-
Borrowings	-	-	-	-

Consolidated entity sensitivity

Based on the financial instruments held at 30 June 2015, had the Australian dollar weakened/strengthened by 10% against each of the denominated currencies above with all other variables held constant, the consolidated entity's post-tax profit for the year would have been $196,000 higher/$160,000 lower (2014: $133,000 higher/$108,000 lower) as a result of foreign exchange gains/ losses.

(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 2015, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been $47,000 higher/lower (2014: $75,000 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.

(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:

			Financial assets			Financial liabilities		
			Cash	Receivables – trade	Total financial assets	Payables	Borrowings	Total financial liabilities
	Floating interest rate	**2015 $'000**	6,246	-	6,246	-	21,000	21,000
		2014 $'000	3,641	-	3,641	-	23,500	23,500
Fixed interest rate maturing in	**1 year or less**	**2015 $'000**	-	-	-	-	-	-
		2014 $'000	1,073	-	1,073	-	-	-
	Over 1 to 5 years	**2015 $'000**	-	-	-	-	-	-
		2014 $'000	-	-	-	-	-	-
	More than 5 years	**2015 $'000**	-	-	-	-	-	-
		2014 $'000	-	-	-	-	-	-
	Non-interest bearing	**2015 $'000**	164	7,791	7,791	23,011	-	23,011
		2014 $'000	1	9,793	9,794	27,357	-	27,357
	Total carrying amount as per the Balance Sheet	**2015 $'000**	6,410	7,791	14,201	23,011	21,000	44,011
		2014 $'000	4,715	9,793	14,508	27,357	23,500	50,85
	Weighted average effective interest rate	**2015 % PA**	1.74	N/A		N/A	3.66	
		2014 % PA	2.13	N/A		N/A	3.94	

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

NOTES TO THE FINANCIAL STATEMENTS cont.

27. Financial Risk Management cont.

(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 59.

	Consolidated	
	2015 $'000	2014 $'000
Trade receivables		
Group 1	5,257	6,114
Group 2	322	1,798
Provision for doubtful debts	(419)	(1,033)
	5,160	6,879

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

At the end of the financial year the consolidated entity held two cash advance facilities with a financial institution which allows it 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 12 January 2016; and an additional cash facility of $10 million subject to an annual review.

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 2015	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing	23,011	-	-	-	-	23,011
Variable rate	-	21,000	-	-	-	21,000
Fixed rate	-	-	-	-	-	-
	23,011	21,000	-	-	-	44,011

(d) Fair value estimation

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

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:

	2015 $'000	2014 $'000
Statement of financial position		
Current assets	-	605
Total assets	133,841	132,938
Current liabilities	6,950	6,019
Total liabilities	6,950	6,019
Shareholders' equity		
Contributed equity	42,991	42,991
Reserves		
Employee equity benefits reserve	246	194
Retained earnings	83,654	83,734
	126,891	126,919
Loss for the year	(81)	(87)
Total comprehensive loss	(81)	(87)

(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 2015 or 30 June 2014.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of $7.0 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. This conclusion is based on the following factors:

- The current asset deficiency includes an amount payable to a wholly owned entity of $7.0 million, which the Company can control the timing of settlement.

NOTES TO THE FINANCIAL STATEMENTS cont.

29. Events Occurring After the Reporting Date

On 25 August 2015, the directors declared a fully franked dividend of 25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2015, to be paid to the shareholders on 13 October 2015. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $5.2 million. The impact of the franking account of this dividend will be a reduction in the franking account of $2.2 million.

On 10 August 2015, the sale of land and the shell and core building of Intellicentre 2, which has a carrying value of $43.3 million, was completed with Keppel DC REIT and the settlement funds of $40.3 million, being the first tranche of the sales price of $43.3 million, was received. The remaining $3.0 million is to be received in 12 months post settlement. The Company has entered into a triple-net-lease agreement with Keppel for the shell and core building retaining control of all repairs and maintenance on mechanical and electrical plant, facilities management, security and operations. The lease is for an initial 20 years with two five year options for approximately $3.0 million per annum.

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 2015 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 2015.

(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, 25 August 2015

INDEPENDENT AUDITOR'S REPORT

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 2015, 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 Macquarie Telecom Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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. Those 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 consolidated 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 opinion.

Independence

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

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 2015 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*.

(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 17 to 23 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
25 August 2015

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2015, 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
25 August 2015

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Additional information required by the Australian Securities Exchange and not shown elsewhere in the Annual Report as follows: The shareholder information set out below was applicable as at 14 September 2015.

A. Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary Shares	
1	1,000	589
1,001	5,000	269
5,001	10,000	61
10,001	100,000	39
100,001	and over	8
		966
The number of shareholders holding less than a marketable parcel of shares		365

B. Equity Security Holders

Twenty largest shareholders

The names of the 20 largest holders of quoted shares at 14 September 2015:

		Quoted Ordinary Shares	
		Number shares	**% Held**
1	Claiward Pty Limited	12,501,390	59.62%
2	SBN Nominees Pty Limited ‹10004 Account›	3,358,511	16.02%
3	National Nominees Limited	1,690,167	8.06%
4	Ms Elizabeth Dibbs	319,699	1.52%
5	HSBC Custody Nominees (Australia) Limited	140,116	0.67%
6	Carrier International Pty Ltd ‹Carrier Int Super Ap A/C›	131,400	0.63%
7	Mr Richard Mews & Mrs Wee Khoon Mews ‹Mews Super Fund A/C›	108,826	0.52%
8	Mr Richard Ewan Mews	108,727	0.52%
9	Mr Neville Clyde Martin & Mrs Lauren Carol Martin ‹The Martin Family A/C›	96,000	0.46%
10	J P Morgan Nominees Australia Limited	84,287	0.40%
11	Moat Investments Pty Ltd ‹Moat Investment A/C›	81,305	0.39%
12	Jet Invest Pty Ltd ‹R & L Investment A/C›	65,000	0.31%
13	Mrs Vicky Teoh	63,001	0.30%
14	Mr Matthew James Wallace	55,000	0.26%
15	Mr Denis Alan Aitken	50,000	0.24%
16	Citicorp Nominees Pty Limited	40,435	0.19%
17	Berne No 132 Nominees Pty Ltd ‹W 1253672 A/C›	40,000	0.19%
18	Mast Financial Pty Ltd ‹A To Z Investment A/C›	40,000	0.19%
19	Jane Mackay Imports Pty Ltd ‹J Mackay Imports S/Fund A/C›	38,250	0.18%
20	Caveo Communications Pty Ltd ‹Opus Beta A/C›	38,212	0.18%
		19,050,326	90.86%

C. Substantial Shareholders

Substantial holders in the company are set out below:

		Quoted Ordinary Shares	
		Number shares	**% Held**
1	Claiward Pty Limited	12,501,390	59.62%
2	SBN Nominees Pty Limited ‹10004 Account›	3,358,950	16.02%
3	National Nominees Limited	1,690,167	8.06%

D. Voting Rights

All ordinary shares carry one vote per share without restriction.

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