Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report

for the year ended 30 June 2014

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 2014.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Peter James (Chairman)	Peter was appointed as Chairman of Macquarie Telecom on 22 July 2014. He has been a director since 2012. Peter has over 30 years experience in the Technology, Telecommunications and Media industries. His experience includes over 20 years as a board member of a range of Australian publicly listed companies. In addition, Peter has 16 years experience in Chief Executive Officer roles including Computer Power Group Limited and Adcorp Australia Limited. Peter is currently Non-Executive Director of iiNet Limited, Australia's second largest DSL Internet Services Provider. He has played a leading role in launching Ninefold, an Australian Cloud Technology business backed by Macquarie Telecom and he is also a successful investor in a number of Australian Technology and Social Media businesses, including the leading Australian group buying site JumpOnIt which was sold to US based LivingSocial in 2012. Peter has a BA with majors in Computer Studies and Business and is a Fellow of the Australian Institute of Company Directors. Peter was appointed Chairman of the Corporate Governance, Nomination and Remuneration Committee on 24 July 2014 and is a member of the Audit and Risk Management Committee.
David Tudehope (Chief Executive)	David is Chief Executive and co-founder of Macquarie Telecom and has been a director since 1992. He is responsible for overseeing the general management and strategic direction of the Company, and is actively involved in the Company's participation in regulatory issues. He is a member of the Australian School of Business Advisory Council and the Australian Government's B20 Leadership Group. David holds a Bachelor of Commerce degree from the University of NSW. David received the Australian Telecommunication User Group's highest award in 2011 'the Charles Todd Medal'.
Aidan Tudehope (Managing Director – Hosting)	Aidan is co-founder of Macquarie Telecom and has been a director since 1992. He is the managing director of Macquarie Hosting with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the strategy and execution of the $60m investment in Intellicentre 2. As the former Chief Operating Officer for Macquarie, Aidan played an integral part in the strategy and direction of the Hosting business since its state-of-the-art data centre, the Intellicentre opened in 2001, as well as being instrumental in the development of Macquarie's data networking strategy. He holds a Bachelor of Commerce degree.
Anouk Darling (Non-Executive Director)	Anouk was most recently chairman of Moon Communications Group, an STW Group company, where she was placed for a decade, first as Strategic Director and then as Chief Executive Officer. With over 15 years experience in marketing and brand strategy, she has been central to some of Australia's largest re-branding projects across a broad range of sectors including energy, finance, retail and airlines. She has recently been appointed as a non-executive director of Discovery Holiday Parks, majority owned by superannuation fund Sunsuper, which has more than one million members and $27 billion in funds under management. She has a BA, MBA (major in Marketing), AICD, AIMIA and AIM memberships. Anouk joined the Board on 22 March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

DIRECTORS' REPORT

Bart Vogel (Non-Executive Director)	Bart's 33 year business career includes 20 years experience in the management consulting industry and 13 years as a leader in the IT and telecommunications industries. He was the CEO of Asurion Australia, a partner of Bain & Co and for a period of 7 years was the CEO of Lucent in Australia and Asia Pacific. He holds a Bachelor of Commerce (Hons) Degree and qualified as a Chartered Accountant in 1982. Bart joined the board in July 2014 and is Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.
Robert Kaye	Robert resigned as Chairman and Director of Macquarie Telecom on 22 July 2014.
John Palfreyman	John resigned as Non-Executive Director of Macquarie Telecom on 19 March 2014.

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

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

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

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

(c) a director-related entity of D Tudehope holds 323,649 ordinary shares. D Tudehope holds a further 133 shares issued under the Employee Discretionary Share Plan;

COMPANY SECRETARIES

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

INDEPENDENT PROFESSIONAL ADVICE

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

PRINCIPAL ACTIVITIES

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

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

DIRECTORS' REPORT

EARNINGS PER SHARE	**2014** cents	**2013** cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share	(3.7)	54.0
Diluted earnings per share	(3.7)	54.0

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation ("EBITDA") of $25.5 million in the year ended 30 June 2014, down from $35.1 million in the corresponding period.

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

REVENUE *(A$ million)*	**Full Year 2014**	Full Year 2013	Full Year 2012
Hosting			
Hosting Total	61.1	60.5	58.6
Telco			
Voice	55.6	65.8	76.2
Data	60.5	61.1	62.4
Mobiles	19.6	18.8	21.7
Telco Total	135.7	145.7	160.3
Total	196.8	206.2	218.9

EBITDA *(A$ million)*	**Full Year 2014**	Full Year 2013	Full Year 2012
Hosting			
Hosting Total	5.9	11.1	15.3
Telco			
Voice	15.5	16.2	17.5
Data	9.4	11.2	10.4
Mobiles	(0.3)	2.0	3.4
Telco Total	24.6	29.4	31.3
Corporate Office			
Corporate Office Total	(5.0)	(5.4)	(6.0)
Total	25.5	35.1	40.6
Reconciliation of EBITDA to profit before income tax			
Total EBITDA	25.5	35.1	40.6
Interest revenue	0.2	0.6	2.3
Interest expense	(1.3)	(0.5)	(0.2)
Depreciation and amortisation expense	(26.4)	(19.8)	(16.2)
Profit before income tax	(2.0)	15.4	26.5

DIRECTORS' REPORT

In the 12 months to 30 June 2014, Macquarie Telecom's service revenue was $196.8 million, a decrease of 4.6% compared to the corresponding period.

Macquarie Telecom's Hosting business revenue grew by 1.0% when compared to the previous corresponding period, contributing $61.1 million or 31.0% of total service revenue. The Hosting business recorded EBITDA of $5.9 million, a decrease of $5.3 million of the previous corresponding period. The decrease was attributable to increased operating costs as data facilities go live; lower margins as customers move from dedicated managed servers to virtualised shared servers; and longer than expected lead times realising Australian Government Lead Agency Secure Internet Gateway revenue.

Macquarie Telecom's Telco (Data, Voice and Mobile) business is an important part of the Company's overall offering, delivering $135.7 million in revenue and EBITDA of $24.6 million, down 16.3% on the previous corresponding period. The mobiles business experienced faster than anticipated customer migrations away from higher margin offerings to lower margin platforms. The Company is focused on cost control to drive improvements in EBITDA margins.

Capital expenditure for the full year was $33.5 million, of which approximately $12.9 million was spent on the expansion of Hosting capacity in Sydney and Canberra and continued investment in our cloud computing offerings, and approximately $20.6 million on business as usual capital expenditure. Prior year capital expenditure was $51.5 million.

Macquarie Telecom has generated operating cash flows of $19.0 million and held cash and cash equivalents of $4.7 million as at 30 June 2014. The consolidated entity employed 378 employees at 30 June 2014 (2013: 412 employees).

DIVIDENDS

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

	2014 $'000	2013 $'000
(i) Final dividend for the year ended 30 June 2013 of 12 cents per share (year ended 30 June 2012: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
(ii) Interim dividend for the year ended 30 June 2014 of 12 cents per share (2013: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
	5,032	5,032

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will focus on execution of the following in fiscal year 2015:

- Completing the delivery of Secure Internet Gateway services to contracted Federal Government Agencies in Macquarie Telecom's Canberra data centre facility, Intellicentre 4;
- Increasing momentum of Co-location sales into the Intellicentre 2 data centre facility;
- Driving increased performance in the core managed hosting business;
- Embracing the opportunities the NBN offers our customers for higher speed business broadband at more affordable prices;
- Reducing the company's cost base as it transitions from an investment to an execution and growth focus;
- Leveraging the Company's multi-carrier mobile offering;
- Continued investment in developing our cloud computing offerings.

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

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2014.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Refer to Note 28 for significant events occurring after the balance date.

SHARE OPTIONS

Details of options are included in Note 17 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

(a) a wilful breach of duty; or

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

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

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 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.

REMUNERATION REPORT (cont'd)

Structure

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

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

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

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

The remuneration of non-executive directors for the period ending 30 June 2014 is detailed in the table on page 9 of this report.

Senior manager and executive director remuneration

Objective

The Company aims to reward senior managers with a level of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward senior managers for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of the executives with those of the shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

Service agreements have been entered into with each of the Chief Executive and the Managing Director – Hosting, but not with any other senior managers, each of whom is employed under the terms of a letter of appointment. Details of the service agreements are provided on page 8.
Remuneration for all senior managers consists of the following key elements:

- Fixed remuneration
- Variable remuneration
    - Short Term Incentive ("STI"); and
    - Long Term Incentive ("LTI").

Fixed remuneration

Objective

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

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

Structure

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

The fixed remuneration component of the key management personnel is detailed on page 10.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Variable remuneration – Short Term Incentive ("STI")

Objective

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

Structure

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

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

Variable pay – Long Term Incentive ("LTI")

Objective

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

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

Structure

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

Service agreements

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

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

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Directors for the year ended 30 June 2014:

		Short Term						**Long Term**			**Long Term**	**Total**
		Primary and bonus				**Post Employ-ment**	**% Bonus Granted**	**Share-based Payments**	**Total**	**Total Perfor-mance Related**	**Long Term Incentive Provision**	
Directors		Salary and Fees	Cash Bonus	Non – Monetary Benefits (i)	Other (ii)	Super-annuation		Options (iii)			Cash Bonus (iv)	
R Kaye[1] – Chairman	**2014**	**170,000**	**-**	**-**	**-**	**15,725**	**-**	**-**	**185,725**	**0.0%**	**-**	**185,725**
	2013	170,000	-	-	-	15,300	-	-	185,300	0.0%	-	185,300
D Tudehope – Chief Executive	**2014**	**501,958**	**97,668**	**(22,334)**	**43,682**	**17,775**	**47.4%**	**-**	**638,749**	**15.3%**	**68,607**	**707,356**
	2013	512,716	113,269	(2,029)	42,390	16,470	55.0%	-	682,816	16.6%	87,581	770,397
A Tudehope – Managing Director - Hosting	**2014**	**490,350**	**62,310**	**18,945**	**42,102**	**17,775**	**46.5%**	**-**	**631,482**	**9.9%**	**71,380**	**702,862**
	2013	478,689	73,700	(9,980)	41,732	16,470	55.0%	-	600,611	12.3%	89,789	690,400
J Palfreyman[2] – Non-Executive Director	**2014**	**96,607**	**-**	**-**	**146,445**	**-**	**-**	**-**	**243,052**	**0.0%**	**-**	**243,052**
	2013	114,450	-	-	128,900	-	-	-	243,350	0.0%	-	243,350
A Darling – Non-Executive Director	**2014**	**100,000**	**-**	**-**	**4,810**	**9,250**	**-**	**-**	**114,060**	**0.0%**	**-**	**114,060**
	2013	100,000	-	-	-	9,000	-	-	109,000	0.0%	-	109,000
P James[3] – Non-Executive Director	**2014**	**100,000**	**-**	**-**	**253,538**	**9,250**	**-**	**-**	**362,788**	**0.0%**	**-**	**362,788**
	2013	100,000	-	-	272,735	9,000	-	-	381,735	0.0%	-	381,735
Total Directors' Remuneration	**2014**	**1,458,915**	**159,978**	**(3,389)**	**490,577**	**69,775**		**-**	**2,175,856**		**139,987**	**2,315,843**
	2013	1,475,855	186,969	(12,009)	485,757	66,240		-	2,202,812		177,370	2,380,182

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Other Key Management Personnel for the year ended 30 June 2014:

		Short Term								Long Term	Total
		Primary and bonus				Post Employment	% Bonus Granted	Total	Total Performance Related	Long Term Incentive Provision	
Other Key Management Personnel		Salary and Fees	Cash Bonus	Non – Monetary Benefits[(i)]	Other [(ii)]	Super-annuation				Cash Bonus [(iv)]	
C Greig[4] – Group Executive, Telco Business	**2014**	**338,564**	**71,980**	**(3,809)**	**19,634**	**17,775**	**59.0%**	**444,144**	**16.2%**	**-**	**444,144**
	2013	330,743	80,367	1,136	19,494	16,470	65.9%	448,210	17.9%	-	448,210
M Simmonds – Chief Financial Officer	**2014**	**340,358**	**82,323**	**14,322**	**16,000**	**17,775**	**63.3%**	**470,778**	**17.5%**	**53,346**	**524,124**
	2013	323,135	88,950	10,595	16,000	16,470	68.4%	455,150	19.5%	116,099	571,249
L Clifton - Group Executive, Sales	**2014**	**271,688**	**94,275**	**1,672**	**20,788**	**17,775**	**62.9%**	**406,198**	**23.2%**	**-**	**406,198**
	2013	270,000	82,088	7,583	20,788	16,470	54.7%	396,929	20.7%	-	396,929
S Butler – Chief Operating Officer	**2014**	**381,501**	**97,114**	**15,139**	**-**	**17,775**	**64.7%**	**511,529**	**19.0%**	**-**	**511,529**
	2013	130,794	30,921	3,285	-	7,259	61.2%	172,259	18.0%	-	172,259
Total Other Key Management Personnel Remuneration	**2014**	**1,332,111**	**345,692**	**27,324**	**56,422**	**71,100**		**1,832,649**		**53,346**	**1,885,995**
	2013	1,054,672	282,326	22,599	56,282	56,669		1,472,548		116,099	1,588,647

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

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

Notes:
[1] Resigned as Chairman and Director on 22 July 2014.
[2] Resigned on 19 March 2014.
[3] Appointed as Chairman on 22 July 2014.
[4] Resigned on 1 July 2014.

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

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

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

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

(iv) The Executive Long Term Discretionary Incentive Plan ("ELTDIP") has the following characteristics: (a) the period of the scheme is four years; and (b) the amount payable is determined with reference to a mix of financial measures including: (1) the achievement of budget net profit after tax for each year; (2) the achievement of budget net profit after tax accumulated for all four years; and (3) target share price for the fourth year. The minimum and maximum amounts payable to each member of the scheme in future reporting periods is nil and $500,000 respectively. If the senior executive leaves before the end of the period he forfeits all entitlements under the scheme.

Shareholdings of key management personnel

	Balance 1 July 2012	*Net change other*	*Balance 30 June 2013*	*Net change other*	*Balance 30 June 2014*
Directors					
R Kaye[1]	30,000	(23,909)	6,091	(64)	6,027
D Tudehope[2]	327,374	-	327,374	-	327,374
A Tudehope[2]	3,591	-	3,591	-	3,591
D & A Tudehope 25(c)(i)	12,501,390	-	12,501,390	-	12,501,390
A Darling	-	-	-	-	-
P James[3]	-	-	-	-	-
Executives					
C Greig[4]	22,500	(7,500)	15,000	-	15,000
M Simmonds	50,000	(40,000)	10,000	(3,000)	7,000
L Clifton	-	-	-	-	-
S Butler	-	4,399	4,399	-	4,399
Total	12,934,805	(67,010)	12,867,845	(3,064)	12,864,781

[1] Resigned as Chairman and Director on 22 July 2014.
[2] Includes holdings by director-related entities.
[3] Appointed as Chairman on 22 July 2014.
[4] Resigned on 1 July 2014.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

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

Transactions with director-related entities

P James was paid $248,750 (2013: $267,947) for the provision of consulting services to the consolidated entity. On 30 June 2014, the Company had an amount payable to P James of $17,500.
A director-related entity of A Darling was paid $4,810 (2013: nil) for the provision of consulting services to the consolidated entity.
All amounts paid were on normal commercial terms and conditions and at market rates.

Performance of Macquarie Telecom Group Limited

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

Year ended 30 June	EBITDA	NPAT	Share Price	KMP STI as % of NPAT
	(A$ million)	*(A$ million)*	*ASX Code: MAQ*	*%*
2014	25.5	(0.8)	5.80	(65.2%)
2013	35.1	11.3	7.91	4.1%
2012	40.6	19.6	8.36	3.3%
2011	37.2	17.7	10.20	7.7%
2010	29.0	17.9	4.62	4.9%

Equity compensation: granted and vested during the year
During the financial year there were nil options granted as equity compensation to directors and key management personnel (2013: nil).

Details of director-related interests in shares and other director-related transactions are included in Note 24.

Option holdings of key management personnel
There were nil options held by key management personnel at 30 June 2014 (2013: nil).

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:	14	4	2
Number of meetings attended:			
R Kaye	13	4	2
D Tudehope	14	-	2
A Tudehope	14	-	-
J Palfreyman	11	3	2
A Darling	14	4	2
P James	14	4	2

DIRECTORS' REPORT

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

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

ROUNDING

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

AUDIT INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 60.

NON-AUDIT SERVICES

Taxation advice and compliance work was provided by the entity's auditor, PricewaterhouseCoopers. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided did not compromise the auditor independence as none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

PricewaterhouseCoopers received or is due to receive the following amounts for the provision of non-audit services: $20,500 (2013: $20,200) as disclosed in Note 23.

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 27 August 2014

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

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

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

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

The Board's key responsibilities are:

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

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

A performance assessment for senior management last took place in July 2014. The process for these assessments is described in the Corporate Governance statement on the Company's website.

CORPORATE GOVERNANCE STATEMENT

Principle 2
Structure the Board to add value

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

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

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

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

Principle 3
Promote ethical and responsible decision making

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

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

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

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

	Total Females	**% Females**
Number of females in entire organisation	100	26.8%
Number of females in people management positions	11	20.0%
Number of females on the Macquarie Telecom Board	1	20.0%

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

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

CORPORATE GOVERNANCE STATEMENT

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

Objective	Outcome
Board and Executive	
Board and executive level vacancies: continue to aim to proactively source and consider a minimum of 30% female applicants for Board and executive level vacancies.	Macquarie Telecom has policies and practices in place to support our ongoing commitment to this objective.
Board composition: maintain female representation on the Macquarie Telecom Board of Directors.	We continue to have female representation on the Macquarie Telecom Board of Directors. Female representation is currently equivalent to 20.0%.
General	
Ensure that Macquarie Telecom continues to have a Diversity Officer responsible for reviewing progress and report annually to the Board.	A HR employee continues to hold the position of Diversity Officer.
Aim to maintain a Macquarie Telecom female population of 26% or greater by June 2014.	Macquarie Telecom currently has a female population of 26.8%.
Aim to maintain current ratio of female people managers (as reported in FY13 Annual Report).	The proportion of female people managers is in line with the results reported in FY13.

Macquarie Telecom is committed to the development and career advancement of women. All managers, regardless of gender, have equal access to training, development and career opportunities. We will continue to raise the profile of gender diversity and further our efforts to date. For the financial year ending 30 June 2014, this included company-wide education sessions and women in business events.

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

Principle 4
Safeguard integrity in financial reporting

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

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

Minutes of all Committee meetings are provided to the Board.

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Principle 5
Make timely and balanced disclosure

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

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

The Company Secretary is responsible for communications with the ASX.

Principle 6
Respect the rights of shareholders

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

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

Principle 7
Recognise and manage risk

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Principle 8
Remunerate fairly and responsibly

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

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

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

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

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2014

	Notes	CONSOLIDATED	
		2014	**2013**
		$'000	**$'000**
Revenue and other income	3	196,792	206,414
Expenses	3	(197,665)	(191,093)
Results from operating activities		(873)	15,321
Finance income		175	551
Finance costs		(1,307)	(508)
(Loss)/profit before income tax		(2,005)	15,364
Income tax credit/(expense)	5	1,229	(4,036)
(Loss)/profit after income tax for the year attributable to owners of the parent		(776)	11,328
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(7)	(15)
Total comprehensive (loss)/income for the year attributable to owners of the parent		(783)	11,313
		cents	cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	22	(3.7)	54.0
Diluted earnings per share	22	(3.7)	54.0

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	CONSOLIDATED	
		2014	2013
		$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	6	4,715	9,703
Receivables	7	9,793	6,872
Accrued income	8	4,489	5,026
Current tax receivable	5	605	1,509
Other	9	5,167	4,029
TOTAL CURRENT ASSETS		24,769	27,139
NON-CURRENT ASSETS			
Property, plant and equipment	10	102,012	96,211
Intangibles	11	15,052	13,445
Deferred tax assets	5	4,047	3,052
Other	12	353	656
TOTAL NON-CURRENT ASSETS		121,464	113,364
TOTAL ASSETS		146,233	140,503
CURRENT LIABILITIES			
Payables	13	27,357	30,278
Current tax liabilities	5	-	-
Provisions	15	1,588	1,443
Other	16	299	320
TOTAL CURRENT LIABILITIES		29,244	32,041
NON-CURRENT LIABILITIES			
Borrowings	14	23,500	9,000
Deferred tax liabilities	5	-	-
Provisions	15	991	1,277
Other	16	707	579
TOTAL NON-CURRENT LIABILITIES		25,198	10,856
TOTAL LIABILITIES		54,442	42,897
NET ASSETS		91,791	97,606
EQUITY			
Contributed equity	17	42,991	42,991
Reserves	18	172	179
Retained profit	18	48,628	54,436
TOTAL EQUITY		91,791	97,606

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

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2014

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

	Contributed Equity	Reserves	Retained Profit/(Loss)	Total
	$'000	$'000	$'000	$'000
At 1 July 2013	42,991	179	54,436	97,606
Total comprehensive (loss)/income for the year	-	(7)	(776)	(783)
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(5,032)	(5,032)
	-	-	(5,032)	(5,032)
At 30 June 2014	42,991	172	48,628	91,791

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

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2014

	Notes	CONSOLIDATED	
		2014	2013
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		212,587	225,574
Payments to suppliers and employees		(193,734)	(191,866)
Interest received		179	663
Interest paid		(1,277)	(490)
Income tax refunded/(paid)		1,138	(7,841)
Other receipts		118	11
NET CASH FLOWS FROM OPERATING ACTIVITIES	19	19,011	26,051
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current assets		(33,487)	(51,493)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(33,487)	(51,493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		14,500	9,000
Dividends paid on ordinary shares		(5,032)	(5,032)
NET CASH FLOWS FROM FINANCING ACTIVITIES		9,468	3,968
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(5,008)	(21,474)
Cash and cash equivalents at the beginning of the financial year		9,703	30,808
Effects of exchange rate changes on cash and cash equivalents		20	369
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	6	4,715	9,703

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

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 2014 was authorised for issue in accordance with a resolution of directors on 27 August 2014. The directors have the power to amend and reissue the financial statements.

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

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

The nature of the operations and principal activities of the Group are described in Note 25.

(b) Basis of preparation

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

The Group had a current asset deficiency of $4.5 million at the end of the financial year. These financial statements have been prepared on a going concern basis as the directors believe the Group can pay its debts as and when they fall due. This conclusion is based on the following factors:

- The Group has access to a cash advance facility (Note 14) which allows the Group to draw down and roll over a further $6.5 million until 12 January 2016. The Group also has access to a second cash advance facility, which allows the Group to draw down and roll over an additional $20 million subject to annual review until 30 December 2014, reducing to $15 million from 31 December 2014 until 30 March 2015, and further reducing to $10 million from 31 March 2015 onwards;
- The Group is forecasting positive operating cash flows in the 2015 fiscal year.

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

Compliance with IFRS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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

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

(b) Significant accounting judgements, estimates and assumptions

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

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

(c) Foreign currencies

Functional and presentation currency

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

Translation of foreign currency transactions

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

Translation of financial reports of overseas subsidiary

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

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

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

(d) Property, plant and equipment

Cost and valuation

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

Depreciation

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

The estimated useful lives are as follows:

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

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

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

(e) Intangibles

Cost and valuation

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

Amortisation

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

Amortisation periods are:	
Software	3 to 4 years
Product development	3 years

(f) Transmission capacity

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

(g) Impairment of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

(h) Cash and cash equivalents

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

(i) Trade and other receivables

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

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

(j) Accrued income

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

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

(k) Payables

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

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

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

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

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

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability.

(m) Employee benefits

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

(n) Share-based payment transactions

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("Vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting reflects: (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the directors, will vest ultimately. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of those conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not vest based on non-market conditions.

(o) Contributed equity

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

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

(p) Revenue recognition

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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Service revenue

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

Interest income

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

(q) Government grants

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

(r) Taxes

Income taxes

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

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(s) Borrowings

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

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

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

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

(t) Segment reporting

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

(u) Provisions

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

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

(v) Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Rounding of amounts

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

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

(x) Parent entity financial information

The financial information for the parent entity, Macquarie Telecom Group Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements.

Macquarie Telecom Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Macquarie Telecom Group Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Macquarie Telecom Group Limited also recognises the current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 5. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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

(y) New accounting standards and interpretations

The group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2013:

(i) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;

(ii) AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.

(iv) AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).

(v) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle; and

(vi) AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

The adoption of AASB 119 only affected the disclosures in the notes to the financial statements. None of the other new standards and amendments to standards adopted for the first time for the financial year beginning 1 July 2013 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 UIG interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations are set out below.

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

(z) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	**2013**
	$’000	**$’000**
3. REVENUE AND EXPENSES		
(a) Revenue and other income		
Revenue from services	196,667	206,081
Net profit on disposal of plant and equipment	-	2
Net foreign exchange gains	-	269
Other income	125	62
Total revenue and other income	196,792	206,414
(b) Expenses		
Amortisation of non-current assets		
Leasehold improvements	766	230
Intangibles	7,237	4,795
Transmission capacity	303	303
Depreciation of non-current assets		
Property, plant and equipment	18,076	14,474
Total depreciation and amortisation expense	26,382	19,802
Bad and doubtful debts – trade debtors	559	40
Operating lease rental	6,293	5,810
Employment costs	62,802	63,802
Carrier costs	80,166	81,071
Net foreign exchange losses	42	-
Other expenses	21,421	20,568
	171,283	171,291
Total expenses	197,665	191,093

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	**2013**
	$'000	**$'000**
4. DIVIDENDS		
(a) Dividends paid during the reporting period		
(i) Final dividend for the year ended 30 June 2013 of 12 cents per share (year ended 30 June 2012: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
(iii) Interim dividend for the year ended 30 June 2014 of 12 cents per share (2013: 12 cents) fully franked based on tax paid at 30%.	2,516	2,516
	5,032	5,032

(b) No final dividends have been paid, declared or recommended by the Company for the financial year ended 30 June 2014.

(c) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2013: 30%)	11,133	13,524

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	**2013**
	$'000	**$'000**
5. INCOME TAX		
(a) Income tax expense		
Current tax	(234)	2,699
Deferred tax	(995)	1,337
	(1,229)	4,036
Income tax expense is attributable to:		
(Loss)/profit from continuing operations	(1,229)	4,036
Deferred income tax (revenue)/expense included in income tax expense comprises:		
(Increase) in deferred tax assets	(802)	(215)
(Decrease)/increase in deferred tax liabilities	(193)	1,552
	(995)	1,337
(b) Numerical reconciliation of income tax expense to *prima facie* tax payable		
(Loss)/profit from continuing operations before income tax expense	(2,005)	15,364
Prima facie tax at the Australian tax rate of 30% (2013: 30%)	(602)	4,609
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	165	172
Research and development incentive	(691)	(748)
Adjustments to tax in respect of prior years	(103)	3
Other	2	-
Income tax (credit)/expense	(1,229)	4,036
CURRENT ASSETS – CURRENT TAX RECEIVABLE		
Current tax receivable	605	1,509

5. INCOME TAX (cont'd)

	CONSOLIDATED	
	2014	2013
	$'000	$'000
NON-CURRENT ASSETS – DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Research and development tax offset carried forward	1,720	-
Accelerated depreciation for accounting purposes	3,841	4,847
Employee benefits	1,359	1,511
Accrued expenses	1,111	950
Provisions for doubtful debts and credit notes	368	429
Other assets	306	150
Fringe benefits tax	-	15
Total deferred tax assets	8,705	7,902
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,658)	(4,850)
Net deferred tax assets	4,047	3,052
Deferred tax assets expected to be recovered within 12 months	3,349	2,512
Deferred tax assets expected to be recovered after more than 12 months	5,356	5,390
	8,705	7,902

Movements – Consolidated	R&D Tax Offset	Accelerated Depreciation	Other	Total
At 30 June 2012	-	4,834	2,853	7,687
Charged to the income statement	-	13	202	215
At 30 June 2013	-	4,847	3,055	7,902
Charged to the income statement	1,720	(1,006)	89	803
At 30 June 2014	1,720	3,841	3,144	8,705

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
5. INCOME TAX (cont'd)		
CURRENT LIABILITIES – CURRENT TAX LIABILITIES		
Current tax liabilities	-	-
NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Accelerated depreciation for tax purposes	3,494	4,212
Other debtors	1,042	559
Prepayments	122	79
Total deferred tax liabilities	4,658	4,850
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,658)	(4,850)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	445	1,853
Deferred tax liabilities expected to be recovered after more than 12 months	4,213	2,997
	4,658	4,850

Movements – Consolidated	Accelerated Depreciation	Prepayments	Other	Total
At 30 June 2012	2,997	21	280	3,298
Charged to the income statement	1,215	58	279	1,552
At 30 June 2013	4,212	79	559	4,850
Charged to the income statement	(718)	43	483	(192)
At 30 June 2014	3,494	122	1,042	4,658

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	4,715	6,777
Short-term deposits	-	2,926
	4,715	9,703

7. RECEIVABLES

CURRENT		
Trade debtors	7,912	6,989
Provision for doubtful debts	(1,033)	(973)
Provision for credit notes	(249)	(507)
Other receivables	3,163	1,363
	9,793	6,872

(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 26(b).

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

At 1 July	(1,480)	(1,602)
Amounts written off	499	163
Net additional amounts provided	(301)	(41)
At 30 June	(1,282)	(1,480)

8. ACCRUED INCOME

Accrued income	4,489	5,026

9. OTHER CURRENT ASSETS

Prepayments	5,167	4,029

	CONSOLIDATED	
	2014	2013
	$'000	$'000
10. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements		
At cost	10,253	2,281
Accumulated amortisation	(2,384)	(1,618)
	7,869	663
Plant and equipment		
At cost	140,269	118,877
Accumulated depreciation	(105,498)	(91,821)
	34,771	27,056
Land and buildings		
At cost	62,040	55,507
Accumulated amortisation	(2,668)	(1,206)
	59,372	54,301
Land, buildings, plant & equipment under construction		
At cost	-	14,191
Accumulated depreciation	-	-
	-	14,191
Total written down amount	102,012	96,211

Reconciliations

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

	2014	2013
Leasehold improvements		
Opening balance	663	833
Additions	184	60
Transfers (ii)	7,788	-
Amortisation expense	(766)	(230)
Closing balance	7,869	663
Plant and equipment (i)		
Opening balance	27,056	19,129
Additions	15,358	15,814
Transfers (ii)	8,970	5,381
Depreciation expense	(16,613)	(13,268)
Closing balance	34,771	27,056

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000
10. PROPERTY, PLANT AND EQUIPMENT (cont'd)		
Land and buildings		
Opening balance	54,301	-
Additions	6,534	6,516
Transfers (ii)	-	48,991
Depreciation expense	(1,463)	(1,206)
Closing balance	59,372	54,301
Land, buildings, plant and equipment under construction		
Opening balance	14,191	49,313
Additions	4,072	19,931
Transfer to leasehold improvements (ii)	(7,788)	-
Transfer to plant and equipment (ii)	(8,970)	(5,381)
Transfer to land and buildings (ii)	-	(48,991)
Transfer to intangibles - software (ii)	(1,300)	(681)
Transfer to intangibles – product development (ii)	(205)	-
Closing balance	-	14,191

(i) During the year, fully depreciated plant and equipment of $2.9 million were retired.
(ii) Transfers upon completion of land, buildings, plant and equipment under construction.

11. INTANGIBLES

	2014	2013
Software		
At cost	36,644	29,320
Accumulated amortisation	(23,300)	(16,731)
	13,344	12,589
Product development		
At cost	7,705	6,471
Accumulated amortisation	(5,997)	(5,615)
	1,708	856
Total written down amount	15,052	13,445

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000
11. INTANGIBLES (cont'd)		
Reconciliations		
Reconciliation of the carrying amounts of intangibles at the beginning and end of the current financial year:		
Software		
Opening balance	12,589	7,479
Additions – internal development	5,588	7,426
Additions – acquisition	436	1,261
Transfers – internal development (ii)	533	594
Transfers – acquisition (ii)	767	87
Amortisation expense	(6,569)	(4,258)
Closing balance	13,344	12,589
Product development (i)		
Opening balance	856	908
Additions – internal development	1,315	485
Transfers (ii)	205	-
Amortisation expense	(668)	(537)
Closing balance	1,708	856

(i) During the year, fully amortised product development of $0.3 million was retired.
(ii) Transfers from property, plant and equipment upon completion of land, buildings, plant and equipment under construction.

	CONSOLIDATED	
	2014	2013
	$'000	$'000
12. OTHER NON-CURRENT ASSETS		
Transmission capacity	4,722	4,722
Accumulated amortisation	(4,369)	(4,066)
	353	656

		CONSOLIDATED	
		2014	2013
		$'000	$'000
13. PAYABLES			
CURRENT			
Trade creditors		14,256	16,572
Other creditors and accruals		11,151	11,405
Annual leave entitlements		1,951	2,301
		27,358	30,278

(a) Australian dollar equivalents

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

	2014	2013
- New Zealand dollars	-	27
- Singapore dollars	162	275
- United States dollars	95	186

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

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

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

14. BORROWINGS

		2014	2013
NON-CURRENT			
Cash advance facility (a)	19(c)	23,500	9,000
		23,500	9,000

(a) Borrowings represent the consolidated entity's cash advance facility balance at the reporting date. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 12 January 2016; and an additional $20 million subject to annual review until 30 December 2014, reducing to $15 million from 31 December 2014 until 30 March 2015, and further reducing to $10 million from 31 March 2015 onwards.

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

The consolidated entity complied with all the covenants of its borrowing facilities during the 2014 reporting period.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	Notes	CONSOLIDATED 2014 $'000	2013 $'000
15. PROVISIONS			
CURRENT			
Employee benefits (a)	21	1,588	1,443
NON-CURRENT			
Employee benefits (a)	21	991	1,277

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

		2014	2013
Long service leave			
At 1 July		2,720	2,363
Net additional amounts provided		439	586
Amounts used during the period		(580)	(229)
At 30 June		2,579	2,720

	Notes	2014	2013
16. OTHER LIABILITIES			
CURRENT			
Lease incentive	20(b)	299	320
NON-CURRENT			
Lease incentive	20(b)	707	579

	CONSOLIDATED	
	2014	**2013**
	$'000	**$'000**
17. CONTRIBUTED EQUITY		
(a) Share capital		
Ordinary shares authorised and fully paid (no par value)	42,991	42,991

	Notes	2014	2014	2013	2013
		Number of shares	$	Number of shares	$
(b) Movements in shares on issue					
Balance at beginning of year		20,967,121	42,990,744	20,967,121	42,990,744
Conversion of share options	17(c)	-	-	-	-
Balance at end of year		20,967,121	42,990,744	20,967,121	42,990,744

(c) Share options

Options over ordinary shares

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

At the end of the year, there were nil (2013: nil) unissued ordinary shares in respect of which options were outstanding.

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

No share options are held by the parent entity or its subsidiaries (2013: nil).

(d) Terms and conditions of contributed equity

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

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

(e) Capital risk management

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	Notes	CONSOLIDATED 2014 $'000	2013 $'000

18. RESERVES AND RETAINED EARNINGS

	Notes	2014 $'000	2013 $'000
Other reserves	18(a)	172	179
Retained profits	18(b)	48,628	54,436

(a) Other reserves

(i) Nature and purpose of reserves

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

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

(ii) Movements in reserves

	2014 $'000	2013 $'000
Foreign currency translation reserve:		
Balance at beginning of year	(15)	-
(Loss) on translation of foreign controlled entity	(7)	(15)
Balance at end of year	(22)	(15)
Employee equity benefits reserve:		
Balance at beginning of year	194	194
Share-based payments expense	-	-
Balance at end of year	194	194
	172	179

(b) Retained profits

	2014 $'000	2013 $'000
Balance at beginning of year	54,436	48,140
Net (loss)/profit for the year	(776)	11,328
Total available for appropriation	53,660	59,468
Dividends paid or provided for	(5,032)	(5,032)
Balance at end of year	48,628	54,436

19. STATEMENT OF CASH FLOWS

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

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
(Loss)/profit after income tax expense	(776)	11,328
Amortisation of non-current assets	8,306	5,328
Depreciation of non-current assets	18,076	14,474
(Profit) on sale of plant and equipment	-	(2)
Net foreign currency gains	(26)	(384)
Changes in assets and liabilities		
(Increase)/decrease in:		
Trade receivables	(1,121)	(480)
Accrued income	537	574
Current tax receivable	904	(1,509)
Prepayments	(1,138)	(1,651)
Deferred tax assets	(995)	1,337
Other receivables	(1,800)	(179)
Increase/(decrease) in:		
Trade and other creditors	(2,922)	453
Current tax liabilities	-	(3,631)
Provisions	(141)	358
Other liabilities	107	35
Net cash flow from operating activities	19,011	26,051

(b) Non-cash investing activities

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

(c) Financing facilities available

	2014 $'000	2013 $'000
Total facilities:		
- bank guarantee facility	3,800	3,800
- cash advance facility	50,000	50,000
	53,800	53,800

	CONSOLIDATED	
	2014	2013
	$'000	$'000
19. STATEMENT OF CASH FLOWS (cont'd)		
Facilities used at reporting date:		
- bank guarantee facility	2,407	3,248
- cash advance facility	23,500	9,000
	25,907	12,248
Facilities unused at reporting date:		
- bank guarantee facility	1,393	552
- cash advance facility	26,500	41,000
	27,893	41,552
Facilities used at reporting date	25,907	12,248
Facilities unused at reporting date	27,893	41,552
Total facilities	53,800	53,800

Bank guarantee facility

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

Cash advance facility

On 13 December 2012, the consolidated entity increased its cash advance facility with a financial institution to $50 million. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 12 January 2016; and an additional $20 million subject to annual review until 30 December 2014, reducing to $15 million from 31 December 2014 until 30 March 2015, and further reducing to $10 million from 31 March 2015 onwards.

	CONSOLIDATED	
	2014	2013
	$'000	$'000
20. EXPENDITURE COMMITMENTS		
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Not later than one year		
- Plant and equipment	1,256	3,533
- Land and buildings	3,136	1,212
- Land, buildings, plant and equipment under construction	-	809
- Software	70	14
Payable later than one year	-	-
	4,462	5,568

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

	Notes	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
(b) Lease expenditure commitments			
Operating leases			
All operating leases relate to premises, parking spaces and office equipment in various locations and have a lease term of between 12 months and 10 years. There are no restrictions placed upon the lessee by entering into these leases.			
Minimum lease payments:			
Not later than one year		6,464	5,890
Later than one year and not later than five years		8,883	6,355
Later than five years		4,846	26
		20,193	12,271
Aggregate expenditure commitments comprise:			
Amounts provided for:			
Lease incentive liability – current		299	320
Lease incentive liability – non-current		707	579
Amounts not provided for:			
Rental commitments		20,193	12,271
		21,199	13,170
(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		470	409
Later than one year and not later than five years		-	-
Later than five years		-	-
		470	409

21. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee benefits

	Notes	2014 $'000	2013 $'000
The aggregate employee benefits liability is comprised of:			
Accrued wages, salaries, annual leave and on costs		6,542	7,136
Provisions (current)	15	1,588	1,443
Provisions (non-current)	15	991	1,277
		9,121	9,856

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

Employee share schemes

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

(a) Employee Option Plan;

(b) Discretionary Share Plan; and

(c) Share Purchase Plan.

Full-time and part-time employees of Macquarie Telecom or its subsidiaries are eligible to participate in these plans at the discretion of the directors. Directors, both executive and non-executive, are also eligible to participate in the plans. However, their participation is subject to the *Corporations Act 2001* and the ASX Listing Rules. The plans are administered by the Board, which determines the directors or employees that will be made offers to participate in the plans and the terms of those offers. There are currently 378 employees and directors eligible for these plans.

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

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

During the year, there were nil options (2013: nil) issued under the Employee Option Plan to eligible employees. At 30 June 2014, there were nil (2013: nil) options on issue under this plan. During the year, nil options were exercised (2013: nil) and nil (2013: nil) options were forfeited. Employee options are contingent on: (a) the employee remaining in employment with the Company; and (b) the Company's share price reaching an amount equal to or greater than 25% higher than the option exercise price for 20 consecutive days prior to the date of exercise.

During the year, there were nil shares (2013: nil) issued under the Discretionary Share Plan to eligible employees, and nil shares (2013: nil) issued under the Share Purchase Plan. Ordinary shares issued under the Discretionary Share Plan are not disposable for two years from the date of issuance. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie Telecom, or three years from the date of issuance.

The market value of Macquarie Telecom shares closed at $5.80 on 30 June 2014.

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

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

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

There were nil options held by employees as at 1 July 2013.

(b) Options granted during the reporting period

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

(c) Options exercised during the reporting period

There were nil options exercised by employees during the year.

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

There were nil options held by employees as at 30 June 2014.

(e) Superannuation commitments

MT makes contributions in accordance with the superannuation law in respect of each eligible employee. At the end of the financial year, contributions of up to 9.25% (2013: 9.00%) of employees' salaries and wages are legally enforceable in Australia.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

22. EARNINGS PER SHARE

	CONSOLIDATED 2014 cents	CONSOLIDATED 2013 cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	(3.7)	54.0
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	(3.7)	54.0

	2014 $'000	2013 $'000
(c) Reconciliation of earnings used in calculating earnings per share		
(Loss)/profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	(776)	11,328

	2014 Number of shares	2013 Number of shares
(d) Weighted average number of ordinary shares used in calculating basic earnings per share	20,967,121	20,967,121
Effect of dilutive securities:		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	20,967,121	20,967,121
Number of options that are not dilutive and not included in the calculation of diluted earnings per share		
- Options over ordinary shares	-	-

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

	CONSOLIDATED	
	2014	2013
	$	$

23. AUDITOR'S REMUNERATION

The auditor of Macquarie Telecom is PricewaterhouseCoopers.

Amounts received or due and receivable by the auditor of Macquarie Telecom for:

	2014 $	2013 $
– an audit or review of the financial report of the Company and any other entity in the consolidated entity	246,855	244,500
– other services in relation to the Company and any other entity in the consolidated entity	20,500	20,200
	267,355	264,700

24. RELATED PARTY DISCLOSURES

(a) Key Management Personnel:

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

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

Transactions with director-related entities

Services

P James was paid $248,750 (2013: $267,947) for the provision of consulting services to the consolidated entity. On 30 June 2014, the Company had an amount payable to P James of $17,500.
A director-related entity of A Darling was paid $4,810 (2013: nil) for the provision of consulting services to the consolidated entity.

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

(c) Equity instruments of directors

Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at 30 June 2014, being the number of instruments held, were:

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

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

(iii) a director-related entity of D Tudehope holds 323,649 ordinary shares. D Tudehope holds a further 133 shares issued under the Employee Discretionary Share Plan;

(iv) R Kaye has an interest in 6,027 ordinary shares.

(d) Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

25. SEGMENT INFORMATION

Segment description

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

All activities are principally conducted in Australia.

Segment accounting policies

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

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

25. SEGMENT INFORMATION (cont'd)
Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Consolidated	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Revenue										
Sales to customers outside the consolidated entity	55,631	65,814	60,493	61,050	60,978	60,371	19,565	18,846	196,667	206,081
Other income	-	-	-	2	125	93	-	-	125	95
Total segment revenue	55,631	65,814	60,493	61,052	61,103	60,464	19,565	18,846	196,792	206,176
Unallocated revenue									-	238
Total consolidated revenue									196,792	206,414
Results										
Segment result before income tax	15,447	16,127	3,699	6,132	(11,212)	67	(569)	1,706	7,365	24,032
Unallocated revenue and expenses									(8,238)	(8,711)
(Loss)/profit before income tax and finance costs									(873)	15,321
Finance income									175	551
Finance costs									(1,307)	(508)
Consolidated entity (loss)/profit before income tax									(2,005)	15,364
Income tax credit/(expense)									1,229	(4,036)
Consolidated entity (loss)/profit after income tax									(776)	11,328

25. SEGMENT INFORMATION (cont'd)

Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Consolidated	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Depreciation	71	79	4,588	4,044	12,559	9,418	4	11	17,222	13,552
Unallocated depreciation									854	922
Total depreciation									18,076	14,474
Amortisation	29	22	1,097	993	4,511	1,662	277	241	5,914	2,918
Unallocated amortisation									2,392	2,410
Total amortisation									8,306	5,328

	Voice		Data		Hosting		Mobiles		Consolidated	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Other segment information										
Acquisition of property, plant and equipment and intangible assets	178	40	5,049	5,626	25,133	42,611	220	424	30,580	48,701
Unallocated acquisitions									2,907	2,792
Total acquisitions									33,487	51,493

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26. FINANCIAL RISK MANAGEMENT

Objectives and policies

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

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

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

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

Interest rate risk

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

Liquidity risk

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

Credit risk

Information regarding the consolidated entity’s credit risk policies and objectives is set out in Note 26(b).

Foreign exchange risk

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

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

	Consolidated	
	2014	**2013**
	$’000	**$’000**
Financial assets		
Cash and cash equivalents	4,715	9,703
Trade and other receivables	9,793	6,872
	14,508	16,575
Financial liabilities		
Trade and other payables	27,357	30,278
Borrowings	23,500	9,000
	50,857	39,278

26. FINANCIAL RISK MANAGEMENT (cont'd)

a) Market risk

(i) Foreign exchange risk

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

	2014		2013	
	$'000 USD	$'000 NZD	$'000 USD	$'000 NZD
Cash and cash equivalents	1,098	-	4,020	-
Trade and other receivables	-	-	-	-
Trade and other payables	95	-	186	27
Borrowings	-	-	-	-

Consolidated entity sensitivity

Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the consolidated entity's post-tax profit for the year would have been $133,000 higher/$108,000 lower (2013: $467,000 higher/$382,000 lower) mainly as a result of foreign exchange gains/losses on translation of US denominated financial assets as detailed in the above table.

(ii) Interest rate risk

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

Based on the cash and cash equivalents, and floating-rate borrowings at 30 June 2014, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been $75,000 higher/lower (2013: $7,000 higher/lower) as a result of higher/lower interest income from these financial assets.

(iii) Other price risk

The consolidated entity does not carry any other price risk.

NOTES TO THE FINANCIAL STATEMENTS
AT 30 JUNE 2014

26. FINANCIAL RISK MANAGEMENT (cont'd)

(iv) Cash flow and fair value interest rate risk

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

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: Over 1 to 5 years		Fixed interest rate maturing in: More than 5 years		Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 % pa	2013 % pa
(i) Financial assets														
Cash	3,641	6,776	1,073	2,926	-	-	-	-	1	1	4,715	9,703	2.13	1.95
Receivables – trade	-	-	-	-	-	-	-	-	9,793	6,872	9,793	6,872	N/A	N/A
Total financial assets	3,641	6,776	1,073	2,926	-	-	-	-	9,794	6,873	14,508	16,575		
(ii) Financial liabilities														
Payables	-	-	-	-	-	-	-	-	27,357	30,278	27,357	30,278	N/A	N/A
Borrowings	23,500	9,000	-	-	-	-	-	-	-	-	23,500	9,000	3.94	3.91
Total financial liabilities	23,500	9,000	-	-	-	-	-	-	27,357	30,278	50,857	39,278		

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

26. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers including receivable and committed transactions. Customers are assessed for their creditworthiness by using a third party credit rating agency. If there are no independent credit ratings available, credit risk is assessed by taking into account the financial position of the Company, past experience and other factors. The consolidated entity mitigates the credit risk of the top 20 customers through trade credit insurance. The credit quality of the financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 52.

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Trade receivables		
Group 1	6,114	5,438
Group 2	1,798	1,551
Provision for doubtful debts	(1,033)	(1,095)
	6,879	6,016

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

(c) Liquidity risk

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

Cash advance facility

On 13 December 2012, the consolidated entity increased its cash advance facility with a financial institution to $50 million. The facility allows the entity to draw down and roll over up to $30 million in $500,000 parcels for interest periods of one, three and six months ending on 12 January 2016; and an additional $20 million subject to annual review until 30 December 2014, reducing to $15 million from 31 December 2014 until 30 March 2015, and further reducing to $10 million from 31 March 2015 onwards.

Maturities of financial liabilities

Consolidated entity at 30 June 2014	Less than 6 months	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flow
	$'000	$'000	$'000	$'000	$'000	$'000
Non-interest bearing	27,357	-	-	-	-	27,357
Variable rate	-	-	23,500	-	-	23,500
Fixed rate	-	-	-	-	-	-
	27,357	-	23,500	-	-	50,857

(d) Fair value estimation

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

27. 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:

	2014 $'000	2013 $'000
Statement of financial position		
Current assets	605	1,503
Total assets	132,938	136,667
Current liabilities	6,019	4,629
Total liabilities	6,019	4,629
Shareholders' equity		
Contributed equity	42,991	42,991
Reserves		
Employee equity benefits reserve	194	194
Retained profit	83,734	88,853
	126,919	**132,038**
Loss for the year	**(87)**	**(108)**
Total comprehensive loss	**(87)**	**(108)**

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities of the parent entity

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

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

Macquarie Telecom Group Limited did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2014 or 30 June 2013.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of $5.4 million at the end of the financial year. The financial statements for the Company have been prepared on a going concern basis as the directors believe the Company can pay its debts as and when they fall due. The current asset deficiency includes an amount payable to a wholly owned entity of $5.9 million, which the Company can control the timing of settlement.

28. EVENTS OCCURING AFTER THE REPORTING DATE

There have been no significant events occurring after the statement of financial position date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

DIRECTORS' DECLARATION

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

(1) In the opinion of the directors:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 2014.

(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 27(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, 27 August 2014

Independent auditor's report to the members of Macquarie Telecom Group Limited

Report on the financial report

We have audited the accompanying financial report of Macquarie Telecom Group Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Macquarie Telecom Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 12 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
27 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
27 August 2014

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