

Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report
for the year ended 30 June 2016

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 2016.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Peter James (Chairman)	Peter has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies particularly in emerging technologies, digital disruption, e-commerce and media. He is an experienced business leader with significant strategic and operational expertise. Peter travels extensively reviewing innovation and consumer trends primarily in the US and also Asia and he is a successful investor in a number of Digital Media and Technology businesses in Australia and the US. Peter has a particular interest in building high performance customer-focused teams and is one of the judges for the annual Aon Hewitt Best Employers program. Peter is a Fellow of the AICD and a Member of the Computer Society of Australia. Peter joined the board in 2012 and was appointed Chairman of Macquarie Telecom in July 2014. Peter is Chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee. Peter is also a non-executive director and Chairman of Nearmap and Droneshield.
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 was a member of the Australian Government's B20 Leadership Group. David holds a Bachelor of Commerce degree from the University of NSW. David received the ATUG's highest award in 2011 'the Charles Todd Medal'.
Aidan Tudehope (Managing Director, Hosting Group)	Aidan is co-founder of Macquarie Telecom and has been a director since 1992. He is the Managing Director of Macquarie Hosting Group with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the strategy and execution of the investment in Intellicentre 2, and more recently, Intellicentre 4 Bunker. He leads the Government Business, encompassing Macquarie's Secure Government Cloud and Secure Internet Gateway offerings. As the former Chief Operating Officer for Macquarie, Aidan played an integral part in the strategy and direction of the Hosting business since its state-of-the-art data centre, Intellicentre 1 opened in 2001, as well as being instrumental in the development of Macquarie's data networking strategy. He holds a Bachelor of Commerce degree.
Anouk Darling (Non-Executive Director)	Anouk is a partner in the strategic consultancy DNA-LAB Pty Ltd solving business and brand problems across a variety of industry sectors and countries. Her most recent executive role was chairman of Moon Communications Group, an STW Group company, where she was placed for a decade, first as Strategic Director and then as Chief Executive Officer. With over 15 years experience in marketing and brand strategy, she has been central to some of Australia's largest re-branding projects across a broad range of sectors including energy, finance, retail and airlines. She is a non-executive director of Discovery Holiday Parks, majority owned by superannuation fund Sunsuper, which has more than one million members and \$27 billion in funds under management. She has recently been appointed as a non-executive director to the Great Southern Rail board (operators of transcontinental passenger rail services; The Ghan, The Indian Pacific and The Overland), majority owned and managed by a fund of private equity firm, Allegro Funds Pty Ltd. She has a BA, MBA (major in Marketing), and an AICD membership. Anouk is on the advisory panel as technology and digital advisor to a Hong Kong based e-comm start-up; Idecorateshop. Anouk joined the Board on 22 March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

DIRECTORS' REPORT

Bart Vogel
(Non-Executive
Director)

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

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

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

- (a) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 12,501,390 (60%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;
- (b) a director-related entity of D Tudehope and A Tudehope holds 7,183 ordinary shares;
- (c) a director-related entity of D Tudehope holds 323,649 ordinary shares and D Tudehope holds a further 133 shares;
- (d) P James holds 19,105 ordinary shares;
- (e) a director-related entity of A Darling holds 2,424 ordinary shares; and
- (f) a director-related entity of B Vogel holds 22,922 ordinary shares.

COMPANY SECRETARIES

Richard Lutterbeck Richard was appointed as company secretary of the Company in February 2009. In addition, he holds the position of Commercial Director, Macquarie Telecom. 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 Cloud Services Pty Limited ("MCS"), Ninefold Pty Limited ("Ninefold"), Macquarie Hosting (Singapore) Pte Ltd ("MHS") and Macquarie Data Centres Pty Ltd ("MDC").

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

DIRECTORS' REPORT

EARNINGS PER SHARE	2016 cents	2015 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share	25.1	(20.4)
Diluted earnings per share	24.8	(20.4)

REVIEW AND RESULTS OF OPERATIONS

The Group generated a net profit after tax of \$5.3 million in the year ended 30 June 2016, compared to a net loss after tax of \$4.3 million in the corresponding period.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the full year was \$32.3 million and represents an increase of \$6.0 million (23%) compared to the corresponding period.

The Group has continued to see positive traction following the implementation of the new strategy in the previous financial year, resulting in improved performance across the business. Continued focus on leveraging assets through the delivery of a superior customer experience has seen an increase in revenue of 5% and EBITDA of 23% compared to the corresponding period.

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

SERVICE REVENUE (A\$ million)	Full Year 2016	Full Year 2015	Full Year 2014
Telecom	138.9	135.2	141.1
Hosting	68.4	61.7	60.4
Eliminate inter-segment revenue	(4.7)	(4.8)	(4.8)
Hosting Total	63.7	56.9	55.6
Total	202.6	192.1	196.7
EBITDA (A\$ million)			
Telecom	18.3	16.5	17.9
Hosting	14.0	9.8	7.6
Total	32.3	26.3	25.5
<i>Reconciliation of EBITDA to profit/(loss) before income tax</i>			
Total EBITDA	32.3	26.3	25.5
Interest revenue	0.6	0.1	0.2
Interest expense	(0.1)	(1.5)	(1.3)
Depreciation and amortisation expense	(25.4)	(31.3)	(26.4)
Profit/(loss) before income tax	7.4	(6.4)	(2.0)

DIRECTORS' REPORT

The Telecom segment is an important part of the Company's overall offering, delivering \$138.9 million in revenue and EBITDA of \$18.3 million, an increase of 11% on the previous corresponding period. The increase is attributable to a continued improvement in sales order performance, higher customer retention rates and a continued focus on service delivery improvement, operational efficiency and exceptional customer service.

The Hosting segment contributed \$68.4 million in revenue, an increase of 11% compared to the previous corresponding period, and EBITDA of \$9.6 million, an increase of 43%. The increase is attributable to sales order performance, proactive operational management and a continued focus on customer service.

The Company has generated operating cash flows of \$39.4 million and held cash and cash equivalents of \$36.4 million as at 30 June 2016. The sale of Intellicentre 2 was completed in August 2015 and proceeds were used to fully repay borrowings.

The consolidated entity employed 312 employees at 30 June 2016 (2015: 318 employees).

DIVIDENDS

Dividends paid to members during the financial year were:

	2016 \$'000	2015 \$'000
(i) Final dividend for the year ended 30 June 2015 of 25 cents per share (year ended 30 June 2014: nil) fully franked based on tax paid at 30%.	5,242	-
(ii) Interim dividend for the year ended 30 June 2016 of 25 cents per share (2015: nil) fully franked based on tax paid at 30%.	5,242	-
	10,484	-

On 24 August 2016, the directors declared a fully franked dividend of 25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2016, to be paid to the shareholders on 12 October 2016. This dividend has not been included as a liability in these financial statements. The total dividend to be paid is \$5.2 million; the reduction in the franking account will be \$2.2 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will prioritise the execution of the following in fiscal year 2017:

- Maintaining industry leading Net Promoter Score greater than +60 across all business segments;
- Telecom is investing in new data networking technology to materially reduce costs and further improve service delivery in FY18. The insourcing of our network operations commencing in mid FY18 will be a major focus for FY17 with full benefits to be realised in FY19;
- Operational service readiness for the Fortune 100 customer at IC2 with initial billing to commence in Q3, ramping up during FY18 with full revenue earning capacity in FY19; and
- Leveraging the 42% of the Australian Government who trust Macquarie Government, to further grow Government customer revenue in cyber security and secure cloud computing.

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

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2016.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

SHARE PERFORMANCE RIGHTS

Details of share performance rights are included in Note 22 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

REMUNERATION REPORT

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

Remuneration philosophy

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

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre senior managers;
- Link senior manager rewards to shareholder value;
- Significant portion of senior manager remuneration is 'at risk', dependent upon meeting predetermined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable senior manager remuneration.

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

Remuneration link to performance

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Structure

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

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

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

The non-executive directors of the Company may hold shares in the Company.

The remuneration of non-executive directors for the period ending 30 June 2015 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 Group but not with any other senior managers, each of whom is employed under the terms of a letter of appointment. Details of the service agreements are provided on page 8.

Remuneration for all senior managers consists of the following key elements:

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

Fixed remuneration

Objective

The level of fixed remuneration is set 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 Group is reviewed annually by the Corporate Governance, Nomination and Remuneration Committee and the process consists of a review of Company-wide and individual performance; relevant comparative remuneration in the market; and internal and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in certain forms including cash and allowances such as motor vehicle allowances. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The fixed remuneration component of the key management personnel is detailed on pages 9 and 10.

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 share performance rights or cash payments.

Service agreements

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

- Each of the Chief Executive and the Managing Director, Hosting Group may resign from their position and thus terminate their agreement by giving six months' written notice;
- The Company may terminate the agreements by providing six months' written notice or provide payment in lieu of the notice period, based on the fixed component of the Chief Executive or the Managing Director, Hosting Group's remuneration (as the case may be). The Company may also terminate the agreements on a lesser period of notice if, for example, the Chief Executive or the Managing Director, Hosting Group (as the case may be) become incapacitated.
- The Company may terminate the agreements at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Chief Executive or the Managing Director, Hosting Group (as the case may be) is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Directors for the year ended 30 June 2016:

Directors		Short Term								Long Term		Total
		Primary and bonus				Post Employment	% Bonus Granted	Total	Total Performance Related	Share-based Payments	Long Term Incentive Provision	
		Salary and Fees	Cash Bonus	Non – Monetary Benefits ⁽ⁱ⁾	Other ⁽ⁱⁱ⁾	Super-annuation				Performance Rights ⁽ⁱⁱⁱ⁾	Cash Bonus ^(iv)	
P James – Chairman	2016	170,000	-	-	-	16,150	-	186,150	-	-	-	186,150
	2015	169,397	-	-	64,302	16,093	-	249,792	-	-	-	249,792
D Tudehope – Chief Executive	2016	498,969	258,806	(3,406)	42,255	19,308	125.7%	815,932	31.6%	-	-	815,932
	2015	470,573	149,307	31,100	44,647	18,783	72.5%	714,410	20.9%	-	(25,605)	688,805
A Tudehope – Managing Director, Hosting Group	2016	497,710	168,398	3,085	36,902	19,308	125.7%	725,403	23.2%	-	-	725,403
	2015	493,417	92,929	(31,257)	38,468	18,783	69.4%	612,340	15.2%	-	(22,171)	590,169
A Darling – Non-Executive Director	2016	100,000	-	-	-	9,500	-	109,500	-	-	-	109,500
	2015	100,000	-	-	-	9,500	-	109,500	-	-	-	109,500
B Vogel – Non-Executive Director	2016	105,000	-	-	-	9,975	-	114,975	-	-	-	114,975
	2015	99,481	-	-	-	9,451	-	108,932	-	-	-	108,932
Former Directors	2015	14,167	-	-	-	1,346	-	15,513	-	-	-	15,513
Total Directors' Remuneration	2016	1,371,679	427,204	(321)	79,157	74,241		1,951,960		-	-	1,951,960
	2015	1,347,035	242,236	(157)	147,417	73,956		1,810,487		-	(47,776)	1,762,711

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Other Key Management Personnel for the year ended 30 June 2016:

Other Key Management Personnel		Short Term								Long Term		Total
		Primary and bonus				Post Employment	% Bonus Granted	Total	Total Performance Related	Share-based Payments	Long Term Incentive Provision	
		Salary and Fees	Cash Bonus	Non – Monetary Benefits ⁽ⁱ⁾	Other ⁽ⁱⁱ⁾	Super-annuation				Performance Rights ⁽ⁱⁱⁱ⁾	Cash Bonus ^(iv)	
L Clifton – Group Executive, Macquarie Telecom	2016	335,417	173,844	2,990	21,310	19,308	125.7%	552,869	32.5%	22,534	-	575,403
	2015	295,279	124,267	1,902	21,820	18,783	95.6%	462,051	28.6%	10,882	-	472,933
J Mystakidis – Group Executive, Macquarie Cloud Services	2016	313,371	139,284	26,257	16,000	19,308	125.7%	514,220	29.7%	22,534	-	536,754
	2015	291,813	79,853	(7,020)	6,667	18,783	88.7%	390,096	22.6%	10,882	-	400,978
H Tropman ¹ – Group Executive, Carrier & Operations	2016	145,677	56,552	(10,062)	10,910	9,654	125.7%	212,731	22.6%	(10,882)	-	201,849
	2015	290,000	80,865	10,180	21,820	18,783	89.9%	421,648	21.2%	10,882	-	432,530
S Pauly ² – Chief Financial Officer	2016	125,000	47,126	8,721	2,917	9,654	125.7%	193,418	24.4%	-	-	193,418
	2015	-	-	-	-	-	-	-	-	-	-	-
Former Other Key Management Personnel	2015	498,090	108,843	(9,749)	16,062	25,992	-	639,238	-	-	-	639,238
Total Other Key Management Personnel Remuneration	2016	919,465	416,806	27,906	51,137	57,924		1,473,238		34,186	-	1,507,424
	2015	1,375,182	393,828	(4,687)	66,369	82,341		1,913,033		32,646	-	1,945,679

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 31 December 2015

² Appointed 1 February 2016

- (i) The category "Non-Monetary Benefits" represent amounts accrued or released in respect of annual leave and long service leave.
- (ii) The category "Other" includes the value of any non-cash benefits provided including motor vehicle allowances, and in the case of non-executive directors, consulting services to the consolidated entity. All amounts paid were on normal commercial terms and conditions and at market rates.
- (iii) The Company has issued performance rights over ordinary shares to executives and senior managers as part of their long term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period. If the rights holder leaves before the vesting date they forfeit all entitlements under the scheme.

Shareholdings of key management personnel

	<i>Balance 1 July 2014</i>	<i>Net change other</i>	<i>Balance 30 June 2015</i>	<i>Net change other</i>	<i>Balance 30 June 2016</i>
Directors					
D Tudehope ¹	327,374	-	327,374	-	327,374
A Tudehope ¹	3,591	-	3,591	-	3,591
D & A Tudehope 25(c)(i)	12,501,390	-	12,501,390	-	12,501,390
A Darling	-	-	-	2,424	2,424
P James	-	10,000	10,000	9,105	19,105
B Vogel	-	7,757	7,757	15,165	22,922
Executives					
L Clifton	-	-	-	-	-
J Mystakidis	-	4,250	4,250	-	4,250
S Pauly	-	-	-	-	-
Total	12,832,355	22,007	12,854,362	26,694	12,881,056

¹ Includes holdings by director-related entities.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

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

Transactions with director-related entities

There were no other transactions with director-related entities for the year ended 30 June 2016.

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	%
2016	32.3	5.4	11.84	16.1%
2015	26.3	(4.3)	6.15	(14.9%)
2014	25.5	(0.8)	5.80	(65.2%)
2013	35.1	11.3	7.91	4.1%
2012	40.6	19.6	8.36	3.3%

Equity compensation: granted and vested during the year

During the financial year the Company issued 20,000 equity-settled performance rights (2015: 120,000) as compensation to executives with a vesting date of 31 December 2018. Refer to Note 22(a) for further details of this plan.

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

DIRECTORS' MEETINGS

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

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	16	3	5
Number of meetings attended:			
D Tudehope	16	-	5
A Tudehope	16	-	-
A Darling	16	3	5
P James	16	3	5
B Vogel	15	3	5

DIRECTORS' REPORT

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

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

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC 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: \$46,705 (2015: \$33,497) as disclosed in Note 24.

Signed in accordance with a resolution of the directors:



David Tudehope
Chief Executive

Sydney, 25 August 2016

CORPORATE GOVERNANCE STATEMENT

Introduction

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

The Board considers that except to the extent expressly indicated in this statement, those corporate governance practices comply with the ASX Corporate Governance Council's ("ASXCGC") Corporate Governance Principles and Recommendations with 3rd Edition 2014 Amendments. Also, except to the extent expressly indicated in this statement, those practices were followed throughout the year.

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

Principle 1

Lay solid foundations for management and oversight

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

The Board's key responsibilities are:

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

	Total Females	% Females
Number of females in entire organisation	91	28.3%
Number of females in people management positions	5	23.8%
Number of females on the Macquarie Telecom Board	1	20.0%

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

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

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

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 2016.	Macquarie Telecom currently has a female population of 28.3%.
Aim to maintain current ratio of female people managers (as reported in FY15 Annual Report – 23.6%).	The proportion of female people managers is currently 23.8%.

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.

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

A performance assessment for senior management last took place in July 2016.

Principle 2

Structure the Board to add value

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

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

Principle 3

Act ethically and responsibly

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

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

Principle 4

Safeguard integrity in financial reporting

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

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

Minutes of all Committee meetings are provided to the Board.

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

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

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

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

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

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

The Company requests the external auditor to attend the Annual General Meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

CORPORATE GOVERNANCE STATEMENT

Principle 5

Make timely and balanced disclosure

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

The Board approves all releases that are made to the ASX and the Company Secretary is responsible for these communications.

Principle 6

Respect the rights of security holders

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

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

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

Principle 7

Recognise and manage risk

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Principle 8

Remunerate fairly and responsibly

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

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

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

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

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
Revenue and other income	3	203,155	192,393
Expenses	3	(196,263)	(197,366)
Results from operating activities		6,892	(4,973)
Finance income		567	119
Finance costs		(85)	(1,582)
Profit/(loss) before income tax		7,374	(6,436)
Income tax (expense)/credit	5	(2,120)	2,154
Profit/(loss) after income tax for the year attributable to owners of the parent		5,254	(4,282)
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(2)	(55)
Total comprehensive income/(loss) for the year attributable to owners of the parent		5,252	(4,337)
		cents	cents
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:			
Basic earnings per share	23	25.1	(20.4)
Diluted earnings per share	23	24.8	(20.4)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	6	36,465	6,410
Receivables	7	8,386	5,316
Accrued income	8	5,620	5,081
Assets held for sale	9	-	43,275
Other	10	6,742	5,473
TOTAL CURRENT ASSETS		57,213	65,555
NON-CURRENT ASSETS			
Property, plant and equipment	11	47,222	51,679
Intangibles	12	8,167	11,065
Deferred tax assets	5	5,447	6,201
Other	13	1,780	1,209
TOTAL NON-CURRENT ASSETS		62,616	70,154
TOTAL ASSETS		119,829	135,709
CURRENT LIABILITIES			
Payables	14	27,096	22,441
Borrowings	15	-	21,000
Current tax liabilities	5	1,366	-
Provisions	16	1,442	1,595
Other	17	2,411	530
TOTAL CURRENT LIABILITIES		32,315	45,566
NON-CURRENT LIABILITIES			
Provisions	16	985	865
Other	17	4,103	1,772
TOTAL NON-CURRENT LIABILITIES		5,088	2,637
TOTAL LIABILITIES		37,403	48,203
NET ASSETS		82,426	87,506
EQUITY			
Contributed equity	18	42,991	42,991
Reserves	19	319	169
Retained earnings	19	39,116	44,346
TOTAL EQUITY		82,426	87,506

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

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2016

	Contributed Equity	Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2014	42,991	172	48,628	91,791
(Loss) after income tax	-	-	(4,282)	(4,282)
Other comprehensive income	-	(55)	-	(55)
Total comprehensive (loss) for the year	-	(55)	(4,282)	(4,337)
Transactions with owners in their capacity as owners				
Share based payment	-	52	-	52
Total	-	52	-	52
At 30 June 2015	42,991	169	44,346	87,506
	Contributed Equity	Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2015	42,991	169	44,346	87,506
Profit after income tax	-	-	5,254	5,254
Other comprehensive income	-	(2)	-	(2)
Total comprehensive income for the year	-	(2)	5,254	5,252
Transactions with owners in their capacity as owners				
Dividends provided for or paid	-	-	(10,484)	(10,484)
Share based payment	-	152	-	152
Total	-	152	(10,484)	(10,332)
At 30 June 2016	42,991	319	39,116	82,426

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

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		222,472	212,585
Payments to suppliers and employees		(183,578)	(188,107)
Interest received		530	120
Interest paid		(108)	(1,608)
Income tax refunded		-	605
Other receipts		125	245
NET CASH FLOWS FROM OPERATING ACTIVITIES	20	39,441	23,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current assets		(18,022)	(19,922)
Proceeds from the sale of non-current assets		40,074	8
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		22,052	(19,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of) borrowings		(21,000)	(2,500)
Dividends paid on ordinary shares		(10,484)	-
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(31,484)	(2,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,009	1,426
Cash and cash equivalents at the beginning of the financial year		6,410	4,715
Effects of exchange rate changes on cash and cash equivalents		46	269
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	6	36,465	6,410

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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 2016 was authorised for issue in accordance with a resolution of directors on 24 August 2016. The directors have the power to amend and reissue the financial statements.

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

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

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

(b) Basis of preparation

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

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

Compliance with IFRS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Macquarie Telecom Group Limited and all entities that Macquarie Telecom Group Limited controlled during the year and at balance sheet date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

(b) Significant accounting judgements, estimates and assumptions

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

Recoverable amount of non-current assets

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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

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

(n) Share-based payment transactions

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

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

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

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

(o) Contributed equity

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

(p) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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

Service revenue

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

Interest income

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

(q) Taxes

Income taxes

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

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

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

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

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

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

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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

(r) 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.

(s) Segment reporting

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

(t) Provisions

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

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

(u) 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.

(v) 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 Corporations (Stapled Group Reports) Instrument 2015/838. The Company is an entity to which the Class Order applies.

(w) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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 28 has been prepared on the same basis as the consolidated financial statements.

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

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

(y) New accounting standards and interpretations

The group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2015:

(i) AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 *Materiality*.

None of the new standards and amendments to standards adopted for the first time for the financial year beginning 1 July 2015 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 2016 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations are set out below.

(i) AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not mandatory until 1 January 2018 and is available for early adoption. The Group has not decided when to adopt AASB 9, however, when adopted it is not expected to have any impact on the Group's accounting for financial assets and financial liabilities.

(ii) AASB 15 *Revenue from Contracts with Customers* is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard is not mandatory until 1 January 2018 and is available for early adoption. The Group has not decided when to adopt AASB 15 and, at this stage, is not able to estimate the impact of the new rules on the Group's financial statements.

(iii) AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard is not mandatory until 1 January 2019 and is available for early adoption. The Group has not decided when to adopt AASB 16 and, at this stage, is not able to estimate the impact of the new rules on the Group's financial statements.

(z) Assets held for sale

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

2016 2015
\$'000 \$'000

3. REVENUE AND EXPENSES**(a) Revenue and other income**

Revenue from services	202,641	192,077
Net profit on disposal of plant and equipment	364	8
Net foreign exchange gains	-	50
Other income	150	258
Total revenue and other income	203,155	192,393

(b) Expenses

Amortisation of non-current assets		
Leasehold improvements	804	766
Intangibles	7,551	10,640
Transmission capacity	51	303
Depreciation of non-current assets		
Property, plant and equipment	16,968	19,559
Total depreciation and amortisation expense	25,374	31,268
Bad and doubtful debts (released)/expensed	18	(368)
Operating lease rental	9,073	6,734
Employment costs	56,555	57,660
Carrier costs	85,636	82,831
Net foreign exchange losses	58	-
Other expenses	19,549	19,241
	170,889	166,098
Total expenses	196,263	197,366

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

2016	2015
\$'000	\$'000

4. DIVIDENDS

(a) Dividends paid during the reporting period

(i) 25 cents per share final dividend for the year ended 30 June 2015 (year ended 30 June 2014: nil) fully franked based on tax paid at 30%.

5,242	-
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(ii) 25 cents per share interim dividend for the year ended 30 June 2016 (2015: nil) fully franked based on tax paid at 30%.

5,242	-
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<u>10,484</u>	<u>-</u>
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(b) Dividends not recognised at the end of the reporting period

Since year end, the directors declared the payment of a final dividend of 25 cents per share (2015: 25 cents) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 12 October 2016 out of retained earnings at 30 June 2016, but not recognised as a liability at year end, is

<u>5,242</u>	<u>5,242</u>
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(c) Franking account balance

The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2015: 30%)

<u>6,640</u>	<u>11,133</u>
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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 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
5. INCOME TAX		
(a) Income tax expense		
Current tax	1,366	-
Deferred tax – current year	630	(2,154)
– prior year	124	-
	<u>2,120</u>	<u>(2,154)</u>
Income tax expense is attributable to:		
Profit/(loss) from continuing operations	<u>2,120</u>	<u>(2,154)</u>
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	1,802	(580)
(Decrease) in deferred tax liabilities	(1,048)	(1,574)
	<u>754</u>	<u>(2,154)</u>
(b) Numerical reconciliation of income tax expense to <i>prima facie</i> tax payable		
Profit / (loss) from continuing operations before income tax expense	<u>7,374</u>	<u>(6,436)</u>
Prima facie tax at the Australian tax rate of 30% (2015: 30%)	2,212	(1,931)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	192	134
Income not assessable for income tax purposes	(186)	-
Research and development incentive	(217)	(355)
Adjustments to tax in respect of prior years	124	-
Other	(5)	(2)
Income tax (credit)/expense	<u>2,120</u>	<u>(2,154)</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

2016 2015
\$'000 \$'000

5. INCOME TAX (cont'd)

NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Research and development tax offset carried forward	-	2,441
Depreciation due to timing differences for accounting purposes	4,225	4,163
Employee benefits	1,372	1,278
Accrued expenses	1,606	1,136
Provisions for doubtful debts and credit notes	162	161
Other assets	118	106
Total deferred tax assets	7,483	9,285
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,036)	(3,084)
Net deferred tax assets	5,447	6,201

Deferred tax assets expected to be recovered within 12 months	2,407	4,734
Deferred tax assets expected to be recovered after more than 12 months	5,076	4,551
	7,483	9,285

Movements – Consolidated

	R&D <u>Tax Offset</u>	Accelerated <u>Depreciation</u>	<u>Other</u>	<u>Total</u>
At 30 June 2014	1,720	3,841	3,144	8,705
Charged to the income statement	721	322	(463)	580
At 30 June 2015	2,441	4,163	2,681	9,285
Charged to the income statement	(2,441)	62	577	(1,802)
At 30 June 2016	-	4,225	3,258	7,483

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
5. INCOME TAX (cont'd)		
CURRENT LIABILITIES – CURRENT TAX LIABILITIES		
Current tax liabilities	1,366	-
NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for tax purposes	1,029	2,131
Other debtors	651	823
Prepayments	356	130
Total deferred tax liabilities	2,036	3,084
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,036)	(3,084)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be recovered within 12 months	1,613	1,984
Deferred tax liabilities expected to be recovered after more than 12 months	423	1,100
	2,036	3,084

Movements – Consolidated	<u>Accelerated Depreciation</u>	<u>Prepayments</u>	<u>Other</u>	<u>Total</u>
At 30 June 2014	3,494	122	1,042	4,658
Charged to the income statement	(1,363)	8	(219)	(1,574)
At 30 June 2015	2,131	130	823	3,084
Charged to the income statement	(1,102)	226	(172)	(1,048)
At 30 June 2016	1,029	356	651	2,036

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 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	31,465	6,410
Short term deposits	5,000	-
	<u>36,465</u>	<u>6,410</u>
7. RECEIVABLES		
CURRENT		
Trade debtors	5,728	5,577
Provision for doubtful debts	(426)	(419)
Provision for credit notes	(113)	(116)
Other receivables	3,197	274
	<u>8,386</u>	<u>5,316</u>
(a) Terms and conditions relating to the above financial instruments:		
(i) Sales are normally on 14 day terms; and		
(ii) Details of impairment of trade receivables are set out in Note 27(b).		
(b) Movements in provision for doubtful debts/credit notes are as follows:		
At 1 July	(535)	(1,282)
Amounts written off	1	479
Net additional amounts (provided)/released	(5)	268
At 30 June	<u>(539)</u>	<u>(535)</u>
8. ACCRUED INCOME		
Accrued income	<u>5,620</u>	<u>5,081</u>
9. ASSETS HELD FOR SALE		
Land and buildings		
At cost	-	45,603
Accumulated depreciation	-	(2,328)
	<u>-</u>	<u>43,275</u>

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
10. OTHER CURRENT ASSETS		
Prepayments	5,446	4,157
Deferred expenses	1,296	1,316
	<u>6,742</u>	<u>5,473</u>
11. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements		
At cost	11,155	10,562
Accumulated amortisation	(3,954)	(3,150)
	<u>7,201</u>	<u>7,412</u>
Plant and equipment		
At cost	161,779	149,055
Accumulated depreciation	(136,547)	(120,610)
	<u>25,232</u>	<u>28,445</u>
Land and buildings		
At cost	18,033	18,032
Accumulated depreciation	(3,244)	(2,210)
	<u>14,789</u>	<u>15,822</u>
Total written down amount	<u>47,222</u>	<u>51,679</u>

Reconciliations

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

Leasehold improvements

Opening balance	7,412	7,869
Additions	594	309
Amortisation expense	(805)	(766)
Closing balance	<u>7,201</u>	<u>7,412</u>

Plant and equipment

Opening balance	28,445	34,771
Additions	12,722	11,365
Depreciation expense	(15,935)	(17,691)
Closing balance	<u>25,232</u>	<u>28,445</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
11. PROPERTY, PLANT AND EQUIPMENT (cont'd)		
<i>Land and buildings</i>		
Opening balance	15,822	59,372
Additions	54	1,595
Assets classified as held for sale ⁽ⁱ⁾	-	(43,275)
Disposals	(53)	-
Depreciation expense	(1,034)	(1,870)
Closing balance	<u>14,789</u>	<u>15,822</u>

(i) Refer to note 9 for further detail of assets classified as held for sale.

12. INTANGIBLES

Software		
At cost	46,182	42,739
Accumulated amortisation	(39,591)	(33,028)
	<u>6,591</u>	<u>9,711</u>
Product development		
At cost	9,129	7,920
Accumulated amortisation	(7,553)	(6,566)
	<u>1,576</u>	<u>1,354</u>
Total written down amount	<u>8,167</u>	<u>11,065</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
12. INTANGIBLES (cont'd)		
Reconciliations		
Reconciliation of the carrying amounts of intangibles at the beginning and end of the current financial year:		
<i>Software</i>		
Opening balance	9,711	13,344
Additions – internal development	2,631	4,976
Additions – acquisition	812	1,118
Amortisation expense	(6,563)	(9,727)
Closing balance	<u>6,591</u>	<u>9,711</u>
<i>Product development</i>		
Opening balance	1,354	1,708
Additions – internal development	1,209	559
Amortisation expense	(987)	(913)
Closing balance	<u>1,576</u>	<u>1,354</u>
13. OTHER NON-CURRENT ASSETS		
Transmission capacity		
At cost	4,722	4,722
Accumulated amortisation	(4,722)	(4,671)
	<u>-</u>	<u>51</u>
Prepayments	579	-
Deferred expenses	1,201	1,158
	<u>1,780</u>	<u>1,209</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
14. PAYABLES		
CURRENT		
Trade creditors	15,746	13,066
Other creditors and accruals	9,111	7,494
Annual leave entitlements	2,239	1,881
	<u>27,096</u>	<u>22,441</u>
(a) Australian dollar equivalents		
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:		
- United States dollars	27	37
	<u>27</u>	<u>37</u>
(b) Included in trade creditors are amounts payable to various telecommunications carriers. The Company disputes certain charges levied by some of its carriers. Included in trade creditors are the amounts the Company believes are its obligations for the services provided, after a careful review of the carrier billings.		
(c) Terms and conditions relating to the above financial instruments:		
(i) Trade liabilities are normally settled on 30 to 60 day terms.		
15. BORROWINGS		
CURRENT		
Cash advance facility	20(c)	
	-	21,000
	-	21,000
	<u>-</u>	<u>21,000</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

		CONSOLIDATED	
		2016	2015
	Notes	\$'000	\$'000
16. PROVISIONS			
CURRENT			
Employee benefits (a)	22	1,442	1,595
NON-CURRENT			
Employee benefits (a)	22	985	865
(a) A reconciliation of the movements in the provision balance are as follows:			
Employees benefits			
At 1 July		2,460	2,579
Net additional amounts provided		493	466
Amounts used during the period		(526)	(585)
At 30 June		2,427	2,460
17. OTHER LIABILITIES			
CURRENT			
Lease incentive	21(b)	308	229
Deferred revenue		2,103	301
		2,411	530
NON-CURRENT			
Lease incentive	21(b)	2,055	1,503
Deferred revenue		2,048	269
		4,103	1,772

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

2016 2015
\$'000 \$'000

18. CONTRIBUTED EQUITY**(a) Share capital**

Ordinary shares authorised and fully paid (no par value)	42,991	42,991
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	Note s	2016 Number of shares	2016 \$	2015 Number of shares	2015 \$
(b) Movements in shares on issue					
Balance at beginning of year		20,967,121	42,990,744	20,967,121	42,990,744
Conversion of performance rights	18(c)	-	-	-	-
Balance at end of year		20,967,121	42,990,744	20,967,121	42,990,744

(c) Share performance rights*Performance rights over ordinary shares*

At the end of the year, there were 246,000 (2015: 144,000) unissued ordinary shares in respect of performance rights to executives and senior managers. Refer to Note 22(a) for further details of this plan.

(d) Terms and conditions of contributed equity

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

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

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The group currently has no borrowings.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
19. RESERVES AND RETAINED EARNINGS			
Other reserves	19(a)	319	169
Retained earnings	19(b)	39,116	44,346
(a) Other reserves			
<i>(i) Nature and purpose of reserves</i>			
The foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries.			
The employee equity benefits reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to Note 22 for further details of these plans.			
<i>(ii) Movements in reserves</i>			
<i>Foreign currency translation reserve:</i>			
Balance at beginning of year		(77)	(22)
(Loss) on translation of foreign controlled entity		(2)	(55)
Balance at end of year		(79)	(77)
<i>Employee equity benefits reserve:</i>			
Balance at beginning of year		246	194
Share-based payments expense		152	52
Balance at end of year		398	246
		319	169
(b) Retained earnings			
Balance at beginning of year		44,346	48,628
Net profit/(loss) for the year		5,254	(4,282)
Total available for appropriation		49,600	44,346
Dividends paid or provided for		(10,484)	-
Balance at end of year		39,116	44,346

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

2016 2015
\$'000 \$'000

20. STATEMENT OF CASH FLOWS**(a) Reconciliation of the profit after income tax expense to the net cash flows from operating activities**

Profit/(loss) after income tax expense	5,254	(4,282)
Amortisation of non-current assets	8,406	11,709
Depreciation of non-current assets	16,968	19,559
(Profit) on sale of plant and equipment	(364)	(8)
Share based payment	152	52
Net foreign currency gains	(48)	(323)
Changes in assets and liabilities		
(Increase)/decrease in:		
Trade receivables	(147)	1,588
Accrued income	(539)	(592)
Current tax receivable	-	605
Prepayments	(1,273)	1,010
Deferred tax assets	754	(2,154)
Other receivables	78	415
Increase/(decrease) in:		
Trade and other creditors	4,655	(4,346)
Current tax liabilities	1,366	-
Provisions	(33)	(119)
Other liabilities	4,212	726
Net cash flow from operating activities	<u>39,441</u>	<u>23,840</u>

(b) Non-cash investing activities

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

(c) Financing facilities available

Total facilities:

- bank guarantee facility	5,800	3,800
- cash advance facility	-	40,000
	<u>5,800</u>	<u>43,800</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED
2016 2015
\$'000 \$'000

20. STATEMENT OF CASH FLOWS (cont'd)

Facilities used at reporting date:

- bank guarantee facility	4,840	2,490
- cash advance facility	-	21,000
	4,840	23,407

Facilities unused at reporting date:

- bank guarantee facility	960	1,310
- cash advance facility	-	19,000
	960	20,393

Facilities used at reporting date	4,840	23,407
Facilities unused at reporting date	960	20,393
Total facilities	5,800	43,800

Bank guarantee facility

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

21. 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	1,632	531
- Software	423	-
Payable later than one year	846	-
	2,901	531

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

21. EXPENDITURE COMMITMENTS (cont'd)

(b) Lease expenditure commitments

Operating leases

All operating leases relate to premises, parking spaces and office equipment in various locations and have a lease term of between 12 months and 20 years. There are no restrictions placed upon the lessee by entering into these leases.

On 10 August 2015 the Group entered into a triple-net-lease for the shell and core building of Intellicentre 2, retaining control of all repairs and maintenance on mechanical and electrical plant, facilities management, security and operations. The lease is for an initial 20 years with two five year options.

	Notes	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
Minimum lease payments:			
Not later than one year		8,428	4,494
Later than one year and not later than five years		26,224	7,343
Later than five years		47,706	3,634
		82,358	15,471
Aggregate expenditure commitments comprise:			
Amounts provided for:			
Lease incentive liability – current	17	308	229
Lease incentive liability – non-current	17	2,103	1,503
Amounts not provided for:			
Rental commitments		82,358	15,471
		84,769	17,203

(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		916	893
Later than one year and not later than five years		-	-
Later than five years		-	-
		916	893

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

	2016	2015
	\$'000	\$'000

22. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS**Employee benefits**

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries, annual leave and on costs		7,506	5,987
Provisions (current)	16	1,442	1,595
Provisions (non-current)	16	985	865
		<u>9,933</u>	<u>8,447</u>

Employee share schemes**(a) Equity-settled performance rights**

On 27 November 2015, the company issued 138,000 equity-settled performance rights (2015: 180,000), which have a vesting date of 31 December 2018, to executives and certain employees as part of their long term incentives. The performance conditions are linked to total shareholder return and customer satisfaction. The performance rights were valued using the Monte Carlo Simulation model which considered key assumptions of price volatility and dividend yield. The fair value of each right in Tranche 1 was \$3.90 and Tranche 2 was \$4.49, equating to a total of \$592,482.

The total number of outstanding performance rights is 246,000 (2015: 144,000), valued at \$760,602 (2015: \$224,160) as measured at their grant date, amortised over the period to the vesting date. The amount of performance rights amortisation expense for the period was \$151,772 (2015: \$52,235).

Grant Date	Vesting Date	Performance Period	Performance Condition Met	Rights Vesting	
				Number	Value
25 September 2014	31 December 2017	Jul-14 to Jun-16	Yes	36,000	\$42,840
		Jul-14 to Jun-17	N/A	72,000	\$125,280
27 November 2015	31 December 2018	Nov-15 to Jun-17	N/A	45,996	\$179,384
		Nov-15 to Jun-18	N/A	92,004	\$413,098
				246,000	\$760,602

(b) Superannuation commitments

The Group makes contributions in accordance with the superannuation law in respect of each eligible employee. At the end of the financial year, contributions of up to 9.50% (2015: 9.50%) of employees' salaries and wages are legally enforceable in Australia.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	cents	cents
23. EARNINGS PER SHARE		
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	25.1	(20.4)
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	24.8	(20.4)
	2016	2015
	\$'000	\$'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	5,254	(4,282)
	2016	2015
	Number of shares	Number of shares
(d) Weighted average number of ordinary shares used in calculating basic earnings per share	20,967,121	20,967,121
Effect of dilutive securities:		
Share performance rights	182,176	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	21,149,297	20,967,121
24. AUDITOR'S REMUNERATION		
The auditor of Macquarie Telecom is PricewaterhouseCoopers.		
Amounts received or due and receivable by the auditor of Macquarie Telecom for:		
- an audit or review of the financial report of the Company and any other entity in the consolidated entity	232,000	225,000
- other services in relation to the Company and any other entity in the consolidated entity	46,705	33,497
	278,705	258,497

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

CONSOLIDATED

25. RELATED PARTY DISCLOSURES

(a) Key Management Personnel compensation

	2016	2015
	\$	\$
Short-term employee benefits	3,263,677	3,481,717
Post-employment benefits	132,165	156,297
Long-term benefits	29,356	(92,126)
Termination benefits	-	129,855
Share-based payments	34,186	32,647
	3,459,384	3,708,390

(b) Transactions with other related parties

*Transactions with substantial shareholders***Services**

Vocus Communications Limited, which holds 3,358,511 (16%) of the ordinary shares of Macquarie Telecom, was paid \$615,466 (2015: \$443,358) for the provision of telecommunications services to the consolidated entity. At 30 June 2016, the amount payable to Vocus Communications Limited was \$66,701 (2015: nil).

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

(c) Equity instruments of directors

Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at 30 June 2016, being the number of instruments held, were:

- (i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 12,501,390 (60%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;
- (ii) a director-related entity of D Tudehope and A Tudehope holds 7,183 ordinary shares;
- (iii) a director-related entity of D Tudehope holds 323,649 ordinary shares and D Tudehope holds a further 133 shares;
- (iv) P James holds 19,105 ordinary shares;
- (v) a director-related entity of A Darling holds 2,424 ordinary shares; and
- (vi) a director-related entity of B Vogel holds 22,922 ordinary shares.

(d) Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

26. SEGMENT INFORMATION

Segment description

The consolidated entity operates in two primary operating segments providing services to corporate and government customers. The Telecom segment relates to the provision of voice and mobiles telecommunications services and the provision of services utilising the Macquarie Telecom data network. The Hosting segment relates to the provision of services utilising Macquarie Telecom's data hosting facilities. All activities are principally conducted in Australia.

Segment accounting policies

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

Segment information on operating segments

	Telecom		Hosting		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue						
External service revenue	138,955	135,185	63,686	56,892	202,641	192,077
Inter-segment revenue	-	-	4,712	4,800	4,712	4,800
Other income	8	38	506	278	514	316
Total segment revenue and other income	138,963	135,223	68,904	61,970	207,867	197,193
Inter-segment elimination	-	-	(4,712)	(4,800)	(4,712)	(4,800)
Total consolidated revenue and other income	138,963	135,223	64,192	57,170	203,155	192,393
Results						
EBITDA	18,323	16,508	13,943	9,787	32,266	26,295
Depreciation and amortisation	(7,799)	(8,214)	(17,575)	(23,054)	(25,374)	(31,268)
Segment result before interest and tax	10,524	8,294	(3,632)	(13,267)	6,892	(4,973)
Interest income					567	119
Interest expense					(85)	(1,582)
Consolidated entity profit/(loss) from ordinary activities before income tax expense					7,374	(6,436)
Income tax (expense)/benefit					(2,120)	2,154
Net profit/(loss)					5,254	(4,282)
Acquisition of non-current assets	5,324	4,257	9,114	11,149	14,438	15,406
Unallocated acquisitions					3,584	4,516
Total acquisition of non-current assets					18,022	19,922

Restatement of previously reported information

Subsequent to the review of the Group's strategy and business structure in the previous financial year the composition of the reportable segments were revised to appropriately reflect this change including the allocation of Corporate Office costs.

The corresponding items of segment information for the corresponding period have been restated to reflect this change. The totals of Group consolidated revenue and profit/(loss) have not been effected.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

27. FINANCIAL RISK MANAGEMENT

Objectives and policies

The consolidated entity's principal financial instruments comprise cash and short-term deposits. It also has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

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

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

	2016 \$'000	2015 \$'000
Financial assets		
Cash and cash equivalents	36,465	6,410
Trade and other receivables	8,386	5,316
	<u>44,851</u>	<u>11,726</u>
Financial liabilities		
Trade and other payables	26,796	22,441
Borrowings	-	21,000
	<u>26,796</u>	<u>43,441</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

27. FINANCIAL RISK MANAGEMENT (cont'd)

a) Market risk

(i) Foreign exchange risk

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

	2016		2015	
	\$'000 USD	\$'000 SGD	\$'000 USD	\$'000 SGD
Cash and cash equivalents	1,682	165	1,564	163
Trade and other receivables	-	-	-	-
Trade and other payables	36	-	37	-
Borrowings	-	-	-	-

Consolidated entity sensitivity

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/strengthened by 10% against each of the denominated currencies above with all other variables held constant, the consolidated entity's post-tax profit for the year would have been \$209,000 higher/\$171,000 lower (2015: \$196,000 higher/\$160,000 lower) as a result of foreign exchange gains/losses.

(ii) Interest rate risk

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

Based on the cash and cash equivalents at 30 June 2016, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been \$71,000 higher/lower (2015: \$47,000 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 2016

27. FINANCIAL RISK MANAGEMENT (cont'd)

(iv) Cash flow and fair value interest rate risk

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

	Floating interest rate		Fixed interest rate maturing in						Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate		
			1 year or less		Over 1 to 5 years		More than 5 years								
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 % pa	2015 % pa	
(i) Financial assets															
Cash	31,300	6,246	5,000	-	-	-	-	-	-	165	164	36,465	6,410	2.38	1.74
Receivables – trade	-	-	-	-	-	-	-	-	-	8,386	5,316	8,386	5,316	N/A	N/A
Total financial assets	31,300	6,246	5,000	-	-	-	-	-	-	8,551	5,480	44,851	11,726		
(ii) Financial liabilities															
Payables	-	-	-	-	-	-	-	-	-	27,096	22,441	27,096	22,441	N/A	N/A
Borrowings	-	21,000	-	-	-	-	-	-	-	-	-	-	21,000	N/A	3.66
Total financial liabilities	-	21,000	-	-	-	-	-	-	-	27,096	22,441	27,096	43,441		

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

27. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers including receivable and committed transactions. Customers are assessed for their creditworthiness by using a third party credit rating agency. If there are no independent credit ratings available, credit risk is assessed by taking into account the financial position of the Company, past experience and other factors. The consolidated entity mitigates the credit risk of the top 20 customers through trade credit insurance. The credit quality of the financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 51.

	2016 \$'000	2015 \$'000
Trade receivables		
Not past due (aged 0–30 days)	4,986	5,243
Past due but not impaired	203	(200)
Impaired	539	535
	<u>5,728</u>	<u>5,578</u>

(c) Liquidity risk

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

Maturities of financial liabilities

	Less than 6 months \$'000	6–12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flow \$'000
Consolidated						
At 30 June 2016						
Non-interest bearing	27,096	-	-	-	-	27,096
Variable rate	-	-	-	-	-	-
	<u>27,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,096</u>
At 30 June 2015						
Non-interest bearing	23,011	-	-	-	-	23,011
Variable rate	-	21,000	-	-	-	21,000
	<u>23,011</u>	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,011</u>

(d) Fair value estimation

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

28. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2016 \$'000	2015 \$'000
Statement of financial position		
Current assets	-	-
Total assets	126,043	133,841
Current liabilities	9,755	6,950
Total liabilities	9,755	6,950
<i>Shareholders' equity</i>		
Contributed equity	42,991	42,991
Reserves		
Employee equity benefits reserve	397	246
Retained earnings	72,900	83,654
	116,288	126,891
Loss for the year	(270)	(81)
Total comprehensive loss	(270)	(81)

(b) Guarantees entered into by the parent entity

Macquarie Telecom Group Limited (the "Company"), Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS") and Macquarie Cloud Services Pty Limited ("MCS") (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2005. The effect of the deed is that the Company has guaranteed to pay any deficiency in the event of winding up of MT, MH, MTCS and MTNCS. MT, MH, MTCS and MTNCS have also given a similar guarantee in the event that the Company is wound up. The Deed of Cross Guarantee was amended on 20 July 2011 to include 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 2016 or 30 June 2015.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") had a current asset deficiency of \$9.8 million at the end of the financial year. The financial statements for the Company have been prepared on a going concern basis as the directors believe the Company can pay its debts as and when they fall due. This conclusion is based on the following factors:

- The current asset deficiency includes an amount payable to a wholly owned entity of \$8.4 million, which the Company can control the timing of settlement.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

29. EVENTS OCCURRING AFTER THE REPORTING DATE

On 24 August 2016, the directors declared a fully franked dividend of 25 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2016, to be paid to the shareholders on 12 October 2016. This dividend has not been included as a liability in these financial statements. The total dividend to be paid is \$5.2 million; the reduction in the franking account will be \$2.2 million.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2016

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 2016 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 2016.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 28(b) will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

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

On behalf of the Board:



David Tudehope
Chief Executive

Sydney, 25 August 2016



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 2016, 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 Limited (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.

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*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's opinion

In our opinion the financial report of Macquarie Telecom Group Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

A large, stylized handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that appears to be 'Scott Walsh'.

Scott Walsh
Partner

Sydney
25 August 2016



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'SW', is written over a light blue horizontal line.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
25 August 2016