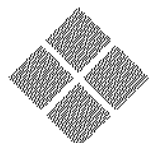


**“real solutions, real value”**



ANNUAL REPORT **2003**



**Macquarie**  
CORPORATE  
TELECOMMUNICATIONS

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## Notice of Annual General Meeting

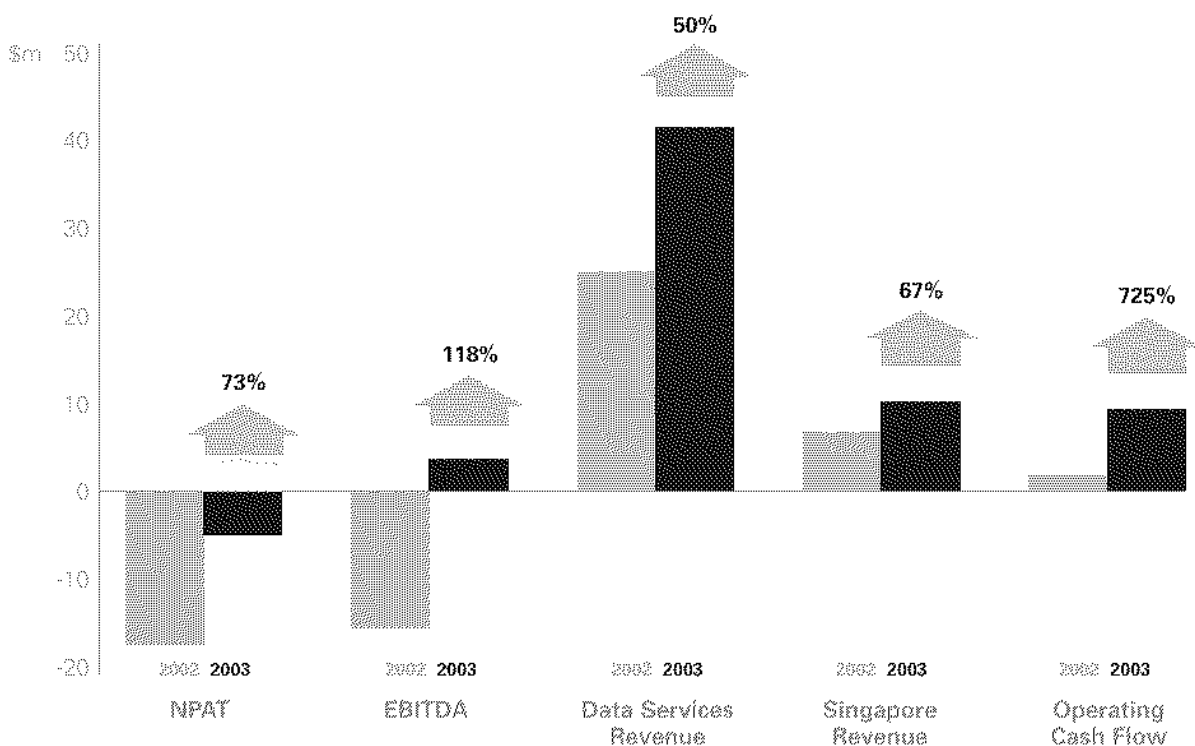
Notice is hereby given that the Annual General Meeting of the members of Macquarie Corporate Telecommunications Holdings Limited will be held at the Museum of Sydney Auditorium (at the corner of Phillip and Bridge Streets) in Sydney on Wednesday, 26 November 2003, at 9am.

Macquarie Corporate Telecommunications Holdings Limited

ACN 056 712 228

# Macquarie is an integrated IT&T carrier offering a full range of voice, data, on-line and mobile services.

- HIGHLIGHTS**
- The Company achieved an EBITDA profit of \$2.8 million for the year to 30 June 2003.
  - Net loss after tax was \$4.7 million, compared to a net loss after tax for the year ended 30 June 2002 of \$17.7 million.
  - Total service revenue increased to \$234.5 million, compared to \$228.4 million for the year ended 30 June 2002.
  - Data service revenue was \$40.8 million, maintaining the trend of an improving revenue mix.
  - Australian voice service revenue was \$182.2 million.
  - The Singapore business produced revenues of \$11.2 million, an increase of 67% from the year ended 30 June 2002.
  - The Company maintains a strong balance sheet, with \$29.9 million in cash and no debt at 30 June 2003. Operating cash flow was \$10.1 million. Net cash flow was \$4.0 million.





# Partnership

## CHAIRMAN'S MESSAGE



Macquarie delivered an encouraging operational and financial performance during the 2003 financial year. Our results demonstrate clearly that we are now beginning to realise significant tangible benefits from our strategy to reposition the Company as an integrated information technology and telecommunications carrier. We are also benefiting from our wide-ranging efforts to improve efficiency and productivity across all of our business activities.

In 2003, Macquarie achieved a profit in earnings before interest, tax, depreciation and amortisation (EBITDA) of \$2.8 million. This result marks Macquarie's return to EBITDA profitability and represents an \$18.4 million improvement over 2002. Although our net loss after tax was \$4.7 million in 2003, that figure is a \$13.0 million improvement over last year.

These significant improvements in our earnings performance were achieved against a backdrop of subdued business conditions in the IT&T industry and intense competition in all of our major markets. Our result highlights our increasing ability to deliver real value and comprehensive service to corporate and government customers seeking customised, integrated IT&T solutions.

Notwithstanding our strong improvement across a number of key operational and financial areas in 2003, the Board recognises that further substantial improvements are possible and we continue to pursue them aggressively.

Despite challenging trading conditions and tough competition, Macquarie was able to identify, target and win significant new customers in every market in which we compete. Across all of our businesses, Macquarie generated total service revenue of \$234.5 million during the year, an increase of 2.7% over 2002.

We also continued to be successful in reducing our overall cost base, particularly in our traditional voice services business, which is most susceptible to price competition. We are defending our voice margins by reducing carrier costs through our successful alliance with PowerTel and by actively seeking more cost-effective arrangements with other carriers and suppliers.

These ongoing initiatives resulted in a 2003 EBITDA improvement of \$7.5 million (or 136%) in voice services, which remains our largest business. This improvement was achieved even though our voice revenue fell 6% to \$182.2 million in 2003, largely due to the effects of price competition. We expect intense market conditions to continue to adversely affect voice revenue in the year ahead.

As we have long expected, the decline in our voice revenue is now being offset by an increase in our higher-margin, higher-value data services business. Data service revenue in 2003 was \$40.8 million, a 50% increase over last year. The business, which includes Macquarie's suite of data networking products and its intellicentre data hosting facility, has doubled its revenue over the past two years.

It is clear that data networking, data hosting and other on-line services will only become more critical for corporate and government customers seeking solutions to increasingly complex information and communications challenges. With our wide range of data products fully integrated with our other service offerings, Macquarie is well positioned to continue winning substantial and profitable business in this market.

We are encouraged that our intellicentre data hosting facility doubled its revenue and customer numbers in 2003, albeit from a small base. The reputation of the intellicentre was strengthened this year by the attainment of the highly-regarded Gateway security certification.

The final piece of our integrated, full-service offering – Macquarie Corporate Mobile – was put into place during the 2003 financial year. The key feature of our mobile service is its web-based capability that enables corporate and government customers to manage large fleets of mobile phones easily and cost effectively. The Company is still in the early stages of building this business in a highly-competitive mobile market. As a consequence, we expect that start-up losses will continue to be incurred throughout the 2004 financial year.



"A key factor in our future success will be our ability to become not just a supplier to our customers, but an important strategic partner that is critical to the success of their business."

Our Singapore business, which was launched more than two years ago, continues to perform well. The business contributed annual revenue of \$11.2 million, representing a 67% increase over 2002. This promising result was achieved despite the increasingly competitive nature of this quickly deregulating market. We are in the process of investigating opportunities for expanding our service offering in Singapore.

Macquarie completed the 2003 financial year with a strong balance sheet that enables us to consider further select growth opportunities. Our cash position increased to \$29.9 million, underpinned by a strong operating cash flow of \$10.1 million generated by our increased profitability and the major improvements we have made in working capital management.

Macquarie enters the new financial year committed to building our substantial base of loyal customers, growing in all markets in which we choose to compete, and pursuing greater productivity and cost efficiencies. Our focus remains steadfast on our strictly defined target market – corporate and government customers. This is where our core competency lies. Our single-minded focus on the challenges facing corporate and government customers enables us to develop and deliver unique, superior integrated solutions.

The challenge ahead is to execute our strategy effectively. A key factor in our future success will be our ability to become not just a supplier to our customers, but an important strategic partner that is critical to the success of their business.

Our performance in 2003 has reinforced my conviction that our business is built on a sound foundation. We maintain strong and loyal relationships with a large number of valued customers, and with a broad range of important business partners and suppliers. In addition, we have an enthusiastic and committed staff who are dedicated to delivering innovative IT&T solutions and extraordinary customer service.

On behalf of the Board, our senior management team and all of our staff, I wish to thank our shareholders for their continuing support over the past year and look forward to serving you in the year ahead.

John Priest

## CHIEF EXECUTIVE'S REPORT



The 2003 financial year marked the final stage in Macquarie's evolution as an integrated information technology and telecommunications carrier offering a complete range of voice, data, on-line and mobile services.

Our transformation is the result of the deliberate strategy we have followed over the past three years to diversify our business beyond increasingly commoditised voice services and focus more on delivering the complex data, on-line and e-business solutions that our corporate and government customers now value most.

We have invested a substantial amount of time, effort and resources in building capabilities that set us apart from our competitors and place us in a strong position to take advantage of the wider margins and higher barriers to entry associated with advanced IT&T services.

Our 2003 results are evidence that these investments are now beginning to pay off. However, while our recent improved performance is encouraging, we still have much work to do to seize the new market opportunities now open to us and to realise Macquarie's full potential.

Adapting to rapid changes in the needs of our customers and the dynamics of our industry has been one of Macquarie's strengths throughout our 11 year history. During that time, no trend has been more pronounced than data eclipsing voice as the critical communications priority for businesses and organisations of all types and sizes.

Macquarie's own development has mirrored this trend. We began operations in 1992 as a provider of fixed-line voice services and innovative voice billing solutions to Australian corporations. By the mid-1990s - with email and internet use beginning to explode - we were developing data communications products and building our own data network infrastructure. A few years later, as businesses began expanding their on-line presence and creating e-business capabilities, we established our Intellicentre data hosting facility to enable our customers to outsource their on-line services to Macquarie and integrate them with Macquarie's other voice, data and mobile services.

Today, revenue from data services represents more than 17% of Macquarie's total service revenue. Our data services business delivered strong growth, increasing annual revenue to nearly \$41.0 million, in 2003. This business will continue to represent an increasingly important element of our revenue mix in coming years.

With our dedicated data communications professionals and superior technology, Macquarie is building a strong reputation as a strategic business partner that offers advanced infrastructure and multi-vendor flexibility, along with stringent security protocols. In addition, we have established a range of channels with such important industry partners as Logica CMG. These partnerships enhance Macquarie's marketing efforts and will provide more efficient sales channels for our data services business in the future.

It is encouraging that the investments we have made in the Intellicentre are beginning to deliver tangible results for our business and our customers. Faced with natural disasters, hackers, viruses and various other threats, many of our corporate and government customers now demand IT security levels that were once only required in such areas as defence and intelligence. The Intellicentre was this year awarded the Gateway security certification from the Defence Signal Directorate. Combined with our SunTone and British Standard Institute's BS7799 security classifications, the Gateway certification recognises that the Intellicentre has the processes, people, systems, documentation and redundancy to ensure the security and integrity of our customers' data.

A number of government departments now require Gateway certification as mandatory for suppliers seeking to provide internet and hosting services. To date, Macquarie is the only Australian telecommunications carrier to receive this prestigious security classification.

Our traditional voice services business, which still accounts for approximately 80% of our total service revenue, continues to be differentiated by the strength and flexibility of Macquarie's customer billing. Our customers place great value on Macquarie's billing reports, which enable them to clearly analyse their spending and identify underlying cost and usage trends.

Despite these differentiating factors, it is likely that greater competition and ongoing pricing pressure will continue to reduce revenues in voice services, further underscoring the importance of Macquarie's strategy to target higher-margin data and on-line business.





"We have invested a substantial amount of time, effort and resources in building capabilities that set us apart from our competitors."

Our ability to provide a truly integrated, full-service offering to our customers was enhanced in 2003 with the launch of our new mobiles business during the second half of the financial year.

Macquarie Corporate Mobile is an integrated solution that helps our customers manage and control their mobile fleets. It also provides a wide range of simple, competitive pricing plans and transparent billing. Macquarie's FleetView – a real-time, web-based management and reporting tool – enables companies to manage each handset in their mobile fleet and monitor and control mobile costs across their entire business.

We will continue to invest in 2004 in developing mobile services. As the Company builds business in this competitive market segment, it is likely that the start-up losses of \$1.6 million incurred in 2003 will continue into the current financial year, with a full year's impact.

In our Singapore business, revenue continued to grow to more than \$11 million during the 2003 financial year, despite significant pricing pressures in this deregulating market. Our offering in Singapore continues to be differentiated by our flexible billing and management reporting. Singapore adds an important dimension to Macquarie's service offering and helps attract and retain multinationals that require integrated service for their regional operations.


Our capital expenditure for the year totalled \$5.8 million, which represented less than 3% of service revenue. It is likely that capital expenditure will normalise from the low levels seen in 2003 and be in the range of \$8 million to \$10 million in 2004. We are also considering additional capital expenditure that has the potential to enhance significantly the Company's strategic growth and competitive position.

With our business strategy firmly in place and delivering encouraging results – and with Macquarie now clearly positioned as an integrated, full-service IT&T carrier – we look forward to 2004 as another year that holds great promise.

The entire management and staff of Macquarie are dedicated to building on the progress that has been achieved in 2003. The best way we can do that is to deliver even more exceptional service to our customers and become even closer business partners with them. That's what we intend to do in 2004 and beyond.

In closing, I would like to express my gratitude to the management team and Macquarie's entire staff for their dedication and hard work during the past year and to thank our shareholders, business partners and suppliers for their ongoing support.


David Tudehope



Listen

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# eliver

**“ Macquarie’s performance in 2003 underscores the growing importance of the Company’s strategy to supplement traditional voice services with a diverse range of high-value data and on-line services.”**

The 2003 financial year was an encouraging year for Macquarie, with the Company strengthening its position across all of its major businesses. Macquarie continued to expand its full-service offering and develop a more diverse and sustainable stream of revenue. Macquarie is now well-positioned to deliver tailored solutions that address the complex communications challenges of our corporate and government customers.

During 2003, the Company made significant progress in diversifying its revenue mix and advancing customers up the Macquarie value chain to integrated solutions that satisfy their unmet needs. Macquarie’s performance in 2003 underscores the growing importance of the Company’s strategy to supplement traditional voice services with a diverse range of high-value data and on-line services.

The Company’s newest business initiative, Macquarie Corporate Mobile, was launched in the second half of 2003. The introduction of mobile services represents the completion of Macquarie’s full-service communications offering.

In 2003, Macquarie generated service revenue of \$234.5 million, a modest increase of 2.7% compared to the previous financial year. The Company now provides services to more than 2,300 corporate and government customers in Australia and Singapore.

Macquarie posted an EBITDA profit of \$2.6 million, an \$18.4 million improvement over 2002. Net loss after tax was \$4.7 million in 2003, a \$13.0 million improvement when compared to last year.

Throughout the 2003 financial year, Macquarie continued to maintain a strong balance sheet. The Company had \$29.9 million in cash and no debt at 30 June 2003. The cash position improved by \$4.0 million during the year and remains strong due to improving earnings and effective working capital management.

Following is a review of the 2003 performance of each of Macquarie’s major business areas.

## A struggling company regains its voice

A mail-order bookseller, under pressure from intense competition, declining margins and soft sales, was desperate to cut costs. The company's Board had just ordered a 15% across-the-board reduction in all departmental budgets and it was up to the CFO to make it happen. She decided to begin with one of the company's largest recurring expenses, the monthly phone bill.

The bookseller's phone costs had been increasing substantially for some time but the CFO couldn't figure out why. The finance department always just paid the bill. She had no way of pinpointing why call costs and volumes were rising and, therefore, no real idea on how to reverse the trend. She realised that something had to be done to improve overall telecommunications and call centre management, so she began soliciting proposals from carriers, including Macquarie.

Macquarie conducted a review of the company's telecommunications needs. It offered a plan that would immediately reduce the company's average call cost by 15%. However, Macquarie advised the company that if its call volumes continued to skyrocket, the benefits associated with reducing average call costs would disappear in the face of overall higher spending. The answer was Macquarie's Volume Control.

Volume Control is a tool that analyses total telecommunication usage. It produces a monthly report that breaks down usage into various call types – international, fixed-to-mobile, inbound 1800 and many others – and enables managers to closely monitor usage patterns. Volume Control also highlights significant variances in calling patterns and ways to address these variances.

As soon as Volume Control was installed, the bookseller's finance department was able to identify exactly where costs were hiding. The CFO was surprised to discover that the volumes and costs of fixed-to-mobile calls were extremely high. On further investigation, it became apparent that some sales employees were diverting customer calls to their personal mobiles so they would not miss these calls when they were away from their desks. While

their devotion to customer service was a positive sign, the diversion of customer calls to personal mobiles was extremely expensive for the company. The practice was stopped, resulting in an almost immediate 30% reduction in fixed-to-mobile costs.

Macquarie was also able to help the company better manage incoming 1800 calls through Inbound Communicator, a versatile tool that provides analytical reports on the origination of customer calls. These reports pinpointed the geographical regions from which customers were calling and – probably more important for this struggling bookseller – the regions from which potential customers were not calling.

The company quickly realised that it was receiving far fewer calls from Victoria than virtually any other State. Obviously, more marketing in Victoria was necessary. So the company began distributing promotional literature to Victorian households and increased its advertising in Melbourne suburban papers. Within six months, the company was receiving more calls per capita from Victoria than from any other State.



## 2003 BUSINESS REVIEW

### Voice Services

In its traditional Australian voice business, Macquarie generated revenue of \$182.2 million from corporate and government customers in the year ended 30 June 2003, down 6.3% from 2002. The voice service market was again characterised by fierce competition and intense price pressure, which had negative effects on revenue from this business. These factors are expected to continue in 2004.

Despite the downward pressure on revenue, Macquarie continued to improve the profitability of voice services in 2003 by reducing carrier costs and controlling operating expenses. As a result, Voice Services EBITDA increased 136% to \$13.0 million in 2003. Macquarie's network alliance with PowerTel continues to produce substantial, ongoing carrier cost reductions. In addition, Macquarie actively leverages its buying power and competencies to improve its contractual arrangements with other carriers

### Data Services

Macquarie's Data Services business, which provides data networking and data hosting services to Australian corporate and government customers, generated revenue of \$40.8 million in 2003, a 50% increase over last year. The ongoing growth in data revenue is a major contributor to the Company's improved financial performance.

Data Services recorded an EBITDA loss of \$3.3 million in 2003, representing a significant improvement of \$8.5 million over last year's underlying EBITDA result (excluding the \$10 million one-off, non-cash provision taken against the carrying value of the data hosting facility in 2002).

Data Services now represents more than 17% of Macquarie's total service revenue. As Macquarie's intellicentre data hosting facility builds its customer base and continues to generate revenue momentum – and as data networking sales sustain their fast pace – data revenue increases are likely to continue offsetting declines in voice revenue.

Macquarie recently became the first Australian carrier to receive the Gateway certification from the Defense Signals Directorate, a stringent security certification that recognises the procedural, physical and electronic security of Macquarie's intellicentre systems. The Gateway certification, along with the British Standards Institute's BS7799 security accreditation and the Intellicentre's other business partner endorsements, makes Macquarie's intellicentre the most highly-accredited data hosting facility in Australia.

Gaining the Gateway Certification is important to Macquarie's efforts to attract new customers in the State and Federal Government sector. The Australian Taxation Office recently included Gateway Certification as a requirement for the provision of internet services and the Department of Defence has announced it will also be adopting Gateway as a mandatory standard for suppliers tendering for business.



# data

## Putting data networking in the driver's seat

A leading designer and manufacturer of car accessories was growing faster than it ever imagined and stretching its data network and IT systems to the breaking point. With a manufacturing facility in South Australia, sales offices in all capital cities and regional distribution centres across the country, the company was dependent on its data network to link its far-flung operations and its growing sales and support staff of 600 people into a cohesive, nationwide service organisation.

However, under the constant strain of rapid growth, the company's IT systems were plagued with performance problems. The server was always down and the on-line sales system was constantly crashing. Important business applications ran too slowly and, in some cases, mission-critical data would not upload to the mainframe until the next business day. On top of it all, the company's IT costs kept rising along with the frustration of senior management.

The company's IT manager asked Macquarie Corporate, which had been providing voice services to the company for the past several years, to take on the additional challenge of managing its data communications.

Macquarie quickly identified the company's problems. In the absence of any long-range plan to address the growing IT needs of the business, the company's data systems had been allowed to evolve in haphazard stages, with new capabilities tacked on in a patchwork fashion whenever urgent needs arose. The result was a hodge-podge of mismatched systems incapable of supporting the company's current business and woefully inadequate to handle any future growth.

So Macquarie developed a plan not only to boost immediate data networking performance but also to establish a solid, multi-vendor systems foundation on which future upgrades and expansions could be quickly and easily built.

Macquarie installed its InView and QoS Optimiser data networking products to help monitor and manage the company's data network. InView provided the company's IT manager with a web-based overview of the entire data network, enabling her to instantly identify trouble spots and congestion bottlenecks. She soon realised that the company was actually not short of bandwidth, as she originally had thought, but that much of the company's total capacity was being wasted by employees using video and audio streaming.

With QoS Optimiser, the IT manager was able to control the usage of the company's data capacity, ensuring that critical business applications received top priority. QoS Optimiser also enabled her to allocate bandwidth for inbound/outbound data transmission and time-of-day priority when running important applications.

In addition to introducing these new data networking tools, Macquarie offered enhanced system redundancy and security – and backed it all up with 24/7 support and high service level guarantees.

Almost immediately, the performance of the company's data network improved significantly. System crashes and network downtime were virtually eliminated. Critical data from sales transactions, accounting applications and management reporting systems began flowing smoothly throughout the company's sales offices and distribution centres. What's more, within a year, the company's annual data networking costs had dropped significantly.



## 2003 BUSINESS REVIEW

### Singapore

Macquarie's Singapore business continued to grow steadily, despite significant industry-wide price reductions, which are an inevitable consequence of a deregulating market. The Singapore business generated revenue of \$11.2 million in the year ended 30 June 2003, an increase of 67% compared with 2002. These results were achieved despite the impact of the weaker Singapore dollar relative to the Australian dollar during 2003. The Singapore operation now provides services to more than 450 Singapore corporate customers.

The Singapore operation adds a regional dimension to Macquarie's business model, creating synergies for partnerships with Australian businesses expanding into Asia. Macquarie's differentiated offering – featuring versatile billing and management reporting – is delivering value-added solutions to Singapore customers.

### Mobile Services

The Company's newest business initiative, Macquarie Corporate Mobile, began operation in the second half of the 2003 financial year. Macquarie Corporate Mobile provides a comprehensive range of enhanced management reporting and cost control features, allowing customers to more efficiently administer their mobile phone fleets. The service also features simplified, competitive tariffs – with mobile charges fully integrated into Macquarie's existing billing systems for fixed-voice, data and on-line services.

Start-up losses of \$1.6 million were incurred in 2003, largely in the second half following the launch of the service. As the Company seeks to build business in this competitive market segment, it is likely that full year start-up losses will continue to be incurred in 2004.

### Regulatory Developments in 2003

Despite more than six years of open competition, the Australian telecommunications sector requires continued oversight if it is to achieve a more robust, pro-competitive regulatory framework that assists carriers in delivering value to their customers. Whilst policy makers and industry regulators are in position to ensure the settings are in place to foster competition, a vibrant industry will only prevail if the industry participates in these regulatory processes.

For more than a decade, Macquarie has taken a leadership role in raising awareness of the consequences of anti-competitive practices, highlighting structural impediments to growth as well as proposing innovative ways to deal with disputes and unequal bargaining power. Macquarie has been at the forefront of the drive to bring the benefits of real competition to the marketplace.

Indeed, in recognition of the key role Macquarie has played in furthering productive regulatory outcomes, the Company was recently awarded the SPAN (Telecommunications Industry Association) Award for "Promotion of Competition" in the telecommunications industry.



## Laying down the law in data hosting

A prominent specialist law firm had just been hit by a particularly damaging computer virus, which had slipped into its network unnoticed and corrupted large volumes of important legal files. In a professional service business in which the integrity and security of information are paramount, this was a failure of epic proportions.

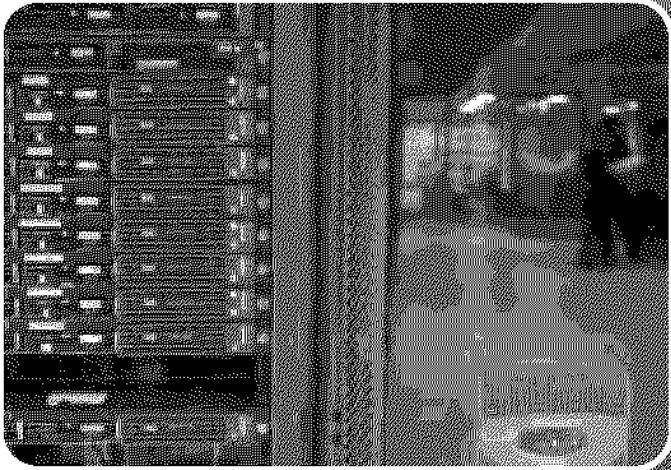
The IT manager was under intense pressure to plug the security holes in the firm's network, and he needed it done quickly because his job was on the line. He solicited a proposal from a number of data hosting vendors and chose Macquarie on the strength of its data networking products and its Intellicentre data hosting facility in Sydney.

Macquarie was familiar with the virus that had wreaked so much havoc and was not surprised that the firm had fallen victim. The firm's firewall had not been updated for over six months. With new viruses emerging every day, even weekly updates do not protect against the newest, most virulent viruses. The IT manager explained that he had only a small IT staff and a limited budget. The firm's lawyers were interested in law not in spending a lot of money on computer equipment.

Macquarie suggested that the firm outsource its data hosting and network management to the Intellicentre, where the firm would have its own dedicated server surrounded by state-of-the-art infrastructure in a secure, fail-safe facility. With its managed firewalls and expert 24/7 virus monitoring and counter response services, the Intellicentre offered a level of advanced security that the law firm could never afford in-house. At the same time, the IT manager and his staff would maintain total control and have complete visibility of the firm's data and network right on their desktop computers.

In the wake of the virus attack, Macquarie's unmatched security offering was foremost in the IT manager's mind. The Intellicentre is Australia's only data hosting facility to carry SunTone security certification from Sun Microsystems and the BS7799 certification from the British Standards Authority. Macquarie is also the only carrier in Australia to receive the prestigious Gateway certification from the Defence Signals Directorate.

Within two weeks of signing the contract, Macquarie had transferred all the law firm's data to its new dedicated server at the Intellicentre. The transfer was implemented in a quick and seamless fashion. The firm's partners and staff didn't even notice that it had happened.



# hosting

## 2003 BUSINESS REVIEW

During the 2003 financial year, there were a number of significant developments in regulatory reform and competition advocacy.

The Trade Practices Act has now introduced benchmark price and non-price terms and conditions for access to the Telstra network. These model terms and conditions should lead to increased certainty for access seekers such as Macquarie and improved decision making for business planning.

In addition, the recently legislated accounting separation requirements directed at Telstra's retail and wholesale divisions will provide the ACCC with better visibility of Telstra's internal transfer pricing. This will assist with promoting more effective competition in the industry and improve competitive safeguards.

The ACCC has also commenced an inquiry into competition in mobile services markets. With the number of mobile handsets in circulation now exceeding the number of fixed lines – and with the ever-increasing reliance by businesses on wireless services – the ACCC's inquiry offers significant opportunities to address flaws in the current regime. In particular, Macquarie has led the competitive non-mobile network providers in calling for reductions in the charges that the mobile network operators are able to impose on fixed-to-mobile calls.

Another important ACCC initiative is aimed at Internet interconnection. The ACCC is reviewing competition issues that affect the way in which carriers pay for traffic that is exchanged between various networks. In particular, the regulator is examining the arrangements that unfairly benefit some Internet network providers over others.

Macquarie welcomes and actively participates in the continuing progress that has been made in the regulatory arena over the past few years, but believes strongly that much work still needs to be done to establish a more open and competitive telecommunications industry.



## Reaping the benefits of efficient mobile fleet management

A successful supplier of garden products in regional New South Wales recently found itself beset by some thorny problems in managing mobile communications for its rapidly growing sales force. The number of sales reps had jumped from five to more than 100 in the past two years. In addition, with the imminent introduction of a new range of popular hydroponics equipment, the sales reps were ready to hit the road and start calling in lots of new orders on their mobile phones.

However, heavy mobile call volumes were already beginning to create problems for the sales reps and for the finance department back at company headquarters. With 100 reps using a half-dozen different mobile carriers and subscribing to dozens of different call plans, administrative headaches soon began to multiply. Sales reps were wasting valuable time trying to decipher unreadable invoices in an attempt to separate reimbursable work calls from personal calls. At the end of the month, the finance department was buried with 100 individual reimbursement requests and faced with the unappealing job of sifting through each of them to reconcile expenses.

Of course, the company considered giving a mobile handset to each of its sales reps and putting them all on a corporate plan. But the CFO was wary of picking up the costs of the personal calls that would inevitably be made on the company handsets and the sales reps were equally reluctant to carry one handset for company business and another one for personal calls.

So the company's financial controller began calling mobile carriers and searching for a solution. He had heard about Macquarie's new mobile offering, asked for a demonstration of Macquarie Corporate Mobile, and signed on the next week.

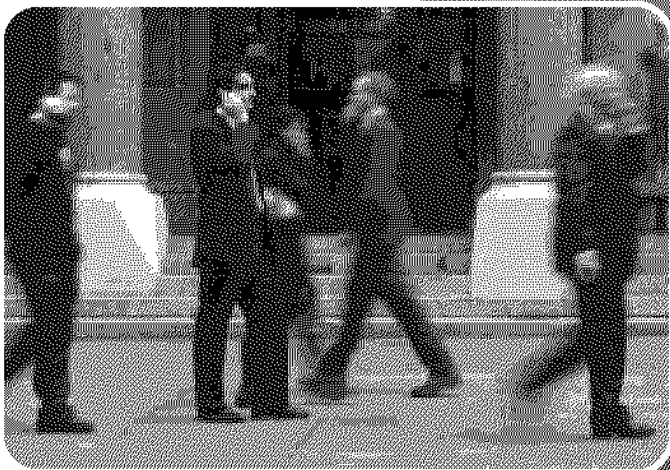
After conducting an extensive audit of the company's mobile requirements, Macquarie tailored a solution built around the unique features and capabilities of Macquarie Corporate Mobile. The centrepiece is FleetView, a web-based management and reporting system that enables the company to control how each sales rep's handset is being used and track how every dollar is being spent – all in real time and all at the mere click of a mouse.

With FleetView, the finance department receives clear, concise on-line reports detailing the usage characteristics and costs for each handset in its mobile fleet 24 hours a day. The system also enables the company to set precise parameters on usage. For example, it can designate a standard business time period say, 5am to 6pm, Monday through Friday during which all calls made by sales reps will be recorded as business calls to be paid by the company. Calls made outside those times will be automatically separated by FleetView and allocated to each sales rep's personal account.

FleetView also enables the finance department to create a "white list" of numbers for example, those of major customers and suppliers to ensure that call costs are always billed back to the company. There is also a "black list" capability that prevents call activity associated with certain numbers such as premium rate or international numbers from being billed to the company account.

Macquarie Corporate Mobile is a win-win for everyone. The finance department not only has complete control of the company's mobile fleet but estimates that it is saving 400 management hours a year because of more efficient billing and administration.

The sales reps like the convenience of carrying only one mobile phone for both personal and business calls, and are relieved that they no longer have to file cumbersome reimbursement forms. They also appreciate the crystal-clear voice quality and virtually non-existent dropout rate on Macquarie's network.



Singapore

australia, singapore

government

Perth



apore

ment

Townsville

Rockhampton

Brisbane

Griffith

Newcastle

Adelaide

Albury

Sydney

Canberra

Melbourne

Launceston

Hobart



## MACQUARIE'S DIRECTORS



### **John Priest**

Chairman and Non-Executive Director

John is Chairman of Macquarie. He is also currently Chairman of Apollo Life Sciences, a biotechnology firm, Apollo Capital, a private venture capital fund, Betcorp Ltd, a gaming company, and a non-executive director of Sydney Water. Previously, John served as executive director, Chief Financial Officer and Director of Corporate Development at Coca-Cola Amatil for 14 years and was a non-executive director of Prudential Corporation of Australia and the Woolmark Company, and Chairman of the Children's Hospital Fund. John holds a Bachelor of Business degree. He is a Fellow of the Australian Institute of Company Directors and a Fellow of CPA Australia. John is a member of the Audit and Risk Management Committee and Chairman of the Corporate Governance and Remuneration Committee.

### **Dr Jane Craig**

Non-Executive Director

Jane is currently the Director of the Executive MBA Program at the Australian Graduate School of Management. She has experience working with senior management teams at major companies and organisations in the banking, telecommunications, public utilities, insurance and government sectors. Jane holds a PhD in international strategic management, a MBA and a Bachelor of Arts degree. She is a member of the Audit and Risk Management Committee and the Corporate Governance and Remuneration Committee. Jane joined the Board on 1 January 2003.



### **Aidan Tudehope**

Chief Operating Officer

Aidan is the Chief Operating Officer and co-founder of Macquarie. Aidan is responsible for the design and delivery of operational excellence within Macquarie. He has been instrumental in the development of Macquarie's Singapore and Intellicentre strategies. He is also responsible for the direction of the Company's information technology strategy. Aidan holds a Bachelor of Commerce degree.

**“Notwithstanding our strong improvement across a number of key operational and financial areas in 2003, the Board recognises that further substantial improvements are possible and we continue to pursue them aggressively.”**

**David Tudehope**  
Chief Executive

David is Chief Executive and co-founder of Macquarie. 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. David was a former member of the Minister for Telecommunications' Australian Information Economy Advisory Council. He was previously a director of the Service Providers' Industry Association. David holds a Bachelor of Commerce degree. He is a member of the Corporate Governance and Remuneration Committee.



**Robert Kaye**  
Non-Executive Director

Robert was British Telecom's Director of Market and Business Development for the Australasian region, a former Managing Director of British Telecom's Australian operations, and a director of Clear Communications Ltd in New Zealand. He previously held CEO positions with several major IT&T companies and is currently operating as a management consultant in the industry. Robert is Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance and Remuneration Committee.

# FINANCIAL HIGHLIGHTS

## 2003 Financial Summary

Return to positive EBITDA

Operating cash flow of \$10.1 million

Growth in service revenue and customer numbers

Reduction in net loss after tax

### 2003 FINANCIAL SUMMARY

For the year ended 30 June, in \$m

	2003	2002	2001	2000	1999
Service revenue	234.5	228.4	219.4	193.9	117.1
EBITDA	2.8	(15.6)	(17.7)	10.8	1.3
EBIT	(6.3)	(25.5)	(23.7)	9.4	1.1
Net loss after tax	(4.7)	(17.7)	(13.7)	8.9	0.9
Operating cash flow	10.1	1.2	(4.5)	4.9	0.2
Customer numbers	2,350	2,018	1,600	1,359	815

### 2003 OPERATING RESULTS BY BUSINESS AREA

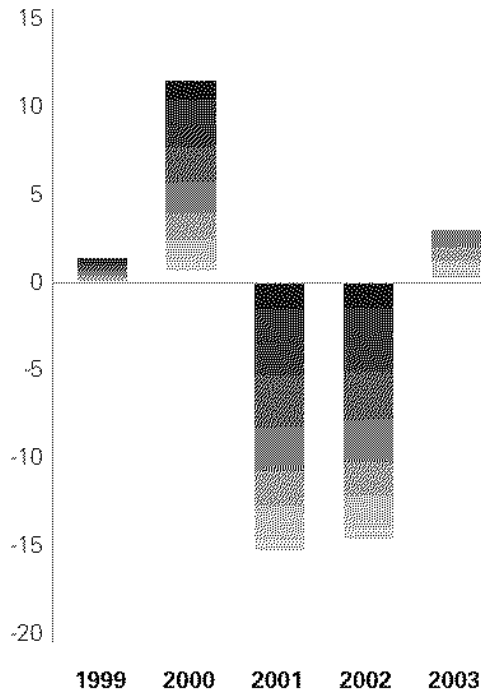
For the year ended 30 June 2003, in \$m

	Revenue	EBITDA
Voice Services	182.2	13.0
Data Services	40.8	(3.3)
Singapore	11.2	–
Mobiles	0.3	(1.0)
Corporate Office*	–	(5.3)
	<b>234.5</b>	<b>2.8</b>

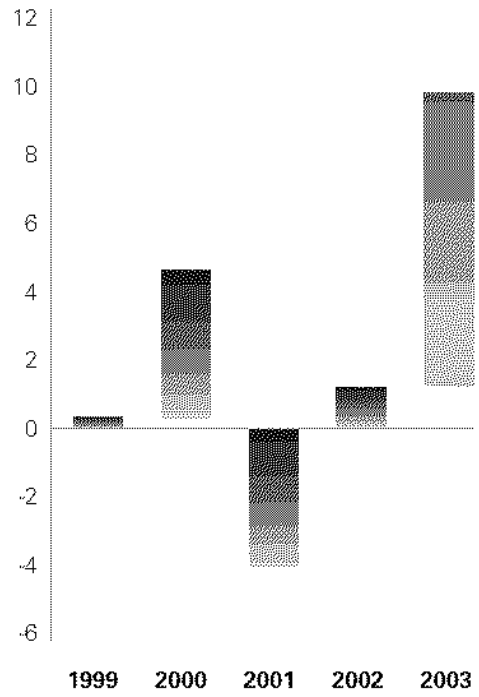
\* The Corporate Office figure represents overhead costs associated with Macquarie's corporate and regulatory activities.



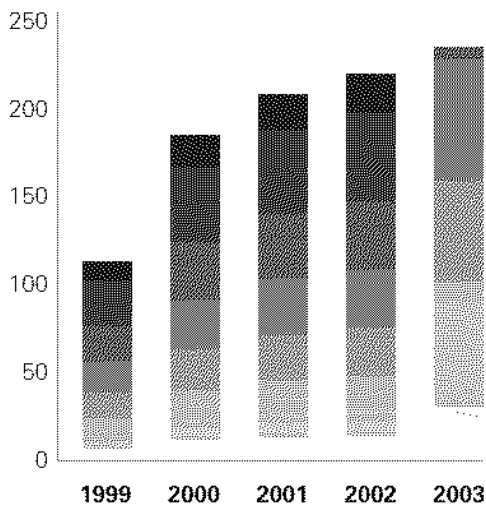
**EBITDA IN \$M**  
1999 - 2003



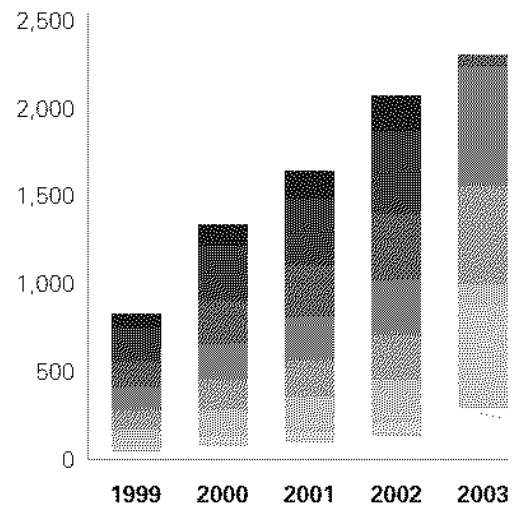
**OPERATING CASH FLOW IN \$M**  
1999 - 2003



**SERVICE REVENUE IN \$M**  
1999 - 2003



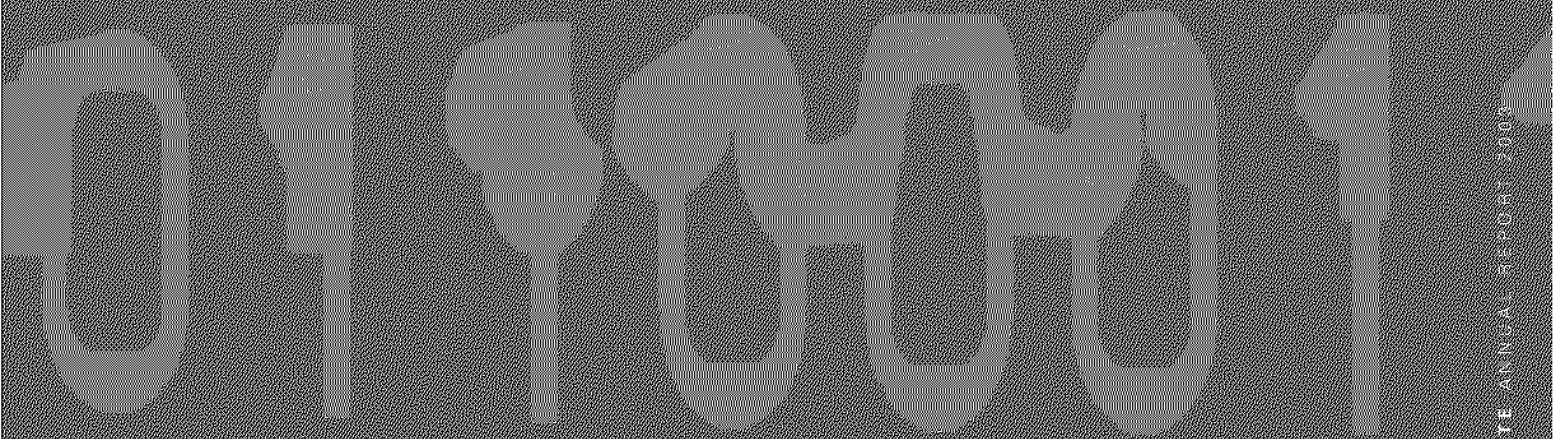
**CUSTOMER NUMBERS**  
1999 - 2003



# 2003 Financial Statements

2001-2003





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## DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2003.

### DIRECTORS

The names and details of the directors of Macquarie Corporate Telecommunications Holdings Limited ('Macquarie' 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:

#### JOHN PRIEST (CHAIRMAN AND NON-EXECUTIVE DIRECTOR)

John is Chairman of Macquarie. He is also currently Chairman of Apollo Life Sciences, a biotechnology firm, Apollo Capital, a private venture capital fund, Betcorp Ltd, a gaming company, and a non-executive director of Sydney Water. Previously, John served as executive director, Chief Financial Officer and Director of Corporate Development at Coca-Cola Amatil for 14 years and was a non-executive director of Prudential Corporation of Australia and the Woolmark Company, and Chairman of the Children's Hospital Fund. John holds a Bachelor of Business degree. He is a Fellow of the Australian Institute of Company Directors and a Fellow of CPA Australia. John is a member of the Audit and Risk Management Committee and Chairman of the Corporate Governance and Remuneration Committee.

#### DAVID TUDEHOPE (CHIEF EXECUTIVE)

David is Chief Executive and co-founder of Macquarie. 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. David was a former member of the Minister for Telecommunications' Australian Information Economy Advisory Council. He was previously a director of the Service Providers' Industry Association. David holds a Bachelor of Commerce degree. He is a member of the Corporate Governance and Remuneration Committee.

#### AIDAN TUDEHOPE (CHIEF OPERATING OFFICER)

Aidan is the Chief Operating Officer and co-founder of Macquarie. Aidan is responsible for the design and delivery of operational excellence within Macquarie. He has been instrumental in the development of Macquarie's Singapore and Intellicentre strategies. He is also responsible for the direction of the Company's information technology strategy. Aidan holds a Bachelor of Commerce degree.

#### ROBERT KAYE (NON-EXECUTIVE DIRECTOR)

Robert was British Telecom's Director of Market and Business Development for the Australasian region, a former Managing Director of British Telecom's Australian operations, and a director of Clear Communications Ltd in New Zealand. He previously held CEO positions with several major IT&T companies and is currently operating as a management consultant in the industry. Robert is Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance and Remuneration Committee.

#### JANE CRAIG (NON-EXECUTIVE DIRECTOR)

Jane is currently the Director of the Executive MBA Program at the Australian Graduate School of Management. She has experience working with senior management teams at major companies and organisations in the banking, telecommunications, public utilities, insurance and government sectors. Jane holds a PhD in international strategic management, a MBA and a Bachelor of Arts degree. She is a member of the Audit and Risk Management Committee and the Corporate Governance and Remuneration Committee. Jane joined the Board on 1 January 2003.

#### DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

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

- D Tudehope and A Tudehope collectively wholly own Clairward Pty Limited, an entity which held 125,013,900 (61%) of the ordinary shares of Macquarie. The relevant ownership interests in Clairward Pty Limited are held by Semark Pty Limited at 84% and Fenton Australia Pty Limited at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively.
- A director-related entity of D Tudehope and A Tudehope held 72,326 ordinary shares issued under the Employee Discretionary Share Plan and Share Purchase Plan, and held an interest in 345,000 options over ordinary shares issued under the Employee Option Plan.
- A director-related entity of D Tudehope held 204,500 ordinary shares.
- J Priest held an interest in 1,000,000 options over ordinary shares. Director-related entities of J Priest held 1,549,727 ordinary shares.
- R Kaye held an interest in 400,000 options over ordinary shares. A director-related entity of R Kaye held 50,000 ordinary shares.
- J Craig held an interest in 50,000 ordinary shares.

#### PRINCIPAL ACTIVITIES

The principal activities during the year of the consolidated entity, comprising Macquarie (the parent entity) and all the entities which Macquarie controlled from time to time during the financial year and at the end of the year, were the provision of telecommunication services to corporate and government customers within Australia and Singapore.

There have been no significant changes in the nature of activities during the year.

## EARNINGS PER SHARE

	2003 cents
Basic loss per share	(2.3)
Diluted loss per share	(2.3)

## DIVIDENDS

There were no dividends recommended or paid on ordinary shares during the year.

## REVIEW AND RESULTS OF OPERATIONS

Service revenue increased by 2.7% to \$234.5 million from \$228.4 million. The increased revenues were generated from the data, government and Singapore businesses, offsetting a fall in Australian corporate voice revenue.

The consolidated entity experienced a net loss after tax of \$4.7 million for the year, representing a significant improvement, compared to a net loss after tax for the year ended 30 June 2002 of \$17.7 million.

The improvement in the consolidated entity result was largely attributable to the change in revenue mix to higher margin areas and carrier cost reductions.

The consolidated entity incurred start-up costs during the year relating to its newest business initiative, Macquarie Corporate Mobile. These costs exceeded the revenue generated for this new business during the year ended 30 June 2003.

The consolidated entity employed 334 employees as at 30 June 2003 (2002: 342 employees).

The Company maintains a strong liquidity position including \$29.9 million in cash, no corporate debt and a positive net cash flow of \$4.0 million for the year.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2003.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 8 August 2003, Macquarie Corporate Telecommunications Pte Ltd, ('MCS'), a wholly owned, Singapore-based subsidiary of the Company, accepted a settlement from an external party in relation to a claim resulting from defamatory statements made against MCS. The details of the settlement are subject to confidentiality.

This settlement has no impact on the state of affairs or result of the Company.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors believe, on reasonable grounds, that to include in this report particular 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.

## SHARE OPTIONS

### Unissued shares

Details of options on issue at 30 June 2003 and movements in options on issue during the year are included in Note 15 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 against costs incurred in defending proceedings for conduct involving:

- a wilful breach of duty; or
- 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.

## DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

The Board of directors is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and executive officers' emoluments to the Company's financial and operational performance. Senior executives have the opportunity to participate in various bonus arrangements which currently provide cash and share incentives where specified criteria are met. Details regarding the issue of shares and share options under the Company's plans are provided in Note 19 to the financial statements.

Details of the nature and amount of each element of the emoluments of each director of the Company and each of the five executive officers of the Company and the consolidated entity receiving the highest emoluments for the year are as follows:

## EMOLUMENTS OF DIRECTORS OF MACQUARIE

	Annual emoluments			Long-term emoluments			
	Base Salary	Bonus	Other*	Options**		Superannuation	
	\$	\$	\$	Granted during the period	Amortised cost of unvested options	% of remuneration	
J Priest	120,000	—	—	—	25,092	16.1%	10,519
D Tudehope	294,692	60,000	16,116	—	—	—	11,433
A Tudehope	287,308	37,500	16,471	—	—	—	11,324
B Kaye	60,000	—	—	—	10,037	4.3%	5,309
J Craig	30,000	—	—	—	—	—	2,700

Details of shares issued to and held by director-related entities are disclosed earlier in this report and in Note 26 to the financial statements.

## EMOLUMENTS OF THE FIVE MOST HIGHLY PAID EXECUTIVE OFFICERS OF THE COMPANY AND THE CONSOLIDATED ENTITY

	Annual emoluments			Long term emoluments			
	Base Salary	Bonus	Other*	Options**		Superannuation	
	\$	\$	\$	Granted during the period	Amortised cost of unvested options	% of remuneration	
M Krishnapillai	171,696	56,051	23,398	—	4,093	0.8%	10,519
J Losco	275,756	93,000	15,706	200,000	—	—	10,519
G Noble	187,885	80,100	15,000	—	4,093	0.5%	10,519
G Thomson	206,769	61,751	15,000	—	3,821	0.3%	10,519
P Thomson	245,855	—	122,273	200,000	6,371	0.4%	—

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.

### Notes

- (i) The category 'Other' for executive officers includes the value of any non-cash benefits provided including expatriate package costs, and motor vehicle allowances.
- (ii) The directors have issued options over ordinary shares to a number of eligible employees. The terms of the Employee Option Plan stipulate that options will vest over certain timeframes. The plan is designed to encourage superior performance, and provide opportunity to all eligible employees to participate in the future success of the Company.

- (iii) The Company has adopted the fair value measurement provisions of ED108 'Share-based Payment' prospectively for all options granted to directors and relevant executives, which had not vested as at 1 July 2002. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight line basis over the vesting period. No adjustments have been made or will be made to reverse amounts previously disclosed in relation to options that never vest (ie forfeitures). From 1 July 2002, all unvested options and options granted as part of director and executive emoluments have been valued using a Black-Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, current market price of the underlying shares and the expected life of the options. This model requires the input of highly subjective assumptions, including future stock price volatility and expected timing until exercise. As changes in any of the assumptions can materially affect the fair value estimate, the existing model may not necessarily provide a single reliable measure of the fair value of the options.

## DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' meetings	Meetings of committees	
		Audit and Risk Management	Corporate Governance and Remuneration
Number of meetings held:	16	4	3
Number of meetings attended:			
J Priest	16	4	3
D Tudehope	16	—	3
A Tudehope	15	—	—
R Kaye	16	4	3
J Craig	6	2	3

<sup>1</sup> appointed as director 1 January 2003.

<sup>2</sup> appointed as committee member 20 February 2003.

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

The members of the Audit and Risk Management Committee are R Kaye, J Priest and J Craig. The members of the Corporate Governance and Remuneration Committee are J Priest, D Tudehope, R Kaye and J Craig.

## ROUNDING

The amounts contained in this report and in the financial report have been rounded off under the option available to the Company under Australian Securities and Investments Commission Class Order 98/100. The Company is an entity to which the Class Order applies.

## TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Macquarie and its 100% owned Australian subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned Australian subsidiaries on a prorate basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

## CORPORATE GOVERNANCE

Macquarie operates in a challenging, rapidly changing telecommunications 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 leans towards timely involvement with management on a range of key issues.

## Composition of the Board

The Board is composed of non-executive directors and executive directors with an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience. The Chairman is selected from and is appointed by the non-executive directors.

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

## Board 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 responsibility for the 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 responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board reviews and approves the strategic plan and the underlying operating plans and budgets to ensure they are consistent with shareholders' needs.

## Independent professional advice

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

## Committees

The Board uses committees to deal with specific responsibilities. This allows greater attention, and targets experience and expertise. However, the Board processes are flexible and mirror the Company's priorities.

### *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, Chief Operating Officer, Chief Financial Officer and external auditors may be invited to attend. Where executives participate in Audit and Risk Management 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 auditors in the absence of members of management.

The committee is responsible for ensuring that the organisation has in place an effective process to identify risk and proactively manage it.

In addition, the committee reviews the scope and effectiveness of the external audit functions and the appointment, performance and remuneration of external auditors.

#### *Corporate Governance and Remuneration Committee*

The Corporate Governance and Remuneration Committee comprises all the non-executive directors and the Chief Executive. Its main responsibilities are to review all matters relating to corporate governance including the appointment, retirement and performance of the Board of directors, the Board committees and the Chief Executive of the Company.

It ensures that continuous disclosure requirements are met and there is compliance with other laws and regulations.

The committee addresses the people management processes and reviews the remuneration arrangements for non-executive and executive directors. The committee also reviews and approves the issue of shares and options under the Company's share and option plans. The Chief Operating Officer joins the committee to determine the remuneration for the senior management team.

The Board acknowledges its responsibility for ensuring that all significant 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, personal safety, management, finance, business operations, corporate governance and environmental issues.

#### **Code of conduct**

The Board is committed to the highest standards of conduct. To ensure management and employees have guidance in the performance of their duties, the Board has adopted the code of conduct issued by the Australian Institute of Company Directors and a separate code of conduct for employees.

#### **Dealings in Macquarie shares**

In order to guard against the misuse of price sensitive information, the directors have established guidelines in relation to directors and employees dealing in Company shares. These guidelines are as follows:

- (a) directors and employees are prohibited from dealing in shares during the following two 'blackout periods':
  - (i) from 1 July to the date of announcement of the full-year results; and
  - (ii) from 1 January to the date of announcement of the half-year results; and
- (b) outside these blackout periods, trading in shares will be permitted. Directors and senior managers have the responsibility to advise the appropriate officer of any trading outside these blackout periods.

Signed in accordance with a resolution of directors.



John Priest  
Chairman



David Tudehapa  
Chief Executive

Sydney, 9 September 2003



# STATEMENT OF FINANCIAL POSITION

As at 30 June 2003

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Current assets</b>					
Cash assets		29,920	25,920	15,224	14,556
Receivables	5	24,901	36,305	73	336
Work in progress	6	17,898	18,578	19	163
Investments	7	1,738	1,430	—	—
Other	8	1,678	831	—	—
<b>Total current assets</b>		<b>76,135</b>	<b>83,064</b>	<b>15,316</b>	<b>15,055</b>
<b>Non-current assets</b>					
Receivables	5	—	—	93,564	94,450
Investments	9	—	—	70,400	165,649
Plant and equipment	10	24,798	28,370	—	—
Deferred tax assets	4	3,650	3,868	3,508	163
Other	11	4,055	4,389	—	—
<b>Total non-current assets</b>		<b>32,503</b>	<b>36,627</b>	<b>167,472</b>	<b>260,262</b>
<b>Total assets</b>		<b>108,638</b>	<b>119,691</b>	<b>182,788</b>	<b>275,317</b>
<b>Current liabilities</b>					
Payables	12	42,974	47,940	3,037	7,602
Current tax liabilities	4	—	—	—	—
Provisions	13	1,158	1,212	—	—
Other	14	88	—	—	—
<b>Total current liabilities</b>		<b>44,217</b>	<b>49,152</b>	<b>3,037</b>	<b>7,602</b>
<b>Non-current liabilities</b>					
Payables	12	—	—	6,532	—
Deferred tax liabilities	4	244	1,278	102	118
Provisions	13	467	323	—	—
Other	14	107	—	—	—
<b>Total non-current liabilities</b>		<b>818</b>	<b>1,601</b>	<b>6,634</b>	<b>118</b>
<b>Total liabilities</b>		<b>45,035</b>	<b>50,753</b>	<b>9,671</b>	<b>7,720</b>
<b>Net assets</b>		<b>63,603</b>	<b>68,938</b>	<b>173,117</b>	<b>267,597</b>
<b>Equity</b>					
Contributed equity	15	86,823	86,823	86,823	86,823
Reserves	16	(647)	(274)	—	—
(Accumulated losses)/retained profits	16	(22,373)	(17,611)	86,294	180,774
<b>Total equity</b>		<b>63,603</b>	<b>68,938</b>	<b>173,117</b>	<b>267,597</b>

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2003

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		266,598	261,170	—	4,498
Payments to suppliers and employees		(253,452)	(258,603)	—	(7,395)
Interest received		1,023	1,282	668	900
Goods and services tax paid		(4,072)	(2,817)	—	—
Income tax refund received		—	192	—	192
<b>Net cash flows from/(used in) operating activities</b>	17(a)	<b>10,097</b>	<b>1,224</b>	<b>668</b>	<b>(1,805)</b>
<b>Cash flows from investing activities</b>					
Acquisition of plant and equipment		(5,789)	(8,573)	—	—
Proceeds from sale of commercial bills and promissory notes		—	14,937	—	14,937
Cash inflow/(outflow) for short-term deposits		(308)	9,016	—	10,446
<b>Net cash flows (used in)/from investing activities</b>		<b>(6,097)</b>	<b>15,380</b>	<b>—</b>	<b>25,383</b>
<b>Cash flows from financing activities</b>					
Advances to related parties		—	—	—	(9,023)
<b>Net cash flows (used in) financing activities</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>(9,023)</b>
<b>Net increase in cash held</b>		<b>4,000</b>	<b>16,604</b>	<b>668</b>	<b>14,555</b>
Opening cash brought forward		25,920	9,316	14,556	1
<b>Closing cash carried forward</b>	17(b)	<b>29,920</b>	<b>25,920</b>	<b>15,224</b>	<b>14,556</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF ACCOUNTING

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

### (B) CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year unless otherwise stated.

#### Employee benefits

The consolidated entity has adopted the revised Accounting Standard AASB 1028: Employee Benefits, which has resulted in a change in the accounting policy for the measurement of employee benefits liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirement of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy has been to decrease consolidated retained profits by \$36,000.

### (C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are those of the consolidated entity, comprising Macquarie (the parent entity) and all entities which Macquarie controlled from time to time during the year and at balance date.

The financial statements of subsidiaries are prepared for the same reporting period as that of the parent entity, using consistent accounting policies. All intercompany balances and transactions have been eliminated in full.

### (D) FOREIGN CURRENCIES

#### Translation of foreign currency transactions

Transactions denominated in a foreign currency are translated at the rates in existence at the date of the transactions.

Exchange gains and losses are brought to account in determining the net profit or loss for the year.

Amounts payable to and by the entities within the consolidated entity that are outstanding at balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the year.

#### Translation of financial reports of overseas operation

The Company's overseas operation is deemed self sustaining as it is financially and operationally independent of the Company. The financial reports of the overseas operation are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

### (E) CASH AND CASH EQUIVALENTS

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

### (F) RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Provision for settlement claims represent the estimate of potential customer disputes which cannot be claimed from the Company's suppliers.

### (G) INVESTMENTS

Bank deposits are measured at their nominal amount.

Investments in subsidiaries are recorded at the lower of cost and net recoverable amount.

### (H) WORK IN PROGRESS

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

### (I) RECOVERABLE AMOUNT

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined, risk adjusted discount rate.

### (J) PLANT AND EQUIPMENT

#### Cost and valuation

Plant and equipment are recorded at cost. Plant and equipment include costs in relation to IT development and infrastructure development projects where future benefits are expected, beyond any reasonable doubt, to exceed these costs.

#### Depreciation

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

Major depreciation periods are:

	2003	2002
Plant and equipment:	1 to 10 years	1 to 10 years
Leasehold improvements are amortised over the lease term.		

**(K) TRANSMISSION CAPACITY**

Expenditure, relating to the acquisition of transmission capacity, is deferred to the extent that it is expected to provide future economic benefits to the Company. Deferred expenditure is amortised over the period in which the related benefits are expected to be realised or 15 years, whichever is the shorter.

**(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.

**(M) PAYABLES**

Liabilities for carrier suppliers 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 amounts 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.

Payables to related parties are carried at the principal amount.

**(N) PROVISIONS**

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

**(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 recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

**Service revenue**

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

**Interest**

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

**(Q) TAXES**

**Income taxes**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at appropriate rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued, no provision for potential capital gains tax has been made.

**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 Statement of Financial Position.

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.

## (R) EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to the balance date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the balance date are measured at their nominal amounts based on the remuneration rates which are expected to be paid when the liability is settled. All other employee benefits liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the balance date.

Employee benefits expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
  - other types of employee benefits,
- are charged against profit from ordinary activities in their respective categories.

The value of the employee share scheme described in Note 19 is not being charged as an employee benefits expense.

## (S) EARNINGS/LOSS PER SHARE

Basic earnings/loss per share is calculated as net profit/loss, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/loss per share is calculated as net profit/loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## (T) COMPARATIVES

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

As a result of the first time application of the revised Accounting Standard AASB 1028: Employee Benefits, comparatives for employee options, as set out in Note 19, have been classified and positioned to be consistent with current year disclosures.



	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>2. PROFIT FROM ORDINARY ACTIVITIES</b>					
<b>(A) REVENUE FROM ORDINARY ACTIVITIES</b>					
<b>Revenue from operating activities</b>					
Revenue from services		234,453	228,370	1,124	3,853
<b>Revenue from non-operating activities</b>					
Management fee	26(b)	—	—	9,941	42,315
Interest – other persons/corporations		1,079	1,310	621	900
Settlement of outstanding claims	2(c)	—	7,100	—	—
<b>Total revenue from non-operating activities</b>		<b>1,079</b>	<b>8,410</b>	<b>10,622</b>	<b>43,215</b>
<b>Total revenue from ordinary activities</b>		<b>235,532</b>	<b>236,780</b>	<b>11,746</b>	<b>47,068</b>
<b>(B) EXPENSES FROM ORDINARY ACTIVITIES</b>					
<b>Amortisation of non-current assets</b>					
Leasehold improvements		160	102	—	—
Transmission capacity		334	333	—	—
<b>Depreciation of non-current assets</b>					
Plant and equipment		8,613	9,514	—	—
<b>Total depreciation and amortisation expense</b>		<b>9,107</b>	<b>9,949</b>	<b>—</b>	<b>—</b>
<b>Bad and doubtful debts</b>					
Trade debtors		1,961	1,795	—	—
<b>Operating lease rental</b>					
Minimum lease payments		2,600	2,275	—	—
<b>Decrement in recoverable amount of plant and equipment</b>					
	10	588	—	—	—
<b>Decrement in recoverable amount of investment in related party – wholly owned subsidiary</b>					
	2(c)	—	—	95,249	—
<b>Provision for data hosting facility</b>					
	2(c)	—	10,000	—	—
<b>Employment costs</b>					
		39,718	34,059	—	—
<b>Management fee</b>					
	26(b)	—	—	1,107	3,796
<b>Carrier costs</b>					
		173,174	168,450	9,467	40,300
<b>Other</b>					
		13,624	14,454	170	251
<b>Total expenses from ordinary activities</b>		<b>231,665</b>	<b>251,033</b>	<b>105,993</b>	<b>44,347</b>

**(C) SIGNIFICANT ITEMS**

**Settlement of outstanding claims**

Loss from ordinary activities before income tax expense for the prior year ended 30 June 2002 included a net revenue amount of \$7.1 million relating to the settlement of commercial disputes.

**Provision for data hosting facility**

During the prior year ended 30 June 2002, the Board performed a financial analysis, including an assessment of the present value of future cash flows, and took a conservative view of the carrying value of the data hosting facility (shown under plant and equipment),

and reduced the carrying value by \$10 million at 31 December 2001. As required by Accounting Standard AASB 1010: Recoverable Amount of Non-Current Assets, a \$10 million provision was created and a non-cash charge of \$10 million was made to the Statement of Financial Performance for the year ended 30 June 2002.

As part of the Company's ongoing review and in line with the Company's accounting policy and Accounting Standard AASB 1010, the directors have conducted a comprehensive review of the carrying value of these assets at 30 June 2003 and have determined that the carrying value of these assets, after taking account of this provision, represents recoverable amount.

**Decrement in recoverable amount of investment in related party**

During the year ended 30 June 2003, the Board performed a financial analysis, including an assessment of the present value of future cash flows, and took a conservative view of the carrying value of the investment of the Company in its wholly owned subsidiary, Macquarie Corporate Telecommunications Pty Limited, and reduced the carrying value by \$95.2 million.

As required by Accounting Standard AASB 1010: Recoverable Amount of Non-Current Assets, a non-cash charge of \$95.2 million was made to the Statement of Financial Performance of the Company for the year. This non-cash charge is eliminated upon consolidation, and does not impact the consolidated Statement of Financial Performance, consolidated Statement of Financial Position or consolidated Statement of Cash flows for the year.

	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000

**3. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES**

(a) There were no dividends proposed or paid during the year (2002: nil).

(b) Franking credit balance

The amount of franking credits available for the subsequent financial year are:

	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
franking account balance as at the end of the financial year at 30%	137	137	137	137

**4. INCOME TAX**

The prima facie tax, using tax rates applicable in the country of operation, on (loss)/profit from ordinary activities differs from the income tax provided in the financial statements as follows:

Prima facie tax on (loss)/profit from ordinary activities	(1,572)	(7,261)	(28,274)	816
Tax effect of permanent differences:				
Singapore tax losses not brought to account	533	642	-	-
Decrement in recoverable amount of investment in related party	-	-	28,575	-
Non deductible expenses	259	144	-	-
Under/(over) provision of previous year	217	-	(65)	-
Other items (net)	47	-	-	-
<b>Income tax (benefit)/expense attributable to ordinary activities</b>	<b>(516)</b>	<b>(6,475)</b>	<b>233</b>	<b>816</b>

**Deferred tax assets and liabilities**

Current tax payable	-	-	-	-
Provision for deferred income tax – non-current	244	1,278	102	118
Future income tax benefit – non-current	3,650	3,858	3,508	163

**Income tax losses**

Future income tax benefit arising from tax losses brought to account	3,452	2,971	3,452	-
Future income tax benefit arising from tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.	1,900	1,367	-	-

The future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by the tax legislation continues to be complied with; and
- (c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.



## Tax consolidation

Effective 1 July 2002, for the purposes of income tax, Macquarie and its 100% owned Australian subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned Australian subsidiaries on a pro-rate basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment

obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Macquarie Corporate Telecommunications Holdings Limited.

There has been no material effect on the provision for deferred tax liabilities. Macquarie has not yet formally notified the Australian Taxation Office of its adoption of the tax consolidation regime.

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>5. RECEIVABLES</b>					
<b>Current</b>					
Trade debtors		28,407	38,189	16	292
Provision for doubtful debts		(4,744)	(3,412)	—	—
Provision for settlement claims	20(a)	—	(774)	—	—
Other receivables		1,238	2,302	57	44
		<b>24,901</b>	<b>36,305</b>	<b>73</b>	<b>336</b>
<b>Non-current</b>					
Amounts other than trade debts receivable from related parties:					
Wholly owned group – controlled entities	26(b)	—	—	93,564	94,450
		—	—	<b>93,564</b>	<b>94,450</b>

(a) Australian dollar equivalents  
 Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged:

— Singapore dollars	777	705	—	—
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(b) Terms and conditions relating to the above financial instruments:

- (i) Credit sales are on 14 day terms; and
- (ii) Details of the terms and conditions of related party receivables are set out in Note 26(b).

## 6. WORK IN PROGRESS

Work in progress	17,898	18,578	19	163
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## 7. INVESTMENTS (CURRENT)

Bank deposits	1,738	1,430	—	—
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(a) Terms and conditions relating to the above financial instruments:  
 Short-term deposits include interest bearing term deposit accounts for facilities existing at 30 June 2003 and effective interest rates of 0.72% to 4.75% (2002: 4.35% to 4.55%) per annum.

	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>8. OTHER CURRENT ASSETS</b>				
Prepayments	1,678	831	-	-

### 9. INVESTMENTS (NON-CURRENT)

#### Interests in subsidiaries

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Parent Entity	
		2003 %	2002 %	2003 \$'000	2002 \$'000
Macquarie Corporate Telecommunications Pty Limited - ordinary shares	Australia	100	100	59,400	154,649
Macquarie Corporate Telecommunications Services Pty Limited - ordinary shares	Australia	100	100	11,000	11,000
Macquarie Corporate Telecommunications Carrier Services Pty Limited - ordinary shares	Australia	100	100	-	-
Macquarie Corporate Telecommunications Network Carrier Services Pty Limited - ordinary shares	Australia	100	100	-	-
Macquarie Corporate Telecommunications Pte Ltd - ordinary shares	Singapore	100	100	-	-
				70,400	165,649
Investments at cost comprise:					
Unlisted shares				70,400	165,649

The valuations of the businesses reflected in the subsidiaries are not reflected by the current share market value of the Company; however, the directors believe the investments in, and advances to (Note 5), these subsidiaries are fully recoverable based upon the estimated present value of net cash flows expected to be derived from the underlying businesses.

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>10. PLANT AND EQUIPMENT</b>					
<b>Leasehold improvements</b>					
At cost		1,035	831	—	—
Accumulated amortisation		(359)	(199)	—	—
		676	632	—	—
<b>Plant and equipment</b>					
At cost		59,624	54,768	—	—
Provision for data hosting facility	2(c)	(10,000)	(10,000)	—	—
		49,624	44,768	—	—
Accumulated depreciation		(25,502)	(17,030)	—	—
		24,122	27,738	—	—
Total written down amount		24,798	28,370	—	—
<b>RECONCILIATIONS</b>					
Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current financial year:					
<b>Leasehold improvements</b>					
Opening balance		632	679	—	—
Additions		204	55	—	—
Amortisation expense	2(b)	(160)	(102)	—	—
		676	632	—	—
<b>Plant and equipment</b>					
Opening balance		27,738	38,376	—	—
Additions		5,585	8,518	—	—
Decrement in recoverable amount of plant and equipment		(588)	—	—	—
Other		—	358	—	—
Depreciation expense	2(b)	(8,613)	(9,514)	—	—
Provision for data hosting facility		—	(10,000)	—	—
		24,122	27,738	—	—
<b>11. OTHER NON-CURRENT ASSETS</b>					
Transmission capacity		5,000	5,000	—	—
Accumulated amortisation		(945)	(611)	—	—
		4,055	4,389	—	—

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>12. PAYABLES</b>					
<b>Current</b>					
Trade creditors	20	34,554	40,335	2,459	5,353
Other creditors and accruals		8,163	7,186	578	783
Withholding tax payable		257	419	-	-
Amounts due to related parties:					
Wholly owned group – controlled entities	26(b)	-	-	-	1,466
		42,974	47,940	3,037	7,602

#### Non-current

Amounts due to related parties:					
Wholly owned group – controlled entities	26(b)	-	-	6,532	-
(a) Australian dollar equivalents:					
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:					
- Singapore dollars		258	525	-	-

(b) Included in trade creditors are amounts payable to various telecommunications carriers. As outlined in Note 20, 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 and 60 day terms; and

(ii) Details of the terms and conditions of related party payables are set out in Note 26(b).

#### 13. PROVISIONS

##### Current

Employee benefits	19	1,158	1,212	-	-
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##### Non-current

Employee benefits	19	467	323	-	-
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Terms and conditions relating to the above are outlined in Note 19.

#### 14. OTHER LIABILITIES

##### Current

Lease incentive	18(b)	85	-	-	-
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##### Non-current

Lease incentive	18(b)	107	-	-	-
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	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>15. CONTRIBUTED EQUITY</b>					
<b>(A) ISSUED AND PAID UP CAPITAL</b>					
Ordinary shares fully paid		86,823	86,823	86,823	86,823
<b>(B) MOVEMENTS IN SHARES ON ISSUE</b>					
		2003 Number of shares	2003 \$	2002 Number of shares	2002 \$
Opening balance		204,855,258	86,823,235	203,641,258	86,823,235
Issue of shares to employees	19	—	—	1,214,000	—
		204,855,258	86,823,235	204,855,258	86,823,235

### (C) SHARE OPTIONS

Options over ordinary shares

The following options over ordinary shares under the Employee Option Plan were issued during the year:

- On 15 August 2002, 200,000 options were issued over ordinary shares, exercisable on or before 31 December 2003 at an exercise price of \$0.14. Of the options issued, nil were forfeited during the financial year.
- On 15 August 2002, 200,000 options were issued over ordinary shares, exercisable on or before 1 July 2007 at an exercise price of \$0.14. Of the options issued, nil were forfeited during the financial year.
- On 18 June 2003, 200,000 options were issued over ordinary shares, exercisable on or before 6 May 2007 at an exercise price of \$0.14. Of the options issued, nil were forfeited during the financial year.
- On 18 June 2003, 250,000 options were issued over ordinary shares, exercisable on or before 18 June 2008 at an exercise price of \$0.14. Of the options issued, nil were forfeited during the financial year.

At the end of the year, there were 8,625,000 (2002: 8,675,000) unissued ordinary shares in respect of which options were outstanding.

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

Information with respect to the number of options is as follows:

	2003 Number of options	2003 Weighted average exercise price \$	2002 Number of options	2002 Weighted average exercise price \$
Opening balance	8,675,000	0.69	2,815,000	2.10
Granted	850,000	0.14	6,360,000	0.15
Forfeited	(900,000)	0.50	(500,000)	1.88
Exercised	—	—	—	—
Balance at end of year	8,625,000	0.65	8,675,000	0.69
Exercisable at end of year	1,045,000	1.67	550,000	1.44

The following table summarises information about total options outstanding and exercisable at 30 June 2003:

Option price	Outstanding options	Average option life (years)	Exercisable number of options
\$1.44	150,000	6.25	150,000
\$2.16	2,075,000	1.99	695,000
\$0.17	1,400,000	3.42	—
\$0.14	5,000,000	2.50	200,000
	8,625,000	2.65	1,045,000

### (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.

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>16. RESERVES AND (ACCUMULATED LOSSES)/RETAINED PROFITS</b>					
Foreign currency translation reserve	16(a)	(847)	(274)	-	-
(Accumulated losses)/retained profits	16(b)	(22,373)	(17,611)	86,294	180,774
<b>(A) FOREIGN CURRENCY TRANSLATION</b>					
<b>(i) Nature and purpose of reserve</b>					
The foreign currency translation reserve is used to record exchange differences arising from the translation of self sustaining foreign operation.					
<b>(ii) Movements in reserve</b>					
Opening balance		(274)	(34)	-	-
Loss on translation of foreign controlled entity		(573)	(240)	-	-
Balance at end of year		(847)	(274)	-	-
<b>(B) (ACCUMULATED LOSSES)/RETAINED PROFITS</b>					
Opening balance		(17,611)	116	180,774	178,869
(Loss)/profit attributable to members		(4,724)	(17,727)	(94,480)	1,905
Adjustment arising from adoption of revised Accounting Standard:					
AASB 1028: Employee Benefits		(38)	-	-	-
Total available for appropriation		(22,373)	(17,611)	86,294	180,774
Dividends paid or provided for		-	-	-	-
Balance at end of year		(22,373)	(17,611)	86,294	180,774

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>17. STATEMENT OF CASH FLOWS</b>				
<b>(A) RECONCILIATION OF THE (LOSS)/PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT/(EXPENSE) TO THE NET CASH FLOWS FROM OPERATIONS.</b>				
<b>(Loss)/profit from ordinary activities</b>				
after income tax	(4,724)	(17,727)	(94,480)	1,905
Amortisation of non-current assets	494	435	—	—
Depreciation of non-current assets	8,613	9,514	—	—
Decrement in recoverable amount of plant and equipment	588	—	—	—
Decrement in recoverable amount of investment in related party	—	—	95,249	—
Other non-cash items included in income	—	(359)	—	—
Net foreign currency gains	(573)	—	—	—
Provision for data hosting facility	—	10,000	—	—
<b>Changes in assets and liabilities</b>				
Trade receivables	10,340	367	276	549
Other receivables	1,064	1,954	(13)	13
Related party receivables	—	—	7,418	—
Work in progress	680	9,115	144	82
Prepayments	(847)	(243)	—	—
Deferred tax assets	218	(295)	(3,345)	(163)
Trade and other creditors	(4,966)	(5,690)	(3,099)	(3,898)
Related party payables	—	—	(1,466)	—
Current tax liabilities	—	192	—	192
Other liabilities	192	—	—	—
Deferred tax liabilities	(1,034)	(6,435)	(16)	(485)
Provision for employee benefits	52	390	—	—
<b>Net cash inflow/(outflow) from operating activities</b>	<b>10,097</b>	<b>1,224</b>	<b>668</b>	<b>(1,805)</b>
<b>(B) RECONCILIATION OF CASH</b>				
<b>Cash balance comprises:</b>				
— Cash on hand	14,697	11,365	1	1
— On-call deposits with financial institutions	15,223	14,555	15,223	14,555
	<b>29,920</b>	<b>25,920</b>	<b>15,224</b>	<b>14,556</b>

**(C) FINANCING FACILITIES AVAILABLE**

At the end of the year, there were no financing facilities available to the consolidated entity.

	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>18. EXPENDITURE COMMITMENTS</b>				
<b>(A) CAPITAL EXPENDITURE COMMITMENTS</b>				
Estimated capital expenditure contracted for at balance date but not provided for:				
Payable not later than one year	695	56	—	—
Payable later than one year and not later than five years	—	—	—	—
Payable later than five years	—	—	—	—
	<b>695</b>	<b>56</b>	<b>—</b>	<b>—</b>
<b>(B) LEASE EXPENDITURE COMMITMENTS</b>				
Operating leases (non-cancellable):				
Minimum lease payments:				
Not later than one year	2,542	1,334	—	—
Later than one year and not later than five years	4,584	3,239	—	—
Later than five years	—	857	—	—
	<b>7,126</b>	<b>5,430</b>	<b>—</b>	<b>—</b>
Aggregate expenditure commitments comprise:				
Amounts provided for:				
Lease incentive liability – current	85	—	—	—
Lease incentive liability – non-current	107	—	—	—
Amounts not provided for:				
Rental commitments	7,126	5,430	—	—
	<b>7,318</b>	<b>5,430</b>	<b>—</b>	<b>—</b>

All operating leases relate to premises and parking spaces in various locations and have a lease term of between one and five years.

	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>19. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS</b>				
<b>Employee benefits</b>				
The aggregate employee benefit liability is comprised of:				
Accrued wages, salaries and on costs	2,636	1,473	—	—
Provisions (current)	1,158	1,212	—	—
Provisions (non-current)	467	323	—	—
	<b>4,261</b>	<b>3,008</b>	<b>—</b>	<b>—</b>

#### Employee share schemes

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

1. Employee Option Plan;
2. Discretionary Share Plan; and
3. Share Purchase Plan.

Full-time and part-time employees of Macquarie or its subsidiaries are eligible to participate in these plans at the discretion of the directors. Directors (both executive and non-executive) are also eligible to participate in the plans. However, their participation is subject to the Corporations Act 2001 and the Australian Stock Exchange ('ASX') Listing Rules. The plans are administered by the Board, which determines the directors or employees that will be made offers to participate in the plans and the terms of those offers. There are currently 337 employees and directors eligible for these plans.

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

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

During the year, 850,000 (2002: 4,960,000) options were issued under the Employee Option Plan to eligible employees. At 30 June 2003, there were 6,775,000 (2002: 6,825,000) options on issue under this plan. No options have been exercised up to 30 June 2003, and 900,000 options lapsed during the year and accordingly, no amount has been received or is due and receivable from holders of the options.

During the year, there were no shares issued under the Discretionary Share Plan (2002: 1,214,000), and no shares issued under the Share Purchase Plan (2002: nil). Ordinary shares issued under the Discretionary Share Plan are not disposable for two years from the date of issuance, and forfeit upon termination of employment with Macquarie. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie, or three years from the date of issuance.

The market value of Macquarie shares closed at 10 cents on 30 June 2003.

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

Information in respect to the number of options granted under the Employee Option Plan is as follows:

	2003 Number of options	2003 Weighted average exercise price \$	2002 Number of options	2002 Weighted average exercise price \$
Opening balance	6,825,000	0.71	2,365,000	2.10
Granted	850,000	0.14	4,960,000	0.14
Forfeited	(900,000)	0.50	(500,000)	1.88
Exercised	—	—	—	—
Balance at end of year	6,775,000	0.67	6,825,000	0.71
Exercisable at end of year	595,000	1.48	—	—

#### (A) OPTIONS HELD AT THE BEGINNING OF THE YEAR

The following table summarises information about the options held by employees as at 1 July 2002:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
115,000	28 September 1999	27 September 2002	27 September 2005	2.10
1,240,000	1 April 2000	31 March 2003	31 March 2005	2.16
390,000	24 August 2000	23 August 2003	23 August 2005	2.16
190,000	20 October 2000	19 October 2003	20 October 2005	2.16
4,890,000	6 May 2002	1 July 2004	1 July 2007	0.14

#### (B) OPTIONS GRANTED DURING THE YEAR

The following table summarises information about options granted by the Company to employees during the year:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
200,000	15 August 2002	31 December 2002	31 December 2003	0.14
200,000	15 August 2002	1 July 2005	1 July 2007	0.14
200,000	18 June 2003	17 June 2006	6 May 2007	0.14
250,000	18 June 2003	17 June 2006	18 June 2008	0.14

#### (C) OPTIONS EXERCISED

There were no options exercised by employees during the year.

#### (D) OPTIONS HELD AS AT THE END OF THE YEAR

The following table summarises information about options held by the employees as at 30 June 2003:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
115,000	28 September 1999	27 September 2002	27 September 2005	2.10
1,120,000	1 April 2000	31 March 2003	31 March 2005	2.16
350,000	24 August 2000	23 August 2003	23 August 2005	2.16
190,000	20 October 2000	19 October 2003	20 October 2005	2.16
4,150,000	6 May 2002	1 July 2004	1 July 2007	0.14
200,000	15 August 2002	31 December 2002	31 December 2003	0.14
200,000	15 August 2002	1 July 2005	1 July 2007	0.14
200,000	18 June 2003	17 June 2006	6 May 2007	0.14
250,000	18 June 2003	17 June 2006	18 June 2008	0.14

#### Superannuation commitments

Macquarie Corporate Telecommunications Pty Limited 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% (2002: 5%) of employees' salaries and wages are legally enforceable in Australia.

## 20. CONTINGENT LIABILITIES

- (a) The consolidated entity currently disputes certain charges levied by some of its suppliers which total \$2.1 million (2002: \$2.0 million). In each case, the supplier has indicated certain amounts it alleges are due or payable for the period to 30 June 2003 in respect of services provided up to that date. The consolidated entity is disputing that not all of these charges are either due or payable.

The consolidated entity is disputing certain of these charges on the grounds of incorrect billing, including that the services were not provided to the consolidated entity or its customers, and services supplied were not in accordance with agreed criteria. The consolidated entity is currently in discussion with each of the suppliers to resolve the disputes and expects that satisfactory solutions will be agreed. The consolidated entity has recorded an amount in trade creditors, being the net amount it expects to have to pay each supplier, in respect of the services received. A contingent asset or liability could exist for the difference between the amount recorded in trade creditors and the negotiated settlement of these disputes, the extent of which cannot currently be determined.

- (b) The Company has provided a letter of ongoing financial support to Macquarie Corporate Telecommunications Pty Limited ('MCT'), a wholly owned subsidiary of the Company, for the purpose of assisting MCT to meet its liabilities as and when they fall due, but only to the extent that money is not otherwise made available to MCT to meet such liabilities. The period of the financial support and guarantee is until 31 October 2004.
- (c) On 7 September 2001, MCT entered into a strategic alliance with PowerTel Limited ('PowerTel'). Under the terms of the alliance, PowerTel provides access to the PowerTel network. The Company has guaranteed MCT's performance, including payments owed, under the strategic alliance.
- (d) On September 2002, MCT entered into a service agreement with an external party. The Company has provided, by way of deed, a performance guarantee to the external party to take the place of MCT or remedy any expenses incurred in the event that MCT fails to execute and perform its undertakings under the agreement. The guarantee will continue in force and effect until completion of MCT's obligations under the agreement.

## 21. SUBSEQUENT EVENTS

On 8 August 2003, Macquarie Corporate Telecommunications Pte Ltd ('MCS'), a wholly owned, Singapore based subsidiary of the Company, accepted a settlement from an external party in relation to a claim resulting from defamatory statements made against MCS. The details of the settlement are subject to confidentiality.

This settlement has no impact on the state of affairs or result of the Company.

	Consolidated	
	2003 Cents	2002 Cents
<b>22. EARNINGS PER SHARE</b>		
Basic loss per share	(2.3)	(8.7)
Diluted loss per share	(2.3)	(8.7)
	2003 \$'000	2002 \$'000

The following reflects the loss and share data used in the calculations of basic and diluted loss per share:

Net loss attributable to members	(4,724)	(17,727)
Adjustments	-	-
<b>Loss used in calculating basic and diluted loss per share</b>	<b>(4,724)</b>	<b>(17,727)</b>

	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic loss per share	204,855,258	203,917,318
Effect of dilutive securities:		
Share options	-	-
<b>Adjusted weighted average number of ordinary shares used in calculating basic loss per share</b>	<b>204,855,258</b>	<b>203,917,318</b>

There have been no issues of shares during the year.

Number of potential ordinary shares that are not dilutive and not included in the calculation of diluted loss per share

- Options over ordinary shares	8,625,000	8,675,000
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	Consolidated		Parent Entity	
	2003 %	2002 %	2003 %	2002 %

### 23. REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, in respect of the year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party

965,372	778,652
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Income paid or payable, or otherwise made available, in respect of the year, to all directors of Macquarie, directly or indirectly, from the entity or any related party

962,372	775,635
---------	---------

The number of directors of Macquarie whose income (including superannuation contributions) falls within the following bands is:

	No.	No.	No.	No.
\$0 - \$9,999	1	1	-	-
\$30,000 < \$39,999	1	-	1	-
\$60,000 - \$69,999	1	1	1	1
\$120,000 - \$129,999	-	1	-	1
\$130,000 - \$139,999	1	-	1	-
\$290,000 - \$299,999	-	2	-	2
\$350,000 - \$359,999	1	-	1	-
\$380,000 - \$389,999	1	-	1	-

	Consolidated		Parent Entity	
	2003 \$	2002 \$	2003 \$	2002 \$

#### 24. REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise

3,499,374 2,942,324

Remuneration received or due and receivable by executive officers of the Company whose remuneration is \$100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company or any of its subsidiaries, whether as an executive officer or otherwise

— —

	No.	No.	No.	No.
The number of executives of the consolidated entity and the Company whose remuneration falls within the following bands:				
\$120,000 — \$129,999	—	1	—	—
\$130,000 — \$139,999	1	—	—	—
\$150,000 — \$159,999	—	1	—	—
\$170,000 — \$179,999	—	1	—	—
\$190,000 — \$199,999	1	1	—	—
\$200,000 — \$209,999	1	2	—	—
\$210,000 — \$219,999	2	1	—	—
\$220,000 — \$229,999	2	—	—	—
\$240,000 — \$249,999	1	2	—	—
\$250,000 — \$259,999	1	2	—	—
\$260,000 — \$269,999	1	1	—	—
\$270,000 — \$279,999	1	—	—	—
\$290,000 — \$299,999	1	—	—	—
\$360,000 — \$369,999	1	—	—	—
\$380,000 — \$389,999	—	1	—	—
\$390,000 — \$399,999	1	—	—	—
	2003 \$	2002 \$	2003 \$	2002 \$

#### 25. AUDITORS' REMUNERATION

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

- an audit or review of the financial report of the entity and any other entity in the consolidated entity	195,000	139,000	195,000	139,000
- other services in relation to the entity and any other entity in the consolidated entity	298,034	165,637	298,034	165,637
	493,034	304,637	493,034	304,637

## 26. RELATED PARTY DISCLOSURES

### (A) THE DIRECTORS OF MACQUARIE DURING THE YEAR WERE:

J Priest  
D Tudehope  
A Tudehope  
R Kaye  
J Craig (appointed 1 January 2003).

### (B) THE FOLLOWING RELATED PARTY TRANSACTIONS OCCURRED DURING THE FINANCIAL YEAR:

Transactions with related parties in the wholly owned group

#### *Business Development Agreement*

On 29 June 1998, the Company entered into a Business Development Agreement with its wholly owned subsidiary, Macquarie Corporate Telecommunications Pty Limited ('MCT'). Under this agreement, the Company charged MCT a fee for the provision of services to customers of \$9,940,469 (2002: \$42,315,004) and was charged a management fee of \$1,107,336 (2002: \$3,795,612) by MCT for servicing customers still contracted to the Company.

#### *Tax consolidation*

Effective 1 July 2002, for the purposes of income taxation, Macquarie and its 100% owned Australian subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned Australian subsidiaries on a prorata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

As a result of entering into tax consolidation, the Company incurred the following intercompany charges with its wholly owned Australian subsidiaries in relation to the transfer of tax assets and liabilities:

1. A charge of \$641,077 by MCT in respect of its net tax assets;
2. A charge of \$2,700,475 by Macquarie Corporate Telecommunications Carrier Services Pty Limited ('MCTCS') in respect of its net tax assets; and
3. A charge of \$22,499 by Macquarie Corporate Telecommunications Services Pty Limited ('MCTS') in respect of its net tax assets.

#### *Amounts due from/payable to wholly owned entities*

On 30 June 2003, the Company had a non-current net receivable of \$93,564,022 (2002: \$94,450,000) due from MCT, which was a result of charges relating to the Business Development Agreement, tax consolidation and advances made to MCT in relation to normal commercial transactions.

On 30 June 2003, the Company had an amount payable to MCTCS of \$6,509,277 (2002: \$1,466,000), which was a result of tax losses transferred to the Company during the year for full consideration and charges relating to tax consolidation.

On 30 June 2003, the Company had an amount payable to MCTS of \$22,493 (2002: nil) which was for charges relating to tax consolidation.

### (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 2003, being the number of instruments held, were:

- (i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Limited, an entity which owns 61% (2002: 61%) of the ordinary shares of Macquarie. The relevant ownership interests in Claiward Pty Limited are held by Semark Pty Limited at 84% and Fenton Australia Pty Limited at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively.
- (ii) At 30 June 2003, 72,326 ordinary shares and 345,000 options over ordinary shares were on issue to a director-related entity of D Tudehope and A Tudehope.
- (iii) At 30 June 2003, 204,500 ordinary shares were on issue to a director-related entity of D Tudehope.
- (iv) At 30 June 2003, 1,549,727 ordinary shares were on issue to director-related entities of J Priest. J Priest also has an interest in 1,000,000 options over ordinary shares.
- (v) At 30 June 2003, 50,000 ordinary shares were on issue to a director-related entity of R Kaye. R Kaye also has an interest in 400,000 options over ordinary shares.
- (vi) At 30 June 2003, 50,000 ordinary shares were on issue to J Craig. These shares were acquired in June 2003 through an arm's length transaction.

Apart from shares acquired by J Craig noted in paragraph (vi), there have been no other changes in equity instruments of directors during the year.

### (D) DIRECTOR-RELATED ENTITY TRANSACTIONS Services

R Kaye was paid \$30,387 for the provision of consulting services to the consolidated entity during the year.

## 27. SEGMENT INFORMATION

### SEGMENT DESCRIPTION

The consolidated entity operates in three primary business segments. The voice segment relates to the provision of voice telecommunications services to Australian corporate, Australian government and Singapore corporate customers. The data segment relates to the provision of services utilising the Macquarie data network and data hosting facility, to Australian corporate and Australian government customers. The mobiles segment relates to the provision of mobile telecommunications services to Australian corporate and Australian government customers. This segment commenced operations on 1 January 2003.

Geographically, the consolidated entity operates in two locations, being Australia and Singapore.

### SEGMENT ACCOUNTING POLICIES

Segment accounting policies are the same as the consolidated entity's policies described in Note 1.

### SEGMENT INFORMATION ON PRIMARY BUSINESS SEGMENTS

	Voice		Data		Mobiles		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Revenue</b>								
Sales to customers outside the consolidated entity	193,411	201,161	40,773	27,209	269	–	234,453	228,370
Other revenues from customers outside the consolidated entity	–	7,100	–	–	–	–	–	7,100
<b>Segment revenue</b>	<b>193,411</b>	<b>208,261</b>	<b>40,773</b>	<b>27,209</b>	<b>269</b>	<b>–</b>	<b>234,453</b>	<b>235,470</b>
Unallocated revenue							1,079	1,310
<b>Total consolidated revenue</b>							<b>235,532</b>	<b>236,780</b>
<b>Results</b>								
Segment result before tax	9,133	7,150	(8,521)	(18,183)	(1,620)	–	(1,008)	(11,033)
Non-cash expenses other than amortisation and depreciation	–	–	–	(10,000)	–	–	–	(10,000)
<b>Adjusted segment result before tax</b>	<b>9,133</b>	<b>7,150</b>	<b>(8,521)</b>	<b>(28,183)</b>	<b>(1,620)</b>	<b>–</b>	<b>(1,008)</b>	<b>(21,033)</b>
Unallocated expenses							(4,232)	(3,169)
<b>Consolidated entity loss from ordinary activities before income tax benefit</b>							<b>(5,240)</b>	<b>(24,202)</b>
Income tax benefit							616	6,475
<b>Consolidated entity loss from ordinary activities after income tax benefit</b>							<b>(4,724)</b>	<b>(17,727)</b>
Extraordinary benefit							–	–
<b>Net loss</b>							<b>(4,724)</b>	<b>(17,727)</b>
<b>Assets</b>								
Segment assets	63,607	72,110	25,400	32,361	359	–	89,366	104,471
Unallocated assets							19,272	15,220
<b>Total assets</b>							<b>108,638</b>	<b>119,691</b>
<b>Liabilities</b>								
Segment liabilities	40,824	38,998	876	5,501	196	–	41,896	44,499
Unallocated liabilities							3,139	6,254
<b>Total liabilities</b>							<b>45,035</b>	<b>50,753</b>

	Voice		Data		Mobiles		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Other segment information</b>								
Acquisition of plant and equipment, intangible assets and other non-current assets	2,089	4,306	3,425	4,267	275	—	5,789	8,573
Depreciation	3,712	3,121	4,983	6,393	18	—	8,613	9,514
Amortisation	160	102	334	333	—	—	494	435

#### SEGMENT INFORMATION ON SECONDARY SEGMENTS

	Australia		Singapore		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Segment revenue	224,330	230,082	11,202	6,698	235,532	236,780
Segment assets	103,644	115,655	4,994	4,036	108,638	119,691

#### Other segment information

Acquisition of plant and equipment, intangible assets and other non-current assets	5,262	7,043	527	1,530	5,789	8,573
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## 28. FINANCIAL INSTRUMENTS

### (A) 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 over 1 year or less		Fixed interest rate maturing in 1 to 5 years	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>(i) Financial assets</b>						
Cash	29,920	25,920	-	-	-	-
Receivables – trade	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-
Short-term deposits	-	-	1,738	1,430	-	-
Other	-	-	-	-	-	-
<b>Total financial assets</b>	<b>29,920</b>	<b>25,920</b>	<b>1,738</b>	<b>1,430</b>	<b>-</b>	<b>-</b>
<b>(ii) Financial liabilities</b>						
Payables	-	-	-	-	-	-
Other – current	-	-	-	-	-	-
Other – non-current	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

N/A – not applicable for non-interest bearing financial instruments.

### (B) NET FAIR VALUES

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of recognised financial instruments:

- (i) *Cash, cash equivalents and short-term investments*  
The carrying amount approximates fair value because of their short term to maturity.
- (ii) *Trade receivables, work in progress and payables*  
The carrying amount approximates fair value.

No financial assets are carried at an amount in excess of their net fair value.

### (C) CREDIT RISK EXPOSURES

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

As at 30 June 2003, the consolidated entity had no significant concentration of credit risk with any single counterparty or group of counterparties.

Fixed interest rate maturing in more than 5 years		Non-interest bearing 1 year or less		Total carrying amount as per the Statement of Financial Position		Weighted average effective interest rate	
2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 % pa	2002 % pa
-	-	-	-	29,920	25,920	4.03	4.45
-	-	23,663	34,003	23,663	34,003	N/A	N/A
-	-	17,698	18,578	17,698	18,578	N/A	N/A
-	-	-	-	1,738	1,430	4.18	4.45
-	-	1,238	2,302	1,238	2,302	N/A	N/A
-	-	42,799	54,883	74,457	82,233		
-	-	42,974	47,940	42,974	47,940	-	-
-	-	85	-	85	-	N/A	N/A
-	-	107	-	107	-	N/A	N/A
-	-	43,166	47,940	43,166	47,940		

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Macquarie Corporate Telecommunications Holdings Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (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.

On behalf of the Board:



John Priest  
Chairman



David Tudehope  
Chief Executive

Sydney, 9 September 2003.



# INDEPENDENT AUDIT REPORT

To the members of Macquarie Corporate Telecommunications Holdings Limited

## SCOPE

### The financial report and directors' responsibility

The financial report comprises the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, accompanying notes to the financial statements, and the Directors' Declaration for Macquarie Corporate Telecommunications Holdings Limited (the Company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Company.

### Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### AUDIT OPINION

In our opinion, the financial report of Macquarie Corporate Telecommunications Holdings Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Macquarie Corporate Telecommunications Holdings Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

*Ernst & Young*

Ernst & Young

Sydney, 9 September 2003

*Meredith Scott*

Meredith Scott  
Partner

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows:

### (A) DISTRIBUTION OF EQUITY SECURITIES

The numbers of shareholders, by size of holding, in each class of share at 8 October 2003 are:

	Ordinary shares		Share Purchase Plan <sup>a</sup>		Discretionary Share Plan <sup>b</sup>	
	Number of holders	Number of shares	Number of holders	Number of shares	Number of holders	Number of shares
1 - 1,000	189	126,428	56	33,182	9	9,000
1,001 - 5,000	1,183	3,283,384	75	107,190	-	-
5,001 - 10,000	321	2,708,489	-	-	24	240,000
10,001 - 100,000	540	18,685,460	-	-	43	150,500
100,001 and over	76	178,157,125	-	-	-	-
	<b>2,309</b>	<b>202,960,886</b>	<b>131</b>	<b>140,372</b>	<b>76</b>	<b>1,754,000</b>

The number of shareholders holding less than a marketable parcel of shares are:

	478	555,438	131	140,372	9	9,000
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- (i) Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of participant termination of employment with the Company, or three years from the date of issuance.
- (ii) Ordinary shares issued under the Discretionary Share Plan are not disposable for two years from the date of issuance, and forfeit upon participant termination of employment with the Company.

### (B) TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of quoted shares at 8 October 2003 are:

		Quoted ordinary shares	
		Number of shares held	% Held
1	Cleivard Pty Limited	125,013,900	61.03
2	PowerTel Limited	20,370,000	9.94
3	ANZ Nominees Limited	3,391,716	1.65
4	Carrier International Pty Limited	2,327,988	1.14
5	Invia Custodian Pty Limited	2,060,000	1.01
6	Cogent Nominees Pty Limited	2,000,000	0.98
7	Dupain Holdings Pty Limited	1,614,903	0.79
8	Elmarco Pty Limited	1,449,727	0.71
9	L Newman	1,339,395	0.65
10	Droga Capital Pty Ltd	1,000,000	0.49
11	Fretensis Pty Ltd	1,000,000	0.49
12	K Tan	931,634	0.45
13	Dupain Holdings Limited	911,000	0.44
14	N Martin and L Martin	900,000	0.44
15	J P Morgan Nominees Australia Limited	769,577	0.38
16	Ginga Pty Ltd	740,000	0.36
17	V Tech	644,681	0.31
18	Megan Pty Ltd	556,000	0.27
19	R Wallace	515,000	0.25
20	Jetan Pty Ltd	500,000	0.24
<b>Total</b>		<b>168,025,521</b>	<b>82.03</b>

### (C) SUBSTANTIAL SHAREHOLDERS

The Company has not received any substantial shareholding notices in accordance with section 671B of the Corporations Act 2001 during the year.

### (D) VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

# COMPANY INFORMATION

ACN 056 712 228

## DIRECTORS

John Priest (Chairman)  
David Tudehope (Chief Executive)  
Aidan Tudehope (Chief Operating Officer)  
Robert Kaye (Non-Executive Director)  
Jane Craig (Non-Executive Director)

## COMPANY SECRETARIES

Albert Koolmees  
Timothy Blackwell

## REGISTERED OFFICE

Level 6, 33 Bligh Street  
Sydney NSW 2000  
Telephone (02) 8221 7777  
Fax (02) 8221 7788

## MACQUARIE OFFICES

### Adelaide

Suite 9, 15 Fullarton Road  
Kent Town SA 5067  
Telephone (08) 8363 9700  
Fax (08) 8363 9788

### Brisbane

Level 10, 26 Wharf Street  
Brisbane QLD 4000  
Telephone (07) 3874 2300  
Fax (07) 3874 2388

### Canberra

Level 2, 10 Rudd Street  
Canberra City ACT 2601  
Telephone (02) 6257 6277  
Fax (02) 6257 7188

### Hobart

Trafalgar Building  
Level 3, 110 Collins Street  
Hobart TAS 7000  
Telephone (03) 6214 0000  
Fax (03) 6214 0088

### Melbourne

Level 1, 441 St Kilda Road  
Melbourne VIC 3004  
Telephone (03) 9206 6800  
Fax (03) 9206 6888

### Perth

Level 10, 251 Adelaide Terrace  
East Perth WA 6004  
Telephone (08) 9229 0000  
Fax (08) 9229 0088

### Townsville

Suite 8, 250 Ross River Road  
Townsville QLD 4814  
Telephone (07) 4725 6900  
Fax (07) 4725 6816

### Intellicentre

Level 16, 477 Pitt Street  
Sydney NSW 2000  
Telephone (02) 8204 5100  
Fax (02) 8204 5188

### Singapore

150 Beach Road  
#35-00 Gateway West  
Singapore 189720  
Telephone +65 580 7383  
Fax +65 580 7388

## INTERNET ADDRESS

[www.mct.com.au](http://www.mct.com.au)

## MACQUARIE ASSIST

Telephone 1800 789 999

## SHARE REGISTRY

Computershare Investor  
Services Pty Ltd  
Level 3, 60 Carrington Street  
Sydney NSW 2000  
Telephone 1300 855 080  
Fax (02) 8234 5455

## AUDITORS

Ernst & Young

## BANKERS

Australia and New Zealand  
Banking Group Limited

## SOLICITORS

Gilbert & Tobin

