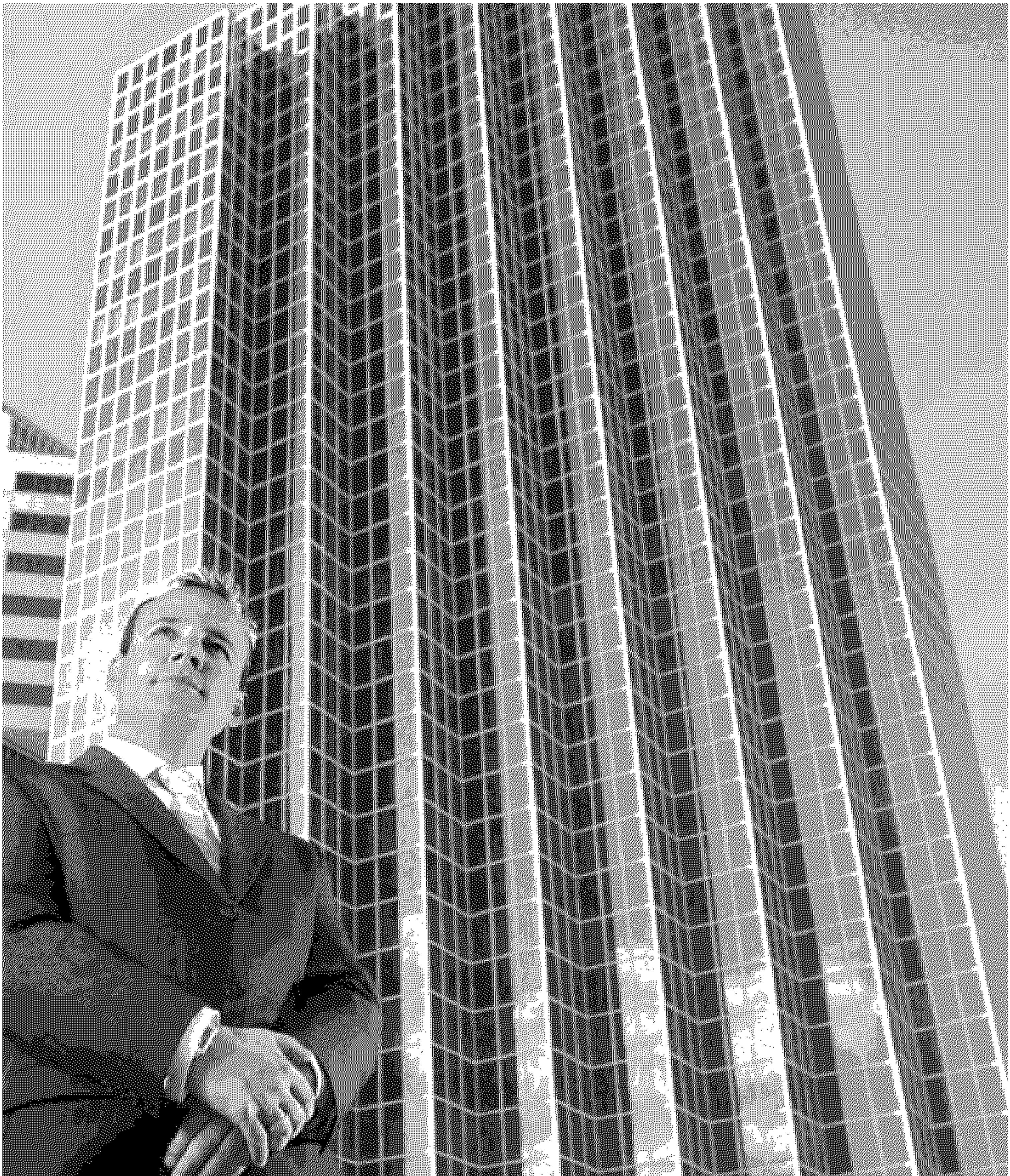
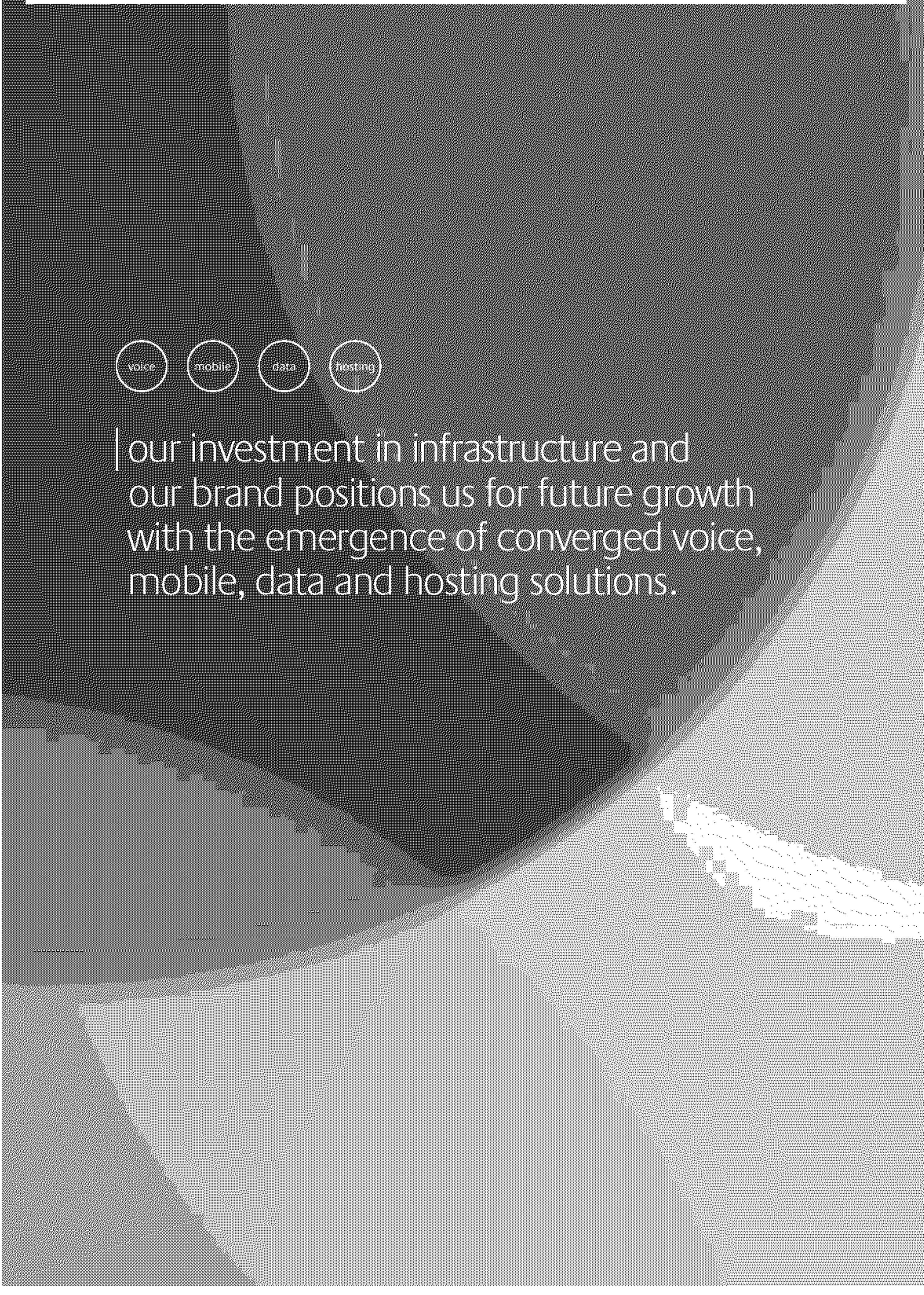
annual report 2005

macquarie TELECOM




voice
mobile
data
hosting
our investment in infrastructure and our brand positions us for future growth with the emergence of converged voice, mobile, data and hosting solutions.

contents

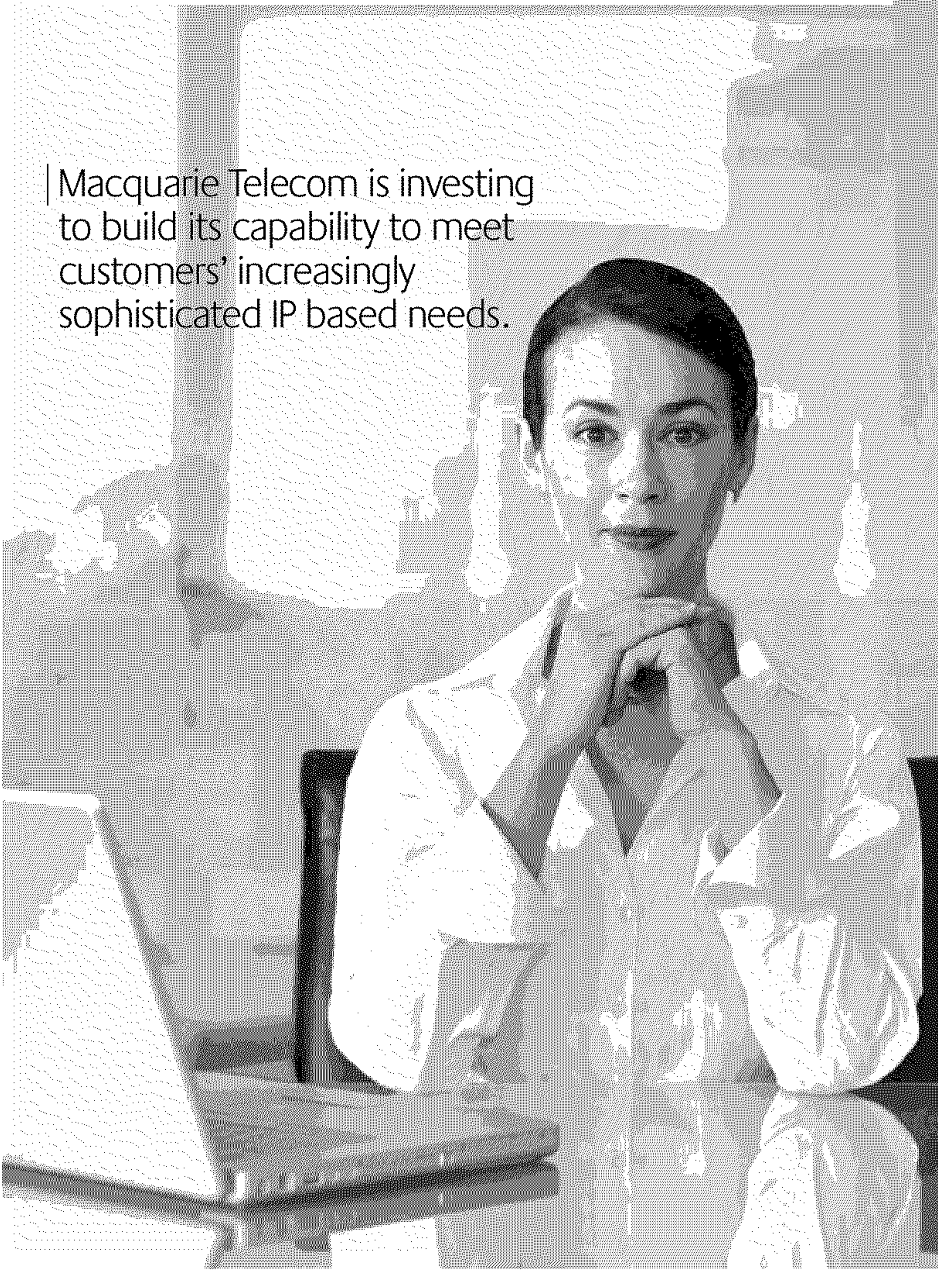
macquarie TELECOM

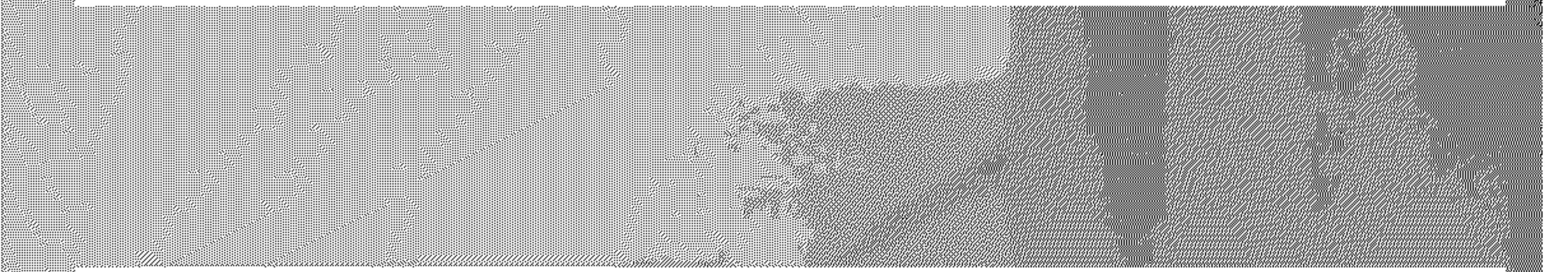
Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the members of Macquarie Telecom Group Limited will be held at the Museum of Sydney Auditorium (at the corner of Phillip and Bridge Streets) in Sydney on Tuesday, 29 November 2005, at 9am.

Macquarie Telecom Group Limited
ACN 056 712 228

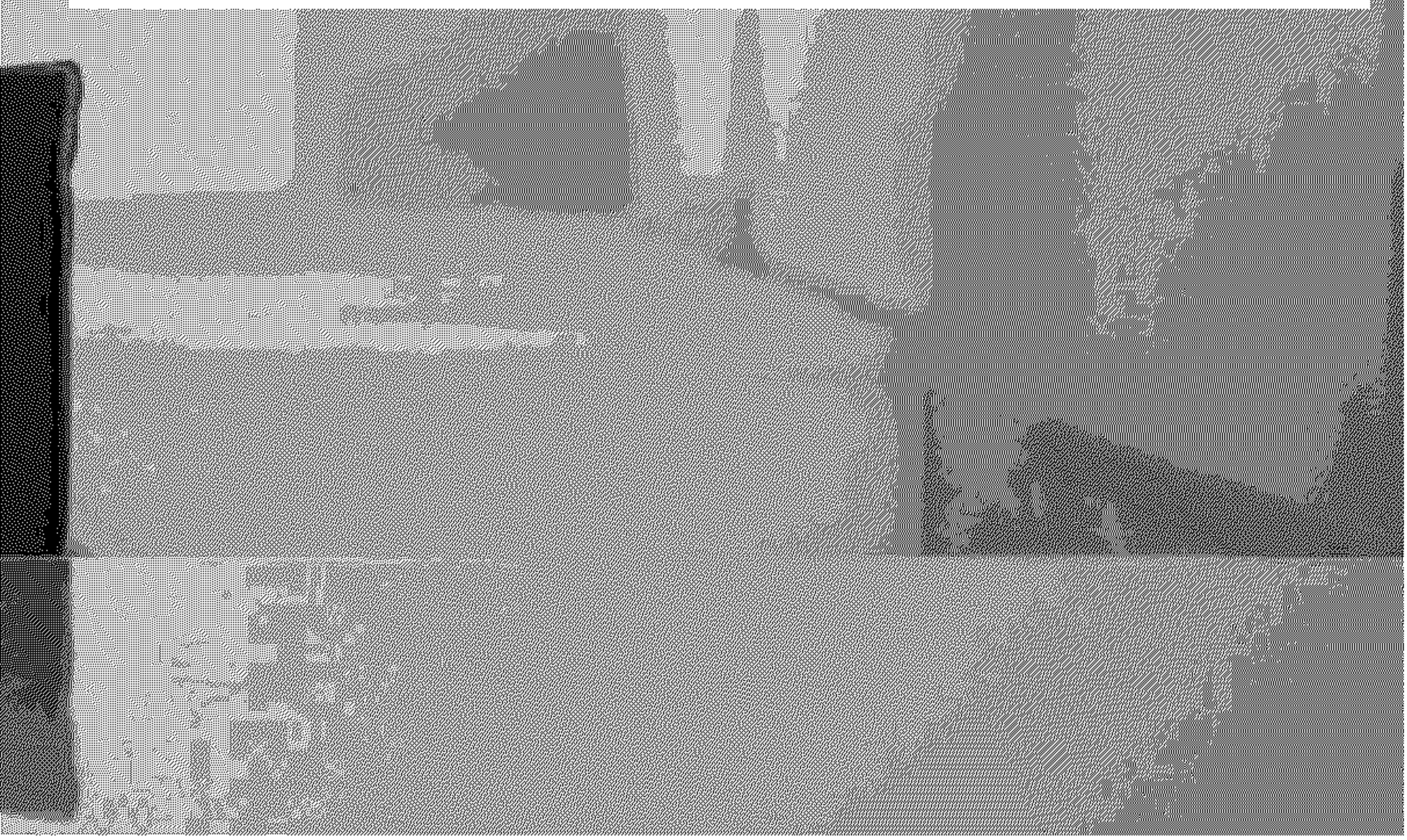
Macquarie Telecom is investing to build its capability to meet customers' increasingly sophisticated IP based needs.





The result reflects the implementation of a major investment program to position the company for further growth.

- Macquarie Telecom achieved an EBITDA profit of $0.7 million for the year ended 30 June 2005, in line with expectations. The result reflects the implementation of a major investment program to position the company for further growth.
- Net loss after tax was $7.4 million, down from $0.8 million for the previous year, due to the major investment program.
- Total service revenue was $230.5 million, an increase of 1.6% compared to the previous year.
- Data service revenue was $59.3 million, a healthy 16% increase compared to data service revenue for the previous year, maintaining the trend of an improving revenue mix.
- Mobile service revenue was $12.2 million, a solid 198% improvement compared to the previous year.
- The Singapore business generated revenue of $10.9 million for the year ended 30 June 2005, an increase of 7.4% compared to the previous year.
- Capital expenditure for the period was $14.7 million, as Macquarie Telecom invested to build its capability to meet customers' increasingly sophisticated IP based needs.



2005 was an important year for Macquarie Telecom in which we commenced a major investment program to position the Company for further growth.

"We are laying the foundations to deliver future growth and profitability in this important investment phase."

Macquarie Telecom now provides services to more than 2,970 business and government customers in Australia and Singapore. As our customers' needs change, Macquarie Telecom continues to adapt and develop new services. Adapting to changes in the needs of our customers is at the heart of Macquarie Telecom's business and is one of our key strengths.

The current investment program is vital to the ongoing enhancement of Macquarie Telecom's capability to meet its customers' increasingly sophisticated IP based needs. We are laying the foundations to deliver future growth and profitability in this important investment phase, and our current investment program is focused on three main areas.

Firstly, we are investing in building Macquarie Telecom's Metro Access Network. This is a new generation network that will help meet our customers' converging IP based, as well as traditional network, needs. Macquarie Telecom will complete the roll out of the Metro Access Network in 2006, placing the Company at the forefront of IP based voice and data services.

Secondly, we are continuing to invest in our established hosting and security services. Information security is a vital requirement in today's world and Macquarie Telecom's strength in hosting and security is a key service differentiator for the Company. Our ongoing investments in this area will ensure the Company remains at the cutting edge of information security and maintains a genuine competitive edge.

Thirdly, the Company has been focused on introducing and establishing the new Macquarie Telecom brand. Effective branding is an important ongoing process, and the phase of introducing our new brand is largely complete.

As anticipated, this investment program impacted the Company's short-term profitability. However, the benefits of the investment program will deliver solid returns to shareholders into the future. Indeed, Macquarie Telecom returned to earnings before interest, tax, depreciation and amortisation ("EBITDA") profitability in the second half of 2005, and we look forward to solid EBITDA momentum.

Macquarie Telecom expects the total capital expenditure on the Metro Access Network to be approximately $9 million, in line with expectations. Of the $9 million, $7 million will be spent in the 2006 financial year.

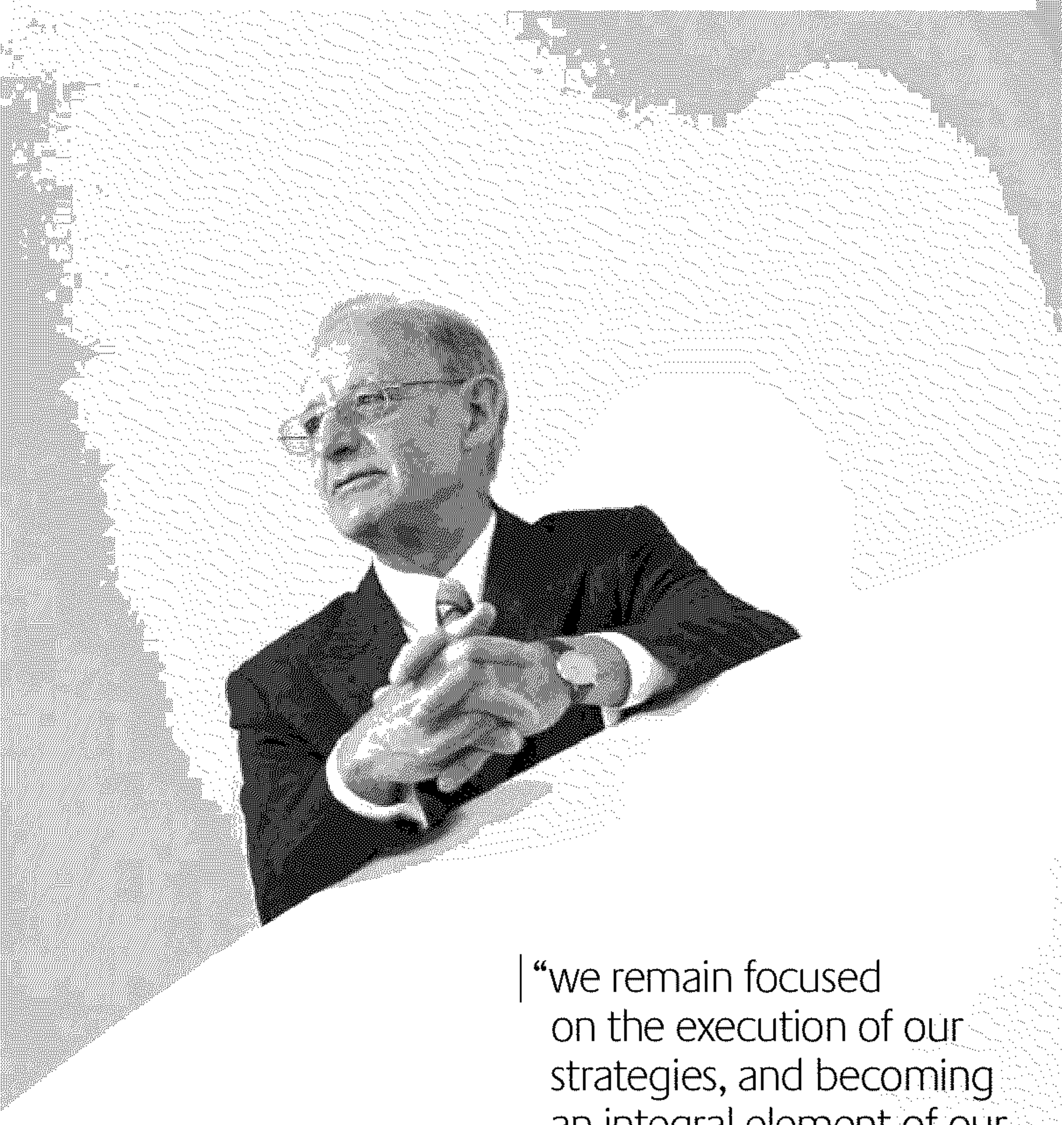
In the year ahead, Macquarie Telecom will continue to invest in IP based products, services, and expertise as we consolidate the platform to build future growth and profitability. Recurring core capital expenditure is expected to be approximately 5% of revenue, reflecting this investment in IP infrastructure, differentiated hosting and security products, and customer growth.

Macquarie Telecom expects the investment program will continue to impact profitability in the current year. However, despite these major investments, EBITDA for the current year is expected to maintain a growth trend. We expect EBITDA for the first half of 2006 to be similar to that achieved in the second half of 2005. We expect second half 2006 profitability to return to a solid growth curve as our investments begin to deliver profit benefits.

The Board, management and staff at Macquarie Telecom remain focused on the execution of our strategies, and becoming an integral part of our customers' businesses. We enter the current financial year well placed to leverage our core skills and we have the momentum in place to position Macquarie Telecom strongly in the evolving and converging telecommunications market.

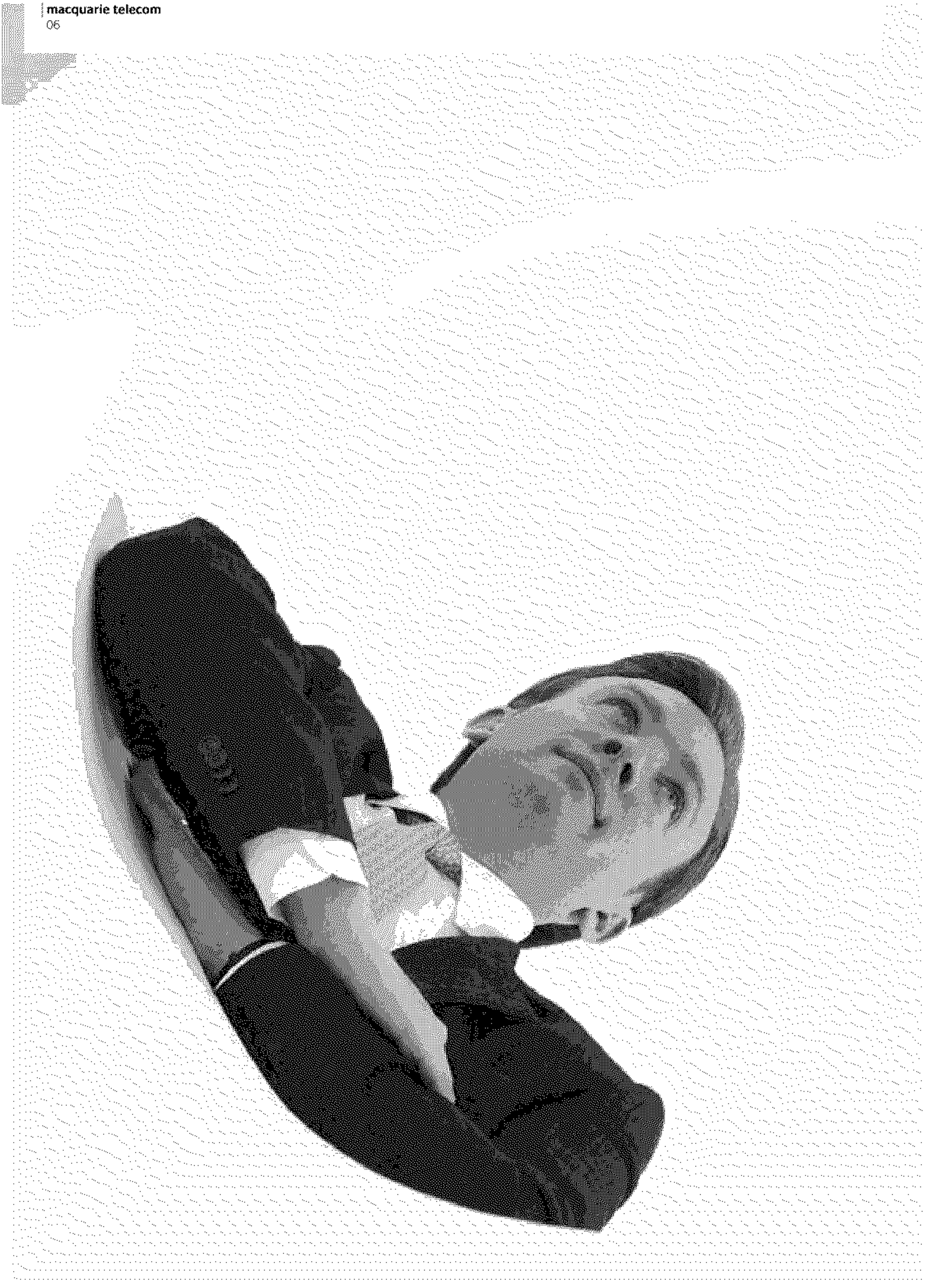
Robert Kaye

Chairman



"we remain focused on the execution of our strategies, and becoming an integral element of our customers' businesses".

Robert Kaye
Chairman



"the second half data result reflected growth in IP network revenue, validating Macquarie Telecom's investment program in developing IP based products and services".

David Tudehope
Chief Executive

2005 was a year in which Macquarie Telecom management and staff were focused on implementing our business strategies and laying the foundation for future growth and profitability.

"As management continues executing the strategy of concentrating on higher margin areas, it is encouraging to see the revenue mix is improving."

Macquarie Telecom's overall results, including EBITDA profit of $0.7 million, were in line with expectations and reflect a period in which Macquarie Telecom commenced the implementation of a major and planned investment program to position the Company for further growth. These investments are vital to the ongoing enhancement of Macquarie Telecom's capability to meet its customers' increasingly sophisticated IP based needs.

Macquarie Telecom generated total service revenue of $230.5 million, an increase of 1.6% compared to the previous year. Importantly, the trend of an improving revenue mix was maintained.

Of particular note was the continuing growth of data and its increased contribution to Macquarie Telecom's overall revenue. Macquarie Telecom's data business, which provides data networking and data hosting services to Australian business and government customers, generated revenue of $59.3 million. This represented a 16% increase compared to the previous year.

As management continues executing the strategy of concentrating on higher margin areas, it is encouraging to see the revenue mix is improving – particularly with the increased contribution of data. Data now represents more than 25.7% of Macquarie Telecom's service revenue. This directly reflects Macquarie Telecom's ongoing transformation into an integrated IT&T carrier that offers a full range of voice, data, online and mobile services which address the increasingly complex needs of our business and government customers.

Data recorded an EBITDA profit of $0.6 million in the second half of 2005, which partially offset the first half loss of $0.9 million, resulting in a full year data EBITDA loss of $0.3 million. Full year data profitability was in line with expectations and was impacted by investments in IP based products and services, and investment in enhancing the depth and level of data, hosting and security expertise at Macquarie Telecom. The second half data result reflected growth in IP network revenue, validating Macquarie Telecom's investment program in developing IP based products and services.

Faced with hackers, viruses and various other threats, many of our business and government customers now demand IT security levels that were once only required in such areas as defence and intelligence. Macquarie Telecom's data hosting facility, the Intellicentre, continued to build its customer base and revenue momentum. The investments made previously in the Intellicentre are continuing to deliver tangible results for our business and our customers.

In its traditional Australian voice business, Macquarie Telecom generated revenue of $148.1 million in the twelve months ended 30 June 2005, down 8.3% compared to the previous year, but down only 2.6% on the six month period ended 31 December 2004. The slowdown in voice revenue reduction was underpinned by good volume. The voice service market was again characterised by intense competition and industry wide price pressure, which impacted profitability.

The continuing price pressure and decline in corporate voice revenue is an industry wide phenomenon and reinforces the need for the Company to continue reducing reliance on voice service revenues and diversifying into other higher margin areas. The substantial investment program being implemented is an important element of executing this strategy.

The Singapore business generated revenue of $10.9 million in the twelve months ended 30 June 2005, an increase of 7.4% compared to the corresponding period. The Singapore business is expanding to meet customers' needs and the performance of the division is encouraging, considering the continuing competitive price environment. Singapore adds an important geographic dimension to Macquarie Telecom's service offering and helps attract and retain multinationals that require integrated service for their regional operations.

Mobile service revenue was $12.2 million, a strong 198% improvement compared to the corresponding period. Macquarie Telecom is confident the revenue contribution of mobile will continue to strengthen, although more likely at a slower rate.

Mobile service remains an important element in Macquarie Telecom's full service offering and is a competitive necessity as part of Macquarie Telecom's strategy of offering bundled solutions to customers that take care of all telecommunications requirements.

Regulatory matters

The Australian telecommunications sector continues to require strong regulatory oversight. As competition develops or where market failure is evident, policy makers need to adjust the regulatory environment in order to maximise benefits of competition to consumers and the economy.

Within this context, 2005 saw a re-emergence of disputes and Australian Competition and Consumer Commission ("ACCC") arbitrations in the sector.

The ACCC released findings of its review of mobile services and mobile terminating access charges. The ACCC has agreed that the charges levied by operators to companies such as Macquarie Telecom for access should be reduced. Macquarie Telecom is watching developments closely and, despite court actions by several operators, we are confident the ACCC's decision will stand, allowing consumers to benefit from reduced prices and a more level playing field.

More recently, the Federal Government announced a significant set of reform proposals, developed in light of the selldown of its majority stake in Telstra. The reform proposals aim to promote competition in the sector and ensure the benefits of competition flow through to customers.

Macquarie Telecom supports the broad principle of these proposals, particularly in relation to stronger operational separation between Telstra Wholesale and Retail, stronger anti-discrimination provisions and reduced stalling incentives. The reform will lead to better competitive outcomes in the sector. As with past years, Macquarie Telecom has maintained its leadership role in policy debates and regulatory processes that affect suppliers and consumers of telecommunications services.

The year ahead

Our focus for the year ahead remains completely on business and government customers. Macquarie Telecom understands the needs of these customers and constantly comes up with innovative ways to deliver effective solutions. Macquarie Telecom is ideally placed to offer business and government customers secure, tailored solutions across voice, mobile, data and hosting services.

The year ahead will be an important one for Macquarie Telecom as we continue implementing our strategy of building our data services, particularly in IP based products. Macquarie Telecom is building a platform to generate substantial, ongoing returns into the future. Remaining nimble and flexible and evolving to meet the needs of our customers has been one of Macquarie Telecom's strengths over the last 13 years.

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

David Tudehope

Chief Executive

"our executive management team has a passion for delivering to customers intergrated and secure solutions across voice, data and mobile networks".

Macquarie Telecom Management Team

Macquarie Telecom's executive management team contains a broad range of backgrounds and specialities, and is a key strength of the Company. The combined skills of the executive management team are vital in Macquarie Telecom's effective execution of its business strategies.

Supported by the dedicated staff at Macquarie Telecom, our executive management team has a passion for delivering to customers integrated and secure solutions across voice, data and mobile networks. This passion for customers ensures they receive innovative solutions tailored to their individual requirements and situations.

The executive management team values personal accountability, honesty and the courage to tell it like it is. With responsibility for financial performance, MacquarieTelecom's executives are accountable for outcomes and focused on doing what they say they will.

For shareholders, the executive management team is committed to delivering results. By being ambitious and thriving on hard work, the executive team is the engine driving Macquarie Telecom's growth and future shareholder returns.

Aidan Tudehope talks about customer benefits of the Metro Access Network.

"Macquarie Telecom invested in building an Intelligent IP Access Network to meet growing business bandwidth needs. Business and government demand for bandwidth is on the rise."

Business and government demand for bandwidth is on the rise.

Sophisticated applications delivered over data networks, such as Voice over IP ("VoIP"), videoconferencing and streaming audio, were once seen as "bleeding edge". These convergent technologies are now being adopted by many Australian organisations as they are proven to deliver increased functionality, reduced costs and greater flexibility.

On the flip side however, these technologies, coupled with the widespread use of Internet access at work, require increased amounts of bandwidth, security and redundancy to ensure a high quality service. And this can come at a price.

"Traditionally, organisations have deployed Wide Area Networks (WANs) at sub-2Mbps. However for companies running VoIP, video conferencing and centralised server management systems, WANs now require speeds of up to 4, 10 or 16Mbps," said Aidan Tudehope, Chief Operating Officer, Macquarie Telecom.

"To date, the costs associated with increased speeds have put convergent technologies out of the reach of many Australian organisations. There is a definite gap in the market for an affordable, high-speed broadband offering," he said.

Meeting future bandwidth needs today

To meet this need, Macquarie Telecom invested in building an Intelligent IP Access Network to connect major cities in Australia, commencing with Sydney and Melbourne.

The Macquarie Telecom Metro Access Network, uses the latest technology to dramatically improve the data rates, performance, security and reach of access networks. It provides a variety of access line types – including Leased Line, Ethernet, Frame Relay and IP WAN – into the core network to give business and government customers four times the bandwidth for the same price they pay today.

"This purpose-built network takes into account the requirements of voice, data, Internet and ISDN quality and service functionality. This means it supports next generation IP technologies such as VoIP and legacy services such as PSTN, or standard line types. It also complements our other access anywhere products including wireless connectivity" he said.

"Our customers told us they required increased bandwidth at a more affordable cost. They also asked for dynamic performance management and, above all else, simple but complete network security," he said. "The Metro Access Network was developed to meet these needs," said Tudehope.

"The benefit for business and government is they can access an affordable, high-bandwidth data network without changing their existing premise equipment. When they do decide to adopt new technologies, they won't have to find a new carrier," he said.

Legion Interactive signs up

One organisation quick to take advantage of the many benefits of the Macquarie Telecom Metro Access Network is Legion Interactive.

Legion, the premier provider of Interactive Telephone, SMS/MMS, Internet and email services for broadcast media, works with top-rating shows such as *Australian Idol*, *Big Brother* and *My Restaurant Rules*.

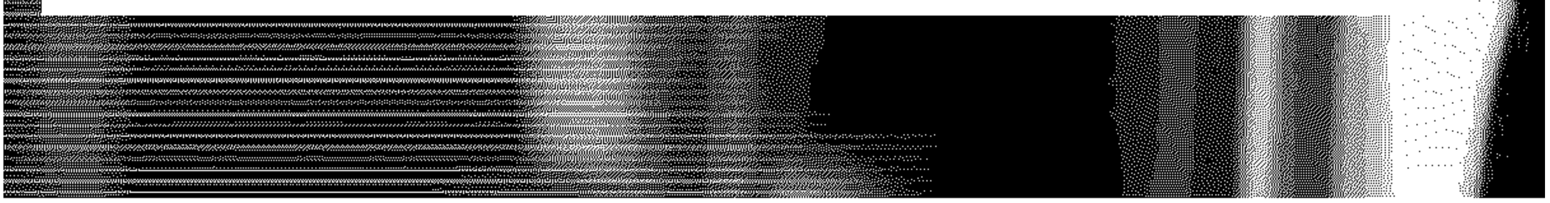
An integration with specialist marketing services organisation, the Photon Group along with a move to new premises in Sydney's CBD prompted Legion Interactive's Chief Operating Officer, Peter Jones to review its telecommunications infrastructure.

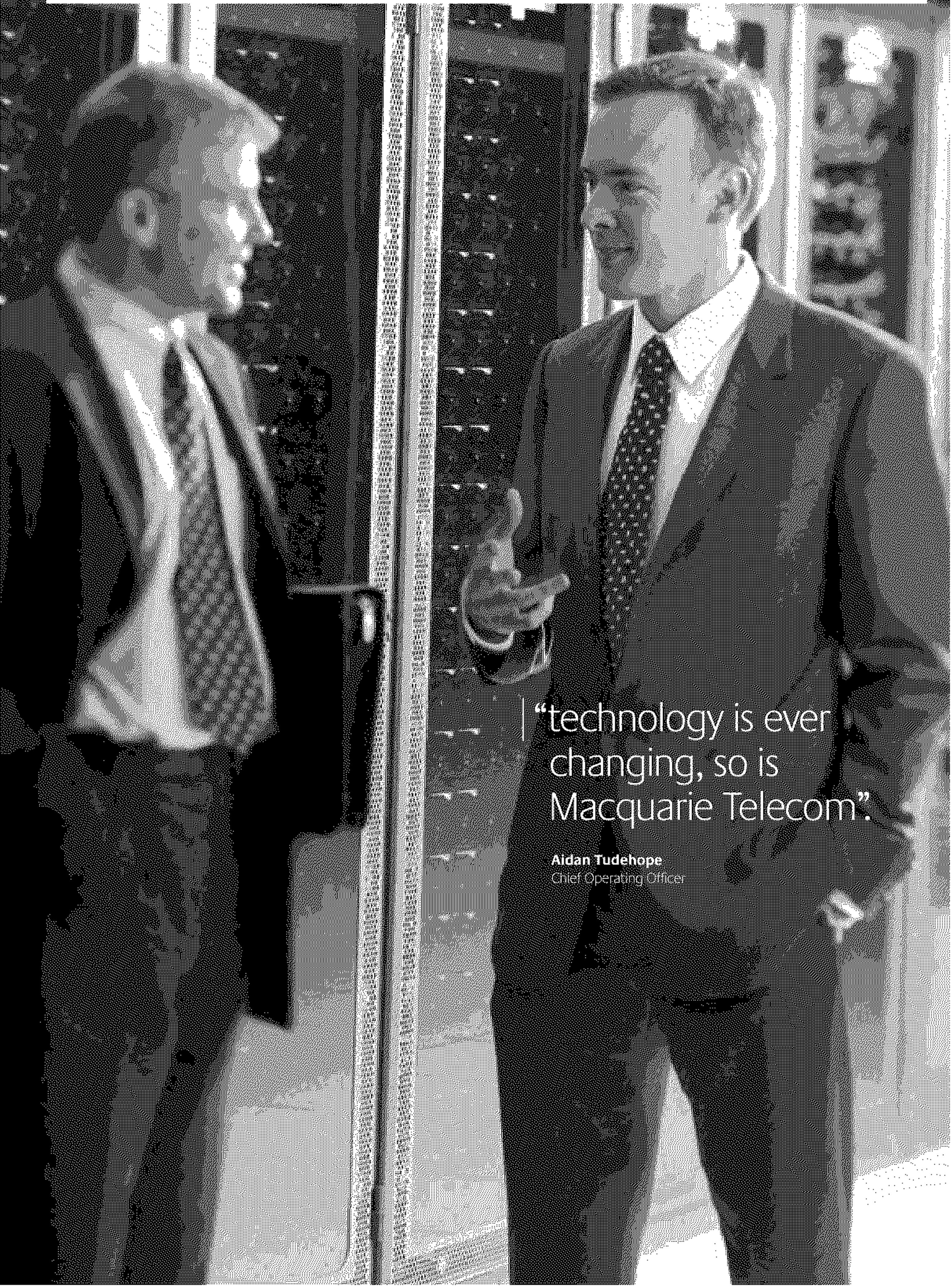
"We had seven different providers offering a range of services which is clearly not an efficient model," said Jones.

"I wanted a single telecommunications partner that could manage both our voice and data loads, provide extensive bandwidth, offer considerable billing flexibility and assist us in managing the specialised termination requirements for our 1800 and 1300 numbers," he said.

"We expect our bandwidth needs to range between 10Mbps and 14Mbps," said Jones.

"Using Macquarie's Metro Access Network enables us to do a lot more for the same price as our previous 4Mbps access."





"technology is ever changing, so is Macquarie Telecom".

Aidan Tudehope
Chief Operating Officer

New approach to business mobiles reaps rewards for Department of Veterans' Affairs.

"Macquarie Telecom emerged as a clear winner due to its competitive pricing and its high levels of service and support"

Competitive pricing and web based management tools help DVA reduce mobile costs by 55 per cent

Any business with a large number of mobile phone users understands the monthly burden of billing. Not just the burden of call carriage costs, but also the detailed task of processing and reporting on those monthly bills.

For the Department of Veterans' Affairs ("DVA"), a Commonwealth Government department with 470 mobile phone users spread across Australia, these difficulties presented a significant challenge.

Regional branches managed their own mobile telephony, which meant there was no consistency across the DVA on key factors such as plans, rates and coverage options.

In December 2004, DVA overhauled its mobile telephony fleet. Its goals were to:

- ascertain whether market prices had reduced and take advantage of any cost reductions as soon as possible;
- gain a real-time insight into mobile phone assets and usage patterns;
- measure compliance with the existing Departmental usage policies and redefine these to better align with goals and workflow processes.

Following an independent evaluation of nine providers, DVA awarded Macquarie Telecom the contract for carriage of its mobile fleet.

"Macquarie Telecom emerged as a clear winner due to its competitive pricing, its high levels of service and support, and the reporting power of the FleetView management tool," said Ian Fletcher, Director, Voice Services, DVA.

Macquarie Telecom began switching user handsets over to proprietary GSM and CDMA mobile phones in December. Now, 440 phones in the DVA fleet are supplied and reported on by Macquarie Telecom and DVA is recording significant cost savings.

Macquarie Telecom's web-based fleet management tool, FleetView enables the Department to better to monitor and manage usage patterns across different criteria and analyse and implement usage policies.

"FleetView has automated our reporting, billing and mobile phone inventory management. This gives us the flexibility to make 'real-time' changes to user profiles to accommodate business travel requirements, annual leave and a range of other changes of circumstances," said Fletcher.

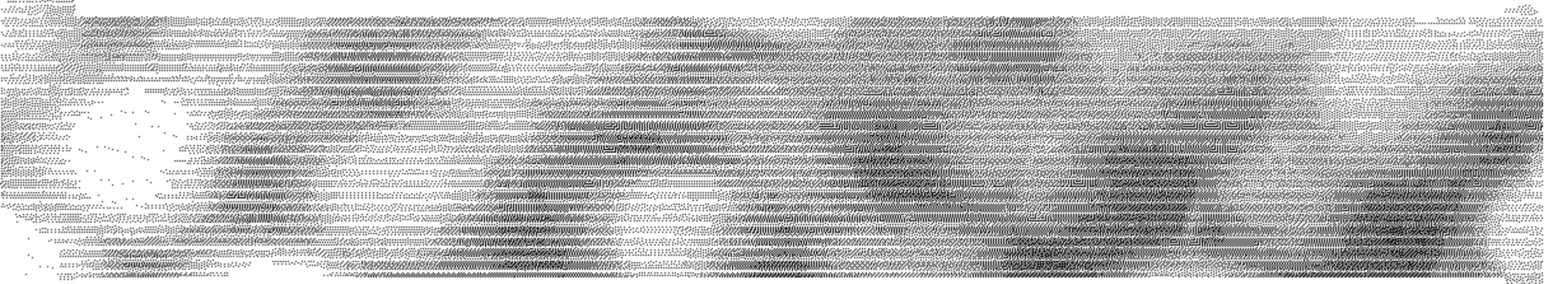
Since moving to Macquarie Telecom just six months ago, DVA has recorded a 55% drop in call carriage costs.

Administration costs have also been significantly reduced. Processing and reporting on monthly usage, which previously took between three and four days, now take just three hours, thanks to the online billing functionality provided by FleetView.

Fletcher is now able to scrutinise the monthly reports within categories aligned to the many DVA business functions. The new reporting functionality enables him to assess usage and develop user profiles to address areas of concern.

"Mobile costs can now be managed and planned for. We can also actively generate further savings by creating and enforcing usage policies more closely aligned to business functions," said Fletcher.
Since moving to Macquarie Telecom and implementing FleetView, DVA has populated an asset management database that enables Fletcher to report on usage patterns across the Department, separate cost centres and individual users, in close to real time.

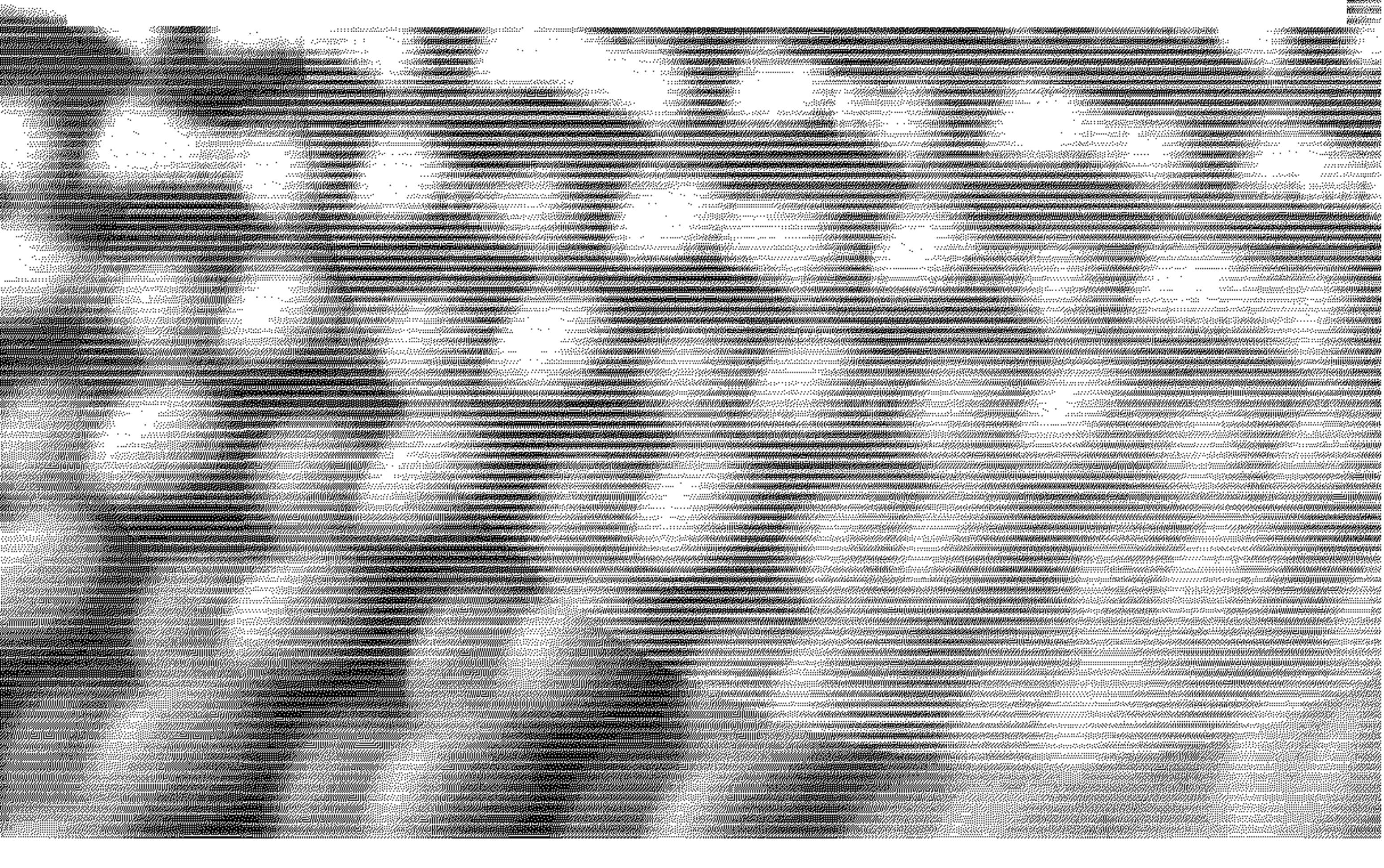
"Before Macquarie Telecom's FleetView management we had 470 individual users and a cumbersome, time-consuming administration process. Now, we manage a fleet that meets our specific Departmental needs, which saves us significant time and money," said Fletcher.



Macquarie Telecom launches its' Wireless Data category.

In July 2005, Macquarie Telecom launched its' Wireless Data category with the release of the BlackBerry Enterprise Solution. BlackBerry is an enterprise mobility platform that provides secure remote access to corporate email, calendar, contacts, tasks and other 'groupware' functions on a simple-to-use mobile handset. BlackBerry can also be extended to enable 'Access Anywhere' to other core business applications. BlackBerry gives the user the flexibility to work wherever they are, driving significant productivity and efficiency benefits.

Macquarie Telecom, through its partnership with Vodafone Australia, is the world's first Mobile Virtual Network Operator to offer the BlackBerry solution. This partnership was initiated based on our customers feedback with regards to product requirements. Our customers' advised Macquarie Telecom, that the only significant gap in our product portfolio was Wireless Data. Macquarie Telecom responded to this feedback by introducing the Blackberry Solution in the first instance. Over the course of the next financial year, Macquarie Telecom will further extend its wireless and fixed-line Access Anywhere portfolio to ensure we offer a complete range of solutions for our customers.



Robert Kaye Chairman

Robert is Chairman of Macquarie Telecom and was appointed as a director in 2001. He 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, until retirement in June 2002. Robert has held CEO positions in the past with several major IT&T companies. Robert is chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee.

David Tudehope Chief Executive

David is Chief Executive and co-founder of Macquarie Telecom and has been a director since 1992. He is responsible for overseeing the general management and strategic direction of the Company, and is actively involved in the Company's participation in regulatory issues. David was a former member of the Minister for Telecommunication's 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, Nomination and Remuneration Committee.

Stephen Butler Non-Executive Director

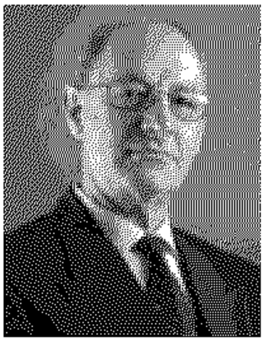
Stephen is currently executive vice president for S3 Matching Technologies, a telco billing systems specialist based in Texas, USA. He was formerly chief executive officer of PowerTel Limited, a position he held for more than three years until 2003. During this time, Stephen led the transformation of PowerTel from a construction focused company to a customer service company, driving revenue growth and achieving positive operating cash flow. He has held board positions with PowerTel and WilTel Communications Australia, and advisory board positions with Newbridge Networks, Argon Networks and Edge Broadband Ltd. Stephen holds a Bachelor of Science (Electrical Engineering) degree. He joined the Board on 26 July 2004 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

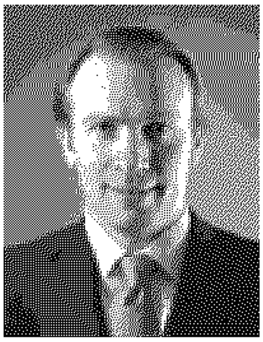
Aidan Tudehope Chief Operating Officer

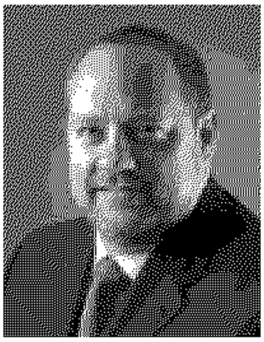
Aidan is the Chief Operating Officer and co-founder of Macquarie Telecom and has been a director since 1992. Aidan is responsible for the design and delivery of operational excellence within Macquarie Telecom. He has been instrumental in the development of Macquarie Telecom's Singaporean, data networking and Intellicentre strategies. He is also responsible for the direction of the Company's information technology strategy. Aidan holds a Bachelor of Commerce degree.

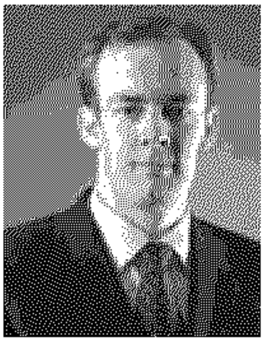
John Palfreyman Non-Executive Director

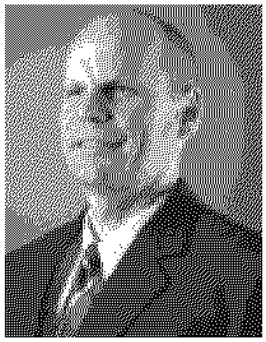
John's career spans more than 20 years in the IT industry. He was executive chairman of 90East Inc, an Australian supplier of managed security services to Federal Government agencies, until the company's successful trade sale in early 2004. Previously, John was managing director of Baltimore Technologies (Asia Pacific), the region's dominant supplier of public key infrastructure based e-commerce and enterprise security systems. He holds a Bachelor of Commerce degree and qualified as a chartered accountant in 1982. John joined the Board on 26 July 2004 and is chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.


Robert Kaye


David Tudehope


Stephen Butler


Aidan Tudehope


John Palfreyman

"our focus remains on the execution of our strategies."

Board of Directors

2005 Financial Summary

Investment program continues

Growth in data service revenue and improved revenue mix

Customer numbers grow

Operating cash flow of $5.3 million

2005 Financial Summary

Year ended 30 June 2005, in $m

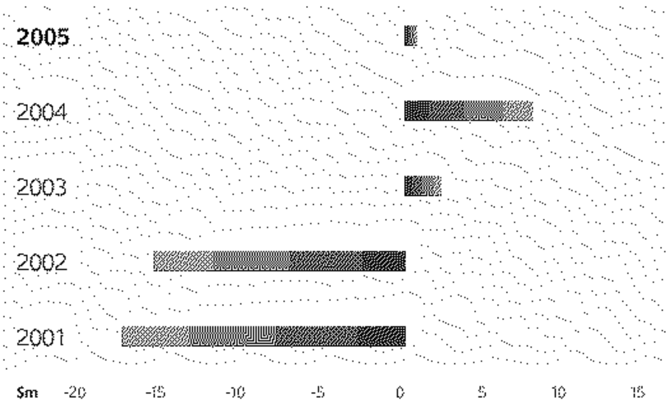
	2005	2004	2003	2002	2001
Service revenue	230.5	226.9	234.5	228.4	219.4
EBITDA	0.7	7.9	2.8	(15.6)	(17.7)
EBIT	(10.7)	(0.8)	(6.3)	(25.5)	(23.7)
Net loss after tax	(7.4)	(0.8)	(4.7)	(17.7)	(13.7)
Operating cash flow	5.3	14.0	10.1	1.2	(4.5)
Customer numbers	2,970	2,562	2,350	2,018	1,600

2005 Operating Results by Business Area
For the year ended 30 June 2005, in $m

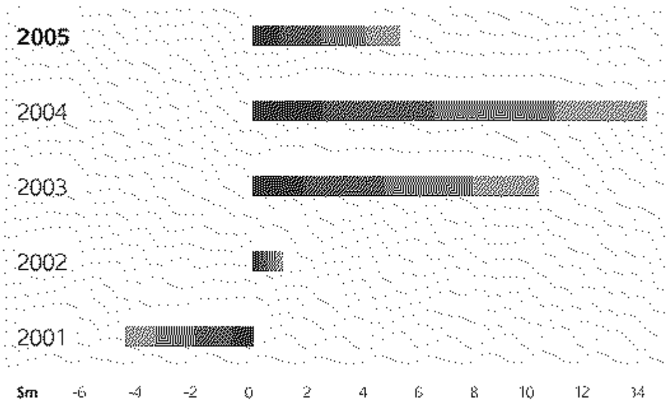
	Revenue	EBITDA
Voice Services	148.1	8.4
Data Services	59.3	(0.3)
Singapore	10.9	(0.8)
Mobiles	12.2	(1.1)
Corporate Office*	–	(5.5)
	230.5	0.7

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

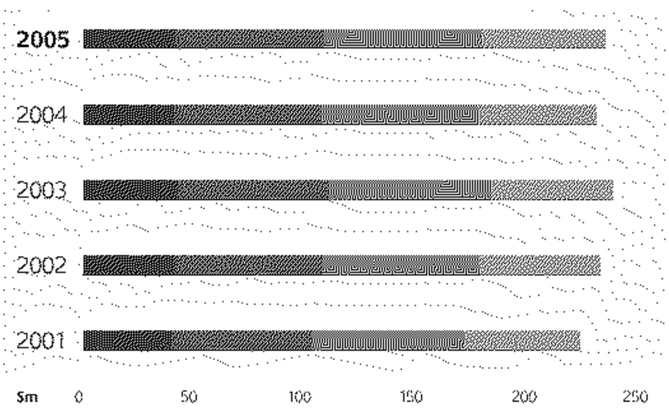
EBITDA 2001–2005



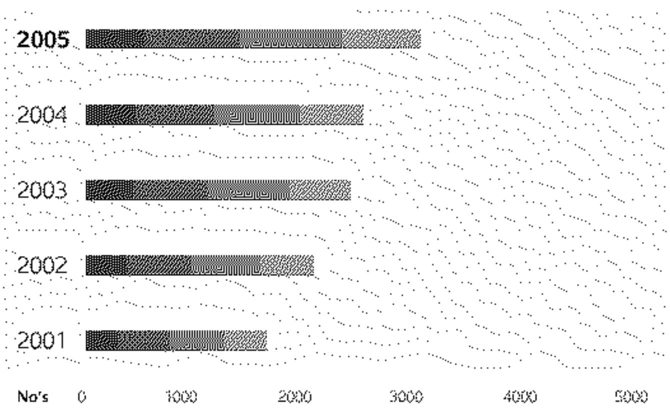
Operating Cash Flow 2001–2005



Service Revenue 2001–2005



Customer Numbers 2001–2005



"thanks to the management team and Macquarie Telecom's entire staff for their dedication and hard work during the year, and our shareholders, business partners and suppliers for their ongoing support".

David Tudehope
Chief Executive

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Directors' Report

Your directors submit their report for the year ended 30 June 2005.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Robert Kaye (Chairman)

Robert, aged 67, is Chairman of Macquarie Telecom and was appointed as a director in 2001. He 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, until retirement in June 2002. Robert has held CEO positions in the past with several major IT&T companies. Robert is chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee.

David Tudehope (Chief Executive)

David, aged 38, is Chief Executive and co-founder of Macquarie Telecom and has been a director since 1992. He is responsible for overseeing the general management and strategic direction of the Company, and is actively involved in the Company's participation in regulatory issues. David was a former member of the Minister for Telecommunication's 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, Nomination and Remuneration Committee.

Aidan Tudehope (Chief Operating Officer)

Aidan, aged 33, is the Chief Operating Officer and co-founder of Macquarie Telecom and has been a director since 1992. Aidan is responsible for the design and delivery of operational excellence within Macquarie Telecom. He has been instrumental in the development of Macquarie Telecom's Singaporean, data networking and Intellicentre strategies. He is also responsible for the direction of the Company's information technology strategy. Aidan holds a Bachelor of Commerce degree.

Stephen Butler

Stephen, age 38, is currently executive vice president for S3 Matching Technologies, a telco billing systems specialist based in Texas, USA. He was formerly chief executive officer of PowerTel Limited, a position he held for more than three years until 2003. During this time, Stephen led the transformation of PowerTel from a construction focused company to a customer service company, driving revenue growth and achieving positive operating cash flow. He has held board positions with PowerTel and WilTel Communications Australia, and advisory board positions with Newbridge Networks, Argon Networks and Edge Broadband Ltd. Stephen holds a Bachelor of Science (Electrical Engineering) degree. He joined the Board on 26 July 2004 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

John Palfreyman

John's career spans more than 20 years in the IT industry. John is aged 46. He was executive chairman of 90East Inc, an Australian supplier of managed security services to federal government agencies, until the company's successful trade sale in early 2004. Previously John was managing director of Baltimore Technologies (Asia Pacific), the region's dominant supplier of public key infrastructure based e-commerce and enterprise security systems. He holds a Bachelor of Commerce degree and qualified as a chartered accountant in 1982. John joined the Board on 26 July 2004 and is chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.

Jane Craig

Jane, aged 48, was appointed as a director in 2003 and, until her retirement from the Board on 26 July 2004, was a member of the Audit and Risk Management Committee and Corporate Governance, Nomination and Remuneration Committee.

John Priest

John, aged 56, was appointed as a director in 2001 and, until his retirement from the Board on 26 July 2004, was a member of the Audit and Risk Management Committee and chairman of the Corporate Governance, Nomination and Remuneration Committee.

COMPANY SECRETARY

Tim Blackwell

Tim, aged 44, was appointed as company secretary of the Company in August 2000. Prior to this he held the role of Managing Director Asia Pacific of Brinks Incorporated for a period of over 5 years. Tim Blackwell has been a chartered accountant for over 20 years.

Albert Koolmees

Albert, aged 42, was appointed as company secretary of the Company in November 2001. Prior to this he held the role of general counsel and company secretary of Spike Networks Limited for a period of over 2 years. Albert Koolmees has been a lawyer for over 15 years.

Directors' Report

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

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

(a) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 125,013,900 (61%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;

(b) a director-related entity of D Tudehope and A Tudehope holds 72,326 ordinary shares issued under the Employee Discretionary Share Plan and Share Purchase Plan, and holds an interest in 210,000 options over ordinary shares issued under the Employee Option Plan;

(c) a director-related entity of D Tudehope holds 204,500 ordinary shares;

(d) R Kaye holds an interest in 400,000 options over ordinary shares. A director-related entity of R Kaye holds 50,000 ordinary shares;

(e) S Butler holds an interest in 400,000 options over ordinary shares; and

(f) J Palfreyman holds an interest in 400,000 options over ordinary shares. A director-related entity of J Palfreyman holds 100,000 ordinary shares.

PRINCIPAL ACTIVITIES

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

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

EARNINGS PER SHARE

	2005 cents
Basic loss per share	(3.6)
Diluted loss per share	(3.6)

DIVIDENDS

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

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation (EBITDA) profit of $0.7 million for the twelve months to 30 June 2005. The EBITDA result was in line with expectations and guidance and reflects a period in which Macquarie Telecom commenced the implementation of a major investment program to position the company for further growth. This investment is vital to the ongoing enhancement of Macquarie Telecom's capability to meet its customer's increasingly sophisticated IP based needs.

Macquarie Telecom generated total service revenue of $230.5 million, an increase of 1.6% compared to the twelve months to 30 June 2004. Service revenue has increased in each of the past three consecutive halves. The Company now provides services to more than 2,970 business and government customers, including more than 764 customers in Singapore.

Macquarie Telecom's ongoing investment program is focused on three main areas:

Firstly, the program of investing in the Metro Access Network commenced in 2005, and will continue into 2006. The Metro Access Network is a new generation network that will help meet customers' increasingly sophisticated and converging IP based as well as traditional network needs.

Secondly, a continuing investment in our established security services — an ongoing product and service differentiator for Macquarie Telecom.

Thirdly, the introduction and establishment of the Macquarie Telecom brand. Effective branding is seen as an important ongoing process, and the phase of introducing Macquarie Telecom's new brand is largely complete.

Macquarie Telecom continues to execute on its strategy of transforming the company into an integrated IT&T carrier that offers a full range of voice, data, on-line and mobile services which address the increasingly complex needs of its business and government customers.

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

Directors' Report

REVIEW AND RESULTS OF OPERATIONS continued

REVENUE (A$ million)	Full Year 2003	Full Year 2004	Full Year 2005
Voice	182.2	161.6	**148.1**
Data	40.8	51.1	**59.3**
Singapore	11.2	10.1	**10.9**
Mobiles	0.3	4.1	**12.2**
TOTAL	234.5	226.9	**230.5**

EBITDA (A$ million)	Full Year 2003	Full Year 2004	Full Year 2005
Voice	13.0	13.2	**8.4**
Data	(3.3)	4.2	**(0.3)**
Singapore	–	(1.0)	**(0.8)**
Mobiles	(1.6)	(2.4)	**(1.1)**
Corporate Office	(5.3)	(6.1)	**(5.5)**
TOTAL	2.8	7.9	**0.7**

The twelve months ended 30 June 2005 represented a continued improvement in Macquarie Telecom's revenue mix. Data continued to deliver positive growth and now represents more than 25.7% of Macquarie Telecom's service revenue.

Macquarie Telecom's data business, which provides data networking and data hosting services to Australian business and government customers, generated revenue of $59.3 million. This represented a 16% increase compared to the twelve months ended 30 June 2004.

Data recorded an EBITDA profit of $0.6 million in the second half, which partially offset the first half loss of $0.9 million, resulting in a full year Data EBITDA loss of $0.3 million.

Full year Data profitability was in line with expectations, and was impacted by investments in IP based products and services, and investment in enhancing the depth and level of data and security expertise at Macquarie Telecom. The second half data result reflected growth in IP network revenue, validating Macquarie Telecom's investment program in developing IP based products and services.

Macquarie Telecom's data hosting facility, the Intellicentre, continued to build its customer base and revenue momentum.

In its traditional Australian voice business, Macquarie Telecom generated revenue of $148.1 million in the twelve months ended 30 June 2005, down 8.3% compared to the twelve months ended 30 June 2004, but only down 2.6% on the six month period ended 31 December 2004. The voice service market was again characterised by intense competition and industry-wide price pressure, which impacted profitability.

The continuing price pressure and decline in business voice revenue is an industry wide phenomenon and reinforces the need for the company to continue reducing reliance on voice service revenues and diversifying into other higher margin areas. The substantial investment program being implemented is an important element of executing this strategy.

Macquarie Telecom's Government Business Services group, which sells Macquarie Telecom's services to Australian Federal and State Governments, continues to contribute to overall revenues and helps in broadening Macquarie Telecom's available market.

The Singapore business generated revenue of $10.9 million in the twelve months ended 30 June 2005, an increase of 7.4% compared to the corresponding period. The Singapore business is expanding to meet customer's needs and the performance of the division is encouraging, considering the continuing competitive price environment.

Mobile service revenue was $12.2 million, a strong 198% improvement compared to the corresponding period. Macquarie Telecom is confident the revenue contribution of mobile will continue to strengthen, although more likely at a slower rate.

Mobile service remains an important element in Macquarie Telecom's full service offering and is a competitive necessity as part of Macquarie Telecom's strategy of offering bundled solutions to customers that take care of all telecommunications requirements.

Macquarie Telecom will complete the role out of the Metro Access Network in 2006, and expects the total capital investment to be approximately $9 million, in line with expectations. Of the $9 million, $7 million will be spent in the 2006 financial year.

Macquarie Telecom is continuing to invest in IP based products and services, as it consolidate its platform to build future growth and profitability. Recurring core capital expenditure is expected to be approximately 5% of revenue, reflecting this investment in IP infrastructure, differentiated security products and customer growth.

Directors' Report

REVIEW AND RESULTS OF OPERATIONS continued

Macquarie Telecom expects the investment program will continue to impact profitability in the current year. However, despite these major investments, EBITDA for the current year is expected to maintain a growth trend. EBITDA for the first half of 2006 is expected to be similar to that achieved in the second half of 2005. Second half 2006 profitability is expected to return to a solid growth curve as our investments begin to deliver profit benefits.

The consolidated entity employed 406 employees at 30 June 2005 (2004: 362 employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2005.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors believe, on reasonable grounds, that to include in this report detailed 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 2005 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 Telecom against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

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

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

REMUNERATION REPORT

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

Remuneration Philosophy

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

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

- Provide competitive rewards to attract high calibre senior managers
- Link senior manager rewards to shareholder value
- Significant portion of senior manager remuneration 'at risk', dependant upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performing hurdles in relation to variable senior manager remuneration.

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

Remuneration Structure

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

Non-executive director remuneration

Objective

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

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors will be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting held on 26 November 2003 when shareholders approved an aggregate remuneration of $500,000 per year.

The amount of aggregate of remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst non-executive directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Directors' Report

REMUNERATION REPORT continued

Each non-executive director receives a fee for being a director of the Company. No additional fee is paid for each Board committee on which a director sits.

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

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed in Table 1 on page 26 of this report.

Senior manager and executive director remuneration

Objective

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

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

Structure

Service agreements have been entered into with each the Chief Executive and the Chief Operating Officer, but not with any other senior managers, each of whom is employed under the terms of a letter of appointment. Details of the service agreements are provided on page 26.

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

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

Fixed Remuneration

Objective

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

Fixed remuneration of the Chief Executive and Chief Operating Officer is reviewed annually by the Corporate Governance, Nomination and Remuneration Committee and the process consists of a review of Company wide and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

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

The fixed remuneration component of the 5 most highly remunerated senior managers is detailed in table 2 on page 27.

Directors' Report

REMUNERATION REPORT continued

Variable Remuneration — Short Term Incentive (STI)

Objective

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

Structure

Actual STI payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to profit, operational performance and staff management. The Company has predetermined benchmarks, which must be met in order to trigger payments under the short term incentive scheme.

On a half yearly basis, after consideration of performance against KPIs, an overall performance rating for the Company is approved by the Corporate Governance, Nomination and Remuneration Committee. The individual performance of each senior manager is also rated and taken into account when determining the amount, if any, of the STI component to be paid to each senior manager.

Variable Pay — Long Term Incentives (LTI)

Objective

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

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

Structure

LTI grants to senior managers are delivered in the form of option and discretionary shares.

Service Agreements

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

- Each of the Chief Executive and the Chief Operating Officer may resign from his position and thus terminate agreement by giving 6 months written notice.
- The Company may terminate this agreement by providing 6 months' written notice or provide payment in lieu of the notice period (based on the fixed component of the Chief Executive or the Chief Operating Officer's remuneration (as the case may be). The Company may also terminate this agreement on a lesser period of notice if, for example, the Chief Executive or the Chief Operating Officer (as the case may be) becomes incapacitated.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Chief Executive or the Chief Operating Officer (as the case may be) is only entitled to that portion of remuneration, which is fixed, and only up to the date of termination.

Table 1: Director remuneration for the year ended 30 June 2005

	Annual emoluments			Long term emoluments			
	Base salary/fees	Bonus	Other (i)	Options (ii)			Super-annuation
				Granted during the year	Amortised cost of unvested options	% of remun-eration	
	$	$	$		$		$
R Kaye	146,154	–	–	–	–	–	11,585
D Tudehope	338,615	48,256	26,728	–	–	–	11,585
A Tudehope	322,497	29,991	26,728	–	–	–	11,585
S Butler	83,952	–	–	400,000	4,665	4.8%	7,586
J Palfreyman	91,538	–	–	400,000	4,665	4.8%	–
J Craig	7,500	–	–	–	–	–	675
J Priest	12,500	–	–	–	–	–	1,125

Directors' Report

Table 2: Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2005

	Annual emoluments			Long term emoluments			
	Base salary	**Bonus**	**Other (i)**	**Options (ii)**			**Super-annuation**
				Granted during the year	**Amortised cost of unvested options**	**% of remun-eration**	
	$	**$**	**$**		**$**		**$**
C Greig	254,423	100,265	16,000	100,000	2,538	0.66%	11,585
M Krishnapillai	211,046	63,824	23,000	100,000	2,970	0.95%	11,585
J Losco	324,846	54,545	16,600	100,000	2,791	0.68%	11,585
G Thomson	236,735	65,984	15,000	100,000	2,970	0.89%	11,585
P Thomson	267,750	55,216	123,444	100,000	4,777	1.06%	–

Details of shares issued to and held by specified directors and specified executives are disclosed in Note 22 to the financial statements.

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" 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 AASB 1046 *Director and Executive Disclosures for Disclosing Entities* and AASB 2 *Share Based Payment prospectively* for all options granted to directors and relevant executives, which had not vested as at 1 July 2004. 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. Currently these fair values are not recognised as expenses in the financial statements. 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 2004, all unvested options and options granted as part of director and executive emoluments have been valued using either a Binomial option pricing model, or a Monte Carlo simulation model for those options subject to performance hurdles, 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.

Directors' Report

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	Meetings of Committees: Corporate Governance, Nomination and Remuneration
Number of meetings held:	14	6	3
Number of meetings attended:			
R Kaye	14	6	3
D Tudehope	14	–	3
A Tudehope	14	–	–
S Butler*	13	6	3
J Palfreyman*	13	6	3
J Craig**	–	–	–
J Priest**	–	–	–

* appointed to Board 26 July 2004 and therefore only eligible to attend 13 directors' meetings.

** resigned from Board 26 July 2004.

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

The members of the Audit and Risk Management Committee are J Palfreyman, S Butler and R Kaye. The members of the Corporate Governance, Nomination and Remuneration Committee are R Kaye, S Butler, J Palfreyman and D Tudehope. J Palfreyman and S Butler were appointed to each of these committees on 16 August 2004.

ROUNDING

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

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Macquarie Telecom 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-rata 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.

AUDIT INDEPENDENCE AND NON-AUDIT SERVICES

Refer to page 60 for the independence declaration from our auditors, Ernst & Young.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	$164,693
Business risk management	$13,000
Other	$9,730

Signed in accordance with a resolution of directors:

Robert Kaye
Chairman

David Tudehope
Chief Executive

Sydney, 1 September 2005

Corporate Governance Statement

Introduction

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

The Board considers that except to the extent expressly indicated in this statement, those corporate governance practices comply with the Australian Stock Exchange Corporate Governance Council's ("ASXCGC") Principles of Good Corporate Governance and Best Practice Recommendations, dated 31 March 2003. Also, except to the extent expressly indicated in this statement, those practices were followed throughout last year.

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

Principle 1

Lay solid foundations for management and oversight by the Board

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

The Board's key responsibilities are:

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

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

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

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

Principle 2

Structure the Board to add value

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

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

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

Principle 3

Promote ethical and responsible decision making

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

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

Corporate Governance Statement

Principle 4

Safeguard integrity in financial reporting

The Chief Executive and the Chief Financial Officer have stated to the Board in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The Board has established an Audit and Risk Management Committee, which operates under a Charter approved by the Board in September 2003 and amended by the Board in August 2005. Each of the members of the Committee is an independent director. The name of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

The Chief Executive, Chief Financial Officer, Chief Operating Officer, Company Secretary, the business risk manager and the external auditor attend meetings at the discretion of the Committee. The Committee also meets privately with the external auditor without management present.

Minutes of all Committee meetings are provided to the Board.

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

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

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

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

Principle 5

Make timely and balanced disclosure

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

The Board approves all releases that are made to the Australian Stock Exchange ("ASX").

The Company Secretary is responsible for communications with the ASX.

Principle 6

Respect the rights of shareholders

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

- shareholders can gain access to information about the Company, including the 2003 and 2004 Annual Report and financial statements, 2003, 2004 and 2005 half-year financial statements, Board commentaries on those financial statements, information provided to analysts during briefings on those financial statements and all relevant announcements made to the market, through the website at www.macquarietelecom.com;
- in conducting analyst briefings, the Company takes care to ensure that any information provided to analysts is made available to the market prior to it being provided to analysts;
- the principal method of communication with shareholders is through the provision of the Annual Report and financial statements, the half-year financial statements and Annual General Meetings. Shareholders are encouraged to use these meetings to ask questions on any matters relating to the Company, its business and the performance of that business; and
- the Company requests the external auditors to attend the Annual General Meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditors' report.

Principle 7

Recognise and manage risk

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

To this end, the Company has undertaken a review of its existing internal control mechanisms to assess the efficacy of those mechanisms and, where necessary and appropriate, identify the means by which those mechanisms can be improved. As a result of that review, the Board has adopted a formal risk management strategy and policy. In addition, the Company has established a formal framework for risk management and internal compliance, which includes the establishment of an internal business risk management function. The Audit and Risk Management Committee is responsible for reviewing and reporting to the Board on the effectiveness of the Company's management of risk, including systems for internal controls.

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

Corporate Governance Statement

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

- the integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system, in so far as it relates to financial reporting risk, is operating efficiently and effectively in all material respects.

Principle 8

Encourage enhanced performance

The performance of the Board (including its Committees), individual directors and key executives is reviewed on a regular basis.

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

In the case of executive directors and other key executives, performance is evaluated against both quantitative and qualitative indicators.

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

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

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

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

New directors receive special briefings from management to assist them to rapidly understand the Company's business and issues. Time is allocated at Board and Committee meetings for continuing education on significant issues facing the Company and changes to the regulatory environment.

Principle 9

Remunerate fairly and responsibly

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

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

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

Details of shares and options issued to employees of controlled entities of the Company are included in Note 19 to the financial statements.

Principle 10

Recognise the legitimate interests of stakeholders

The Company had in place during the year a Code of Conduct that sets out the behaviour required of directors and employees. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution. The Board and senior managers are responsible for monitoring compliance with and dealing with breaches of the Code.

Statement of Financial Performance

Year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenue from ordinary activities	2	231,692	228,279	715	4,062
Expenses from ordinary activities	2	(241,300)	(227,635)	(134)	(3,291)
(Loss)/profit from ordinary activities before income tax expense		(9,608)	644	581	771
Income tax benefit/(expense) relating to ordinary activities	4	2,235	(1,431)	(174)	(366)
Net (loss)/profit attributable to members	16(b)	(7,373)	(787)	407	405
Net exchange differences on translation of financial statements of foreign controlled entity	16(a)	(168)	(73)	–	–
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		(168)	(73)	–	–
Total changes in equity other than those resulting from transactions with owners as owners		(7,541)	(860)	407	405

		Cents	Cents
Basic loss per share	21	(3.6)	(0.4)
Diluted loss per share	21	(3.6)	(0.4)

Statement of Financial Position

At 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
CURRENT ASSETS					
Cash assets		23,144	31,808	9,936	15,976
Receivables	5	17,539	19,079	45	66
Work in progress	6	16,690	15,265	–	–
Investments	7	1,952	2,558	–	–
Other	8	2,197	1,697	–	–
TOTAL CURRENT ASSETS		61,522	70,407	9,981	16,042
NON-CURRENT ASSETS					
Receivables	5	–	–	94,987	90,093
Investments	9	–	–	70,400	70,400
Plant and equipment	10	31,374	27,758	–	–
Deferred tax assets	4	8,802	4,094	8,763	4,081
Other	11	3,389	3,722	–	–
TOTAL NON-CURRENT ASSETS		43,565	35,574	174,150	164,574
TOTAL ASSETS		105,087	105,981	184,131	180,616
CURRENT LIABILITIES					
Payables	12	42,252	39,540	110	160
Current tax liabilities	4	–	–	–	–
Provisions	13	1,395	1,463	–	–
Other	14	65	14	–	–
TOTAL CURRENT LIABILITIES		43,712	41,017	110	160
NON-CURRENT LIABILITIES					
Payables	12	–	–	6,337	5,308
Deferred tax liabilities	4	3,592	1,611	3,553	1,598
Provisions	13	831	582	–	–
Other	14	1,548	–	–	–
TOTAL NON-CURRENT LIABILITIES		5,971	2,193	9,890	6,906
TOTAL LIABILITIES		49,683	43,210	10,000	7,066
NET ASSETS		55,404	62,771	174,131	173,550
EQUITY					
Contributed equity	15	87,025	86,851	87,025	86,851
Reserves	16	(1,088)	(920)	–	–
(Accumulated losses)/retained profits	16	(30,533)	(23,160)	87,106	86,699
TOTAL EQUITY		55,404	62,771	174,131	173,550

Statement of Cash Flows

Year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		250,831	256,181	–	–
Payments to suppliers and employees		(243,998)	(239,353)	–	–
Interest received		1,247	1,388	736	752
Goods and services tax paid		(2,819)	(4,249)	–	–
NET CASH FLOWS FROM OPERATING ACTIVITIES	17(a)	5,261	13,967	736	752
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of plant and equipment		(14,721)	(11,312)	–	–
Proceeds from sale of property plant and equipment		16	25	–	–
Cash inflow/(outflow) for short-term deposits		606	(820)	–	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(14,099)	(12,107)	–	–
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		174	28	174	28
Advances to related parties		–	–	(6,950)	(28)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		174	28	(6,776)	–
NET (DECREASE)/INCREASE IN CASH HELD		(8,664)	1,888	(6,040)	752
Opening cash brought forward		31,808	29,920	15,976	15,224
CLOSING CASH CARRIED FORWARD	17(b)	23,144	31,808	9,936	15,976

Notes to the Financial Statements

At 30 June 2005

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.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Macquarie Telecom (the parent entity) and all entities that Macquarie Telecom 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 uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off against the provision as incurred.

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

(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 the lower of cost or net realisable value. Plant and equipment includes costs in relation to Information Technology 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.

	2005	2004
Major depreciation periods are:		
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.

Notes to the Financial Statements

At 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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.

Notes to the Financial Statements

At 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefit 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 schemes 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.

Notes to the Financial Statements

At 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
2. PROFIT FROM ORDINARY ACTIVITIES					
(a) Revenue from ordinary activities					
Revenue from operating activities					
Revenue from services		230,527	226,510	–	104
Revenue from non-operating activities					
Management fee	25(b)	–	–	–	3,197
Interest – other persons/corporations		1,149	1,410	715	761
Proceeds on disposal of plant and equipment		16	25	–	–
Other		–	334	–	–
Total revenue from non-operating activities		1,165	1,769	715	3,958
Total revenue from ordinary activities		231,692	228,279	715	4,062
(b) Expenses from ordinary activities					
Amortisation of non-current assets					
Leasehold improvements		394	270	–	–
Transmission capacity		333	333	–	–
Depreciation of non-current assets					
Plant and equipment		10,701	8,075	–	–
Total depreciation and amortisation expense		11,428	8,678	–	–
Bad and doubtful debts – trade debtors		518	1,107	–	–
Operating lease rental					
Minimum lease payments		3,179	2,919	–	–
Written down value of plant and equipment disposed		9	7	–	–
Employment costs		49,644	43,091	–	–
Management fee	25(b)	–	–	–	103
Carrier costs		158,226	156,408	–	3,044
Other		18,296	15,425	134	144
		229,872	218,957	134	3,291
Total expenses from ordinary activities		241,300	227,635	134	3,291

Notes to the Financial Statements

At 30 June 2005

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
3. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES				
(a) There were no dividends proposed or paid during the year (2004: nil).				
(b) Franking credit balance				
The amount of franking credits available for the subsequent financial year is:				
– franking account balance as at the end of the financial year at 30%	137	137	137	137
	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	(2,882)	193	174	231
Tax effect of permanent differences:				
Effect of lower tax rates on overseas income	224	226	–	–
Singapore tax losses not brought to account	611	603	–	–
Non-deductible expenses	110	274	–	–
Under/(over) provision of previous year	(298)	135	–	135
Income tax expense/(benefit) attributable to ordinary activities	(2,235)	1,431	174	366
Tax assets and liabilities				
Current tax payable	–	–	–	–
Provision for deferred income tax – non-current	3,592	1,611	3,553	1,598
Future income tax benefit – non-current	8,802	4,094	8,763	4,081
Income tax losses				
Future income tax benefit arising from tax losses brought to account	3,005	87	3,005	87
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.	2,852	2,241	–	–

Notes to the Financial Statements

At 30 June 2005

4. INCOME TAX continued

Income tax losses continued

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 Telecom 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-rata 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 Telecom Group Limited.

There has been no material effect on the provision for deferred tax liabilities.

	Notes	Consolidated		Parent Entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
5. RECEIVABLES					
CURRENT					
Trade debtors		20,777	23,099	–	–
Provision for doubtful debts		(4,311)	(4,411)	–	–
Other receivables		1,073	391	45	66
		17,539	19,079	45	66
NON-CURRENT					
Amounts other than trade debts receivable from related parties:					
Wholly-owned group					
– controlled entities	25(b)	–	–	94,987	90,093
		–	–	94,987	90,093
(a) Australian dollar equivalents					
Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged:					
– Singapore dollars		546	653	–	–

(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 25(b).

Notes to the Financial Statements

At 30 June 2005

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
6. WORK IN PROGRESS				
Work in progress	16,690	15,265	–	–
7. CURRENT INVESTMENTS				
Bank deposits	1,952	2,558	–	–

Terms and conditions relating to the above financial instruments:

(a) Short-term deposits include interest bearing term deposit accounts for facilities existing at 30 June 2005 and effective interest rates of 0.63% to 5.36% (2004: 0.77% to 5.16%) per annum.

(b) These bank deposits are held by financial institutions as security against bank guarantees.

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
8. OTHER CURRENT ASSETS				
Prepayments	2,197	1,697	–	–

9. NON-CURRENT INVESTMENTS

Interests in subsidiaries

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity 2005 %	2004 %	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Macquarie Telecom Pty Limited – ordinary shares	Australia (a)	100	100	59,400	59,400
Macquarie Telecom Services Pty Limited – ordinary shares	Australia (a)	100	100	11,000	11,000
Macquarie Telecom Carrier Services Pty Limited – ordinary shares	Australia (a)	100	100	–	–
Macquarie Telecom Network Carrier Services Pty Limited – ordinary shares	Australia (a)	100	100	–	–
Macquarie Telecom Pte Ltd – ordinary shares	Singapore (a)	100	100	–	–
				70,400	70,400
Investments at cost comprise:					
Unlisted shares				70,400	70,400

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 to the Financial Statements

At 30 June 2005

9. NON-CURRENT INVESTMENTS continued

(a) Entities subject to Class Order relief

Pursuant to Class Order 98/1418, relief has been granted to Macquarie Telecom Pty Limited, Macquarie Telecom Services Pty Limited and Macquarie Telecom Carrier Services Pty Limited from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Macquarie Telecom Group Limited, Macquarie Telecom Pty Limited, Macquarie Telecom Services Pty Limited, Macquarie Telecom Carrier Services Pty Limited, Macquarie Telecom Network Carrier Services Pty Limited and Macquarie Telecom Pte Ltd (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2005. The effect of the deed is that Macquarie Telecom Group Limited has guaranteed to pay any deficiency in the event of winding up of any of its controlled entities. The controlled entities have also given a similar guarantee in the event the Macquarie Telecom Group Limited is wound up.

The consolidated statement of financial performance, statement of financial position and statement of cash flows of the entities that are members of the Closed Group are the same as those presented for the consolidated group and have therefore not been repeated.

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
10. PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	2,000	1,596	–	–
Accumulated amortisation	(1,014)	(627)	–	–
	986	969	–	–
Plant and equipment				
At cost	83,372	69,670	–	–
Provision for data hosting facility	(10,000)	(10,000)	–	–
	73,372	59,670	–	–
Accumulated depreciation	(42,984)	(32,881)	–	–
	30,388	26,789	–	–
Total written down amount	31,374	27,758	–	–
Reconciliations				
Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current financial year:				
Leasehold improvements				
Opening balance	969	676	–	–
Additions	411	563	–	–
Amortisation expense	(394)	(270)	–	–
	986	969	–	–
Plant and equipment				
Opening balance	26,789	24,122	–	–
Additions	14,310	10,749	–	–
Disposals	(10)	(7)	–	–
Depreciation expense	(10,701)	(8,075)	–	–
	30,388	26,789	–	–

Notes to the Financial Statements

At 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
11. OTHER NON-CURRENT ASSETS					
Transmission capacity		5,000	5,000	–	–
Accumulated amortisation		(1,611)	(1,278)	–	–
		3,389	3,722	–	–
12. PAYABLES					
CURRENT					
Trade creditors	20	36,014	30,574	–	–
Other creditors and accruals		5,742	8,458	110	160
Withholding tax payable		496	508	–	–
		42,252	39,540	110	160
NON-CURRENT					
Amounts due to related parties:					
Wholly-owned group – controlled entities	25(b)	–	–	6,337	5,308
(a) Australian dollar equivalents					
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:					
– Singapore dollars		1,085	570	–	–

(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 to 60 day terms; and

(ii) Details of the terms and conditions of related party payables are set out in Note 25(b).

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
13. PROVISIONS					
CURRENT					
Employee benefits	19	1,395	1,463	–	–
NON-CURRENT					
Employee benefits	19	831	582	–	–

Terms and conditions relating to the above are outlined in Note 19.

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
14. OTHER LIABILITIES					
CURRENT					
Lease incentive	18(b)	65	14	–	–
NON-CURRENT					
Lease incentive	18(b)	1,548	–	–	–

Notes to the Financial Statements

At 30 June 2005

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
15. CONTRIBUTED EQUITY				
(a) Issued and paid up capital				
Ordinary shares fully paid	87,025	86,851	87,025	86,851

	2005 Number of shares	2005 $	2004 Number of shares	2004 $
(b) Movements in shares on issue				
Balance at beginning of year	205,055,258	86,851,235	204,855,258	86,823,235
Conversion of share options	1,030,000	174,200	200,000	28,000
Balance at end of year	206,085,258	87,025,435	205,055,258	86,851,235

(c) Share options

Options over ordinary shares

The following options over ordinary shares were issued during the year:

(i) on 22 December 2004, 800,000 options were issued over ordinary shares, exercisable on or before 29 November 2009 at an exercise price of $0.19. Of the options issued, nil were forfeited during the financial year; and

(ii) on 1 February 2005, 1,310,000 options were issued over ordinary shares, exercisable on or before 31 January 2010 at an exercise price of $0.20. Of the options issued, nil were forfeited during the financial year.

At the end of the year, there were 6,755,000 (2004: 7,245,000) 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:

	2005 Number of options	2005 Weighted average exercise price $	2004 Number of options	2004 Weighted average exercise price $
Balance at beginning of year	7,245,000	0.38	8,850,000	0.69
Granted	2,110,000	0.20	400,000	0.24
Forfeited	(1,570,000)	0.90	(250,000)	0.22
Exercised	(1,030,000)	0.17	(200,000)	0.14
Cancelled	–	–	(1,555,000)	2.16
Balance at end of year	6,755,000	0.23	7,245,000	0.38
Exercisable at end of year	2,035,000	0.38	2,305,000	0.89

Notes to the Financial Statements

At 30 June 2005

15. CONTRIBUTED EQUITY continued

The following table summarises information about total options outstanding and exercisable at 30 June 2005:

Exercise price	Outstanding options	Average option life (years)	Exercisable number of options
$1.44	150,000	4.25	150,000
$2.16	135,000	0.28	135,000
$0.17	400,000	1.42	400,000
$0.14	3,960,000	2.04	1,350,000
$0.19	800,000	4.42	–
$0.20	1,310,000	4.59	–
	6,755,000	2.80	2,035,000

(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 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
16. RESERVES AND (ACCUMULATED LOSSES)/RETAINED PROFITS					
Foreign currency translation reserve	16(a)	(1,088)	(920)	–	–
(Accumulated losses)/retained profits	16(b)	(30,533)	(23,160)	87,106	86,699
(a) Foreign currency translation					
(i) Nature and purpose of reserve					
The foreign currency translation reserve is used to record exchange differences arising from the translation of self sustaining foreign operations					
(ii) Movements in reserve					
Balance at beginning of year		(920)	(847)	–	–
Loss on translation of foreign controlled entity		(168)	(73)	–	–
Balance at end of year		(1,088)	(920)	–	–
(b) (Accumulated losses)/retained profits					
Balance at beginning of year		(23,160)	(22,373)	86,699	86,294
(Loss)/profit attributable to members		(7,373)	(787)	407	405
Total available for appropriation		(30,533)	(23,160)	87,106	86,699
Dividends paid or provided for		–	–	–	–
Balance at end of year		(30,533)	(23,160)	87,106	86,699

Notes to the Financial Statements

At 30 June 2005

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
17. STATEMENT OF CASH FLOWS				
(a) Reconciliation of the (loss)/profit from ordinary activities after income tax benefit/(expense) to the net cash flows from operating activities				
(Loss)/profit from ordinary activities after income tax benefit/(expense)	(7,373)	(787)	407	405
Amortisation of non-current assets	727	603	–	–
Depreciation of non-current assets	10,701	8,075	–	–
Profit on sale of plant and equipment	(7)	(18)	–	–
Net foreign currency gains	(168)	(73)	–	–
Changes in assets and liabilities				
Trade receivables	2,222	4,975	–	16
Other receivables	(682)	53	21	(9)
Related party receivables	–	–	2,056	3,499
Work in progress	(1,425)	2,633	–	19
Prepayments	(500)	(19)	–	–
Deferred tax assets	(4,709)	(444)	(4,682)	(573)
Trade and other creditors	2,712	(2,640)	(50)	(2,877)
Related party payables	–	–	1,029	(1,224)
Other liabilities	1,600	(178)	–	–
Deferred tax liabilities	1,982	1,367	1,955	1,496
Provision for employee benefits	181	420	–	–
Net cash flow from operating activities	5,261	13,967	736	752
(b) Reconciliation of cash				
Cash balance comprises:				
Cash on hand	13,214	15,833	6	1
On-call deposits with financial institutions	9,930	15,975	9,930	15,975
	23,144	31,808	9,936	15,976

(c) Financing facilities available

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

Notes to the Financial Statements

At 30 June 2005

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
18. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for:				
Payable not later than one year	3,999	310	–	–
Payable later than one year and not later than five years	–	–	–	–
Payable later than five years	–	–	–	–
	3,999	310	–	–
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
Minimum lease payments:				
Not later than one year	2,404	2,799	–	–
Later than one year and not later than five years	7,042	3,139	–	–
Later than five years	7,226	–	–	–
	16,672	5,938	–	–
Aggregate expenditure commitments comprise:				
Amounts provided for:				
Lease incentive liability – current	65	14	–	–
Lease incentive liability – non-current	1,548	–	–	–
Amounts not provided for:				
Rental commitments	16,672	5,938	–	–
	18,285	5,952	–	–

All operating leases relate to premises, parking spaces and office equipment in various locations and have a lease term of between six months and 10 years.

Notes to the Financial Statements

At 30 June 2005

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
19. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS				
Employee benefits				
The aggregate employee benefits liability is comprised of:				
Accrued wages, salaries and on costs	3,358	2,597	–	–
Provisions (current)	1,395	1,463	–	–
Provisions (non-current)	831	582	–	–
	5,584	4,642	–	–

Employee share schemes

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

(a) Employee Option Plan;

(b) Discretionary Share Plan; and

(c) Share Purchase Plan.

Full-time and part-time employees of Macquarie Telecom or its subsidiaries are eligible to participate in these plans at the discretion of the directors. Directors (both executive and non-executive) are also eligible to participate in the plans. However, their participation is subject to the Corporations Act 2001 and the ASX Listing Rules. The plans are administered by the Board, which determines the directors or employees that will be made offers to participate in the plans and the terms of those offers. There are currently 409 employees and directors eligible for these plans.

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

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

During the year, there were 1,310,000 options (2004: nil) issued under the Employee Option Plan to eligible employees. At 30 June 2005, there were 5,405,000 (2004: 4,995,000) options on issue under this plan. During the year, 30,000 (2004: 200,000) options were exercised, 870,000 (2004: 250,000) options were forfeited and nil (2004: 1,555,000) options were cancelled.

During the year, there were no shares (2004: nil) issued under the Discretionary Share Plan to eligible employees, and no shares (2004: nil) issued under the Share Purchase Plan. Ordinary shares issued under the Discretionary Share Plan are not disposable for two years from the date of issuance, and are forfeited upon termination of employment with Macquarie Telecom. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie Telecom, or three years from the date of issuance.

The market value of Macquarie Telecom shares closed at 10 cents on 30 June 2005.

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.

Notes to the Financial Statements

At 30 June 2005

19. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS continued

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

	2005 Number of options	2005 Weighted average exercise price $	2004 Number of options	2004 Weighted average exercise price $
Balance at beginning of year	4,995,000	0.32	7,000,000	0.72
Granted	1,310,000	0.20	–	–
Forfeited	(870,000)	0.76	(250,000)	0.22
Exercised	(30,000)	0.14	(200,000)	0.14
Cancelled	–	–	(1,555,000)	2.16
Balance at end of year	5,405,000	0.20	4,995,000	0.32
Exercisable at end of year	1,485,000	0.32	455,000	2.07

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

The following table summarises information about the options held by employees as at 1 July 2004:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price $
55,000	28 September 1999	27 September 2002	27 September 2005	2.16
240,000	1 April 2000	31 March 2003 and 31 March 2004	31 March 2005	2.16
30,000	24 August 2000	23 August 2003	23 August 2005	2.16
110,000	20 October 2000	19 October 2003	19 October 2005	2.16
3,910,000	6 May 2002	1 July 2004 and 1 July 2005	1 July 2007	0.14
200,000	15 August 2002	1 July 2005 and 1 July 2006	1 July 2007	0.14
250,000	18 June 2003	17 June 2006 and 17 June 2007	17 June 2008	0.14
200,000	18 June 2003	6 May 2005 and 6 May 2006	6 May 2007	0.14

(b) Options granted during the reporting period

The following table summarises information about options granted by the Company to employees during the year (2004: nil):

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price $
1,310,000	1 February 2005	31 January 2007 and 31 January 2008	31 January 2010	0.20

Notes to the Financial Statements

At 30 June 2005

19. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS continued

(c) Options exercised during the reporting period

(i) The following table summarises information about options exercised by employees during the year ended 30 June 2005:

Number of options	Grant date	Exercise date	Expiry date	Weighted average exercise price $	Proceeds from shares issued $	Number of shares issued	Issue date	Fair value of each share issued $
30,000	6 May 2002	8 March 2005	1 July 2007	0.14	4,200	30,000	8 March 2005	0.165

(ii) The following table summarises information about options exercised by employees during the year ended 30 June 2004:

Number of options	Grant date	Exercise date	Expiry date	Weighted average exercise price $	Proceeds from shares issued $	Number of shares issued	Issue date	Fair value of each share issued $
200,000	15 August 2002	24 October 2003	31 December 2003	0.14	28,000	200,000	24 October 2003	0.26

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

The following table summarises information about options held by the employees as at 30 June 2005:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price $
45,000	28 September 1999	27 September 2002	27 September 2005	2.16
90,000	20 October 2000	19 October 2003	19 October 2005	2.16
3,360,000	6 May 2002	1 July 2004 and 1 July 2005	1 July 2007	0.14
200,000	15 August 2002	1 July 2005 and 1 July 2006	1 July 2007	0.14
200,000	18 June 2003	17 June 2006 and 17 June 2007	17 June 2008	0.14
200,000	18 June 2003	6 May 2005 and 6 May 2006	6 May 2007	0.14
1,310,000	1 February 2005	31 January 2007 and 31 January 2008	31 January 2010	0.20

Superannuation commitments

Macquarie Telecom 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% (2004: 9%) of employees' salaries and wages are legally enforceable in Australia.

Notes to the Financial Statements

At 30 June 2005

20. CONTINGENT LIABILITIES

(a) The consolidated entity currently disputes certain charges levied by some of its suppliers which total $1.0 million (2004: $0.9 million). In each case, the supplier has indicated certain amounts it alleges are due or payable for the period to 30 June 2005 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 the trade creditors and the negotiated settlement of these disputes, the extent of which cannot currently be determined.

(b) On 7 September 2001, Macquarie Telecom Pty Limited ("MT") entered into a strategic alliance with PowerTel Limited ("PowerTel"). Under the terms of the alliance, PowerTel provides access to the PowerTel network which handles Macquarie Telecom's voice traffic. The Company has guaranteed MT's performance, including payments owed, under the strategic alliance.

(c) On 25 June 2004 and in September 2002, MT entered into service agreements with two external parties. The Company has provided, by way of deed, a performance guarantee to the external parties to take the place of MT or remedy any expenses incurred in the event that MT fails to execute and perform its undertakings under the agreement. The guarantee will continue in force and effect until completion of MT's obligations under the agreement.

Notes to the Financial Statements

At 30 June 2005

21. EARNINGS PER SHARE

	Consolidated	
	2005	**2004**
Basic loss per share (cents per share)	(3.6)	(0.4)
Diluted loss per share (cents per share)	(3.6)	(0.4)

	2005 $'000	**2004 $'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	(7,373)	(787)
Adjustments	–	–
Loss used in calculating basic and diluted loss per share	(7,373)	(787)

	2005 Number of shares	**2004 Number of shares**
Weighted average number of ordinary shares used in calculating basic loss per share	205,431,600	204,992,244
Effect of dilutive securities:		
Share options	647,402	1,949,130
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share	206,079,002	206,941,374
Number of options that are not dilutive and not included in the calculation of diluted loss per share:		
Options over ordinary shares	2,795,000	1,285,000

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

Notes to the Financial Statements

At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of specified directors and specified executives

Specified directors

R Kaye	Chairman
D Tudehope	Chief Executive
A Tudehope	Chief Operating Officer
S Butler	Non-executive director (appointed 26 July 2004)
J Palfreyman	Non-executive director (appointed 26 July 2004)
J Craig	Non-executive director (resigned 26 July 2004)
J Priest	Non-executive director (resigned 26 July 2004)

Specified executives

T Blackwell	Chief Financial Officer
C Greig	Sales Director
M Krishnapillai	Director Strategy, Carrier and Corporate Affairs
J Losco	Senior Executive
G Noble	Head of Convergence Programs
G Thomson	Executive General Manager, Hosting and Security
P Thomson	Managing Director, South East Asia

(b) Remuneration of specified directors and specified executives

(i) Remuneration policy

The Corporate Governance, Nomination and Remuneration Committee comprises all the non-executive directors and the Chief Executive. Its main responsibilities are to review all matters relating to the appointment, retirement and performance of the Board, the Board Committees and the Chief Executive and Chief Operating Officer of the Company.

The Committee addresses the people management processes and reviews the remuneration arrangements for non-executive, executive directors and senior managers. 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 policy for the senior management team.

Further details of remuneration policy and service contracts in place are outlined in the Directors' Report under the heading "Remuneration Report".

Notes to the Financial Statements

At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(ii) Remuneration of specified directors and specified executives

	Primary			Post employment	Equity	Other	Total
Specified directors	**Salary & fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Superannuation $**	**Options $**	**Consulting fees $**	**$**
R Kaye							
2005	**146,154**	**–**	**–**	**11,585**	**–**	**–**	**157,739**
2004	90,000	–	–	8,100	6,615	–	104,715
D Tudehope							
2005	**338,615**	**48,256**	**26,728**	**11,585**	**–**	**–**	**425,184**
2004	315,000	108,600	25,000	10,519	–	–	459,119
A Tudehope							
2005	**322,497**	**29,991**	**26,728**	**11,585**	**–**	**–**	**390,801**
2004	300,000	67,875	25,000	10,519	–	–	403,394
S Butler							
2005	**83,952**	**–**	**–**	**7,586**	**4,665**	**–**	**96,203**
J Palfreyman							
2005	**91,538**	**–**	**–**	**–**	**4,665**	**–**	**96,203**
J Craig							
2005	**7,500**	**–**	**–**	**675**	**–**	**–**	**8,175**
2004	90,000	–	–	8,100	10,111	23,800	132,011
J Priest							
2005	**12,500**	**–**	**–**	**1,125**	**–**	**–**	**13,625**
2004	150,000	–	–	10,753	16,538	–	177,291
Total remuneration: specified directors							
2005	**1,002,756**	**78,247**	**53,456**	**44,141**	**9,330**	**–**	**1,187,930**
2004	945,000	176,475	50,000	47,991	33,264	23,800	1,276,530

Notes to the Financial Statements
At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(ii) Remuneration of specified directors and specified executives continued

	Primary			Post employment	Equity	Other	Total
Specified executives	**Salary & fees**	**Cash bonus**	**Non-monetary benefits**	**Superannuation**	**Options**	**Consulting fees**	
	$	**$**	**$**	**$**	**$**	**$**	**$**
T Blackwell							
2005	**207,846**	**48,862**	**–**	**11,585**	**2,970**	**–**	**271,263**
2004	199,827	58,265	–	11,002	3,109	–	272,203
C Greig							
2005	**254,423**	**100,265**	**16,000**	**11,585**	**2,538**	**–**	**384,811**
2004	241,750	79,821	16,000	11,002	1,455	–	350,028
M Krishnapillai							
2005	**211,046**	**63,824**	**23,000**	**11,585**	**2,970**	**–**	**312,425**
2004	201,969	60,684	22,692	11,002	3,313	–	299,660
J Losco							
2005	**324,846**	**54,545**	**16,600**	**11,585**	**2,791**	**–**	**410,367**
2004	309,154	93,346	16,600	11,002	1,654	–	431,756
G Noble							
2005	**206,708**	**61,943**	**17,000**	**11,585**	**2,970**	**–**	**300,206**
2004	197,885	61,545	16,577	11,002	3,313	–	290,322
G Thomson							
2005	**236,735**	**65,984**	**15,000**	**11,585**	**2,970**	**–**	**332,274**
2004	232,211	71,634	15,000	11,002	3,109	–	332,956
P Thomson							
2005	**267,750**	**55,216**	**123,444**	**–**	**4,777**	**–**	**451,187**
2004	256,250	–	106,515	–	4,455	–	367,220
Total remuneration: specified executives							
2005	**1,709,354**	**450,639**	**211,044**	**69,510**	**21,986**	**–**	**2,462,533**
2004	1,639,046	425,295	193,384	66,012	20,408	–	2,344,145

(c) Remuneration options: vested and granted during the year

During the financial year, options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. The options may only be exercised if at any time prior to the date of exercise the market price of ordinary shares sold on the ASX has been:

- for specified directors, equal to or greater than the higher of (i) $0.25 and (ii) an amount that is 25% greater than the option exercise price, for a continuous period of 20 trading days; and
- for specified executives, (i) $0.25 for options exercisable two years from date of grant and (ii) $0.27 for options exercisable three years from date of grant, for a continuous period of 20 trading days.

Notes to the Financial Statements

At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(c) Remuneration options: vested and granted during the year

	Vested	Granted	Terms and conditions for each grant				
	Number	Number	Grant date	Value per option at grant date $	Exercise price per share $	First exercise date	Last exercise date
Specified directors							
S Butler	–	400,000	22 Dec 2004	0.0434	0.19	29 Nov 2006	29 Nov 2009
J Palfreyman	–	400,000	22 Dec 2004	0.0434	0.19	29 Nov 2006	29 Nov 2009
Specified executives							
T Blackwell	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
C Greig	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
M Krishnapillai	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
J Losco	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
G Noble	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
G Thomson	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
P Thomson	–	50,000	1 Feb 2005	0.0267	0.20	31 Jan 2007	31 Jan 2010
	–	50,000	1 Feb 2005	0.0191	0.20	31 Jan 2008	31 Jan 2010
	–	1,500,000					

(d) Shares issued on exercise of remuneration options

	Shares issued Number	Paid $ per share	Unpaid $ per share
Specified directors			
J Priest	1,000,000	0.17	–
Total	1,000,000		

Notes to the Financial Statements
At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(e) Option holdings of specified directors and executives held directly, indirectly or beneficially

	Balance 1 July 2004	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2005	Vested and exercisable at 30 June 2005 Total	Not vested nor exercisable	Vested and exercisable
Specified directors								
R Kaye	400,000	–	–	–	400,000	400,000	–	400,000
D Tudehope	105,000	–	–	–	105,000	105,000	105,000	–
A Tudehope	105,000	–	–	–	105,000	105,000	105,000	–
S Butler	–	400,000	–	–	400,000	400,000	400,000	–
J Palfreyman	–	400,000	–	–	400,000	400,000	400,000	–
J Craig *	400,000	–	–	(400,000)	–	–	–	–
J Priest	1,000,000	–	(1,000,000)	–	–	–	–	–
Total	2,010,000	800,000	(1,000,000)	(400,000)	1,410,000	1,410,000	1,010,000	400,000
Specified executives								
T Blackwell	200,000	100,000	–	–	300,000	300,000	250,000	50,000
C Greig	200,000	100,000	–	–	300,000	300,000	300,000	–
M Krishnapillai	210,000	100,000	–	–	310,000	310,000	250,000	60,000
J Losco	200,000	100,000	–	–	300,000	300,000	250,000	50,000
G Noble	210,000	100,000	–	–	310,000	310,000	250,000	60,000
G Thomson	200,000	100,000	–	–	300,000	300,000	250,000	50,000
P Thomson	410,000	100,000	–	–	510,000	510,000	450,000	60,000
Total	1,630,000	700,000	–	–	2,330,000	2,330,000	2,000,000	330,000
Grand total	3,640,000	1,500,000	(1,000,000)	(400,000)	3,740,000	3,740,000	3,010,000	730,000

* Forfeited upon resignation as director.

Notes to the Financial Statements

At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(f) Shareholdings of specified directors and specified executives held directly, indirectly or beneficially

	Balance 1 July 2004	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2005
Specified directors					
R Kaye	50,000	–	–	–	50,000
D Tudehope	240,663	–	–	–	240,663
A Tudehope	36,163	–	–	–	36,163
D and A Tudehope (i)	125,013,900	–	–	–	125,013,900
S Butler (ii)	–	–	–	–	–
J Palfreyman (ii)	–	–	–	100,000	100,000
J Craig (iii)	50,000	–	–	(50,000)	–
J Priest (iii)	1,549,727	–	1,000,000	(2,549,727)	–
Specified executives					
T Blackwell	61,326	–	–	–	61,326
C Greig	–	–	–	–	–
M Krishnapillai	97,326	–	–	(25,500)	71,826
J Losco	180,000	–	–	(180,000)	–
G Noble	220,835	–	–	–	220,835
G Thomson	61,326	–	–	–	61,326
P Thomson	72,326	–	–	–	72,326
Total	127,633,592	–	1,000,000	(2,705,227)	125,928,365

(i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which held 125,013,900 (61%) of the ordinary shares of Macquarie Telecom. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively.

(ii) Appointed to Board on 26 July 2004.

(iii) Resigned from Board on 26 July 2004.

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Notes to the Financial Statements

At 30 June 2005

22. DIRECTOR AND EXECUTIVE DISCLOSURES continued

(g) Other transactions and balances with specified directors and specified executives

Services

There were no other services provided during the current year. In the prior year, J Craig provided consulting services to Macquarie Telecom.

Amounts recognised at the reporting date in relation to other transactions:

Assets and liabilities	2005 $'000	2004 $'000	Revenues and expenses	2005 $'000	2004 $'000
Current liabilities			*Expenses*		
Trade creditors	–	26	Consultant fees	–	24
Total liabilities	–	26	Total expenses	–	24

23. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Macquarie Telecom is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards ("AGAAP") to Australian equivalents of International Financial Reporting Standards ("AIFRS") which will be applicable for the financial year ending 30 June 2006. The Company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS. As a result of these procedures, Macquarie Telecom has graded impact areas as high, medium or low and has established dedicated project teams to address each of the areas in order of priority as presented by the gradings. An AIFRS steering committee has been established to oversee the progress of each of the project teams and make necessary decisions. As Macquarie Telecom has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004. This will form the basis of accounting for AIFRS in the future and is required when Macquarie Telecom prepare its first fully AIFRS compliant financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and management's best estimate of the quantitative impact of the changes on the statements of financial performance for the year ended 30 June 2005.

The figures disclosed are management's best estimate of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimated disclosed due to (a) ongoing work being undertaken by the AIFRS project teams; (b) potential amendments to AIFRS and Interpretations thereof being issued by the standard-setters; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(i) Impairment of assets

Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the consolidated entity's current accounting policy, which determines the recoverable amount of an asset on the basis of discounted cash flows. Macquarie Telecom has reviewed the recoverable amounts of it's non-current assets on a basis that is consistent with the requirements of AASB 136. No impairment has been identified as at 1 July 2004 or 30 June 2005.

(ii) Share based payments

Under AASB 2 *Share Based Payment*, the Company will be required to determine the fair value of options and shares issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share based payments issued after 7 November 2002, which had not vested as at 1 January 2005. Had this standard been applied for the year ended 30 June 2005, employment costs would have increased by approximately $21,000.

Notes to the Financial Statements
At 30 June 2005

23. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

(iii) Income taxes

Under AASB 112 *Income Taxes*, the Company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax based balance sheet. Macquarie Telecom has prepared an analysis of the tax balances applying the balance sheet liability method and identified no significant differences.

(iv) Leases

AASB 117 *Leases* requires all fixed rental increases to be recorded on a straightline basis. Had this standard been applied for the year ended 30 June 2005, rental expense would have increased by approximately $100,000.

	2005 $	2004 $	2005 $	2004 $
24. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditors of Macquarie Telecom for:				
– an audit or review of the financial report of the Company and any other entity in the consolidated entity	210,000	195,000	210,000	195,000
– other services in relation to the Company and any other entity in the consolidated entity	187,423	183,900	187,423	183,900
	397,423	378,900	397,423	378,900

25. RELATED PARTY DISCLOSURES

(a) The directors of Macquarie during the year were:

R Kaye
D Tudehope
A Tudehope
S Butler (appointed 26 July 2004)
J Palfreyman (appointed 26 July 2004)
J Craig (resigned 26 July 2004)
J Priest (resigned 26 July 2004).

(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 Telecom Pty Limited ("MT"). Under this agreement, the Company charged during the year, MT a fee for the provision of services to customers of nil (2004: $3,196,725) and was charged a management fee of nil (2004: $102,998) by MT for servicing customers still contracted to the Company.

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Macquarie Telecom 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-rata 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.

Notes to the Financial Statements

At 30 June 2005

25. RELATED PARTY DISCLOSURES continued

Amounts due from/payable to wholly-owned entities

On 30 June 2005, the Company had a non-current net receivable of $94,976,921 (2004: $90,093,051) due from MT, which was a result of charges relating to the Business Development Agreement, tax consolidation and advances made to MT in relation to normal commercial transactions.

On 30 June 2005, the Company had a non-current net receivable of $10,168 (2004: payable of $276,663) due from Macquarie Telecom Services Pty Limited which was for charges relating to tax consolidation.

On 30 June 2005, the Company had an amount payable to Macquarie Telecom Carrier Services Pty Limited of $6,337,409 (2004: $5,030,886), which was a result of tax losses transferred to the Company for full consideration and 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 2005, being the number of instruments held, were:

(i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which owns 61% (2004: 61%) of the ordinary shares of Macquarie. The relevant ownership interests in Claiward Pty Ltd are held by Semark Pty Ltd at 84% and Fenton Australia Pty Ltd at 16%. The shares in these latter companies are held by D Tudehope and A Tudehope respectively;

(ii) 72,326 ordinary shares and 210,000 options over ordinary shares were on issue to a director-related entity of D Tudehope and A Tudehope;

(iii) 204,500 ordinary shares were on issue to a director-related entity of D Tudehope;

(iv) 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;

(v) S Butler has an interest in 400,000 options over ordinary shares; and

(vi) 100,000 ordinary shares were on issue to a director-related entity of J Palfreyman. J Palfreyman also has an interest in 400,000 options over ordinary shares.

Apart from the changes noted, there have been no other changes in equity instruments of directors during the year.

(d) Director-related entity transactions

Services

J Craig was paid nil (2004: $23,800) for the provision of consulting services to the consolidated entity.

Notes to the Financial Statements

At 30 June 2005

26. 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 business, Australian government and Singapore business customers. The data segment relates to the provision of services utilising the Macquarie Telecom data network and data hosting facility, to Australian business and Australian government customers. The mobiles segment relates to the provision of mobile telecommunications services to Australian business and Australian government customers.

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	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**
Revenue								
Sales to customers outside the consolidated entity	159,008	171,641	59,280	50,763	12,239	4,106	230,527	226,510
Other revenues from customers outside the consolidated entity	–	–	–	334	–	–	–	334
Segment revenue	159,008	171,641	59,280	51,097	12,239	4,106	230,527	226,844
Unallocated revenue							1,165	1,435
Total consolidated revenue							231,692	228,279
Results								
Segment result before income tax	4,004	7,861	(8,150)	7	(1,198)	(2,508)	(5,344)	5,360
Non-cash expenses other than amortisation and depreciation	–	–	–	–	–	–	–	–
Adjusted segment result before income tax	4,004	7,861	(8,150)	7	(1,198)	(2,508)	(5,344)	5,360
Unallocated expenses							(4,264)	(4,716)
Consolidated entity (loss)/profit from ordinary activities before income tax							(9,608)	644
Income tax benefit/(expense)							2,235	(1,431)
Consolidated entity loss from ordinary activities after income tax							(7,373)	(787)

Notes to the Financial Statements

At 30 June 2005

26. SEGMENT INFORMATION continued

Segment information on primary business segments continued

	Voice		Data		Mobiles		Consolidated	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Assets								
Segment assets	45,051	45,638	41,613	37,889	3,385	1,135	90,049	84,662
Unallocated assets							15,038	21,319
Total assets							105,087	105,981
Liabilities								
Segment liabilities	30,867	30,045	14,485	10,122	2,753	1,223	48,105	41,390
Unallocated liabilities							1,578	1,820
Total liabilities							49,683	43,210
Other segment information								
Acquisition of plant and equipment, intangible assets and other non-current assets	514	684	11,658	7,051	186	41	12,358	7,776
Unallocated acquisitions							2,363	3,536
Total acquisitions							14,721	11,312
Depreciation	909	1,224	7,469	4,509	74	92	8,452	5,825
Unallocated depreciation							2,249	2,250
Total depreciation							10,701	8,075
Amortisation	–	–	333	333	–	–	333	333
Unallocated amortisation							394	270
Total amortisation							727	603

Segment information on geographic segments

	Australia		Singapore		Consolidated	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Segment revenue	220,827	218,160	10,865	10,119	231,692	228,279
Segment assets	100,615	101,416	4,472	4,565	105,087	105,981
Other segment information:						
Acquisition of plant and equipment, intangible assets and other non-current assets	14,292	10,810	429	502	14,721	11,312

Notes to the Financial Statements

At 30 June 2005

27. 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 1 year or less		Fixed interest rate maturing in over 1 to 5 years	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
(i) Financial assets						
Cash	23,144	31,808	–	–	–	–
Receivables – trade	–	–	–	–	–	–
Work in progress	–	–	–	–	–	–
Short-term deposits	–	–	1,952	2,558	–	–
Other – current	–	–	–	–	–	–
Total financial assets	23,144	31,808	1,952	2,558	–	–
(ii) Financial liabilities						
Payables	–	–	–	–	–	–
Other – current	–	–	–	–	–	–
Other – non-current	–	–	–	–	–	–
Total financial liabilities	–	–	–	–	–	–

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; and

(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 exposure 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 2005, 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		Total carrying amount as per the Statement of Financial Position		Weighted average effective interest rate	
2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 % pa	2004 % pa
–	–	–	–	23,144	31,808	4.47	4.59
–	–	16,466	18,688	16,466	18,688	N/A	N/A
–	–	16,690	15,265	16,690	15,265	N/A	N/A
–	–	–	–	1,952	2,558	4.76	4.55
–	–	1,332	1,191	1,332	1,191	N/A	N/A
–	–	34,488	35,144	59,584	69,510		
–	–	42,252	39,540	42,252	39,540	N/A	N/A
–	–	65	14	65	14	N/A	N/A
–	–	1,548	–	1,548	–	N/A	N/A
–	–	43,865	39,554	43,865	39,554		

Directors' Declaration

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

(1) In the opinion of the directors:

(a) the financial statements and notes 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 2005 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;

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2005; and

(3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 9 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board:

Robert Kaye
Chairman

David Tudehope
Chief Executive

Sydney, 1 September 2005

Independent Audit Report

to members of Macquarie Telecom Group 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 Telecom Group Limited (the company) and the consolidated entity, for the year ended 30 June 2005. 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 Telecom Group Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of Macquarie Telecom Group Limited and the consolidated entity at 30 June 2005 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

Meredith Scott
Partner

Sydney, 1 September 2005

Auditor's Independence Declaration

to the Directors of Macquarie Telecom Group Limited

In relation to our audit of the financial report of Macquarie Telecom Group Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Meredith Scott
Partner

Sydney, 31 August 2005

ASX Additional Information

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

A. Distribution of equity securities

The number of shareholders, by size of holding, in each class of share at 19 September 2005 is:

	Ordinary Shares		Share PurchasePlan(i)		Discretionary Share Plan(ii)	
	Number of holders	Number of shares	Number of holder	Number of shares	Number of holders	Number of shares
1 – 1,000	169	109,292	49	29,158	9	9,000
1,001 – 5,000	951	2,634,127	68	97,908	–	–
5,001 – 10,000	277	2,338,693	–	–	21	210,000
10,001 – 100,000	459	16,760,264	–	–	33	1,165,000
100,001 and over	72	182,731,816	–	–	–	–
	1,928	204,574,192	117	127,066	63	1,384,000
The number of shareholders holding less than a marketable parcel of shares	973	2,008,419	117	127,066	9	9,000

(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 19 September 2005 are:

		Quoted ordinary shares	
		Number of shares held	% held
1	Claiward Pty Limited	124,934,900	61.07
2	PowerTel Limited	20,370,000	9.96
3	Cogent Nominees Pty Limited	10,150,000	4.96
4	Carrier International Pty Limited	4,197,988	2.05
5	Dupain Holdings Pty Limited	1,614,903	0.79
6	Westpac Custodian Nominees Limited	1,486,752	0.73
7	Elmarco Pty Limited	1,449,727	0.71
8	Merrill Lynch (Australia) Nominees Pty Ltd	1,280,000	0.63
9	Mr John Priest	1,000,000	0.49
10	SLJM Pty Limited	980,000	0.48
11	N Martin & L Martin	960,000	0.47
12	Dupain Holdings Limited	911,000	0.45
13	Mrs Vicky Teoh	783,703	0.38
14	Citicorp Nominees Pty Limited	653,492	0.32
15	Mr Yang Yang	576,353	0.28
16	Laurie John Newman	516,938	0.25
17	Mr Denis Alan Aitken	500,000	0.24
18	Caveo Communications Pty Ltd	360,000	0.18
19	Mr Mark John Michael Ditchfield	340,000	0.17
20	Custodial Services Limited	339,000	0.17
Total		173,404,756	84.76

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.

thank you for your
continued investment.

Directors
Robert Kaye | Chairman
David Tudehope | Chief Executive
Aidan Tudehope | Chief Operating Officer
Stephen Butler | Non-executive Director
John Palfreyman | Non-executive Director

Company Secretaries
Timothy Blackwell
Albert Koolmees

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