Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report

for the year ended 30 June 2017

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 2017.

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 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 several 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 holds a BA degree with Majors in Business and Computer Science and is a Fellow of the AICD and a Member of the Computer Society of Australia. Peter joined the board in 2012 and was appointed Chairman of Macquarie Telecom Group in July 2014. Peter is Chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee. Peter is also a non-executive director and Chairman of Nearmap, Dreamscape Networks, Droneshield and Aquabotix.
David Tudehope (Chief Executive)	David is Chief Executive and co-founder of Macquarie Telecom Group 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 at the University of NSW and was a member of the Australian Government's B20 Leadership Group. David holds a Bachelor of Commerce degree at the University of NSW. David received the ATUG's highest award in 2011 'the Charles Todd Medal'.
Aidan Tudehope (Managing Director, Hosting Group)	Aidan is co-founder of Macquarie Telecom Group and has been a director since 1992. He is the Managing Director of Macquarie Government and Hosting Group with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the Company's data centre strategy and execution of the investment in Intellicentre 2, and more recently, Intellicentre 4 Bunker (Canberra). 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 first 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 has over 20 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 works as an 'Operating Partner' to private equity firm Allegro Funds Pty Ltd across their portfolio of companies as required. After the recent successful exit of Great Southern Rail of which she was a Non-Executive Director, Allegro have appointed Anouk as Non-Executive Director to their Healthy Life Board (a retail brand in the wellness sector). She is a non-executive director of Discovery Parks, majority owned by superannuation fund Sunsuper, which has more than one million members and $40 billion in funds under management. Anouk also holds a Non-Executive role with ASX listed Enero Group and is a member of their Audit and Risk Management and Nomination & Remuneration Committees. She has a BA, MBA (major in Marketing), and an AICD membership. Anouk is on the advisory panel as marketing and digital advisor to a Hong Kong based e-commerce start-up; Idecorateshop. Anouk joined the Board in March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

DIRECTORS' REPORT

Bart Vogel (Non-Executive Director)	Bart's business career included 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. Bart is also the Chairman of Infomedia Ltd and a non-executive director of Salmat Ltd, BAI Communications and Children's Cancer Institute Australia.

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

As at the date of this report, the interests of the directors in the shares 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 Group. 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) a director-related entity of P James holds 19,105 ordinary shares;
(e) a director-related entity of A Darling holds 3,737 ordinary shares; and
(f) a director-related entity of B Vogel holds 22,922 ordinary shares.

COMPANY SECRETARIES

Nathan Shepherd	Nathan was appointed as Company Secretary of the Company on 1 January 2017. In addition, he holds the position of General Counsel. Nathan has been with the Company since 2014. He holds a Bachelor of Music, Bachelor of Laws (Honours) and Certificate in Governance Practice.
Richard Lutterbeck	Richard resigned as Company Secretary and Commercial Director on 31 December 2016.

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 Cloud Services Pty Limited ("MCS"), Macquarie Cloud Pty Limited ("MC"), Macquarie Hosting (Singapore) Pte Ltd ("MHS") and Macquarie Data Centres Pty Ltd ("MDC").

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

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS

The Group generated a net profit after tax of $14.2 million in the year ended 30 June 2017, compared to a net profit after tax of $5.3 million in the corresponding period.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the full year was $40.3 million, representing an increase of $8.0 million (25%) compared to the corresponding period.

Continued improvements in revenue and profitability have been realised primarily relating to the Group's differentiated market offering across hybrid IT and telecom, utilisation of its quality data centre infrastructure, exposure to the strong ongoing migration of business and government onto the "cloud" and its focus on the delivery of a superior customer experience.

The Telecom segment continues to be an important part of the Group's overall offering, delivering $142.1 million in revenue and EBITDA of $18.7 million, representing increases of 2% on the previous corresponding period. This performance reflects the continued growth in market share in a highly competitive market while maintaining EBITDA margin of 13%. The segment's #Untelco go-to-market strategy and a clear focus on providing a great customer experience continue to be compelling in driving customer acquisition.

The Hosting segment contributed $77.5 million in revenue, an increase of 22% compared to the previous corresponding period, and EBITDA of $21.6 million, an increase of 54%. The segment's investments in data centres and infrastructure, and its hybrid IT, cyber security and secure cloud offerings, have placed it in a strategic sweet spot ready to assist its customers in the journey to the cloud. Significant sales success has been realised during the year as the segment continues to leverage these investments.

The Company has generated operating cash flows of $41.4 million and held cash and cash equivalents of $31.8 million as at 30 June 2017 and no debt.

The consolidated entity employed 342 employees at 30 June 2017 (2016: 312).

The following tables summarise the revenue and EBITDA performance of the Group's operating segments compared to the corresponding period.

SERVICE REVENUE *(A$ million)*	**Full Year 2017**	Full Year 2016	Full Year 2015
Telecom	142.1	138.9	135.2
Hosting	81.9	68.4	61.7
Eliminate inter-segment revenue	(4.4)	(4.7)	(4.8)
Hosting Total	77.5	63.7	56.9
Total Service Revenue	219.6	202.6	192.1

EBITDA *(A$ million)*			
Telecom	18.7	18.3	16.5
Hosting	21.6	14.0	9.8
Total EBITDA	40.3	32.3	26.3
Reconciliation of EBITDA to profit/(loss) before income tax			
Total EBITDA	40.3	32.3	26.3
Finance income	0.5	0.6	0.1
Finance costs	-	(0.1)	(1.5)
Depreciation and amortisation expense	(21.2)	(25.4)	(31.3)
Profit/(loss) before income tax	19.6	7.4	(6.4)

DIRECTORS' REPORT

EARNINGS PER SHARE	2017 cents	2016 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	67.8	25.1
Diluted earnings per share	66.7	24.8

DIVIDENDS	$'000	$'000
Dividends paid to members during the financial year were:		
(i) Final dividend for the year ended 30 June 2016 of 25 cents per share (year ended 30 June 2015: 25 cents) fully franked based on tax paid at 30%.	5,242	5,242
(ii) Interim dividend for the year ended 30 June 2017 of 25 cents per share (2016: 25 cents) fully franked based on tax paid at 30%.	5,242	5,242
	10,484	**10,484**

On 30 August 2017, 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 2017, to be paid to the shareholders on 18 October 2017. This dividend has not been included as a liability in these financial statements. The total dividend to be paid is $5.2 million; the reduction in the franking account will be $2.2 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will prioritise the execution of the following in fiscal year 2018:

- Maintaining industry leading Net Promoter Score greater than +60 across all business segments;
- Telecom has invested in new data networking technology (SD WAN) and insourcing network operations to materially reduce costs and further improve service delivery in FY18.
- Hosting has delivered Stage 1 and is focused on delivering operational readiness for Stage 2 of the Fortune 100 customer at Intellicentre 2 with initial billing to commence in Q3 FY18 with full revenue earning capacity in FY19.
- Leveraging the 42% of the Australian Government who trust Macquarie Government, we will further grow our Government customer revenue in cyber security and Secure Cloud computing.

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.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2017.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Refer to Note 27 for significant events occurring after the balance date.

SHARE PERFORMANCE RIGHTS

Details of share performance rights are included in Note 20 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.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

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 in the Company.

The remuneration of non-executive directors for the period ending 30 June 2017 is detailed in the table on page 9 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 to:
- Reward senior managers for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of the executives with those of the shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure
Service agreements have been entered with each of the Chief Executive and the Managing Director, Hosting Group 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 8.
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 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 Group 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 9 and 10.

REMUNERATION REPORT (cont'd)

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 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 several 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 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 considered 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 Group 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 Group (as the case may be). Under the terms of the present agreements:

- Each of the Chief Executive and the Managing Director, Hosting Group 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 Group'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 Group (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 Group (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

REMUNERATION REPORT (cont'd)

Remuneration of Directors for the year ended 30 June 2017:

		Short Term							Long Term		Total	
		Primary and bonus				Post Employ-ment	% Bonus Granted	Total	Performance Rights			Perfor-mance Related %
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)	Super-annuation			Share Performance Rights (iii)	Cash Performance Rights (iii)		
P James – Chairman	**2017**	**170,000**	**-**	**-**	**-**	**16,150**	**-**	**186,150**	**-**	**-**	**186,150**	**-**
	2016	170,000	-	-	-	16,150	-	186,150	-	-	186,150	-
D Tudehope – Chief Executive	**2017**	**507,082**	**323,348**	**(2,664)**	**43,972**	**19,616**	**157.0%**	**891,354**	**-**	**17,785**	**909,139**	**37.5%**
	2016	498,969	258,806	(3,406)	42,255	19,308	125.7%	815,932	-	-	815,932	31.6%
A Tudehope – Managing Director, Hosting Group	**2017**	**502,377**	**358,419**	**6,407**	**36,692**	**19,616**	**254.8%**	**923,511**	**-**	**17,785**	**941,296**	**40.0%**
	2016	497,710	168,398	3,085	36,902	19,308	125.7%	725,403	-	-	725,403	23.2%
A Darling – Non-Executive Director	**2017**	**100,000**	**-**	**-**	**-**	**9,500**	**-**	**109,500**	**-**	**-**	**109,500**	**-**
	2016	100,000	-	-	-	9,500	-	109,500	-	-	109,500	-
B Vogel – Non-Executive Director	**2017**	**115,000**	**-**	**-**	**-**	**10,925**	**-**	**125,925**	**-**	**-**	**125,925**	**-**
	2016	105,000	-	-	-	9,975	-	114,975	-	-	114,975	-
Total Directors' Remuneration	**2017**	**1,394,459**	**681,767**	**3,743**	**80,664**	**75,807**		**2,236,440**	**-**	**35,570**	**2,272,010**	
	2016	1,371,679	427,204	(321)	79,157	74,241		1,951,960	-	-	1,951,960	

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Other Key Management Personnel for the year ended 30 June 2017:

		Short Term							Long Term		Total	
		Primary and bonus				Post Employ-ment	% Bonus Granted	Total	Performance Rights			Perfor-mance Related %
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)	Super-annuation			Share Performance Rights (iii)	Cash Performance Rights (iii)		
L Clifton – Group Executive, Macquarie Telecom	**2017**	**353,283**	**235,515**	**27,371**	**21,100**	**19,616**	**157.0%**	**656,885**	**68,015**	-	**724,900**	**41.9%**
	2016	335,417	173,844	2,990	21,310	19,308	125.7%	552,869	22,534	-	575,403	32.5%
J Mystakidis – Group Executive, Macquarie Cloud Services	**2017**	**347,437**	**288,441**	**19,218**	**17,800**	**19,616**	**177.9%**	**692,512**	**68,015**	-	**760,527**	**46.9%**
	2016	313,371	139,284	26,257	16,000	19,308	125.7%	514,220	22,534	-	536,754	29.7%
S Pauly[1] – Chief Financial Officer	**2017**	**52,308**	**-**	**(8,721)**	**1,221**	**4,904**	**-**	**49,712**	**-**	-	**49,712**	**-**
	2016	125,000	47,126	8,721	2,917	9,654	125.7%	193,418	-	-	193,418	24.4%
B Henley[2] – Chief Financial Officer	**2017**	**91,733**	**36,636**	**3,852**	**1,800**	**6,267**	**157.0%**	**140,288**	-	-	**140,288**	**26.1%**
	2016	-	-	-	-	-	-	-	-	-	-	-
Former Other Key Management Personnel	2016	145,677	56,552	(10,062)	10,910	9,654	125.7%	212,731	(10,882)	-	201,849	22.6%
Total Other Key Management Personnel Remuneration	**2017**	**844,761**	**560,592**	**41,720**	**41,921**	**50,403**		**1,539,397**	**136,030**	-	**1,675,427**	
	2016	919,465	416,806	27,906	51,137	57,924		1,473,238	34,186	-	1,507,424	

Notes:

1 Resigned 2 September 2016

2 Appointed 27 February 2017

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

The terms "director" and "executive officer" have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined based on 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.

(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. 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. They are 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.

Shareholdings of key management personnel

	Balance 1 July 2016	***Acquired***	***Balance 30 June 2017***
Directors			
D Tudehope[1]	327,374	-	327,374
A Tudehope[1]	3,591	-	3,591
D & A Tudehope 23(c)(i)	12,501,390	-	12,501,390
A Darling	2,424	1,313	3,737
P James	19,105	-	19,105
B Vogel	22,922	-	22,922
Executives			
L Clifton	-	5,000	5,000
J Mystakidis	4,250	4,800	9,050
Total	12,881,056	11,113	12,892,169

[1] Includes holdings by director-related entities.

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

Transactions with director-related entities

There were no other transactions with director-related entities for the year ended 30 June 2017.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Performance of Macquarie Telecom Group Limited

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

Year ended 30 June	EBITDA	NPAT	Share Price	KMP STI as % of NPAT
	(A$ million)	*(A$ million)*	*ASX Code: MAQ*	*%*
2017	40.3	14.2	14.25	8.7%
2016	32.3	5.3	11.84	16.1%
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%

Equity compensation: granted and vested during the year

During the financial year, the Company issued 80,000 equity and cash settled performance rights (2016: 20,000) as compensation to key management personnel with a vesting date of 31 December 2019. Refer to Note 20(b) for further details of this plan.

Details of director-related interests in shares and other director-related transactions are included in Note 23.

DIRECTORS' MEETINGS

The number of meetings of directors, including meetings of committees of directors, held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	15	5	2
Number of meetings attended:			
D Tudehope	15	-	2
A Tudehope	15	-	-
A Darling	15	5	2
P James	15	5	2
B Vogel	14	5	2

DIRECTORS' REPORT

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 Legislative Instrument 2016/191. The Company is an entity to which the Instrument 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 62.

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: $76,097 (2016: $46,705) as disclosed in Note 22.

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 30 August 2017

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.macquarietelecomgroup.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.

CORPORATE GOVERNANCE STATEMENT

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, which celebrates diversity and an atmosphere in which all employees and candidates for employment are treated fairly, with respect and have equal access to opportunities at work.

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

	Total Females	% Females
Number of females in entire organisation *	97	27.9%
Number of females in people management positions *	18	30.0%
Number of females on the Macquarie Telecom Board *	1	20.0%

** Workplace Gender Equality Agency report, May 2017*

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:

Objective	Outcome
Board and Executive	
Board and Executive level vacancies: continue to aim to proactively source and consider a minimum of 30% female applicants for Board and executive level vacancies.	Macquarie Telecom has policies and practices in place to support our ongoing commitment to this objective.
Board composition: maintain female representation on the Macquarie Telecom Board of Directors.	We continue to maintain 20% female representation on our Board.
General	
Ensure that Macquarie Telecom continues to have a Diversity Officer responsible for reviewing progress and report annually to the Board.	A HR employee continues to hold the position of Diversity Officer.
Aim to maintain a Macquarie Telecom female population of 26% or greater by June 2017.	Macquarie Telecom currently has a female population of 27.9%.
Aim to maintain current ratio of female people managers (as reported in FY16 Annual Report – 23.8%).	The proportion of female people managers is currently 30.0%.

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.

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

CORPORATE GOVERNANCE STATEMENT

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

The performance of senior executives is reviewed in 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 Group and, where considered appropriate, the Board as a whole.

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.

CORPORATE GOVERNANCE STATEMENT

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 Group, Company Secretary and the external auditor attend meetings at the discretion of the Committee. The Committee also meets privately with the external auditor without management present.

Minutes of all Committee meetings are provided to the Board.

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

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

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

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

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.

CORPORATE GOVERNANCE STATEMENT

Principle 5
Make timely and balanced disclosure

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

The Board approves all releases that are made to 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.macquarietelecomgroup.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.

CORPORATE GOVERNANCE STATEMENT

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 20 to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017	2016
		$'000	$'000
Revenue and other income	3(a)	220,199	203,155
Expenses	3(b)	(201,148)	(196,263)
Results from operating activities		19,051	6,892
Finance income		540	567
Finance costs		(22)	(85)
Profit before income tax		19,569	7,374
Income tax expense	5	(5,355)	(2,120)
Profit after income tax for the year attributable to owners of the parent		14,214	5,254
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(52)	(2)
Total comprehensive income for the year attributable to owners of the parent		14,162	5,252
		cents	cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	21(a)	67.8	25.1
Diluted earnings per share	21(b)	66.7	24.8

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	CONSOLIDATED 2017 $'000	2016 $'000
CURRENT ASSETS			
Cash and cash equivalents	6	31,766	36,465
Receivables	7	7,095	8,386
Accrued income	8	6,654	5,620
Other	9	6,301	5,842
TOTAL CURRENT ASSETS		51,816	56,313
NON-CURRENT ASSETS			
Property, plant and equipment	10	60,089	47,222
Intangibles	11	12,558	8,167
Deferred tax assets	5	6,021	5,447
Other	12	2,742	2,680
TOTAL NON-CURRENT ASSETS		81,410	63,516
TOTAL ASSETS		133,226	119,829
CURRENT LIABILITIES			
Payables	13	28,663	27,096
Current tax liabilities	5	6,014	1,366
Provisions	14	1,546	1,442
Other	15	3,074	2,411
TOTAL CURRENT LIABILITIES		39,297	32,315
NON-CURRENT LIABILITIES			
Provisions	14	1,097	985
Other	15	6,401	4,103
TOTAL NON-CURRENT LIABILITIES		7,498	5,088
TOTAL LIABILITIES		46,795	37,403
NET ASSETS		86,431	82,426
EQUITY			
Contributed equity	16(a)	42,991	42,991
Reserves	17(a)	594	319
Retained earnings	17(b)	42,846	39,116
TOTAL EQUITY		86,431	82,426

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

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2017

	Contributed Equity	Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
At 1 July 2015	42,991	169	44,346	87,506
Profit after income tax	-	-	5,254	5,254
Other comprehensive income	-	(2)	-	(2)
Total comprehensive income for the year	-	(2)	5,254	5,252
Transactions with owners in their capacity as owners				
Dividends provided for or paid	-	-	(10,484)	(10,484)
Share based payment	-	152	-	152
Total	-	152	(10,484)	(10,332)
At 30 June 2016	42,991	319	39,116	82,426

	Contributed Equity	Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
At 1 July 2016	42,991	319	39,116	82,426
Profit after income tax	-	-	14,214	14,214
Other comprehensive income	-	(52)	-	(52)
Total comprehensive income for the year	-	(52)	14,214	14,162
Transactions with owners in their capacity as owners				
Dividends provided for or paid	-	-	(10,484)	(10,484)
Share based payment	-	327	-	327
Total	-	327	(10,484)	(10,157)
At 30 June 2017	42,991	594	42,846	86,431

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

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017	2016
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		238,010	222,472
Payments to suppliers and employees		(196,432)	(183,578)
Interest received		557	530
Interest paid		(22)	(108)
Income tax paid		(1,282)	-
Other receipts		539	125
NET CASH FLOWS FROM OPERATING ACTIVITIES	18(a)	41,370	39,441
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current assets			
Property, Plant & Equipment	10	(28,390)	(13,370)
Intangibles	11	(10,150)	(4,652)
Proceeds from the sale of non-current assets		3,002	40,074
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		(35,538)	22,052
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		-	(21,000)
Dividends paid on ordinary shares	4(a)	(10,484)	(10,484)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(10,484)	(31,484)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(4,652)	30,009
Cash and cash equivalents at the beginning of the financial year		36,465	6,410
Effects of exchange rate changes on cash and cash equivalents		(47)	46
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	6	31,766	36,465

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

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 2017 was authorised for issue in accordance with a resolution of directors on 30 August 2017. 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 Cloud Services Pty Limited ("MCS"), Macquarie Cloud Pty Limited ("MC"), Macquarie Hosting (Singapore) Pte Ltd ("MHS") and Macquarie Data Centres Pty Ltd ("MDC"). All subsidiaries are wholly and ultimately 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 24.

(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 and other authoritative pronouncements of the Australian Accounting Standards Board. 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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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.

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

(c) Foreign currencies

Functional and presentation currency

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

Translation of foreign currency transactions

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

Translation of financial reports of overseas subsidiary

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

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

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

(d) Property, plant and equipment

Cost and valuation

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

Depreciation

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

The estimated useful lives are as follows:

Plant and equipment	
Customer acquisition costs	1.5 to 4 years
Infrastructure	3 to 25 years
Office equipment	3 to 20 years
Buildings	
Specialised plant and equipment	10 to 45 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

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

(e) Intangibles

Cost and valuation

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

Amortisation

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

Amortisation periods are:

Software	3 to 4 years
Product development	3 years

(f) 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 statement of comprehensive income.

(g) 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.

(h) 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.

A provision for impaired receivables 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.

(i) 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.

(j) Payables

Liabilities for carrier suppliers (trade) 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 and other payables 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.

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

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement 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.

If lease incentives are received to enter 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.

(l) 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.

(m) 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.

(n) 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.

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

(o) 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 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 that asset's net carrying amount.

(p) Taxes

Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

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

(q) 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 Chief Executive.

(r) 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.

(s) 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.

(t) 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 Legislative Instrument 2016/191. The Company is an entity to which the Instrument applies.

(u) Comparatives

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

(v) Parent entity financial information

The financial information for the parent entity, Macquarie Telecom Group Limited, disclosed in Note 26 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.

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

(w) New accounting standards, amendments and interpretations

The group has applied the following standards, amendments and interpretations for first time for their annual reporting period beginning 1 July 2016:

(i) AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.
(ii) AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.
(iii) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.
(iv) AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs.
(v) AASB Interpretation 23 Uncertainty over Income Tax Treatments.

None of the new standards, amendments and interpretations adopted for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Certain new accounting standards and amendments have been published that are not mandatory for 30 June 2017 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and amendments are set out below:

i) AASB 15 *Revenue from Contracts with Customers* is based on the principle that revenue is recognised when performance obligations to customers have been satisfied. The standard applies to financial years beginning on or after 1 January 2018 and is available for early adoption.

- The Group expects to adopt the new rules from its mandatory date; the year beginning 1 July 2018.
- Changes arising from the new standard have been considered and management has begun a preliminary assessment over the key revenue streams. Notable findings from the assessment to date include:
  - For those revenue streams examined the current accounting policy for the recognition of revenue (note 2(o)) is consistent with the requirement to recognise revenue when or as performance obligations have been satisfied.
  - The Group does not subsidise or provide instalment plans for the sale of goods, including equipment or handsets.
  - The Group does not grant options to customers to acquire additional services or goods below the stand-alone price of those items.
  - Incremental costs of obtaining and fulfilling a contract are currently capitalised as allowed by Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry.* Under the current arrangements there is not expected to be any significant change in the amortisation of these costs.

(ii) AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard applies to financial years beginning on or after 1 January 2019; early adoption is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers*.

- The Group expects to adopt the new requirements from its mandatory reporting date; the year beginning 1 July 2019.
- Management has assessed that its current operating lessee arrangements for office premises, data centre facilities and office equipment would be subject to the new requirements.
- At this stage, the Group expects to adopt the simplified retrospective approach descriptions in AASB 16 Leases paragraph C5 (b). On the date of initial application for each applicable lessee arrangement the Group will recognise:
  - lease liabilities equal to the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate;
  - right-of-use assets measured as either its carrying amount as if the Standard has been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.
  - the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings at the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	$'000	$'000
3. REVENUE AND EXPENSES		
(a) Revenue and other income		
Revenue from services	219,658	202,641
Net profit on disposal of plant and equipment	-	364
Other income	541	150
Total revenue and other income	220,199	203,155
(b) Expenses		
Amortisation of non-current assets		
Leasehold improvements	1,148	804
Intangibles	5,759	7,551
Transmission capacity	-	51
Depreciation of non-current assets		
Property, plant and equipment	14,374	16,968
Total depreciation and amortisation expense	21,281	25,374
Bad and doubtful debts expensed	350	18
Operating lease rental	10,255	9,073
Employment costs	60,920	56,555
Carrier costs	86,150	85,636
Net foreign exchange losses	159	58
Other expenses	22,033	19,549
	179,867	170,889
Total expenses	201,148	196,263

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	$'000	$'000
4. DIVIDENDS		
(a) Dividends paid during the reporting period		
(i) 25 cents per share final dividend for the year ended 30 June 2016 (year ended 30 June 2015: 25 cents) fully franked based on tax paid at 30%.	5,242	5,242
(ii) 25 cents per share interim dividend for the year ended 30 June 2017 (2016: 25 cents) fully franked based on tax paid at 30%.	5,242	5,242
	10,484	10,484
(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 (2016: 25 cents) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 18 October 2017 out of retained earnings at 30 June 2017, but not recognised as a liability at year end, is	5,242	5,242
(c) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2016: 30%)	3,428	6,640

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

(i) franking credits that will arise from the payment of the amount of the income tax payable, and

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

5. INCOME TAX

	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
(a) Income tax expense		
Current tax	5,930	1,366
Deferred tax – current year	(140)	630
– prior year	(435)	124
	5,355	2,120
Income tax expense is attributable to:		
Profit from continuing operations	5,355	2,120
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(651)	1,802
Increase/(decrease) in deferred tax liabilities	77	(1,048)
	574	754
(b) Numerical reconciliation of income tax expense to *prima facie* tax payable		
Profit from continuing operations before income tax expense	19,569	7,374
Prima facie tax at the Australian tax rate of 30% (2016: 30%)	5,870	2,212
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	266	192
Income not assessable for income tax purposes	-	(186)
Research and development incentive	(346)	(217)
Adjustments to tax in respect of prior years	(435)	124
Other	-	(5)
Income tax expense	5,355	2,120
Effective tax rate	27%	29%

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	$'000	$'000
5. INCOME TAX (cont'd)		
NON-CURRENT ASSETS – DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for accounting purposes	3,743	4,225
Employee benefits	1,528	1,372
Accrued expenses	2,444	1,606
Provisions for doubtful debts and credit notes	166	162
Other assets	253	118
Total deferred tax assets	8,134	7,483
Set-off deferred tax liabilities pursuant to set-off provisions	(2,113)	(2,036)
Net deferred tax assets	6,021	5,447

Deferred tax assets expected to be recovered within 12 months	2,973	2,407
Deferred tax assets expected to be recovered after more than 12 months	5,161	5,076
	8,134	7,483

Movements – Consolidated	R&D Tax Offset	Accelerated Depreciation	Other	Total
At 30 June 2015	2,441	4,163	2,681	9,285
Charged to the income statement	(2,441)	62	577	(1,802)
At 30 June 2016	-	4,225	3,258	7,483
Charged to the income statement	-	(482)	1,133	651
At 30 June 2017	-	3,743	4,391	8,134

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	**2016**
	$'000	**$'000**
5. INCOME TAX (cont'd)		
CURRENT LIABILITIES – CURRENT TAX LIABILITIES		
Current tax liabilities	6,014	1,366
NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for tax purposes	1,474	1,029
Other debtors	462	651
Prepayments	177	356
Total deferred tax liabilities	2,113	2,036
Set-off deferred tax liabilities pursuant to set-off provisions	(2,113)	(2,036)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	977	1,613
Deferred tax liabilities expected to be recovered after more than 12 months	1,136	423
	2,113	2,036

Movements – Consolidated	Accelerated Depreciation	Prepayments	Other	Total
At 30 June 2015	2,131	130	823	3,084
Charged to the income statement	(1,102)	226	(172)	(1,048)
At 30 June 2016	1,029	356	651	2,036
Charged to the income statement	445	(179)	(189)	77
At 30 June 2017	1,474	177	462	2,113

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	$'000	$'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	21,766	31,465
Short term deposits	10,000	5,000
	31,766	36,465
7. RECEIVABLES		
CURRENT		
Trade receivables	7,427	5,728
Provision for impaired receivables	(491)	(426)
Provision for credit notes	(385)	(113)
Other receivables	544	3,197
	7,095	8,386

(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 25(b).

(b) Movements in provisions for impaired receivables and credit notes are as follows:

At 1 July	(539)	(535)
Amounts written off	285	1
Net additional amounts provided	(622)	(5)
At 30 June	(876)	(539)

8. ACCRUED INCOME

Accrued income	6,654	5,620

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	**2016**
	$'000	**$'000**
9. OTHER CURRENT ASSETS		
Prepayments	5,225	4,546
Deferred expenses	1,076	1,296
	6,301	5,842

10. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements		
At cost	20,652	11,155
Accumulated amortisation	(5,098)	(3,954)
	15,554	7,201
Plant and equipment		
At cost	180,636	161,779
Accumulated depreciation	(149,921)	(136,547)
	30,715	25,232
Land and buildings		
At cost	18,064	18,033
Accumulated depreciation	(4,244)	(3,244)
	13,820	14,789
Total written down amount	60,089	47,222

Reconciliations

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

Leasehold improvements		
Opening balance	7,201	7,412
Additions	9,502	594
Disposals	(1)	-
Amortisation expense	(1,148)	(805)
Closing balance	15,554	7,201

Plant and equipment		
Opening balance	25,232	28,445
Additions	18,857	12,722
Depreciation expense	(13,374)	(15,935)
Closing balance	30,715	25,232

	CONSOLIDATED	
	2017	2016
	$'000	$'000
10. PROPERTY, PLANT AND EQUIPMENT (cont'd)		
Land and buildings		
Opening balance	14,789	15,822
Additions	31	54
Disposals	-	(53)
Depreciation expense	(1,000)	(1,034)
Closing balance	13,820	14,789

11. INTANGIBLES

Software		
At cost	52,089	46,182
Accumulated amortisation	(44,254)	(39,591)
	7,835	6,591
Product development		
At cost	13,371	9,129
Accumulated amortisation	(8,648)	(7,553)
	4,723	1,576
Total written down amount	12,558	8,167

Reconciliations

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

Software		
Opening balance	6,591	9,711
Additions – internal development	3,713	2,631
Additions – acquisition	2,195	812
Amortisation expense	(4,664)	(6,563)
Closing balance	7,835	6,591
Product development		
Opening balance	1,576	1,354
Additions – internal development	4,242	1,209
Amortisation expense	(1,095)	(987)
Closing balance	4,723	1,576

	CONSOLIDATED	
	2017	2016
	$'000	$'000
12. OTHER NON-CURRENT ASSETS		
Prepayments	2,049	1,479
Deferred expenses	693	1,201
	2,742	2,680

13. PAYABLES		
CURRENT		
Trade payables	15,486	15,746
Other payables and accruals	10,673	9,111
Employee entitlements – annual leave	2,504	2,239
	28,663	27,096

(a) Australian dollar equivalents

Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:

- New Zealand dollars	48	-
- United States dollars	50	27

(b) Included in trade payables are amounts payable to various telecommunications carriers. The Company disputes certain charges levied by some of its carriers. Included in trade payables 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

		CONSOLIDATED	
		2017	2016
	Notes	$'000	$'000
14. PROVISIONS			
CURRENT			
Employee benefits	20	1,546	1,442
NON-CURRENT			
Employee benefits	20	1,097	985

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

		2017	2016
Employees benefits			
At 1 July		2,427	2,460
Net additional amounts provided		503	493
Amounts used during the period		(287)	(526)
At 30 June		2,643	2,427

		2017	2016
15. OTHER LIABILITIES			
CURRENT			
Lease incentive		353	308
Deferred revenue		2,281	2,103
Software financing facility		440	-
		3,074	2,411
NON-CURRENT			
Lease incentive		2,024	2,055
Deferred revenue		3,932	2,048
Software financing facility		445	-
		6,401	4,103

	Notes	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
16. CONTRIBUTED EQUITY			
(a) Share capital			
Ordinary shares authorised and fully paid		42,991	42,991

	Note	2017 Number of shares	2017 $	2016 Number of shares	2016 $
(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 performance rights	16(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 366,000 (2016: 246,000) unissued ordinary shares in respect of performance rights to executives and senior managers. Refer to Note 20(b) 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017	2016
		$'000	$'000
17. RESERVES AND RETAINED EARNINGS			
Other reserves	17(a)	594	319
Retained earnings	17(b)	42,846	39,116

(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 20 (b)for further details of this plan.

(ii) Movements in reserves

	2017	2016
Foreign currency translation reserve:		
Balance at beginning of year	(79)	(77)
Loss on translation of foreign controlled entity	(52)	(2)
Balance at end of year	(131)	(79)
Employee equity benefits reserve:		
Balance at beginning of year	398	246
Share-based payments expense	327	152
Balance at end of year	725	398
	594	319

(b) Retained earnings

	2017	2016
Balance at beginning of year	39,116	44,346
Net profit for the year	14,214	5,254
Total available for appropriation	53,330	49,600
Dividends paid or provided for	(10,484)	(10,484)
Balance at end of year	42,846	39,116

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

18. STATEMENT OF CASH FLOWS

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

	CONSOLIDATED 2017 $'000	CONSOLIDATED 2016 $'000
Profit after income tax expense	14,214	5,254
Amortisation of non-current assets	6,907	8,406
Depreciation of non-current assets	14,374	16,968
Profit on sale of plant and equipment	(1)	(364)
Shared based payment	327	152
Net foreign currency gains	(5)	(48)
Changes in assets and liabilities		
(Increase)/decrease in assets:		
Trade receivables	(1,362)	(147)
Accrued income	(1,034)	(539)
Prepayments	(521)	(1,273)
Deferred tax assets/liabilities	(574)	754
Other receivables	(347)	78
Increase/(decrease) in liabilities:		
Trade and other payables	1,567	4,655
Current tax liabilities	4,648	1,366
Provisions	216	(33)
Other liabilities	2,961	4,212
Net cash flows from operating activities	41,370	39,441

(b) Non-cash investing activities

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

	CONSOLIDATED	
	2017	2016
	$'000	$'000

18. STATEMENT OF CASH FLOWS (cont'd)

(c) Financing facilities available

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

Software financing facility
The consolidated entity has a financing facility for software licences.

	2017 $'000	2016 $'000
Total facilities:		
- bank guarantee facility	6,000	5,800
- software financing facility	1,343	-
	7,343	5,800
Facilities used at reporting date:		
- bank guarantee facility	5,046	4,840
- software financing facility	885	-
	5,931	4,840
Facilities unused at reporting date:		
- bank guarantee facility	954	960
- software financing facility	458	-
	1,412	960
Facilities used at reporting date	5,931	4,840
Facilities unused at reporting date	1,412	960
Total facilities	7,343	5,800

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	Notes	CONSOLIDATED	
		2017	2016
		$'000	$'000
19. EXPENDITURE COMMITMENTS			
(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		6,771	1,632
- Software		516	423
Payable later than one year		-	846
		7,287	2,901

(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 20 years. There are no restrictions placed upon the lessee by entering into these leases.

	Notes	2017	2016
Minimum lease payments:			
Not later than one year		9,068	7,872
Later than one year and not later than five years		24,129	24,123
Later than five years		42,929	47,582
		76,126	79,577
Aggregate expenditure commitments comprise:			
Amounts provided for:			
Lease incentive liability – current	15	353	308
Lease incentive liability – non-current	15	2,024	2,055
Amounts not provided for:			
Rental commitments		76,126	79,577
		78,503	81,940

(c) Other expenditure commitments

		2017	2016
The consolidated entity had other expenditure commitments at the reporting date relating to support and maintenance costs:			
Not later than one year		1,514	916
Later than one year and not later than five years		-	-
Later than five years		-	-
		1,514	916

	Notes	CONSOLIDATED 2017 $'000	2016 $'000
20. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS			
(a) Employee benefits			
The aggregate employee benefits liability is comprised of:			
Accrued wages, salaries, annual leave and on costs		8,993	7,506
Provisions (current)	14	1,546	1,442
Provisions (non-current)	14	1,097	985
		11,636	9,933

(b) Employee share schemes

Performance rights

On 12 August 2016, the company issued 154,000 equity and cash settled performance rights (2016: 138,000), which have a vesting date of 31 December 2019, to executives and certain employees as part of their long-term incentives. The performance conditions are linked to total shareholder return and customer satisfaction. The performance rights were valued using the Monte Carlo Simulation model which considered key assumptions of price volatility and dividend yield. The fair value of each right in Tranche 1 was $3.06 and Tranche 2 was $3.59, equating to a total of $471,040.

The total number of outstanding performance rights is 366,000 (2016: 246,000), valued at $1,187,202 (2016: $760,602) as measured at their grant date, amortised over the period to the vesting date. The amount of performance rights amortisation expense for the period was $336,484 (2016: $151,772).

Grant Date	Vesting Date	Performance Period	Performance Condition Met	Rights Vesting	
				Number	Fair Value
25 September 2014	31 December 2017	Jul-14 to Jun-16	100%	32,000	$38,080
		Jul-14 to Jun-17	150%	64,000	$111,360
27 November 2015	31 December 2018	Nov-15 to Jun-17	100%	43,996	$171,584
		Nov-15 to Jun-18	N/A	88,004	$395,138
12 August 2016	31 December 2019	Jul-16 to Jun-18	N/A	46,000	$140,760
		Jul-16 to Jun-19	N/A	92,000	$330,280
				366,000	**$1,187,202**

(c) 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% (2016: 9.50%) of employees' salaries and wages are legally enforceable in Australia.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	cents	cents
21. EARNINGS PER SHARE		
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	67.8	25.1
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	66.7	24.8

	2017	2016
	$'000	$'000
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	14,214	5,254

	2017	2016
	Number of shares	Number 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	342,777	182,176
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	21,309,898	21,149,297

22. AUDITOR'S REMUNERATION

The auditor of Macquarie Telecom is PricewaterhouseCoopers.

Amounts received or due and receivable by the auditor of Macquarie Telecom for:		
– an audit or review of the financial report of the Company and any other entity in the consolidated entity	238,300	232,000
– other services in relation to the Company and any other entity in the consolidated entity	76,097	46,705
	314,397	278,705

23. RELATED PARTY DISCLOSURES

(a) Key Management Personnel compensation

	CONSOLIDATED	
	2017	2016
	$	$
Short-term employee benefits	3,636,191	3,263,677
Post-employment benefits	126,210	132,165
Long-term benefits	13,436	29,356
Share-based payments	171,600	34,186
	3,947,437	3,459,384

(b) Transactions with other related parties

Transactions with substantial shareholders

Services

Vocus Communications Limited ceased to be a substantial shareholder of Macquarie Telecom Group Limited during the financial year, selling its holding of 3,358,511 (16%) ordinary shares on 29 March 2017. Prior to this date, it provided telecommunications services to the consolidated entity of $941,942 (2016: $615,466). At the end of the financial year the amount payable to Vocus Communications Limited for these services was nil (2016: $66,701).

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 2017, 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 Group. 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) a director-related entity of P James holds 19,105 ordinary shares;

(v) a director-related entity of A Darling holds 3,737 ordinary shares; and

(vi) a director-related entity of B Vogel holds 22,922 ordinary shares.

(d) Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

24. SEGMENT INFORMATION

Segment description

The consolidated entity operates in two primary operating segments providing services to corporate and government customers. The Telecom 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.

Segment information on operating segments

	Telecom		Hosting		Consolidated	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revenue						
External service revenue	142,098	138,955	77,560	63,686	219,658	202,641
Inter-segment revenue	-	-	4,375	4,712	4,375	4,712
Other income	444	8	97	506	541	514
Total segment revenue and other income	142,542	138,963	82,032	68,904	224,574	207,867
Inter-segment elimination	-	-	(4,375)	(4,712)	(4,375)	(4,712)
Total consolidated revenue and other income	142,542	138,963	77,657	64,192	220,199	203,155
Results						
EBITDA	18,695	18,323	21,637	13,943	40,332	32,266
Depreciation and amortisation	(7,282)	(7,799)	(13,999)	(17,575)	(21,281)	(25,374)
Segment result before interest and tax	11,413	10,524	7,638	(3,632)	19,051	6,892
Finance income					540	567
Finance costs					(22)	(85)
Consolidated entity profit from ordinary activities before income tax expense					19,569	7,374
Income tax expense					(5,355)	(2,120)
Net profit					14,214	5,254
Acquisition of non-current assets						
Allocated acquisitions	11,294	5,324	23,533	9,114	34,827	14,438
Unallocated acquisitions					3,713	3,584
Total acquisition of non-current assets					38,540	18,022

25. FINANCIAL RISK MANAGEMENT

Objectives and policies

The consolidated entity's principal financial instruments comprise cash and short-term deposits. It also 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 market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(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 operations 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:

	2017 A$'000			2016 A$'000		
	USD	SGD	NZD	USD	SGD	NZD
Cash and cash equivalents	1,643	139	-	1,682	165	-
Trade and other payables	65	-	45	36	-	-

Based on the financial instruments held at 30 June 2017, 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 $210,000 higher/$172,000 lower (2016: $209,000 higher/$171,000 lower) as a result of foreign exchange gains/losses.

(ii) Interest rate risk

The consolidated entity's main interest risk arises from cash and cash equivalents. This risk is managed by ensuring that surplus cash is invested in at call investment account and short term deposits.

Based on the cash and cash equivalents at 30 June 2017, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been $40,000 higher/lower (2016: $71,000 higher/lower) as a result of higher/lower interest income from these financial assets.

(iii) Other price risk

The consolidated entity does not carry any other price risk.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

25. FINANCIAL RISK MANAGEMENT (cont'd)

(iv) Cash flow and fair value interest rate risk

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

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 2 years		More than 2 years		Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 % pa	2016 % pa
(i) Financial assets														
Cash	21,627	31,300	10,000	5,000	-	-	-	-	139	165	31,766	36,465	2.02	2.38
Receivables – trade	-	-	-	-	-	-	-	-	7,095	8,386	7,095	8,386	N/A	N/A
Total financial assets	21,627	31,300	10,000	5,000	-	-	-	-	7,234	8,551	38,861	44,851		
(ii) Financial liabilities														
Payables	-	-	-	-	-	-	-	-	28,663	27,096	28,663	27,096	N/A	N/A
Software financing facility	-	-	440	-	445	-	-	-	-	-	885	-	1.03	N/A
Total financial liabilities	-	-	-	-	-	-	-	-	28,663	27,096	29,548	27,096		

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

25. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers including receivable and committed transactions. Customers are assessed for their creditworthiness by using a third-party credit rating agency. If there are no independent credit ratings available, credit risk is assessed by taking into account the financial position of the Company, past experience and other factors. The consolidated entity mitigates credit risk 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 51.

	2017 $'000	2016 $'000
Trade receivables		
Not past due (aged 0–30 days)	6,016	4,986
Past due but not impaired	535	203
Impaired	876	539
	7,427	5,728

(c) Liquidity risk

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

Maturities of financial liabilities

Consolidated	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total contractual cash flow $'000
At 30 June 2017					
Non-interest bearing	28,663	-	-	-	28,663
Fixed rate	220	220	445	-	885
	28,883	220	445	-	29,548
At 30 June 2016					
Non-interest bearing	27,096	-	-	-	27,096
Fixed rate	-	-	-	-	-
	27,096	-	-	-	27,096

(d) Fair value estimation

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

26. 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:

	2017 $'000	2016 $'000
Current assets	-	-
Total assets	120,205	126,043
Current liabilities	14,516	9,755
Total liabilities	14,516	9,755
Net assets	**105,689**	**116,288**
Contributed equity	42,991	42,991
Reserves		
Employee equity benefits reserve	725	397
Retained earnings	61,973	72,900
Equity	**105,689**	**116,288**
Loss for the year	**(443)**	**(270)**
Total comprehensive loss	**(443)**	**(270)**

(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 Cloud Services Pty Limited ("MCS") (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 Macquarie Cloud Pty Limited and as such, it 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 2017 or 30 June 2016.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of $14.5 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 $8.4 million, which the Company can control the timing of settlement.
- The Company's assets are receivable from a wholly owned entity which itself has a surplus of current asset sufficient to fund the remaining balance.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

27. EVENTS OCCURING AFTER THE REPORTING DATE

On 30 August 2017, 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 2017, to be paid to the shareholders on 18 October 2017. This dividend has not been included as a liability in these financial statements. The total dividend to be paid is $5.2 million; the reduction in the franking account will be $2.2 million.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2017

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 2017 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 2017.

(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 26(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, 30 August 2017

Independent auditor's report

To the shareholders of Macquarie Telecom Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Macquarie Telecom Group Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the statement of financial position as at 30 June 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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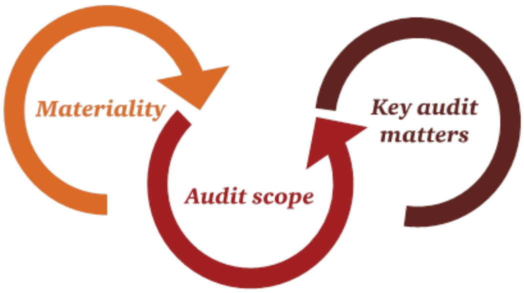
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates. The accounting processes are structured around the Group finance function at its office in Sydney.



Materiality

- For the purpose of our audit, we used overall Group materiality of $1,008,000, which represents approximately 2.5% of earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose EBITDA as the benchmark because this is a key metric used to measure the performance of the Group.
- We selected 2.5% (of EBITDA) based on our professional judgement noting that it is within the range of commonly acceptable EBITDA related materiality thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group specialises in the provisions of telecommunication and hosting services to corporate and government customers in Australia. We ensured that the audit team possessed the appropriate skills and competencies which are needed for the audit of the Group, including team members with technology and telecommunications industry experience. As the Group's operations are domestic, we performed most of the audit procedures at the Group's finance function in Sydney.

Key audit matters

Amongst other relevant topics, we communicated following the key audit matters to the Audit and Risk Management Committee:

- Property, plant and equipment impairment assessment
- Revenue recognition

They are further described in the *Key audit matters* section of our report below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Property, Plant and Equipment impairment assessment ***Refer note 10*** The Group's property, plant and equipment was assessed for impairment at the cash generating unit (CGU) level by the Group considering if impairment indicators were present. The Group have determined the CGUs to be the same as the reportable segments, being Telecom and Hosting. We focused our procedures on the Hosting CGU as the majority of the Property, Plant and Equipment balances relate to that CGU. The impairment assessment for the Hosting CGU was a key audit matter due to: - the significance of the property, plant and equipment balances to the balance sheet - the judgement involved in the impairment indicator assessment due to the need to make estimates about future events and circumstances, such as future data centre capacity and pricing.	We have performed the following procedures, amongst others, to evaluate the Group's assessment that there had been no indicators of impairment: • enquired of management of any significant new customers or customer losses and any significant changes in the manner in which assets are expected to be used or changes in the business environment that could significantly impact future performance • considered Board of Director Meeting minutes • compared the actual performance for the year to Board of Director approved budgets • considered if there were changes in market interest rates that may significantly affect the discount rate that would be used in discounted cash flow impairment models by the Group. We noted that the market capitalisation of the Company was significantly higher than the Group's net assets of $91,786,000 as at 30 June 2017.
Revenue recognition ***Refer note 3*** Revenue recognition was a key audit matter due to: - the significance of revenue being the most financially significant account balance in the Statement of Comprehensive Income ($219,658,000 for year ended 30 June 2017)	We have performed the following procedures, amongst others: • identified and investigated (on a risk-based sample basis) journal entries that impact revenue balances • tested, on a sample basis, the application and appropriateness of revenue recognition accounting policies to significant new contracts

Key audit matter	How our audit addressed the key audit matter
- although there was no significant judgement involved in the determination of revenue, there are high volumes of transactions and multiple arrangements with customers and revenue recognition relies on successful interactions of systems and information from carriers for accurate billing to customers. For some employees part of the assessment of their incentives is linked to revenue outcomes.	• evaluated the design and performing tests of a selection of key manual controls related to revenue recognition including the implementation of price changes and allocation of cash to customer accounts • tested (on a risk-based sample basis) that evidence of an underlying arrangement with a customer exists, that invoiced amounts have been calculated in line with contracted fee schedules, and that revenue recognition criteria and contractual obligations had been met by the Group • assessed the adequacy of the revenue disclosures in light of the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Director's Report and Corporate Governance Statement (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Company Highlights, Chairman's Message, Chief Executive's Message and ASX Additional Information.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 6 to 12 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

PricewaterhouseCoopers

Jason Hayes
Partner

Sydney
30 August 2017

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. 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.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
30 August 2017