

MACQUARIE TELECOM GROUP LIMITED

CORPORATE GOVERNANCE

A. Introduction

Macquarie Telecom Group Limited operates in a challenging, rapidly changing telecommunications and hosting environment and the Board focus is on how to be most effective in enhancing stakeholder value. The Board believes it must be proactive to add value and lean towards timely involvement with management on a range of key issues. The Board must bring its expertise, experience and judgement to bear on these issues.

Most importantly, the Board is responsible for the corporate governance of the Company. Corporate governance is the system of rules, relationships and practices that determine the direction and control of an organisation. The major processes by which the Board fulfills that responsibility are described in this corporate governance statement.

For the purposes of this document, “*senior management*” and “*senior managers*” are defined as those managers who regularly provide reports to the Board and/or attend Board meetings and includes the Macquarie Telecom Corporate Executive Team.

B. Composition of the Board

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 and diversity to provide the necessary breadth and depth of knowledge and experience.

Each of the non-executive directors is an “independent” director for the purposes of the criteria for independence outlined by the ASX Corporate Governance Council in its *Corporate Governance Principles and Recommendations*. The independence of non-executive directors is monitored on an ongoing basis, having regard to information provided by each non-executive that is relevant to this assessment. The Chairman is selected from the non-executive directors and appointed by the Directors.

The Board has established a schedule of monthly meetings, although additional meetings can be held where the Chairman considers such meetings necessary.

The Directors currently in office are:

Name	Position
Peter James	Chairman, Non-Executive Director
Anouk Darling	Non-Executive Director
Bart Vogel	Non-Executive Director
Aidan Tudehope	Managing Director, Hosting

C. Board and Senior Management Responsibilities

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

The Board’s key responsibilities include:

- establishing, monitoring and modifying the Company’s corporate strategies
- monitoring the performance of management
- reporting to shareholders and the market

- ensuring that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively
- monitoring financial results
- reviewing business results, monitoring budgetary control and corrective actions (if required)
- authorising and monitoring budgets and major investments and strategic commitments
- monitoring Board composition, director selection and Board processes and performance
- reviewing the performance of the Chief Executive, the Managing Director, Hosting and senior management
- endorsing key senior management appointments and ensuring senior management succession planning
- reviewing and approving remuneration of the Chief Executive and the Managing Director, Hosting
- reviewing and approving remuneration policies for senior management
- 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 senior management 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 Board has not adopted a formal statement of matters reserved to them, a formal charter that details their functions and responsibilities or a formal statement of delegated authority to senior managers. However, a copy of this document, which details those functions and responsibilities and makes clear the authority delegated to senior managers, is available in the corporate governance section of the Company's website at www.macquarietelecom.com.

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 letters of appointment. Each of the executive directors is party to a formal executive service agreement with the Company.

Senior managers, including the Chief Financial Officer, have a letter of appointment describing their term of office, duties, rights and responsibilities and entitlements on termination.

When joining Macquarie Telecom, Directors and senior managers are given access to extensive information on the Company's financial, strategic, operational and risk management position and are provided with regular updates on each of these matters. Directors and senior managers are also provided with the information required to enable them to understand the respective rights, duties, responsibilities and roles of the Board (including its committees) and senior managers.

Senior managers have access to continuing education to update and enhance their skills and knowledge, including education concerning key developments in the Company and the industry in which it operates.

D. Committees

The Board has established two committees to assist with the implementation of its corporate governance practices. These are a Corporate Governance, Nomination and Remuneration Committee and an Audit and Risk Management Committee.

Directors are appointed to Board committees by formal resolution of the Board.

Corporate Governance, Nomination and Remuneration Committee

The Committee consists of the Chairman, two non-executive directors and the Chief Executive. The remuneration committee is structured so that it consists mainly of independent directors, is chaired by an independent director and has at least three members at any given time. At the discretion of the Committee, the Managing Director, Hosting, Chief Financial Officer and other members of the senior management team may be invited to attend.

The Committee has not adopted a formal charter. However, a copy of this document, which details that Committee's roles and responsibilities and composition, is available in the corporate governance section of the Company's website at www.macquarietelecom.com.

Corporate Governance

The Committee's main responsibilities are to review all matters relating to corporate governance, including determining the extent to which it is appropriate for the Company to adopt the ASX Corporate Governance Council's best practice recommendations, overseeing the implementation of measures and processes designed to achieve compliance with the recommendations adopted and monitoring compliance on an ongoing basis. It also ensures that continuous disclosure requirements are met and there is compliance with other laws and regulations.

Nomination

The Committee also supports and advises the Board in fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the 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 whole, having regard to the Board's key responsibilities listed above
- establishing the processes for the identification of suitable candidates for appointment to the Board.

In order to discharge these responsibilities, the Committee will:

- having regard to the Company's strategic objectives, periodically assess the skills required for the Board to competently discharge its duties and, as and when a non-executive director retires, or as otherwise appropriate, assess the skills of the non-executive directors to determine whether they meet the required skills
- if necessary, make recommendations to the Chairman on the enhancement of the skills of existing non-executive directors
- having regard to the skills required and those possessed by the non-executive directors, identify and make recommendations to the Board on suitable candidates as non-executive directors. Where appropriate, identification of a suitable candidate may be undertaken in conjunction with an independent third party

Remuneration

Additionally, the Committee addresses the people management processes, reviews the remuneration arrangements for non-executive and executive directors and reviews and approves the issue of shares and options under the Company's share and option plans. The Committee also determines remuneration for the senior management team and monitors, reviews and makes recommendations to the Board as to the remuneration policies of the Company generally. The remuneration committee will also review and recommend on remuneration by gender.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee comprising all the non-executive directors. At the discretion of the Committee, the Chief Executive, Managing Director, Hosting, Chief Financial Officer and the external auditor may be invited to attend. Where executives participate in Committee discussions, they will be requested to leave the meeting for a period to ensure the non-executive directors have an opportunity to discuss matters with the external auditor in the absence of members of management.

The role of the Committee is to assist the Board in the reporting of financial information, the appropriate application and amendment of accounting policies, the identification and management of risk, and internal compliance and control systems. In this role the Committee has responsibility for:

- overseeing the Company's financial reporting process
- recommending to the Board the appointment and dismissal of external auditors and their remuneration
- evaluating the performance of the external auditors, including their independence and objectivity
- reviewing and approving the external audit plan, including identified risk areas
- establishing policies for the oversight and management of material business risks
- ensuring that management has designed and implemented a risk management and internal control system to manage the Company's material business risks
- ensuring that management reports to the Board on whether the Company's material business risks are being managed effectively
- directing and evaluating the effectiveness of the internal risk management function
- reporting to the Board on its activities.

The Board acknowledges its responsibility for ensuring that all material business risks are identified and that appropriate arrangements are in place to manage these risks. The risk management function requires that mechanisms be in place to review and monitor corporate performance across a broad range of risk and compliance issues affecting assets, management, finance and business operations. See section L below for details of this function.

E. Performance Evaluation

The performance of the Board (including its committees), individual Directors and senior managers is reviewed on a regular basis.

In the case of the Board and individual Directors, performance is evaluated largely having regard to the Board's key responsibilities listed in section C above.

The performance of senior managers is reviewed on a half-yearly basis against agreed measurable and qualitative indicators as part of a 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 that is required to be included in the Company's annual financial statements. Qualitative indicators include the extent to which a senior manager's performance has been aligned to the Company's values.

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

F. Access to Information and Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to:

- have access to the Company secretary, whose appointment and removal is a matter for decision by the Board as a whole
- seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

In addition, Directors are provided with detailed financial information and reports by management on a monthly basis, and have the right to request additional information where they consider that the information supplied by management is insufficient to support informed decision making.

G. External Auditors – Selection, Appointment and Rotation

The Board has delegated to the Audit and Risk Management Committee responsibility for making recommendations on the appointment, evaluation and dismissal of external auditors, setting their fees and ensuring that the auditors report to the Committee and the Board.

The company is committed to audit independence. The Audit and Risk Management Committee reviews the independence and objectivity of the external auditors. Those reviews include:

- seeking confirmation that the auditors are, in their professional judgment, independent of the Company
- considering whether, taken as a whole, the various relationships between the Company and the external auditors impairs the auditors' judgment or independence.

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

H. Code of Conduct

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.

I. Dealings in Macquarie Telecom Group Limited Shares

1. Statutory prohibitions

The Australian Corporation Act imposes a number of obligations and duties in relation to dealing in securities by insiders. The law in summary provides that an insider must not:

- (a) Deal in securities of an entity whilst in possession of Confidential Price Sensitive Information relating to the entity that is not generally available;
- (b) Procure any other person to Deal in those securities; or
- (c) Communicate the Confidential Price Sensitive Information to any person who he/she knows or ought reasonably to know will make use of the information for the purpose of dealing or procuring others to deal in those securities

2. Penalties

The penalties for breach of the statutory prohibitions can be either criminal or civil or both.

- (a) Criminal penalties can be either a fine of up to A\$200,000 or imprisonment for five years or both.
- (b) Civil penalties are a fine of up to A\$200,000 for an individual.

3. Macquarie Telecom's Share Trading Policy

In order to guard against the misuse of price sensitive information, the Board of Macquarie Telecom has established guidelines relating to the Board, Senior Managers and other employees dealing in the company's shares.

Those guidelines are as follows:

1. Directors, senior managers and other employees are prohibited from dealing in shares during the following two "*blackout periods*":
 - from 1 July to the date of announcement of the full year results

- from 1 January to the date of announcement of the half-year results
2. Outside these blackout periods trading in shares will be permitted. Directors, senior managers and other employees have the responsibility to advise the appropriate officer of any trading outside these blackout periods. The identity of the appropriate officer will be determined as follows:

Person Wishing to Trade	Appropriate Officer
Chairman	Chairman of the Audit Committee
Directors	Chairman
Senior Managers	Company Secretary
Other Employees	No advice required

“*Senior Managers*” means managers who regularly report to the Board and attend Board meetings. These individuals are specifically notified and advised.

3. Directors, Senior Managers and Other Employees should not deal in Macquarie Telecom shares during a blackout period unless Exceptional Circumstances exist. Exceptional Circumstances means severe financial hardships or other circumstances considered to be exceptional, including a court order or court enforceable undertakings in a bona fide family settlement to transfer Macquarie Telecom shares or some other overriding legal or regulatory requirements to transfer Macquarie Telecom shares.
4. Dealings inside a blackout period are to be decided for Directors (other than the Chairman) by the Chairman, for the Chairman by the Audit Committee Chairman and for the Senior Managers and Other Employees by the Chief Executive Officer in each case in their sole discretion and in each case notified to the Company Secretary.
5. Any prior written clearance to trade in Exceptional Circumstances must specify the duration of such clearance and must be in writing (which includes email).
6. The issue of shares or the grant or exercise of options under share incentive schemes is not deemed to be dealing in Macquarie Telecom shares. The subsequent sale of shares is, however, a dealing which is subject to this policy.

The Board takes the matter of dealing in Macquarie Telecom’s shares by Directors and Senior Managers seriously and expects full compliance with this policy. Failure to comply with it by any Director, Senior Manager or Other Employee may result in termination of employment or other disciplinary action.

J. Continuous Disclosure

The company is committed to the promotion of investor confidence by ensuring that trade in its shares takes place in an efficient, competitive and informed market.

The company will immediately disclose to the market any information related to its business which a reasonable person would expect to have a material effect on the price or value of the Company’s shares. In certain circumstances the ASX Listing Rules permit the Company not to disclose material information.

K. Diversity

The company has a diversity policy which sets out the Board’s establishment of diversity-related measurable objectives for the Company. Assessment of those objectives and review of progress will be carried out on an annual basis by the Diversity Champion, who will report to the Board and make recommendations. Progress against targets will be included in the Company’s annual reports.

The Board has established a Disclosure Committee which is responsible for reviewing information that is or may be material information and determining whether that information should be disclosed. The members of the Committee are:

- the Chairman
- the Chief Executive
- the Company Secretary.

The Board has also adopted a formal continuous disclosure plan, the object of which is to ensure that material information is identified and disclosed in a timely manner. That plan outlines what must be disclosed and when it must be disclosed and the responsibilities of the Board, managers and others in regard to the Company's disclosure obligations.

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.

Directors and senior managers must immediately advise the Company Secretary if they obtain information that is or may be material information. Senior managers means those managers who regularly report to the Board and attend Board meetings.

The Company Secretary is responsible for communications with the ASX.

L. Communications with Shareholders

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

- Shareholders can gain access to information about the Company, including the Annual Report and financial statements, half-year financial statements, Board commentaries on financial results, all relevant announcements made to the market and information provided to analysts during briefings through the Company's website at www.macquarietelecom.com.
- In conducting analyst briefings, the Company takes care to ensure that any information provided to analysts is made available to the market prior to it being provided to analysts.
- The principal method of communication with shareholders is through the provision of the Annual Report and financial statements, the half-year financial statements and Annual General Meetings. Shareholders are encouraged to use these meetings to ask questions on any matters relating to the Company, its business and the performance of that business.
- The Company requests the external auditors 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 auditors' report.

M. Risk Management and Internal Control

Senior management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system.

To this end, senior management has:

- developed 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 by senior

management at least annually as part of the annual strategic planning and budgeting process and is formally adopted by the Board

- established an internal business risk management function with day-to-day responsibility for monitoring the implementation and ongoing effectiveness of the Company's risk management and internal control system. This function is not structured and does not operate as an internal audit function.

The internal business risk management function reports to the Board on a monthly basis on changes in the Company's risk profile and material business risks. In addition, that function reports to the Audit and Risk Management Committee on a quarterly basis on the adequacy of the Company's risk framework, and the completeness and accuracy of risk reporting by management. These reports are based on internal control questionnaires that are completed by all major divisions and key senior managers in relation to financial and other reporting on a quarterly basis.

A standardised approach to risk assessment is used across the Company and its controlled entities to ensure that risks are consistently assessed and reported to an appropriate level of management, and to the Board if required.

Strategic and operational risks are reviewed at least annually by all operating divisions as part of the annual strategic planning, business planning, forecasting and budgeting process. Divisional risk profiles are also reviewed as part of the quarterly due diligence process within these divisions.

The Company has developed a series of operational risks which the Company believes to be inherent in the industry in which it operates. These include:

- service interruption and network reliability
- management of outsourcing
- emerging technology and delivery platforms
- regulatory framework.

The Board also receives a written assurance from the Chief Executive and the Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.