2018 Annual Report.

Making it count.

macquarie
TELECOM GROUP

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the members of Macquarie Telecom Group Limited
be held at Macquarie Telecom's Sydney office (Level 15, 2 Market Street, Sydney) on Tuesday 20 November 2018 at 9.00 am.

Table of Contents.

Company Highlights 2018.

+70

Australia's leading Net Promoter Score of +70 for customer service in Q4 FY18.

6%
$233.1m
Revenue

19%
$47.8m
EBITDA

50c
Fully franked dividends total of 50 cents per share declared for the year

20%
$17.0m
NPAT

19%
80.9 cps
EPS

$

Improved revenue and profitability driven by continued growth for Cloud Services and Government

Profitable Growth.

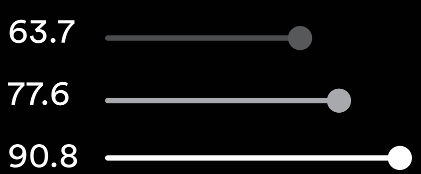
Outstanding customer service has been our number one focus and is reflected in our continued profit growth.

Financial Summary — By financial full year, in $m

	FY16	FY17	FY18	FY18 v FY17
Service Revenue	202.6	219.7	233.1	13.4
EBITDA	32.3	40.3	47.8	7.5
EBIT	6.9	19.0	24.3	5.3
Net Profit after Tax	5.3	14.2	17.0	2.8
Operating Cash Flow	39.4	41.4	42.9	1.5

FY16 FY17 FY18

Hosting Revenue ($m)



Hosting EBITDA ($m)

Telecom Revenue ($m)

Telecom EBITDA ($m)

Chairman's Message.

I am pleased to report on the fourth successive year of strong revenue and profit growth of Macquarie Telecom Group.

It gives me great pleasure to present Macquarie Telecom's annual report for the year ended 30 June 2018.

Our continued focus on providing a great customer experience has driven an increase in revenue of 6% to $233.1 million and EBITDA by 19% to $47.8 million compared to fiscal 2017.

Macquarie Telecom Group delivered a net profit after tax from continuing operations of $17.0 million, an increase of 20% on 2017. Total revenue for the year was $233.1 million. Continued strong conversion of the EBITDA performance to cash resulted in operating cash flows of $42.9 million for the year. The Company is debt free and had a closing cash position of $30.3 million at the end of the year. Investment for future growth has been a priority with a total capital expenditure of $33.8 million in the fiscal year 2018 driven by Customer and Growth Capex of $22.5 million for The Fortune 100 Customer, Government Cloud, Data Hall 4 fit out, insourcing of the NOC and building a new data network platform for SD-WAN.

The Hosting segment contributed $90.8 million in revenue, an increase of 17% compared to fiscal year 2017, and EBITDA of $26.8 million being an increase of 24%. The segment's investments in infrastructure has led it to becoming a leading provider of Hybrid IT Solutions for Federal Government, Corporates and SaaS customers and the ability to cross sell cloud solutions into the Telecom corporate customer base continues to contribute to the success in the segment. The demand from our Federal Government Agencies for secure private cloud gives us great confidence for future growth in the Government Sector.

The announcement of the expansion of our existing Macquarie Park Intellicentre to a 43MW Campus reinforces our confidence in our strategy. The Campus is designed to meet the growing needs of global Hyperscalers as well as Cloud, Enterprise and Government customers.

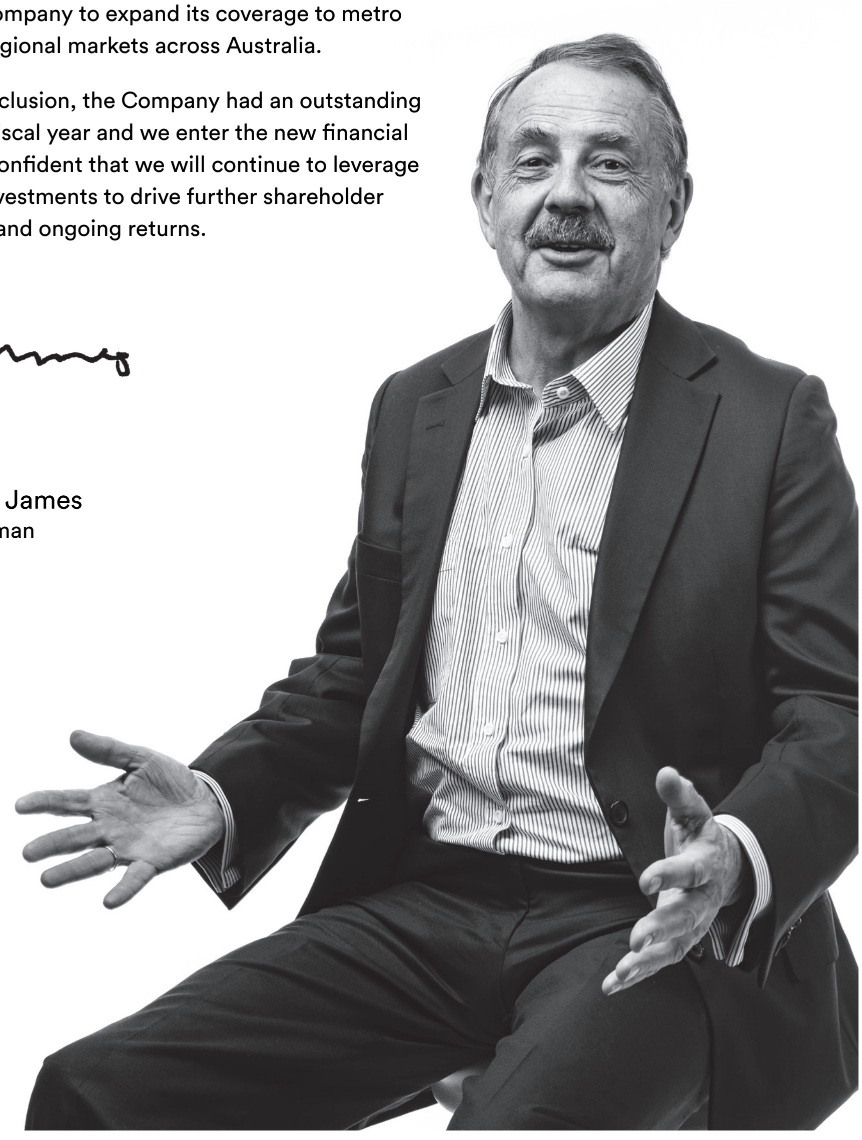
The Telecom segment continues to be an important part of the Group's overall offering, delivering $142.3 million in revenue and EBITDA of $21.0 million representing growth in market share in a highly competitive market environment while maintaining an EBITDA margin of 14.8%.

The Company's EBITDA will continue to grow in 2019 with further investments in sales growth.

The Company has entered into a wholesale supply agreement with NBN Co. The deal will enable the provision of telecommunications and data services to Australia's business community that will assist the Company to expand its coverage to metro and regional markets across Australia.

In conclusion, the Company had an outstanding 2018 fiscal year and we enter the new financial year confident that we will continue to leverage our investments to drive further shareholder value and ongoing returns.

Peter James
Chairman



Chief Executive's Message.

We have chosen to be great at one thing across all our businesses. The best customer experience in Australia. This has been key to our financial success as all our businesses compete in markets where customers are underserved and overcharged by large incumbents.

Quite simply we have decided to do the opposite of our competitors. We zig where they zag.

Our three initiatives in 2018 reflect this. We have brought to the Australian market the disruptive SD-WAN technology and today we have the largest deployment in Australia. The G8 case study that follows brings to life the compelling customer benefits. Our development of a secure private cloud ensures that security doesn't need to be compromised when the Australian Government embrace the benefits of cloud.

We have achieved this by our total adoption of Net Promoter Score (NPS). We ask our customers to measure us every day using the simple and powerful NPS question "How likely is it that you would recommend our company to a friend or colleague?". We changed the transparency of NPS so everyone internally and externally can see how well we are looking after customers on a real time basis.

In 2018, we have decided to create a dedicated Macquarie Data Centre business to focus on growing our data centre assets through the construction of new data centres and a dedicated team to service the needs of wholesale customers like global software cloud and public cloud companies.

The Macquarie Data Centre business will continue to sell wholesale capacity to the three Macquarie businesses.

David Tudehope
Chief Executive

Making a Difference the United Way.

In 2013 the Macquarie Business Park Community Partnership was formed between business leaders from Macquarie Business Park and Macquarie Telecom Group to support and improve their local community where their businesses operate.

The group determined the goal of the partnership would be to focus on helping young people reach their potential, with an emphasis on early learning and literacy, and youth transition to employment or education. United Way the Australian branch of the world's largest charity has introduced two programs into the local community:

'Ready to Read' program

'Ready to Read' program delivering books to the homes of children aged 0-5 each month, encouraging reading, bonding and early learning in an effort to equip children with the skills needed to enter kindergarten. This program is targeting one thousand children by the year 2020 to receive 12 new books a year, 72 in total, to keep on their shelves at home; and

'Ready to Succeed' program

'Ready to Succeed' program targeting high school students helping them build critical skills for future careers and study. Through this initiative, Macquarie Telecom Group has been mentoring Year 9 and 10 students from Marsden High School and South Sydney High School offering guidance, support and encouragement. During FY18, the students toured the Macquarie Park IC2 data centre and enjoyed seeing the vast IT infrastucture cabling.

Powerful Insight from eCorner's Cloud Journey.

Sydney-based eCorner has always been about delivering smarter ways to sell online. Their leading ecommerce platform powers start-ups like Gadgets4geeks, businesses like Weight Watchers and public users including the Australian Institute of Sport and Queensland Government. But with over 2,600 stores now delivered, expanding sales channels and dynamic user and merchant growth, new scale and capabilities were required.

"Large-scale e-commerce owes a lot of its success to the cloud," said Jae Debrincat, general manager of eCorner. "We needed to adapt a similar model to be flexible and survive in an increasingly-competitive industry. We initially looked to the likes of Amazon Web Services, however the deeper we went, we realised Macquarie was a better fit."

"We undertook this journey because we had older, aging hardware and servers in a colocation environment and were facing a very large impending CAPEX spend. We wanted to review our entire infrastructure to look at future proofing and improving efficiencies when we knew that our competitive market was moving into the cloud".

"We engaged in a 12-month due diligence process before choosing Macquarie Cloud Services. We engaged with multiple providers during that process, and what became very apparent is that Macquarie were going to be very hands on with us in the process. They led us through multiple workshops to help us with the scoping and gave us the confidence that both the migration and the ultimate infrastructure that we'd end up with would be what we needed".

Solutions include compute, storage, security, backup and compliance support.

"We've had really positive feedback from both our customers and technical team, telling us that the web content and back office services that we provide are much faster. And we've seen an improvement in the books in terms of our OPEX".

Their cloud partner selection was based on three criteria

1

Moving from a physical to cloud environment with confidence, control and security

2

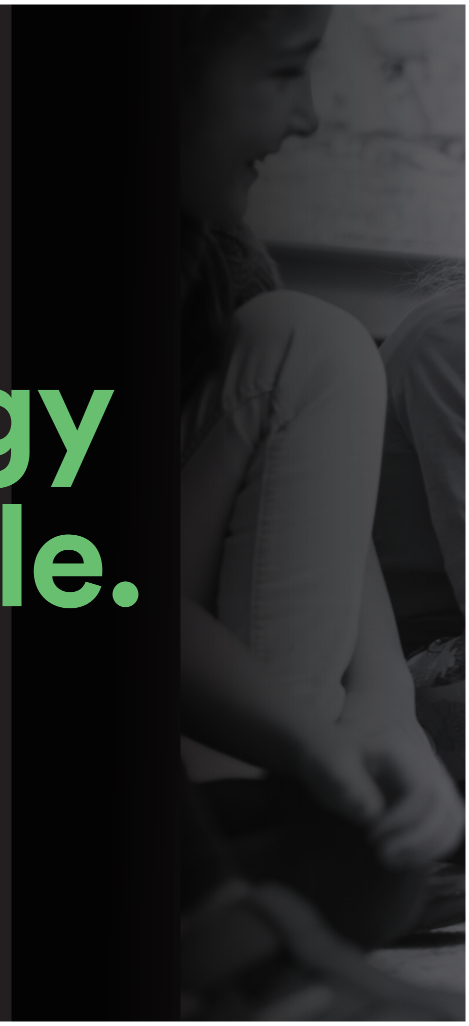
Seamless migration to protect their customer experience

3

Reducing CAPEX requirements and securing ongoing efficiencies

Big technology for little people.

How Macquarie Telecom SD-WAN has revolutionised G8 Education.



Situation.

G8 Education has seen a constantly growing demand from parents to receive realtime photo and video updates from their early education centres. As this trend continued, G8 Education realised their legacy networks weren't equipped to provide these services, and to keep their childcare centres ahead of the competition.

Needy networks.

With a nationwide network spanning 500 centres, G8 Education Limited (ASX: GEM) leads the way in delivering high-quality, educational childcare facilities across Australia and Singapore. Focusing on childhood education management, they aim to make good centres great.

Choosing a childcare centre involves in-depth research and scrutiny. Parents are savvy buyers who shop around, armed with a multitude of questions including what sort of digital initiatives are in place. Digging deeper into the standard of care, they want to know if their kids will have access to the latest technology, and what digital capabilities put a centre ahead of the rest.

With a far-reaching network extending over 500 sites, and thousands of applications all running concurrently, lessening network congestion is paramount for G8 Education. Because legacy systems run on sluggish, outdated networks, they're often choked. This is why balancing bandwidth across all sites is a driving force behind G8 Education's switch to SD-WAN.

Open 6-to-6, five days a week, the centres vary in capacity, from 5 to 30 staff. Each resembling a small business, their technology demands aren't immense, but essential to their smooth operation. Used for education, observations, regulatory compliance reports, and general communication with parents and support offices, staff need to know they can access the network whenever and wherever, from any device. Multiply this scenario by 500 sites, and the bigger picture emerges.

Solution.

Better Technology. Better Care.

After global research and advice from technical advisors about the best SD-WAN platform currently available – Macquarie Telecom kept floating to the surface.

The fact is that premium internet services result in greater team engagement. This has a run-on effect: better participation with parents, and improved quality of service to the centres. Ultimately, this is better for families; better technology, better care. With less tech-pain points, it benefits staff too.

Multi-Path technology seamlessly merges multiple link connections, meaning remote sites which had snails-paced, unreliable connections now have faster speeds, more uptime and less frustration.

SD-WAN is driven by an easy-to-read online interface called the Orchestrator. This single-screen overview allows G8 Education network admins to monitor and prioritise how bandwidth is being used across each centre and give low precedence to apps that paralyse the network. This ultimately means that badly-timed software updates no longer get in the way of sharing daily video stories with parents.

> "We saw an opportunity to adopt a completely new network technology. Now, we're Macquarie Telecom's largest SD-WAN customer, and once our national rollout is complete, we will be the largest SD-WAN implementation in Australia."
>
> Peter Nelson, CIO, G8 Education.

Results.

Macquarie Telecom SD-WAN has delivered a network that's fast and reliable, to connect parents to their children seamlessly throughout the day. It's given them easy control of their network too, from a single screen.

Future-focused.

Peter Nelson, CIO for G8 Education, believes that flying blind on data visibility and network bandwidth has been holding them back. With 500 sites comes 500 different connections, each throwing different network issues into the mix.

Macquarie Telecom's SD-WAN gives G8 Education increased visibility over what their bandwidth is doing, at both a site and network level. By taking the control back and bringing stability to the network, G8 Education can now focus on creating innovative ways to deliver education services to families and use technology to improve the customer journey.

With expansion on the cards, the plug-and-play flexibility of rolling out SD-WAN means deploying new sites is no longer a lengthy or expensive process.

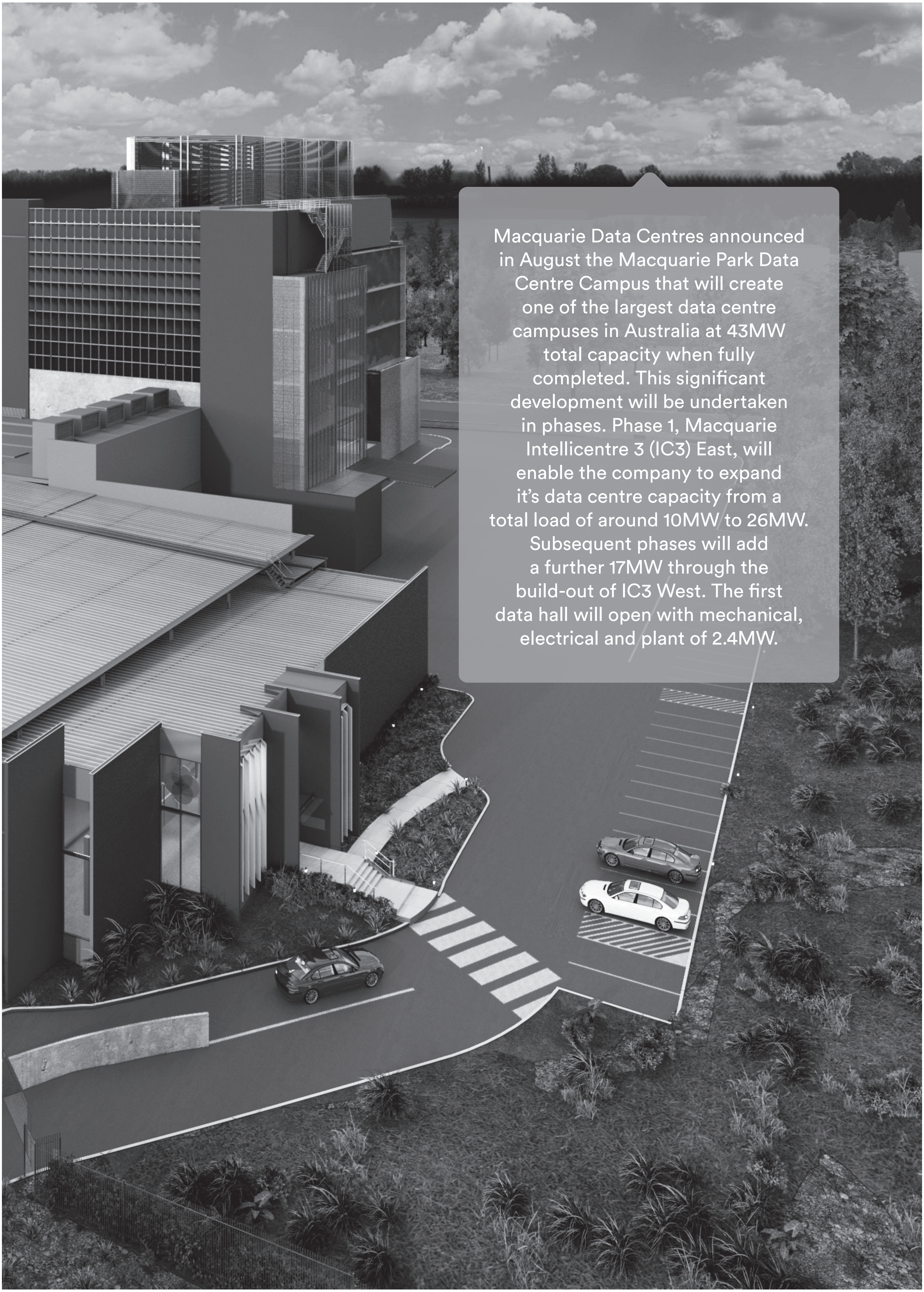
Once the Edge box is installed, with a few clicks, G8 Education can instantly and remotely configure the site, manage its bandwidth and update its policies.

Parent communication tool, Kindyhub, lets staff share photographs and post stories through the day so that parents can engage. The current mix of connections like ADSL, cable broadband and – in some of the more remote centres – cellular 4G, haven't had the bandwidth to accommodate an upgrade to video stories.

SD-WAN simultaneously uses up to four access links, from NBN to ADSL – or even 4G, and stitches them together to create faster, more reliable connections. G8 Education can up the ante in nurturing parent, family and customer engagement. In the end, that's what technology is all about.

More than monitoring bandwidth and reducing downtime, rolling out SD-WAN is about making G8 early education centres the best in the world.

Quite simply our goal is to be where the clouds live.



Macquarie Data Centres announced in August the Macquarie Park Data Centre Campus that will create one of the largest data centre campuses in Australia at 43MW total capacity when fully completed. This significant development will be undertaken in phases. Phase 1, Macquarie Intellicentre 3 (IC3) East, will enable the company to expand it's data centre capacity from a total load of around 10MW to 26MW. Subsequent phases will add a further 17MW through the build-out of IC3 West. The first data hall will open with mechanical, electrical and plant of 2.4MW.

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 2018.

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. In 2018, David was named Australian Communications Ambassador at the 12th Annual ACOMM Awards.

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 and is chair of their Nomination & Remuneration Committee. 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 holds a Non-Executive role with Ngahuia Group Ltd based in NZ and Food Service Group Australia Holdings. She has a BA, MBA (major in Marketing), and an AICD membership. 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.

Bart Vogel
Non-Executive Director

Bart joined the board in 2014. He is the 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, Invocare Ltd, BAI Communications and the Children's Cancer Institute Australia. Bart's executive career included 20 years' experience in the management consulting industry with Bain & Co, AT Kearney and Deloitte Consulting. He also enjoyed 13 years as a leader in the IT and telecommunications industries with Asurion, with Computer Power Group and as the Australia and Asia Pacific leader of Lucent technologies. He holds a Bachelor of Commerce (Hons)Degree, is a Fellow of Chartered Accountants Australia New Zealand, and a Fellow of the Australian Institute of Company Directors.

Opposite Page From left to right:
AidanTudehope, Managing Director, Hosting Group
Anouk Darling, Non-Executive Director
Peter James, Chairman
Bart Vogel, Non-Executive Director
David Tudehope, Chief Executive

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 (59%) 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 B Vogel holds 22,922 ordinary shares; and

f. a director-related entity of A Darling holds 3,737 ordinary shares.

Company secretaries

Nathan Shepherd

(resigned 1 July 2018)
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.

Matthew Healy

(appointed 1 June 2018)
Matthew was appointed as Company Secretary of the Company on 1 June 2018. He has been with the Company for 15 years heading up the Industry and Policy department which manages legal and has extensive experience in the regulated industry.

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.

Review and results of operations

The Group generated a net profit after tax of $17.0 million in the year ended 30 June 2018, compared to a net profit after tax of $14.2 million in the corresponding period.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the full year was $47.8 million, representing an increase of $7.5 million (18.6%) compared to the previous 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 $142.3 million in revenue and EBITDA of $21.0 million, representing an increase in EBITDA of 12.3% on the previous corresponding period. This performance reflects the continued growth in market share in a highly competitive market while maintaining EBITDA margin of 14.8%. The segment's #SoUntelco 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 $90.8 million in revenue, an increase of 17.1% compared to the previous corresponding period, and EBITDA of $26.8 million, an increase of 24.1%. 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 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 $42.9 million and held cash and cash equivalents of $30.3 million as at 30 June 2018, with no debt.

The consolidated entity employed 392 employees at 30 June 2018 (2017: 342).

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

Service Revenue			
(A$ million)	**Full Year 2018**	Full Year 2017	Full Year 2016
Telecom	142.3	142.1	138.9
Hosting	95.3	81.9	68.4
Eliminate inter-segment revenue	(4.5)	(4.4)	(4.7)
Hosting Total	90.8	77.6	63.7
Total Service Revenue	233.1	219.7	202.6

EBITDA			
(A$ million)	**Full Year 2018**	Full Year 2017	Full Year 2016
Telecom	21.0	18.7	18.3
Hosting	26.8	21.6	14.0
Total EBITDA	47.8	40.3	32.3

Reconciliation of EBITDA to profit/(loss) before income tax			
Total EBITDA	47.8	40.3	32.3
Interest revenue	0.4	0.5	0.6
Interest expense	-	-	(0.1)
Depreciation and amortisation expense	(23.5)	(21.2)	(25.4)
Profit/(loss) before income tax	24.7	19.6	7.4

Earnings per share

Earnings per share for profit attributable to the ordinary equity holders of the Company:

	2018 cents	2017 cents
Basic earnings per share	80.9	67.8
Diluted earnings per share	79.2	66.7

Dividends

Dividends paid to members during the financial year were:

	2018 $'000	2017 $'000
(i) Final dividend for the year ended 30 June 2017 of 25 cents per share (year ended 30 June 2016: 25 cents) fully franked based on tax paid at 30%.	5,243	5,242
(ii) Interim dividend for the year ended 30 June 2018 of 25 cents per share (2017: 25 cents) fully franked based on tax paid at 30%.	5,273	5,242
	10,516	10,484

96,000 performance rights vested on 31 December 2017. An incremental 32,000 shares were issued based upon overachievement of the target in accordance to the plan, taking the total to 128,000 of ordinary shares issued in Company. The 5 day Volume Weighted Average Price (VWAP) at the date of issue was $15.27 which equates to $1,945,560 worth of shares allocated to executives and senior management.

Likely developments and expected results

The Company will prioritise the execution of the following in fiscal year 2019:

- Maintaining industry leading Net Promoter Score greater than +60 across all business segments;
- The Company announced that it has entered into a wholesale supply agreement with NBN Co. The deal will enable the provision of telecommunications and data services to Australia's business community. The services offered under this six-year agreement will include dedicated, Australian based nbn™ service delivery, assurance and support staff for Macquarie customers. Telecom will leverage the NBN and SD WAN technology for growth.
- Hosting will focus on developing Phase 1, Macquarie Intellicentre 3 (IC3) East, to enable the Company to expand its data centre capacity from a total load of 10MW to 26MW. The Campus is designed to meet the growing needs of global hyperscalers and clouds, enterprise and Government customers. The first data hall in the new Intellicentre Campus will achieve practical completion in late calendar 2019 with an opening day mechanical, electrical and plant (MEP) of 2.4MW.
- 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.

Significant changes in the state of affairs

There were no significant changes in the state of affairs during the year ended 30 June 2018.

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.

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 2018 is detailed in the table on page 24 and 25 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;
- 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 22.

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 24 and 25.

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.

Remuneration report (cont'd)

Remuneration of Directors for the year ended 30 June 2018:

Directors		Primary and bonus			
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)
P James – Chairman	**2018**	**192,500**	**-**	**-**	**-**
	2017	170,000	-	-	-
D Tudehope – Chief Executive	**2018**	**527,365**	**227,791**	**11,289**	**44,681**
	2017	507,082	323,348	(2,664)	43,972
A Tudehope – Managing Director, Hosting Group	**2018**	**513,151**	**167,376**	**(8,073)**	**36,992**
	2017	502,377	358,419	6,407	36,692
A Darling – Non-Executive Director	**2018**	**111,250**	**-**	**-**	**-**
	2017	100,000	-	-	-
B Vogel – Non-Executive Director	**2018**	**126,250**	**-**	**-**	**-**
	2017	115,000	-	-	-
Total Directors' Remuneration	**2018**	**1,470,516**	**395,167**	**3,216**	**81,673**
	2017	1,394,459	681,767	3,743	80,664

Remuneration of Other Key Management Personnel for the year ended 30 June 2018:

Other Key Management Personnel		Primary and bonus			
		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)
L Clifton – Group Executive, Macquarie Telecom	**2018**	**360,862**	**143,861**	**458**	**21,400**
	2017	353,283	235,515	27,371	21,100
J Mystakidis – Group Executive, Macquarie Cloud Services	**2018**	**360,832**	**174,521**	**13,521**	**21,430**
	2017	347,437	288,441	19,218	17,800
D Hirst - Group Executive	**2018**	**303,015**	**140,519**	**19,271**	**20,430**
	2017	-	-	-	-
S Pauly - Chief Financial Officer (a)	**2018**	**-**	**-**	**-**	**-**
	2017	52,308	-	(8,721)	1,221
B Henley - Chief Financial Officer (b)	**2018**	**278,640**	**88,027**	**1,490**	**9,567**
	2017	91,733	36,636	3,852	1,800
Total Other Key Management Personnel Remuneration	**2018**	**1,303,349**	**546,928**	**34,740**	**72,827**
	2017	844,761	560,592	41,720	41,921

(a) Resigned 2 September 2016 (b) Appointed 27 February 2017

			Short Term		Long Term		Total
	Post Employment	% Bonus Granted	Total	Performance Rights			Performance Related %
	Superannuation			Share Performance Rights(iii)	Cash Performance Rights(iii)		
	18,287	**-**	**210,787**	**-**	**-**	**210,787**	**-**
	16,150	-	186,150	-	-	186,150	-
	20,049	**110.6%**	**831,175**	**-**	**41,169**	**872,344**	**30.8%**
	19,616	157.0%	891,354	-	17,785	909,139	37.5%
	20,049	**111.6%**	**729,495**	**-**	**41,169**	**770,664**	**27.1%**
	19,616	254.8%	923,511	-	17,785	941,296	40%
	10,569	**-**	**121,819**	**-**	**-**	**121,819**	**-**
	9,500	-	109,500	-	-	109,500	-
	11,994	**-**	**138,244**	**-**	**-**	**138,244**	**-**
	10,925	-	125,925	-	-	125,925	-
	80,948	**-**	**2,031,520**	**-**	**82,338**	**2,113,858**	**-**
	75,807	-	2,236,440	-	35,570	2,272,010	-

			Short Term		Long Term		Total
	Post Employment	% Bonus Granted	Total	Performance Rights			Performance Related %
	Superannuation			Share Performance Rights(iii)	Cash Performance Rights(iii)		
	20,049	**95.9%**	**546,630**	**76,107**	**-**	**622,737**	**35.3%**
	19,616	157.0%	656,885	68,015	-	724,900	41.9%
	20,049	**116.3%**	**590,353**	**76,107**	**-**	**666,460**	**37.6%**
	19,616	177.9%	692,512	68,015	-	760,527	46.9%
	20,049	**120.4%**	**503,284**	**60,265**	**-**	**563,549**	**35.6%**
	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**
	4,904	-	49,712	-	-	49,712	-
	20,049	**110.6%**	**397,773**	**21,009**	**-**	**418,782**	**26.0%**
	6,267	157.0%	140,288	-	-	140,288	26.1%
	80,196		**2,038,040**	**233,488**	**-**	**2,271,528**	**-**
	50,403	-	1,539,397	136,030	-	1,675,427	-

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.

iv. The company has issued performance rights that convert to cash to executives as part of their long-term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period.

Shareholdings of key management personnel

	Balance 1 July 2017	Net change other	Balance 30 June 2018
Directors			
D Tudehope[1]	327,374	-	327,374
A Tudehope[1]	3,591	-	3,591
D & A Tudehope (Note 23(b)(i))	12,501,390	-	12,501,390
A Darling	3,737	-	3,737
P James	19,105	-	19,105
B Vogel	22,922	-	22,922
Executives			
L Clifton	5,000	30,000	35,000
J Mystakidis	9,050	30,000	39,050
Total	**12,892,169**	**60,000**	**12,952,169**

[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 2018.

Performance of Macquarie Telecom Group Limited

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

	EBITDA	NPAT	Share Price	KMP STI as % of NPAT
Year ended 30 June	(A$ million)	(A$ million)	ASX Code: MAQ	%
2018	47.8	17.0	20.34	5.5%
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%)

Equity compensation: granted and vested during the year

Share-based performance rights totalling 96,000 vested on 31 December 2017. An incremental 32,000 shares were issued based upon overachievement of the target in accordance to the plan, taking the total to 128,000 of ordinary shares issued in Company. The 5 day Volume Weighted Average Price (VWAP) at the date of issue was $15.27 which equates to $1,945,560 worth of shares allocated to executives and senior management.

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:	16	5	3
Number of meetings attended:			
D Tudehope	16	-	3
A Tudehope	15	-	-
A Darling	16	5	3
P James	16	5	3
B Vogel	16	5	3

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 34.

Non-audit services

Taxation advice, compliance and legal 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: $328,131 (2017: $76,097) as disclosed in Note 22.

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 29 August 2018

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 services agreement with the Company.

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

Macquarie Telecom embraces diversity and believes it is a critical factor in our success. Diversity means all differences between people including gender, age, race, ethnicity, disability, sexual orientation, religion and culture. To attract and retain a diverse workforce, we are committed to promoting a culture, 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*	104	27.2%
Number of females in people management positions*	21	31.3%
Number of females on the Macquarie Telecom Board*	1	20.0%

* *Workplace Gender Equality Agency report, May 2018*

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

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

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

Board and Executive	
Objective	Outcome
Board and Executive level vacancies: continue to aim to proactively source and consider a minimum of 30% female applicants for Board and executive level vacancies.	Macquarie Telecom has policies and practices in place to support our ongoing commitment to this objective.
Board composition: maintain female representation on the Macquarie Telecom Board of Directors.	We continue to maintain 20% female representation on our Board.

General	
Objective	Outcome
Ensure that Macquarie Telecom continues to have a Diversity Officer responsible for reviewing progress and report annually to the Board.	A HR employee continues to hold the position of Diversity Officer.
Aim to maintain a Macquarie Telecom female population of 26% or greater by June 2018.	Macquarie Telecom currently has a female population of 27.2%.
Aim to maintain current ratio of female people managers (as reported in FY17 Annual Report – 30.0%).	The proportion of female people managers is currently 31.34%.

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.

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.

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.

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 Annual General Meetings 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 operates including service interruption and network reliability, management of outsourcing, emerging technology and delivery platforms and regulatory framework.

Principle 8

Remunerate fairly and responsibly

The functions of the Corporate Governance, Nomination and Remuneration Committee (refer to Principle 2) include reviewing the remuneration arrangements for non-executive and executive directors and reviewing and approving the issue of shares and options under the Company's employee share and option plans. The Committee also reviews remuneration for the senior executive team and monitors, reviews and makes recommendations to the Board as to the remuneration policies of the Company generally. The names of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

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

The remuneration of senior executives consists of a combination of fixed and variable (at risk) remuneration. The bonus paid to a senior executive is based on a review of their individual performance.

Details of shares issued to employees of controlled entities of the Company are included in Note 20 to the financial statements.

Auditor's Independence Declaration.

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2018, 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
29 August 2018

Financial Statements.

Statement of Comprehensive Income.

Year ended 30 June 2018

	Notes	Consolidated 2018 $'000	2017 $'000
Revenue and other income	3 (a)	233,586	220,199
Expenses	3 (b)	(209,278)	(201,148)
Results from operating activities		24,308	19,051
Finance income		448	540
Finance costs		(12)	(22)
Profit before income tax		24,744	19,569
Income tax expense	5	(7,731)	(5,355)
Profit after income tax for the year attributable to owners of the parent		17,013	14,214
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(11)	(52)
Total comprehensive income for the year attributable to owners of the parent		17,002	14,162

		cents	cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	21 (a)	80.9	67.8
Diluted earnings per share	21 (b)	79.2	66.7

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

Statement of Financial Position.

As at 30 June 2018

	Notes	Consolidated 2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	6	30,298	31,766
Trade and other receivables	7	7,077	7,095
Accrued income	8	7,897	6,654
Other current assets	9	6,395	6,301
Total current assets		51,667	51,816
Non-current assets			
Property, plant and equipment	10	65,983	60,089
Intangible assets	11	16,945	12,558
Deferred tax asset	5	6,200	6,021
Other non-current assets	12	2,890	2,742
Total non-current assets		92,018	81,410
Total assets		143,685	133,226
Current liabilities			
Trade and other payables	13	33,466	28,663
Current tax liabilities	5	4,087	6,014
Provisions	14	1,752	1,546
Other current liabilities	15	4,282	3,074
Total current liabilities		43,587	39,297
Non-current liabilities			
Provisions	14	1,224	1,097
Other non current liabilities	15	5,519	6,401
Total non-current liabilities		6,743	7,498
Total liabilities		50,330	46,795
Net assets		93,355	86,431
Equity			
Contributed Equity	16	43,140	42,991
Reserves	17(a)	872	594
Retained profits	17(b)	49,343	42,846
Total equity		93,355	86,431

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

Statement of Changes in Equity.

Year ended 30 June 2018

	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2016	42,991	319	39,116	82,426
Profit for the year	-	-	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

	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2017	42,991	594	42,846	86,431
Profit for the year	-	-	17,013	17,013
Other comprehensive income	-	(11)	-	(11)
Total comprehensive income for the year	-	(11)	17,013	17,002
Transactions with owners in their capacity as owners				
Dividends provided for or paid	-	-	(10,516)	(10,516)
Share based payment	-	438	-	438
Performance shares rights vested	149	(149)	-	-
Total	149	289	(10,516)	(10,078)
At 30 June 2018	43,140	872	49,343	93,355

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

Statement of Cash Flows.

Year ended 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash Flows From Operating Activities			
Receipts from customers		254,319	238,010
Payments to suppliers and employees		(202,513)	(196,432)
Interest received		492	557
Interest and other finance costs paid		(12)	(22)
Income tax paid		(9,837)	(1,282)
Other receipts		474	539
Net Cash Flows From Operating Activities	18	42,923	41,370
Cash Flows From Investing Activities			
Acquisition of non-current assets			
Property, Plant & Equipment	10	(22,728)	(28,390)
Intangibles	11	(11,097)	(10,150)
Proceeds from the sale of non-current assets		-	3,002
Net Cash Flows (Used In)/From Investing Activities		(33,825)	(35,538)
Cash Flows From Financing Activities			
Repayments of borrowings		-	-
Dividends paid on ordinary shares		(10,516)	(10,484)
Net Cash Flows Used In Financing Activities		(10,516)	(10,484)
Net Decrease in Cash and Cash Equivalents		(1,418)	(4,652)
Cash and cash equivalents at the beginning of the financial year		31,766	36,465
Effects of exchange rate changes on cash and cash equivalents		(50)	(47)
Cash And Cash Equivalents At The End Of Year	6	30,298	31,766

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

Notes to the Financial Statements.

At 30 June 2018

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 2018 was authorised for issue in accordance with a resolution of directors on 30 August 2018. 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.

(i) Compliance with IFRS

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

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

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 relate to the determination of the useful lives 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.

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.

Notes to the Financial Statements (cont'd)

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).

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 shorter of the lease term and the useful life of the assets. Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

e. Intangibles

Cost and valuation

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

Amortisation

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

Amortisation periods are:

Software	3 to 4 years
Product development	3 years

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 assets.

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.

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.

Notes to the Financial Statements (cont'd)

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 Group 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 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.

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.

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.

Notes to the Financial Statements (cont'd)

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.

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 2017:

i. AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses;

ii. AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107; and

iii. AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

None of the new standards, amendments and interpretations adopted for the first time for the financial year beginning 1 July 2017 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 2018 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 Group has established a project team, which has initially focused on the larger revenue streams within each individual business unit and has undertaken a range of activities to identify those streams that have the highest potential risk of impact and/or will require a greater level of work effort to assess and/or quantify the financial impact of AASB 15. AASB 15's increased focuses on contracts with customers will require a greater understanding of customer contracts at a level of detail not previously required.

- The standard will be applied for the first time for the Group for the year ended 30 June 2019. The Group has completed its assessment of AASB 15 and does not expect a material impact on revenue recognition from adopting the standard. As noted the Group does not expect a material impact on revenue recognition, however, we are yet to fully implement the AASB 15 requirements across all parts of our business and should we identify any further changes we will reflect these in our final adjustments in the 2019 financial year. The Group will also be required to present a number of additional disclosures in the Financial Statements.

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 Group has established a project team, which has focused on the identification of the provisions of the standard which will most impact the Group.
- Going forward, this impact analysis will continue as well as a detailed review of contracts and financial reporting impacts and related changes to systems. The outcome of these assessments will determine the impact of the changes.
- The Group is considering the available options for transition. The standard will be applied for the first time for the year ended 30 June 2020.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements (cont'd)

3. Revenue and expenses

	Consolidated	
	2018 $'000	2017 $'000
(a) Revenue and other income		
Revenue from services	233,112	219,657
Other income	474	542
Total revenue and other income	233,586	220,199

(b) Expenses		
Amortisation of non-current assets		
Leasehold improvements	1,786	1,148
Intangibles	6,710	5,759
Depreciation of non-current assets		
Property, plant and equipment	15,047	14,374
Total depreciation and amortisation expense	23,544	21,281
Bad and doubtful debts expensed	388	350
Operating lease rental	10,280	10,255
Employment costs	64,386	60,920
Carrier costs	84,570	86,150
Net foreign exchange losses	50	159
Other expenses	26,060	22,033
	185,734	179,867
Total expenses	209,278	201,148

The minimum lease payments for the year is $10,279,288 (2017: $10,255,307).

4. Dividends

	Consolidated	
	2018 $'000	2017 $'000
(a) Dividends paid during the reporting period		
(i) 25 cents per share final dividend for the year ended 30 June 2017 (year ended 30 June 2016: 25 cents) fully franked based on tax paid at 30%.	5,243	5,242
(ii) 25 cents per share interim dividend for the year ended 30 June 2018 (2017: 25 cents) fully franked based on tax paid at 30%.	5,273	5,242
	10,516	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 (2017: 25 cents) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 25 October 2018 out of retained earnings at 30 June 2018 but not recognised as a liability at year end, is	5,273	5,242
(c) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2017: 30%)	8,759	3,428

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 the dividends recognised as a liability at the reporting

5. Income tax

	Consolidated	
	2018 $'000	2017 $'000
(a) Income tax expense		
Current tax	7,910	5,930
Deferred tax – current year	(395)	(140)
– prior year	216	(435)
	7,731	5,355
Income tax expense is attributable to:		
Profit from continuing operations	7,731	5,355
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(424)	(651)
Increase/(decrease) in deferred tax liabilities	245	77
	(179)	(574)

Notes to the Financial Statements (cont'd)

5. Income Tax (cont'd)

	Consolidated	
	2018 $'000	2017 $'000
(b) Numerical reconciliation of income tax expense to *prima facie* tax payable		
Profit from continuing operations before income tax expense	24,744	19,569
Prima facie tax at the Australian tax rate of 30% (2017: 30%)	7,423	5,870
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	341	266
Income not assessable for income tax purposes	-	-
Research and development incentive	(249)	(346)
Adjustments to tax in respect of prior years	216	(435)
Other	-	-
Income tax expense/(credit)	7,731	5,355
Effective tax rate	31%	27%

Non-Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for accounting purposes	3,568	3,743
Employee benefits	1,741	1,528
Accrued expenses	2,880	2,444
Provisions for doubtful debts and credit notes	134	166
Other assets	235	253
Total deferred tax assets	8,558	8,134
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,358)	(2,113)
Net deferred tax assets	6,200	6,021
Deferred tax assets expected to be recovered within 12 months	3,822	2,973
Deferred tax assets expected to be recovered after more than 12 months	4,736	5,161
	8,558	8,134

Movements - Consolidated	Accelerated Depreciation	Other	Total
At 30 June 2016	4,225	3,258	7,483
Charged to profit or loss	(482)	1,133	651
At 30 June 2017	3,743	4,391	8,134
Charged to profit or loss	(176)	600	424
At 30 June 2018	3,567	4,991	8,558

	Consolidated	
	2018 $'000	2017 $'000
Current Liabilities – Current Tax Liabilities		
Current tax liabilities	4,087	6,014

Non-Current Liabilities – Deferred Tax Liabilities		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for tax purposes	1,836	1,474
Other receivables	447	462
Prepayments	75	177
Total deferred tax liabilities	2,358	2,113
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,358)	(2,113)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	1,616	977
Deferred tax liabilities expected to be recovered after more than 12 months	742	1,136
	2,358	2,113

Movements - Consolidated	Accelerated Depreciation	Prepayments	Other	Total
At 30 June 2016	1,029	356	651	2,036
Charged to profit or loss	445	(179)	(189)	77
At 30 June 2017	1,474	177	462	2,113
Charged to profit or loss	362	(102)	(15)	245
At 30 June 2018	1,836	75	447	2,358

Notes to the Financial Statements (cont'd)

5. Income Tax (cont'd)

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 consolidated group. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax obligations. At balance date, the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

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

6. Cash and cash equivalents

	Consolidated	
	2018 $'000	2017 $'000
Cash at bank and on hand	30,298	21,766
Short term deposits	-	10,000
	30,298	31,766

7. Receivables

	Consolidated	
	2018 $'000	2017 $'000
Current		
Trade receivables	6,177	7,427
Provision for impaired receivables	(330)	(491)
Provision for credit notes	(116)	(385)
Other receivables	1,346	544
	7,077	7,095

(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).

7. Receivables (cont'd)

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

	Consolidated	
	2018 $'000	2017 $'000
At 1 July	(876)	(540)
Amounts written off	388	286
Net additional amounts released / (provided)	42	(622)
At 30 June	(446)	(876)

8. Accrued income

	Consolidated	
	2018 $'000	2017 $'000
Accrued income	7,897	6,654

9. Other current assets

	Consolidated	
	2018 $'000	2017 $'000
Prepayment	5,159	5,225
Deferred expense	1,084	1,076
Other assets	152	-
	6,395	6,301

10. Property, plant and equipment

	Consolidated	
	2018 $'000	2017 $'000
Leasehold improvements		
At cost	28,433	20,652
Accumulated amortisation	(6,884)	(5,098)
	21,549	15,554
Plant and equipment		
At cost	194,230	180,636
Accumulated depreciation	(164,001)	(149,921)
	30,229	30,715

Notes to the Financial Statements (cont'd)

10. Property, Plant and Equipment (cont'd)

	Consolidated	
	2018 $'000	2017 $'000
Land and buildings		
At cost	19,416	18,064
Accumulated depreciation	(5,211)	(4,244)
	14,205	13,820
Total written down amount	65,983	60,089

	Consolidated	
	2018 $'000	2017 $'000
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	15,554	7,201
Additions	7,781	9,502
Disposals	-	(1)
Amortisation expense	(1,786)	(1,148)
Closing balance	21,549	15,554
Plant and equipment		
Opening balance	30,715	25,232
Additions	13,595	18,857
Disposals	(1)	-
Depreciation expense	(14,080)	(13,374)
Closing balance	30,229	30,715
Land and buildings		
Opening balance	13,820	14,789
Additions	1,352	31
Disposals	-	-
Depreciation expense	(967)	(1,000)
Closing balance	14,205	13,820

11. Intangibles

	Consolidated	
	2018 $'000	2017 $'000
Software		
At cost	60,847	52,089
Accumulated amortisation	(49,058)	(44,254)
	11,789	7,835
Product development		
At cost	15,711	13,371
Accumulated amortisation	(10,555)	(8,648)
	5,156	4,723
Total written down amount	16,945	12,558

	Consolidated	
	2018 $'000	2017 $'000
Reconciliations		
Reconciliation of the carrying amounts of intangibles at the beginning and end of the current financial year:		
Software		
Opening balance	7,835	6,591
Additions – internal development	2,848	3,713
Additions – acquisition	5,909	2,195
Amortisation expense	(4,803)	(4,664)
Closing balance	11,789	7,835
Product development		
Opening balance	4,723	1,576
Additions – internal development	2,340	4,242
Amortisation expense	(1,907)	(1,095)
Closing balance	5,156	4,723

Notes to the Financial Statements (cont'd)

12. Other non-current assets

	Consolidated	
	2018 $'000	2017 $'000
Prepayments	2,326	2,049
Deferred expenses	564	693
	2,890	2,742

13. Trade and Other Payables

	Consolidated	
	2018 $'000	2017 $'000
Current		
Trade payables	20,695	15,486
Other payables and accruals	9,875	10,673
Employee entitlements – annual leave	2,896	2,504
	33,466	28,663

(a) Terms and conditions relating to the above financial instruments:
(i) Trade liabilities are normally settled on 30 to 60 day terms.

14. Provisions

		Consolidated	
	Notes	2018 $'000	2017 $'000
Current liabilities			
Employee benefits	20	1,752	1,546
Non-current liabilities			
Employee benefits	20	1,224	1,097

Employee benefits relates to the company's liability for long service leave

A reconciliation of the movements in the provision balance are as follows:			
Employee benefits			
At 1 July		2,643	2,427
Net additional amounts provided		568	503
Amounts used during the period		(235)	(287)
At 30 June		2,976	2,643

15. Other liabilities

	Consolidated 2018 $'000	2017 $'000
Current		
Lease incentive	168	353
Deferred revenue	3,674	2,281
Software financing facility	440	440
	4,282	3,074
Non-Current		
Lease incentive	2,086	2,024
Deferred revenue	3,433	3,932
Software financing facility	-	445
	5,519	6,401

16. Contributed equity

	Consolidated 2018 $'000	2017 $'000
(a) Share capital		
Ordinary shares authorised and fully paid	43,140	42,991

	Notes	2018 No. of shares	2018 $	2017 No. of shares	2017 $
(b) Movements in shares on issue					
Balance at beginning of year		20,967,121	42,991	20,967,121	42,991
Conversion of performance rights	16(c)	128,000	149	-	-
Balance at end of year		21,095,121	43,140	20,967,121	42,991

(c) Share performance rights

Performance rights over ordinary shares

At the end of the year, there were 450,000 (2017: 336,000) unissued ordinary shares in respect of performance rights to executives and senior managers. Refer to Note 20 (b) for further details of this plan.

Notes to the Financial Statements (cont'd)

16. Contributed Equity (cont'd)

(d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Group, 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 per share, either in person or by proxy, at a meeting of the Group.

(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.

17. Reserves and retained profits

		Consolidated	
	Notes	2018 $'000	2017 $'000
Other reserves	17 (a)	872	594
Retained earnings	17 (b)	49,343	42,847
Total reserves and retained profits		50,215	43,441

(a) Other reserves

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.

(i) Foreign currency translation reserve:		
Balance at beginning of year	(131)	(79)
Loss on translation of foreign controlled entity	(11)	(52)
Balance at end of year	(142)	(131)
(ii) Employee equity benefits reserve:		
Balance at beginning of year	725	398
Share-based payments expense	438	327
Performance rights vested	(149)	-
Balance at end of year	1,014	725

(b) Retained earnings

Balance at beginning of year	42,846	39,117
Net profit for the year	17,013	14,213
Total available for appropriation	59,859	53,330
Dividends paid or provided for	(10,516)	(10,484)
Balance at end of year	49,343	42,846

18. Statement of cash flows

	Consolidated	
	2018 $'000	2017 $'000
(a) Reconciliation of the profit after income tax expense to the net cash flows from operating activities		
Profit after income tax expense	17,013	14,214
Amortisation of non-current assets	8,496	6,907
Depreciation of non-current assets	15,047	14,374
Profit on sale of property, plant and equipment	-	(1)
Share based payment	438	327
Net foreign currency gains	(63)	(5)
Changes in assets and liabilities		
(Increase)/decrease in assets:		
Trade and other receivables	820	(1,709)
Accrued income	(1,243)	(1,034)
Prepayments	(94)	(521)
Deferred tax assets/liabilities	(179)	(574)
Other receivables	(802)	-
Increase/(decrease) in liabilities:		
Trade and other payables	4,759	1,567
Current tax liabilities	(1,927)	4,648
Provisions	333	216
Other liabilities	325	2,961
Net cash inflow from operating activities	42,923	41,370
(b) Non-cash investing activities		
There were no non-cash investing activities during the financial year.		
(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.		
Total facilities:		
Bank guarantee facility	-	6,000
Software financing facility	1,343	1,343
	1,343	7,343
Facilities used at reporting date:		
Bank guarantee facility	-	5,046
Software financing facility	440	885
	440	5,931

Notes to the Financial Statements (cont'd)

18. Statement of cashflows (cont'd)

	Consolidated	
	2018 $'000	2017 $'000
Facilities unused at reporting date:		
Bank guarantee facility	-	954
Software financing facility	903	458
	903	1,412
Facilities used at reporting date	440	5,931
Facilities unused at reporting date	903	1,412
Total facilities	1,343	7,343

19. Expenditure commitments

	Consolidated	
	2018 $'000	2017 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Not later than one year		
Property, plant and equipment	1,994	6,771
Software	64	516
	2,058	7,287
(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.		
Minimum lease payments:		
Not later than one year	8,048	9,068
Later than one year and not later than five years	21,632	24,129
Later than five years	38,677	42,929
	68,357	76,126

19. Expenditure commitments (cont'd)

	Notes	Consolidated 2018 $'000	2017 $'000
Aggregate expenditure commitments comprise:			
Amount provided for:			
Lease incentive liability – current	15	168	353
Lease incentive liability – non-current	15	2,086	2,024
Amounts not provided for:			
Rental commitments		68,357	76,126
		70,611	78,503
(c) Other expenditure commitments			
The consolidated entity had other expenditure commitments at the reporting date relating to support and maintenance costs:			
Not later than one year		-	1,514
Later than one year and not later than five years		-	-
Later than five years		-	-
		-	1,514

20. Employee benefits and superannuation commitments

	Consolidated 2018 $'000	2017 $'000
(a) Employee benefits		
The aggregate employee benefits liability is comprised of:		
Accrued wages, salaries, annual leave and on costs	8,294	8,993
Provisions – current	1,752	1,546
Provisions – non-current	1,224	1,097
	11,270	11,636

(b) Employee share schemes

On 21 December 2017, the company issued 192,000 equity and cash settled performance rights (2017: 154,000), which have a vesting date of 31 December 2020, 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 and dividend yield. The average fair value at grant date of each right in Tranche 1 was $5.39 and Tranche 2 was $5.94 ,equating to a total of $1,070,739. The total number of outstanding performance rights is 450,000 (2017: 366,000), valued at $2,088,021 (2017: $1,187,202) 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 $529,207 (2017: $336,484).

Notes to the Financial Statements (cont'd)

20. Employee benefits and superannuation commitments (cont'd)

Set out below are summaries of performance rights granted under the plan:

	No of performance rights	
	2018	2017
As at 1 July		
Tranche 1	121,996	75,996
Tranche 2	244,004	152,004
Granted during the year		
Tranche 1	64,001	51,333
Tranche 2	127,999	102,667
Vested during the year		
Tranche 1	(32,000)	-
Tranche 2	(64,000)	-
Cancelled during the year		
Tranche 1	(4,000)	(5,333)
Tranche 2	(8,000)	(10,667)
As at 30 June	**450,000**	**366,000**

Share-based performance rights totalling 96,000 vested on 31 December 2017. An incremental 32,000 shares were issued based upon overachievement of the target in accordance to the plan, taking the total to 128,000 of ordinary shares issued in Company.

Performance rights outstanding at the end of the year have the following expiry date and exercise prices:

Grant Date	Vesting Date	Performance Conditions Met	Performance rights 30 June 2018	Performance rights 30 June 2017
25 September 2014	31 December 2017	-	-	96,000
27 November 2015	31 December 2018	Tranche 1 - 100% Tranche 2 - 150% "	132,000	132,000
12 August 2016	31 December 2019	Tranche 1 - 96 % Tranche 2 - N/A "	132,000	138,000
21 December 2017	31 December 2020	N/A	186,000	-
			450,000	366,000

(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 % (2017: 9.50%) of employees' salaries and wages are legally enforceable in Australia.

21. Earnings per share

	Consolidated	
	2018 cents	2017 cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	80.9	67.8
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	79.2	66.7
(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	21,030	14,214

	2018 No. of shares	2017 No. of shares
(d) Weighted average number of ordinary shares used in calculating basic earnings per share	21,095,121	20,967,121
Effect of dilutive securities:		
Share performance rights	460,481	342,777
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	21,555,602	21,309,898

22. Auditor's remuneration

	Consolidated	
	2018 $	2017 $
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	238,300
Other services in relation to the Company and any other entity in the consolidated entity	328,131	76,097
	566,431	314,397

Notes to the Financial Statements (cont'd)

23. Related party disclosures

	Consolidated	
	2018 $'000	2017 $'000
(a) Key Management Personnel compensation		
Short-term employee benefits	3,846,231	3,636,191
Post-employment benefits	161,144	126,210
Long-term benefits	62,185	13,436
Share-based payments	315,826	171,600
	4,385,386	3,947,437

No related party transaction during the year.

(b) Equity instruments of directors

Interest 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 2018, 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 (59%) of the ordinary share 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 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 hold 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.

(c) Terms and conditions

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

24. Segment information

Segment description

The Group operates in two primary operating segments providing services to corporate and government customers. The Telecom segment relates to the provision of voice and mobile 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 Group's policies described in Note 2.

Segment information on operating segments

	Telecom		Hosting		Consolidated	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue						
External service revenue	142,276	142,098	90,836	77,560	233,112	219,658
Inter-segment revenue	-	-	4,484	4,375	4,484	4,375
Other income	186	444	288	97	474	541
Total segment revenue and other income	142,462	142,542	95,608	82,032	238,070	224,574
Inter-segment elimination	-	-	(4,484)	(4,375)	(4,484)	(4,375)
Total consolidated revenue and other income	142,462	142,542	91,124	77,657	233,586	220,199
Results						
EBITDA	21,008	18,695	26,844	21,637	47,852	40,332
Depreciation and amortisation	(9,128)	(7,282)	(14,416)	(13,999)	(23,544)	(21,281)
Segment results before interest and tax	11,880	11,413	12,428	7,638	24,308	19,051
Finance income	-	-	-	-	448	540
Finance costs	-	-	-	-	(12)	(22)
Consolidated entity profit from ordinary activities before income tax expense	11,880	11,413	12,428	7,638	24,744	19,569
Income tax expense	-	-	-	-	(7,731)	(5,355)
Net profit	11,880	11,413	12,428	7,638	17,013	14,214
Acquisition of non-current assets						
Allocated acquisitions	8,897	11,294	21,574	23,533	30,471	34,827
Unallocated acquisitions	-	-	-	-	3,362	3,713
Total acquisition of non-current assets	8,897	11,294	21,574	23,533	33,833	38,540

25. Financial risk management

Objectives and policies

The Group’s principal financial instruments comprise cash and short-term deposits. It also has various other financial instruments such as trade receivables and trade payables, 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 from managing each of these risks and they are summarised below.

(a) Market risk

(i) Foreign exchange risk

The Group 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 Group 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;

	2018 A$’000			2017 A$’000		
	USD	SGD	NZD	USD	SGD	NZD
Cash and cash equivalents	1,721	428	-	1,643	139	-
Trade and other payables	92	-	33	65	-	45

Based on the financial instruments held at 30 June 2018, had the Australian dollar weakened/strengthened by 10% each of the denominated currencies above with all other variables held constant, the consolidated entity’s post-tax for against year would have been $253,000 higher/$207,000 lower (2017: $210,000 higher / $172,000 lower) as a result of foreign exchange gains/losses.

(ii) Interest rate risk

The Group’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 2018, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been $49,000 higher/lower (2017: $40,000) as a results of higher/lower interest income from these financial assets.

(iii) Other price risk

The Group does not carry any other price risk.

(iv) Cash flow and fair value interest rate risk

			Financial assets			Financial liabilities		
			Cash	Receivables – trade	Total financial assets	Payables	Software financing facility	Total financial liabilities
Floating interest rate		2018 $'000	29,871	-	29,871	-	-	-
Floating interest rate		2017 $'000	21,627	-	21,627	-	-	-
Fixed interest rate maturing in	1 year or less	2018 $'000	-	-	-	-	440	440
Fixed interest rate maturing in	1 year or less	2017 $'000	10,000	-	10,000	-	440	440
Fixed interest rate maturing in	Over 1 to 2 years	2018 $'000	-	-	-	-	448	448
Fixed interest rate maturing in	Over 1 to 2 years	2017 $'000	-	-	-	-	445	445
Fixed interest rate maturing in	More than 2 years	2018 $'000	-	-	-	-	448	448
Fixed interest rate maturing in	More than 2 years	2017 $'000	-	-	-	-	448	448
Non-interest bearing		2018 $'000	428	7,077	7,505	33,466	-	33,466
Non-interest bearing		2017 $'000	139	7,095	7,234	28,663	-	28,663
Total carrying amount as per the Balance Sheet		2018 $'000	30,298	7,077	37,375	33,466	-	33,466
Total carrying amount as per the Balance Sheet		2017 $'000	31,766	7,095	38,861	28,663	-	28,663
Weighted average effective interest rate		2018 % PA	1.63	-		N/A	1.03	
Weighted average effective interest rate		2017 % PA	2.02	-		N/A	1.03	

Notes to the Financial Statements (cont'd)

25. Financial risk management (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated Group 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 66.

	Consolidated	
	2018 $'000	2017 $'000
Trade receivables		
Not past due (aged 0–30 days)	5,735	6,016
Past due but not impaired	323	535
Impaired	119	876
	6,177	7,427

(c) Liquidity risk

The Group 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

	Less than 6 months	6–12 months	Between 1 and 2 years	Over 2 years	Total contractual cash flow
Consolidated	$'000	$'000	$'000	$'000	$'000
At 30 June 2018					
Non-interest bearing	33,466	-	-	-	33,466
Fixed rate	220	220	-	-	440
	33,686	220	-	-	33,906
At 30 June 2017					
Non-interest bearing	28,663	-	-	-	28,663
Fixed rate	220	220	445	-	885
	28,883	220	445	-	29,548

(d) Fair value estimation

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

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:

	2018 $'000	2017 $'000
Statement of financial position		
Current assets	-	-
Total assets	107,625	120,205
Current liabilities	12,619	14,516
Total liabilities	12,619	14,516
Net assets	95,005	105,689
Contributed equity	42,991	42,991
Reserves	-	-
Employee equity benefits reserve	1,163	725
Retained earnings	50,852	61,973
Equity	95,005	105,689
Loss for the year	(606)	(443)
Total comprehensive loss	(606)	(443)

(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 ("MH") 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 2018 or 30 June 2017.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of $12.6 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.

27. Events occurring after the reporting date

On 29 August 2018, 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 2018, to be paid to the shareholders on 25 October 2018. This dividend has not been included as a liability in these financial statements. The total dividend to be paid is $5.3 million; the reduction in the franking account will be $2.3 million.

Directors' Declaration.

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

1. In the opinion of the directors:

a. the financial statements and notes set out on pages 41 to 70 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 2018 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 2018.

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, 29 August 2018

Independent Auditor's Report.

To the members 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 2018 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 consolidated statement of financial position as at 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated 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

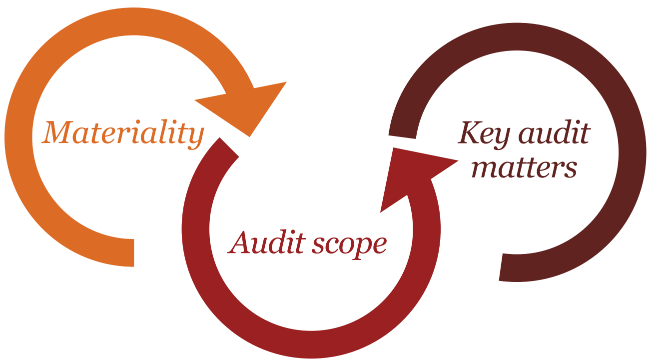
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo | GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000 | F: +61 2 8266 9999 | www.pwc.com.au

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.



Materiality

- For the purpose of our audit, we used overall Group materiality of $1,190,000, which represents approximately 2.5% of the Group's 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 corporate head office in Sydney.

Independent Auditor's Report (cont'd)

pwc

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. We communicated the key audit matters to the Audit and Risk Management Committee.

Key audit matter	How our audit addressed the key audit matter
Property, Plant and Equipment impairment assessment *(Refer note 10) $65,983,000*	

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 is a key audit matter due to:
• the significance of the Property, Plant and Equipment balance to the statement of financial position
• 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 performed the following procedures, amongst others, to evaluate the Group's impairment assessment:
	• enquired of management and inspected a selection of Board of Director Meeting minutes to assess whether there were any:
	  - significant new customers or customer losses
	  - significant changes in the manner in which assets are expected to be used
	  - potential data centre capacity or pricing changes
	  - expected changes to data centre capacity, pricing or the business environment that could significantly impact the future performance of the Hosting CGU
	• compared the actual performance of the Hosting CGU for the year to Board of Director approved budget
	• considered if there were changes in the market interest rates that may significantly affect the discount rate that the group Group would use in its impairment models.
	We noted that the market capitalisation of the Group was significantly higher than the Group's net assets of $93,355,000 as at 30 June 2018.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition - Services *(Refer note 3) $233,112,000*	
We considered revenue recognition a key audit matter because: • revenue is the most financially significant item in the Statement of Comprehensive Income ($233,112,000 for year ended 30 June 2018) • there are high volumes of transactions and multiple arrangements with customers that may relate to more than just the current financial period • revenue recognition relies on the successful interaction of systems and information from carriers for accurate billing to customers • for some employees, part of their remuneration incentive is linked to revenue outcomes.	We performed the following procedures, amongst others: • identified and investigated a selection of journal entries with specific risk characteristics that impact revenue balances. This included agreeing those journal entries to supporting documentation and discussing with management the underlying rationale for those journal entries • tested, for a sample of new customer contracts, whether revenue had been recorded at the correct amount and in the correct financial period, in accordance with the groups revenue recognition policy. This included assessing whether: - evidence of an underlying arrangement with the customer existed - the amounts invoiced to the customer were calculated in accordance with the contracted fee schedules - the contractual obligations had been met by the group • evaluated the design and tested a sample of key manual controls related to revenue recognition including those related to the implementation of price changes and the allocation of cash to customer accounts • assessed the adequacy of the Group's 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 comprises the information included in the annual report for the year ended 30 June 2018, including the Directors' 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 Chairman's Message, Chief Executive's Message, Company Highlights, Staff Initiative – Unites Way 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.

Independent Auditor's Report (cont'd)

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 21 to 26 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2018 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
PricewaterhouseCoopers

Sydney
29 August 2018

ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in the Annual Report as follows:
The shareholder information set out below was applicable as at 14 September 2018.

A. Distribution of Equity Securities
Analysis of numbers of equity security holders by size of holding:

Ordinary Shares		
1	1,000	937
1,001	5,000	266
5,001	10,000	48
10,001	100,000	52
100,001	and over	10
		1,313
The number of shareholders holding less than a marketable parcel of shares		44

B. Equity Security Holders
Twenty largest shareholders
The names of the 20 largest holders of quoted shares:

		Quoted Ordinary Shares	
		Number shares	% Held
1	Claiward Pty Limited	12,501,390	59.26
2	J P Morgan Nominees Australia Limited	2,151,511	10.20
3	National Nominees Limited	1,770,541	8.39
4	HSBC Custody Nominees (Australia) Limited	807,495	3.83
5	Ms Elizabeth Dibbs	319,699	1.52
6	Mirrabooka Investments Limited	245,447	1.16
7	Citicorp Nominees Pty Limited	110,371	0.52
8	Mr Richard Ewan Mews	108,727	0.52
9	Mrs Tracy Lee Cunningham <The Avebury Family A/C>	107,481	0.51
10	Mr Richard Mews & Mrs Wee Khoon Mews <Mews Super Fund A/C>	106,776	0.51
11	Mr Neville Clyde Martin & Mrs Lauren Carol Martin <The Martin Superfund A/C>	96,000	0.46
12	Moat Investments Pty Ltd <Moat Investment A/C>	85,847	0.41
13	Maaku Pty Ltd <Hmha Family A/C>	85,000	0.40
14	Sanya Holdings Pty Ltd <The Biswas Family A/C>	64,180	0.30
15	Mrs Vicky Teoh Jet Invest Pty Ltd <R & L Investment A/C>	63,001	0.30
16	Mast Financial Pty Ltd <A To Z Investment A/C>	59,170	0.28
17	Mr Matthew James Wallace	55,000	0.26
18	Mr Robert Ferguson & Mrs Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	53,500	0.25
19	Mr Denis Alan Aitken	50,000	0.24
20	Mast Capital Pty Ltd <Keyser Family A/C>	40,486	0.19
		18,881,622	89.51

C. Substantial Shareholders
Substantial holders in the company are set out below:

		Quoted Ordinary Shares	
		Number shares	% Held
1	Claiward Pty Limited	12,501,390	59.26
2	J P Morgan Nominees Australia	2,151,511	10.20
3	National Nominees Limited	1,770,541	8.39

D. Voting Rights
All ordinary shares carry one vote per share without restriction.

Macquarie Telecom Group

Sydney
Level 15, 2 Market St
Sydney NSW 2000
T 02 8221 7777

Melbourne
Level 1, 441 St Kilda Rd
Melbourne VIC 3004
T 03 9206 6800

Brisbane
Level 15, 127 Creek St
Brisbane QLD 4000
T 1800 004 943

Perth
Level 10, 251 Adelaide Tce
Perth WA 6000
T 08 9229 0000

Canberra
Level 12, 221 London Circuit
Canberra ACT 2600
T 02 6103 3600

Intellicentres

Intellicentre 1
Level 16, 477 Pitt St
Sydney NSW 2000
T 1800 789 999

Intellicentre 2
17–23 Talavera Rd
Macquarie Park NSW 2113
T 02 8221 7256

Intellicentre 4 Bunker
Fairbairn ACT

macquarietelecomgroup.com

macquarie
CLOUD SERVICES

macquarie
GOVERNMENT

macquarie
TELECOM