

Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report
for the year ended 30 June 2010

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2010.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Robert Kaye (Chairman) Age 72	Robert is Chairman of Macquarie 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.
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David Tudehope (Chief Executive) Age 43	David is Chief Executive and co-founder of Macquarie Telecom and has been a director since 1992. He is responsible for overseeing the general management and strategic direction of the Company, and is actively involved in the Company's participation in regulatory issues. He was previously a director of the Service Providers' Industry Association. He is a member of the Australian School of Business Advisory Council. David holds a Bachelor of Commerce degree from the University of NSW. He is a member of the Corporate Governance, Nomination and Remuneration Committee.
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Aidan Tudehope (Managing Director – Hosting) Age 38	Aidan is co-founder of Macquarie Telecom and has been a director since 1992. He is the managing director of Macquarie Hosting with a focus on business growth, operational efficiency and customer satisfaction. As the former Chief Operating Officer for Macquarie, Aidan played an integral part in the strategy and direction of the Hosting business since its state-of-the-art data centre, the Intellicentre opened in 2001, as well as being instrumental in the development of Macquarie's data networking strategy. He holds a Bachelor of Commerce degree.
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Stephen Butler (Non-Executive Director) Age 43	Stephen 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. He has held board positions with PowerTel and WiTel Communications Australia. Stephen is currently a division director within the Infrastructure Technology Group of Macquarie Group Limited (an entity unrelated to Macquarie Telecom). 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. Stephen holds a Bachelor of Science (Electrical Engineering) degree.
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John Palfreyman (Non-Executive Director) Age 51	John's career spans more than 25 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.
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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 12,501,390 (60%) 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;
- (b) a director-related entity of D Tudehope and A Tudehope holds 7,183 ordinary shares issued under the Employee Discretionary Share Plan and Share Purchase Plan;
- (c) a director-related entity of D Tudehope holds 350,149 ordinary shares;
- (d) 5,000 ordinary shares were on issue to a director-related entity of R Kaye. R Kaye also has an interest in 40,000 ordinary shares.
- (e) S Butler has an interest in 40,000 ordinary shares; and
- (f) A director-related entity of J Palfreyman holds 10,000 ordinary shares. J Palfreyman also has an interest in 40,000 ordinary shares and 40,000 options over ordinary shares.

COMPANY SECRETARIES

Michael Simmonds Age 44	Michael was appointed as company secretary of the Company in March 2006. Prior to this he held a number of positions as finance director in the UK. Michael has been a chartered accountant for over 15 years.
Richard Lutterbeck Age 39	Richard was appointed as company secretary of the Company in February 2009. In addition, he holds the position of Group Commercial, Strategic and Risk Manager. Richard has been with the Company since 2001 holding a number of commercial and strategic positions. Richard holds a Bachelor of Economics degree and a Masters of Business Administration.

INDEPENDENT PROFESSIONAL ADVICE

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

PRINCIPAL ACTIVITIES

Macquarie is the head entity of a consolidated group comprising Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS") and Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS"). Formerly part of the consolidated group, Macquarie Telecom Pte Limited was sold on 31 July 2009 (see Note 29).

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

DIRECTORS' REPORT

EARNINGS PER SHARE	2010 cents	2009 cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic profit/(loss) per share	50.6	29.7
Diluted profit/(loss) per share	50.1	29.7
Earnings per share for profit attributable to the ordinary equity holders of the company		
Basic profit/(loss) per share	86.8	36.1
Diluted profit/(loss) per share	86.1	36.1

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$29.0 million in the year ended 30 June 2010, up from \$23.2 million in the corresponding period from continuing operations.

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

REVENUE (A\$ million)	Full Year 2010	Full Year 2009	Full Year 2008
Hosting			
Hosting Total	44.5	33.9	26.2
Telco			
Voice	104.1	118.0	125.1
Data	58.6	61.6	55.0
Mobiles	28.8	28.1	28.3
Telco Total	191.5	207.7	208.4
Total Continuing Operations	236.0	241.6	234.6
EBITDA (A\$ million) <th>Full Year 2010</th> <th>Full Year 2009</th> <th>Full Year 2008</th>	Full Year 2010	Full Year 2009	Full Year 2008
Hosting			
Hosting Total	15.2	9.8	6.6
Telco			
Voice	15.0	16.0	8.2
Data	3.4	1.2	2.8
Mobiles	1.9	2.1	1.6
Telco Total	20.3	19.3	12.6
Corporate Office			
Corporate Office Total	(6.5)	(5.9)	(5.5)
Total Continuing Operations	29.0	23.2	13.7

DIRECTORS' REPORT

In the 12 months to 30 June 2010, Macquarie Telecom's service revenue from continuing operations was \$236.0 million, a decrease of 2.3% compared to the corresponding period.

Macquarie Telecom's Hosting business, which provides secure, high-availability hosting solutions for companies with online applications, mission critical to their business, continued to perform strongly with revenue increasing 31.3% to \$44.5 million. It generated an EBITDA profit of \$15.2 million, up 55.1% on the corresponding period. Hosting now represents 18.8% of Macquarie Telecom's revenue.

Macquarie Telecom's Telco (Data, Voice and Mobile) business remains an important part of the company's overall offering, delivering \$191.5 million in revenue and an EBITDA profit of \$20.3 million, up 5.2% on the previous corresponding period.

Capital expenditure for the full year was \$16.6 million, up from \$13.0 million in 2009.

Macquarie Telecom has generated operating cash flows of \$28.9 million and held cash and cash equivalents of \$56.3 million as at 30 June 2010.

The consolidated entity employed 389 employees at 30 June 2010 (2009: 384 employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 July 2009 Macquarie Telecom Group Limited, the parent entity of the consolidated group, announced that it had entered into a Share Sale Agreement in respect of its Singapore subsidiary Macquarie Telecom Pte Limited, with CITIC 1616 Holdings Limited. The transaction was completed on 31 July 2009 with Macquarie Telecom and CITIC subsequently agreeing on a final sale consideration of SG\$11.3 million (A\$9.4 million).

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Refer to Note 32 for significant events occurring 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

Details of options on issue at 30 June 2010 and movements in options on issue during the year are included in Note 17 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, the Company paid premiums in respect of a contract insuring all the directors of Macquarie 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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

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

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', dependent upon meeting predetermined performance benchmarks; and
- 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 where considered appropriate, the Board as a whole.

Remuneration link to performance

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

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 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.

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

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

The remuneration of non-executive directors for the period ending 30 June 2010 is detailed in the table on page 9 of this report.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Senior manager and executive director remuneration

Objective

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

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

Structure

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

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

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

Fixed remuneration

Objective

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

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

Structure

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

The fixed remuneration component of the key management personnel is detailed on page 9.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Structure

Actual STI payments granted to each senior manager and executive director depend on the extent to which specific operating targets set at the beginning of the financial year are met or exceeded. The operational targets consist of a number of Key Performance Indicators ('KPIs') covering both financial and non-financial measures of performance. 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 STI scheme. There is an overachievement element to these payments, meaning it is possible to achieve greater than 100% of the base incentive amount.

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

Variable pay – Long Term Incentive ("LTI")

Objective

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

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

Structure

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

Service agreements

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Remuneration of Key Management Personnel for the year ended 30 June 2010:

Directors		Short Term						Long Term	Total	Total Performance Related
		Primary and bonus				Post Employment	% Bonus Granted	Share-based Payments		
		Salary and Fees	Cash Bonus	Non – Monetary Benefits ⁽ⁱ⁾	Other ⁽ⁱⁱ⁾	Super-annuation		Options ⁽ⁱⁱⁱ⁾		
R Kaye – Chairman	2010	170,000	-	-	-	14,461	-	-	184,461	0.0%
	2009	160,000	-	-	-	13,745	-	4,083	177,828	2.3%
D Tudehope – Chief Executive ^(iv)	2010	473,455	229,436	(11,880)	37,996	14,461	134.7%	-	743,468	30.9%
	2009	408,917	205,989	(228)	38,453	13,745	135.1%	-	666,876	30.9%
A Tudehope – Managing Director – Hosting ^(iv)	2010	435,084	174,441	9,518	37,996	14,461	145.8%	-	671,500	26.0%
	2009	389,444	147,990	16,333	38,453	13,745	153.2%	-	605,965	24.4%
S Butler – Non-Executive Director	2010	100,000	-	-	-	9,000	-	-	109,000	0.0%
	2009	95,000	-	-	-	8,550	-	-	103,550	0.0%
J Palfreyman – Non-Executive Director	2010	114,450	-	-	381,372	-	-	16,148	511,970	3.2%
	2009	106,275	-	-	247,895	-	-	-	354,170	0.0%
Total Directors' Remuneration	2010	1,292,989	403,877	(2,362)	457,364	52,383		16,148	2,220,399	
	2009	1,159,636	353,979	16,105	324,801	49,785		4,083	1,908,389	

Other Key Management Personnel		Short Term						Long Term	Total	Total Performance Related
		Primary and bonus				Post Employment	% Bonus Granted	Share-based Payments		
		Salary and Fees	Cash Bonus	Non – Monetary Benefits ⁽ⁱ⁾	Other ⁽ⁱⁱ⁾	Super-annuation		Options ⁽ⁱⁱⁱ⁾		
C Greig – Group Executive, Telco Business ^(iv)	2010	302,083	162,656	13,278	18,904	14,461	133.3%	1,750	513,132	32.0%
	2009	292,262	145,715	25,489	18,819	13,745	119.4%	1,631	497,661	29.6%
M Simmonds – Chief Financial Officer ^(iv)	2010	273,942	116,246	(2,710)	12,000	14,461	129.2%	8,750	422,689	29.6%
	2009	259,854	103,494	(1,280)	12,000	13,745	143.7%	9,772	397,585	28.5%
S Gatward* - Group Executive, Telecom Services ^(iv)	2010	254,375	89,370	(696)	20,273	14,461	98.6%	-	377,783	23.7%
	2009	-	-	-	-	-	-	-	-	-
A Smith** – Group Executive, Sales and Account Management	2010	192,082	70,840	(6,675)	14,878	10,846	50.6%	-	281,971	25.1%
	2009	204,269	85,810	6,984	15,936	10,309	84.6%	-	323,308	26.5%
J Scollay*** - Group Executive, Sales and Account Management	2010	73,576	33,250	6,540	-	3,615	103.2%	-	116,981	28.4%
	2009	-	-	-	-	-	-	-	-	-
Total Other Key Management Personnel Remuneration	2010	1,096,058	472,362	9,737	66,055	57,844		10,500	1,712,556	
	2009	756,385	335,019	31,193	46,755	37,799		11,403	1,218,554	

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Details of shares issued to and held by key management personnel are disclosed in Note 24 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. All directors are paid through subsidiary entities.

Notes:

* Appointed 3 August 2009

** Ceased employment 26 February 2010

*** Appointed 7 April 2010

- (i) The category “Non-Monetary Benefits” represent amounts accrued or released in respect of annual leave and long service leave.
- (ii) The category “Other” includes the value of any non-cash benefits provided including expatriate package costs and motor vehicle allowances, and in the case of non-executive directors, consulting services to the consolidated entity. All amounts paid were on normal commercial terms and conditions and at market rates.
- (iii) The directors have issued options over ordinary shares to a number of eligible employees. The terms of the Employee Option Plan stipulate that options will vest over certain timeframes. The plan is designed to encourage superior performance and provide opportunity to all eligible employees to participate in the future success of the Company.
Whilst LTIs may include discretionary shares, no such shares have been issued either in this financial year or the previous year.
- (iv) Denotes one of the five highest remunerated executives.

DIRECTORS' REPORT

REMUNERATION REPORT (cont'd)

Equity compensation: granted and vested during the year

During the financial year there were 40,000 options granted as equity compensation to directors and key management personnel (2009: 70,000). The 40,000 options were granted to J Palfreyman, non-executive director, and are contingent on (a) Mr Palfreyman remaining a director of the Company and (b) the Company's share price reaching \$5.80 for 10 consecutive days prior to the date of exercise.

	<i>Vested</i>	<i>Granted</i>	<i>Grant date</i>	<i>Terms and conditions for each grant</i>			
	<i>Number</i>	<i>Number</i>		<i>Value per option at grant date</i>	<i>Exercise price per share</i>	<i>First exercise date</i>	<i>Last exercise date</i>
				\$	\$		
Directors							
J Palfreyman	-	40,000	7 Dec 2009	1.37	4.14	27 Nov 2011	27 Nov 2014
Total	-	40,000					
Other key management personnel							
C Greig	2,500	-	23 Apr 2007	0.53	0.97	23 Apr 2009	23 Apr 2012
Total	2,500	-					

Details of director related interests in shares and other director related transactions are included in Note 26.

Option holdings of key management personnel

	<i>Balance</i>	<i>Granted as remuneration</i>	<i>Options exercised</i>	<i>Balance</i>	<i>Vested and exercisable</i>	<i>Not vested and exercisable</i>	<i>Consideration received</i>	<i>Fair value of options when exercised</i>
							\$	\$
	<i>1 July 2009</i>			<i>30 June 2010</i>				
R Kaye	40,000	-	(40,000)	-	-	-	37,600	198,000
D Tudehope	-	-	-	-	-	-	-	-
A Tudehope	-	-	-	-	-	-	-	-
S Butler	40,000	-	(40,000)	-	-	-	76,000	160,000
J Palfreyman	40,000	40,000	(40,000)	40,000	-	40,000	76,000	144,400
C Greig	22,500	-	(10,000)	12,500	2,500	10,000	20,000	35,400
M Simmonds	70,000	-	(20,000)	50,000	-	50,000	19,400	80,000
S Gatward*	-	-	-	-	-	-	-	-
A Smith**	-	-	-	-	-	-	-	-
J Scollay***	-	-	-	-	-	-	-	-
Total	212,500	40,000	(150,000)	102,500	2,500	100,000	229,000	617,800

* Appointed 3 August 2009

** Ceased employment 26 February 2010

*** Appointed 7 April 2010

DIRECTORS' REPORT

DIRECTORS' MEETINGS

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

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	18	5	3
Number of meetings attended:			
R Kaye	18	5	3
D Tudehope	18	-	2
A Tudehope	17	-	-
S Butler	18	5	3
J Palfreyman	18	5	3

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.

ROUNDING

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

AUDIT INDEPENDENCE

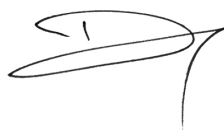
Refer to page 67 for the independence declaration from our auditor, PricewaterhouseCoopers.

NON-AUDIT SERVICES

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

PricewaterhouseCoopers received or is due to receive the following amounts for the provision of non-audit services: \$30,800 (2009: \$81,950) as disclosed in Note 25.

Signed in accordance with a resolution of the directors:



David Tudehope
Chief Executive

Sydney, 26 August 2010

CORPORATE GOVERNANCE STATEMENT

Introduction

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

The Board considers that except to the extent expressly indicated in this statement, those corporate governance practices comply with the ASX Corporate Governance Council's ("ASXCGC") *Principles of Good Corporate Governance and Best Practice Recommendations*, dated August 2007. Also, except to the extent expressly indicated in this statement, those practices were followed throughout the year.

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

Principle 1

Lay solid foundations for management and oversight by the Board

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

The Board's key responsibilities are:

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

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

A performance assessment for senior management last took place in July 2010. The process for these assessments is described in the Corporate Governance statement on the Company's website.

CORPORATE GOVERNANCE STATEMENT

Principle 2

Structure the Board to add value

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

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

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

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

Principle 3

Promote ethical and responsible decision making

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

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

Principle 4

Safeguard integrity in financial reporting

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

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

Minutes of all Committee meetings are provided to the Board.

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Principle 5

Make timely and balanced disclosure

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

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

The Company Secretary is responsible for communications with the ASX.

Principle 6

Respect the rights of shareholders

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

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

Principle 7

Recognise and manage risk

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Principle 8

Remunerate fairly and responsibly

The functions of the Corporate Governance, Nomination and Remuneration Committee include reviewing the remuneration arrangements for non-executive and executive directors and reviewing and approving the issue of shares and options under the Company's employee share and option plans. The Committee also reviews remuneration for the senior management team and monitors, reviews and makes recommendations to the Board as to the remuneration policies of the Company generally. The 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 21 to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
Revenue from continuing operations	3	238,117	242,863
Expenses	3	(222,731)	(233,259)
Profit before income tax and finance costs		15,386	9,604
Finance costs		(204)	(402)
Profit before income tax		15,182	9,202
Income tax expense	5	(4,742)	(3,076)
Profit from continuing operations		10,440	6,126
Profit from discontinued operation (net of tax)	29	7,485	1,321
Net profit for year	18(b)	17,925	7,447
Other comprehensive income			
Exchange differences on translation of foreign operations	18(a)	74	42
Total comprehensive income for the year		17,999	7,489
		cents	cents
Earnings per share from continuing operations attributable to the ordinary equity holders of the company:			
Basic profit per share	23	50.6	29.7
Diluted profit per share	23	50.1	29.7
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic profit per share	23	86.8	36.1
Diluted profit per share	23	86.1	36.1

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	6	56,304	35,313
Receivables	7	10,268	12,687
Accrued income	8	9,074	10,373
Other financial assets	9	-	1,506
Other	10	2,091	2,947
TOTAL CURRENT ASSETS		77,737	62,826
NON-CURRENT ASSETS			
Plant and equipment	11	26,169	25,581
Deferred tax assets	5	6,157	5,712
Other	12	1,565	1,868
TOTAL NON-CURRENT ASSETS		33,891	33,161
TOTAL ASSETS		111,628	95,987
CURRENT LIABILITIES			
Payables	13	34,058	37,628
Borrowings	14	342	1,430
Current tax liabilities	5	4,360	1,754
Provisions	15	1,260	971
Other	16	262	479
TOTAL CURRENT LIABILITIES		40,282	42,262
NON-CURRENT LIABILITIES			
Borrowings	14	-	342
Deferred tax liabilities	5	-	3
Provisions	15	981	1,136
Other	16	1,170	1,420
TOTAL NON-CURRENT LIABILITIES		2,151	2,901
TOTAL LIABILITIES		42,433	45,163
NET ASSETS		69,195	50,824
EQUITY			
Contributed equity	17	42,723	87,025
Reserves	18	148	43
Retained profit/(loss)	18	26,324	(36,244)
TOTAL EQUITY		69,195	50,824

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2010

	Contributed Equity	Reserves (Note 18)	Retained Profit/ (Loss)	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2008	87,025	4	(43,691)	43,338
Total comprehensive income for the year	-	42	7,447	7,489
Transactions with owners in their capacity as owners:				
Share-based payments expense	-	(3)	-	(3)
At 30 June 2009	87,025	43	(36,244)	50,824

	Contributed Equity	Reserves (Note 18)	Retained Profit/ (Loss)	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2009	87,025	43	(36,244)	50,824
Total comprehensive income for the year	-	74	17,925	17,999
Capital reduction (Note 30)	(44,643)	-	44,643	-
Transactions with owners in their capacity as owners:				
Share-based payments expense	-	31	-	31
Exercise of options	341	-	-	341
	341	31	-	372
At 30 June 2010	42,723	148	26,324	69,195

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		262,773	282,210
Payments to suppliers and employees (inclusive of goods and services tax)		(232,725)	(255,537)
Interest received		1,733	1,280
Interest paid		(204)	(402)
Income tax paid		(2,656)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	19(a)	28,921	27,551
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current assets		(16,606)	(12,962)
Disposal of subsidiary – net sale proceeds	29	8,527	-
Proceeds from sale of non-current assets		-	11
Proceeds from other financial assets		1,238	-
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(6,841)	(12,951)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		341	-
Repayment of finance lease principal		(1,430)	(1,845)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(1,089)	(1,845)
NET INCREASE IN CASH HELD		20,991	12,755
Cash and cash equivalents at the beginning of the financial year		35,313	22,558
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	19(b)	56,304	35,313

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Corporate information

The financial report of Macquarie Telecom Group Limited ("Macquarie" or the "Company") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of directors on 26 August 2010.

Macquarie is the head entity of a consolidated group comprising Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS") and Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS"). Formerly part of the consolidated group, Macquarie Telecom Pte Limited was sold on 31 Jul 2009 (see Note 29).

Macquarie is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX.

The nature of the operations and principal activities of the Group are described in Note 27.

(b) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards.

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

Compliance with IFRS

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

Financial statement presentation

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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

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

(b) Significant accounting judgements, estimates and assumptions

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(c) 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 financial year.

Translation of financial reports of overseas operation

The functional and presentation currency of the parent company and its Australian subsidiaries is Australian dollars. The functional currency of the former overseas subsidiary is Singapore dollars. The financial reports of the former overseas subsidiary are translated using the average rate for the profit and loss with any exchange differences taken directly to the foreign currency translation reserve. Foreign currency differences on intra-group investments, including long-term loans, were taken through the foreign currency translation reserve. This reserve was recycled into the income statement when the Singapore subsidiary was sold.

(d) Plant and equipment

Cost and valuation

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Plant and equipment includes costs in relation to Information Technology ("IT") development and infrastructure development projects where future benefits are probable to exceed these costs.

Depreciation

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

	2010	2009
Major depreciation periods are:		
Plant and equipment	1 to 10 years	1 to 10 years
Leasehold improvements are amortised over the lease term.		

(e) Transmission capacity

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

(f) Impairment of assets

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

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

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

Impairment losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(g) Cash and cash equivalents

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

(h) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount, less a provision for any uncollectible debts.

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

Receivables from related parties are recognised at amortised cost.

Other receivables are recognised at cost.

(i) Other financial assets

Bank deposits are measured at their nominal amount.

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

(j) Accrued income

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

(k) Payables

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

Liabilities for other trade creditors and other 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 amortised cost.

(l) Leases

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

Operating leases

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

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

Finance leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(m) Employee benefits

The liability for employees' benefits to wages, salaries, bonuses and annual leave is accrued to balance date based on the consolidated entity's present obligation to pay resulting from employees' services provided. The liability for employees' benefits to long service leave is provided to balance date based on the present value of the estimated future cash flows to be paid by the consolidated entity resulting from the employees' services provided.

(n) Share-based payment transactions

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

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting reflects (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the directors, will vest ultimately. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of those conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not vest based on non-market conditions.

(o) Contributed equity

Issued capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Revenue recognition

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

Service revenue

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

Interest

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(q) Taxes

Income taxes

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

(i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(ii) Tax consolidation legislation

Macquarie Telecom Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Macquarie Telecom Group Limited, and the controlled entities in the tax consolidation group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Macquarie Telecom Group Limited also recognises the current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 5.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

Goods and Services Tax (GST)

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

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

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

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

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

(r) Borrowings

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

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

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

(s) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

Change in accounting policy

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the Company's assets and liabilities. Comparatives for 2009 have been restated.

(t) Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(u) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(v) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement.

(w) Rounding of amounts

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

(x) Parent entity financial information

The financial information for the parent entity, Macquarie Telecom Group Limited, disclosed in Note 31 has been prepared on the same basis as the consolidated financial statements except as set out in Note 2(q) above "Tax consolidation legislation".

(y) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations are set out below.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact and has not decided when to adopt AASB 9.

(z) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

3. REVENUE AND EXPENSES

(a) Revenue – continuing operations

Revenue

Revenue from services	235,992	241,637
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Other revenue

Interest	2,125	1,226
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Total revenue – continuing operations	238,117	242,863
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(b) Revenue – discontinued operation (Note 29)

Revenue

Revenue from services	934	12,173
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Other revenue

Interest	-	9
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Total revenue – discontinued operation	934	12,182
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(c) Expenses – continuing operations

Amortisation of non-current assets

Leasehold improvements	298	262
------------------------	-----	-----

Transmission capacity	303	303
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Depreciation of non-current assets

Plant and equipment	15,135	14,303
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Total depreciation and amortisation expense	15,736	14,868
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Net loss on disposal of plant and equipment	-	16
---	---	----

Bad and doubtful debts – trade debtors	360	1,782
--	-----	-------

Operating lease rental	5,063	4,793
------------------------	-------	-------

Employment costs	59,165	52,548
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Carrier costs	123,585	141,411
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Other	18,822	17,841
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	206,995	218,391
--	---------	---------

Total expenses – continuing operations	222,731	233,259
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NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

3. REVENUE AND EXPENSES (cont'd)**(d) Expenses – discontinued operation (Note 29)**

Amortisation of non-current assets

Leasehold improvements	1	15
------------------------	---	----

Depreciation of non-current assets

Plant and equipment	31	448
---------------------	----	-----

Total depreciation and amortisation expense

32	463
----	-----

Bad and doubtful debts – trade debtors

(20)	9
------	---

Operating lease rental

41	602
----	-----

Employment costs

160	3,677
-----	-------

Carrier costs

459	5,170
-----	-------

Other

155	940
-----	-----

795	10,398
-----	--------

Total expenses – discontinued operation

827	10,861
-----	--------

4. DIVIDENDS

(a) There were no dividends proposed or paid during the year (2009: nil).

(b) Dividends not recognised at the end of the reporting period

Since year end, the directors declared the payment of a special dividend of 20 cents per ordinary share fully franked and an ordinary dividend of 20 cents per ordinary share fully franked based on tax paid of 30%.

The aggregate amount of the declared dividends expected to be paid on 14 October 2010 out of retained earnings at 30 June 2010, but not recognised as a liability at year end is \$8.33 million (2009: Nil)

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

(c) Franking account balance

The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2009: 30%)

7,016	1,754
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The above amount represents the balance of the franking account as at the reporting date, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the provision for income tax, and
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date

The impact on the franking account of the dividends recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$3,568,221 (2009: nil)

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

5. INCOME TAX**(a) Income tax expense**

Current tax	5,190	1,439
Deferred tax	(448)	1,637
	<u>4,742</u>	<u>3,076</u>

Income tax expense is attributable to:

Profit from continuing operations	4,742	3,076
Profit from discontinued operation	-	-
Aggregate income tax expense	<u>4,742</u>	<u>3,076</u>

Deferred income tax (revenue)/expense included in income tax expense comprises:

(Increase)/decrease in deferred tax assets	(314)	1,640
(Decrease) in deferred tax liabilities	(134)	(3)
	<u>(448)</u>	<u>1,637</u>

(b) Numerical reconciliation of income tax expense to *prima facie* tax payable

Profit from continuing operations before income tax expense	15,182	9,202
Profit from discontinued operation before income tax expense	7,485	1,321
	<u>22,667</u>	<u>10,523</u>

Tax at the Australian tax rate of 30% (2009: 30%)	6,800	3,157
---	-------	-------

Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:

Singapore taxable amounts not brought to account	67	(21)
Difference in overseas tax rates	2	(14)
Expenditure not allowable for income tax purposes	311	208
Government investment allowance concession	(112)	(402)
Decrease in foreign tax credits carried forward	58	3
Research and development concession	-	(340)
Adjustments to tax in respect of prior years	(171)	91
Exempt gain on sale of discontinued operation	(2,213)	-
Other	-	394
Income tax expense	<u>4,742</u>	<u>3,076</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

5. INCOME TAX (cont'd)**NON-CURRENT ASSETS – DEFERRED TAX ASSETS****The balance comprises temporary differences attributable to:**

Tax losses	71	-
Foreign tax credits ("FTC")	158	216
Accelerated depreciation for accounting purposes	4,292	3,858
	<u>4,521</u>	<u>4,074</u>
Employee benefits	1,067	1,133
Accrued expenses	1,174	1,274
Provisions for doubtful debts and credit notes	809	864
Other assets	206	96
Fringe benefits tax	33	55
Subtotal other	<u>3,289</u>	<u>3,422</u>
Total deferred tax assets	<u>7,810</u>	<u>7,496</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,653)</u>	<u>(1,784)</u>
Net deferred tax assets	<u>6,157</u>	<u>5,712</u>

Movements – Consolidated

	<u>Tax Losses</u>	<u>FTC</u>	<u>Accelerated Depreciation</u>	<u>Other</u>	<u>Total</u>
At 1 July 2008	-	165	6,086	2,837	9,088
Charged to the income statement	-	3	(2,228)	585	(1,640)
Charged to withholding tax provision	-	48	-	-	48
At 30 June 2009	-	216	3,858	3,422	7,496
Charged/(credited) to the income statement	71	(58)	434	(133)	314
At 30 June 2010	<u>71</u>	<u>158</u>	<u>4,292</u>	<u>3,289</u>	<u>7,810</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED**2010 2009****\$'000 \$'000****5. INCOME TAX (cont'd)****CURRENT LIABILITIES – CURRENT TAX LIABILITIES**

Current tax liabilities	4,360	1,754
	<u>4,360</u>	<u>1,754</u>

NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES**The balance comprises temporary differences attributable to:**

Accelerated depreciation for tax purposes	1,464	1,539
	<u>1,464</u>	<u>1,539</u>
Other debtors	189	122
Accrued expenses	-	126
Subtotal other	<u>189</u>	<u>248</u>
Total deferred tax liabilities	<u>1,653</u>	<u>1,787</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,653)</u>	<u>(1,784)</u>
Net deferred tax liabilities	<u>-</u>	<u>3</u>

Movements – Consolidated

	<u>Accelerated Depreciation</u>	<u>Other</u>	<u>Total</u>
At 1 July 2008	1,670	120	1,790
Charged/(credited) to the income statement	<u>(131)</u>	<u>128</u>	<u>(3)</u>
At 30 June 2009	1,539	248	1,787
Charged/(credited) to the income statement	<u>(75)</u>	<u>(59)</u>	<u>(134)</u>
Disposal of discontinued operation	-	-	-
At 30 June 2010	<u>1,464</u>	<u>189</u>	<u>1,653</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

5. INCOME TAX (cont'd)

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
6. CASH AND CASH EQUIVALENTS			
Cash at bank and on hand	19(b)	56,304	35,313

7. RECEIVABLES

CURRENT

Trade debtors		12,189	14,398
Provision for doubtful debts		(2,688)	(2,907)
Provision for credit notes		(1,513)	(760)
Receipts due from trade debt purchase facility	19(d)	-	1,391
Other receivables		2,280	565
		<u>10,268</u>	<u>12,687</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 2009
\$'000 \$'000

7. RECEIVABLES (cont'd)

(a) Australian dollar equivalents

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

- Singapore dollars	-	418
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(b) Terms and conditions relating to the above financial instruments:

(i) Sales are normally on 14 day terms; and

(ii) Details of impairment of trade receivables are set out in Note 28(b)

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

At 1 July	(3,667)	(3,484)
Amounts written off	560	2,097
Net additional amounts provided	(1,147)	(2,280)
Disposal of discontinued operation	52	-
At 30 June	(4,202)	(3,667)

8. ACCRUED INCOME

Accrued income	9,074	10,373
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9. CURRENT OTHER FINANCIAL ASSETS

Bank deposits	-	1,506
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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 2009 and effective interest rates of 0.76% to 5.18% per annum.

These bank deposits were held by financial institutions as security against bank guarantees for rental bonds.

10. OTHER CURRENT ASSETS

Prepayments	2,091	2,947
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NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 2009
\$'000 \$'000

11. PLANT AND EQUIPMENT

Leasehold improvements

At cost	1,535	1,414
Accumulated amortisation	(952)	(865)
	583	549

Plant and equipment

At cost	88,551	76,133
Accumulated depreciation	(63,196)	(51,936)
	25,355	24,197

Plant and equipment under lease

At cost	12,015	12,015
Accumulated depreciation	(11,784)	(11,180)
	231	835

Total written down amount

26,169	25,581
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Reconciliations

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

Leasehold improvements

Opening balance	549	646
Additions	341	178
Disposals	-	-
Exchange differences	-	2
Amortisation expense	(299)	(277)
Disposal of discontinued operation	(8)	-
	583	549

Plant and equipment

Opening balance	24,197	24,637
Additions	16,265	12,784
Disposals	(127)	(28)
Exchange differences	(3)	110
Depreciation expense	(14,562)	(13,306)
Disposal of discontinued operation	(415)	-
	25,355	24,197

Plant and equipment under lease

Opening balance	835	2,280
Depreciation expense	(604)	(1,445)
	231	835

During the year, fully depreciated plant and equipment of \$1.5 million were retired.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

		CONSOLIDATED	
		2010	2009
	Notes	\$'000	\$'000
12. OTHER NON-CURRENT ASSETS			
Transmission capacity		5,000	5,000
Transmission capacity rebate		(278)	(278)
Accumulated amortisation		(3,157)	(2,854)
		<u>1,565</u>	<u>1,868</u>
13. PAYABLES			
CURRENT			
Trade creditors	22	23,440	27,595
Other creditors and accruals		9,302	8,175
Annual leave entitlements		1,316	1,695
Withholding tax payable		-	163
		<u>34,058</u>	<u>37,628</u>
(a) Australian dollar equivalents			
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:			
- Singapore dollars		19	626
- United States dollars		399	-
		<u>418</u>	<u>626</u>

(b) Included in trade creditors are amounts payable to various telecommunications carriers. As outlined in Note 22, 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.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
14. BORROWINGS			
CURRENT			
Obligations under finance leases	20(b)	342	1,430
NON-CURRENT			
Obligations under finance leases	20(b)	-	342
15. PROVISIONS			
CURRENT			
Employee benefits (a)	21	1,260	971
NON-CURRENT			
Employee benefits (a)	21	981	1,136

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

Long service leave

At 1 July	2,107	1,675
Charged/(credited) to profit or loss		
- additional provisions recognised	402	572
Amounts used during the period	(268)	(140)
At 30 June	2,241	2,107

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
16. OTHER LIABILITIES			
CURRENT			
Lease incentive	20(b)	262	479
NON-CURRENT			
Lease incentive	20(b)	1,170	1,420
17. CONTRIBUTED EQUITY			
(a) Share capital			
Ordinary shares fully paid (no par value)		42,723	87,025

	2010	2010	2009	2009
	Number of shares	\$	Number of shares	\$
(b) Movements in shares on issue				
Balance at beginning of year	20,608,621	87,025,435	20,608,621	87,025,435
Capital reduction	30	- (44,643,416)	-	-
Conversion of share options	17(c)	206,000	341,000	-
Balance at end of year		20,814,621	42,723,019	20,608,621
				87,025,435

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

17. CONTRIBUTED EQUITY (cont'd)

(c) Share options

Options over ordinary shares

There were 40,000 options over ordinary shares issued during the year.

At the end of the year, there were 152,500 (2009: 354,500) unissued ordinary shares in respect of which options were outstanding.

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

No share options are held by the parent entity or its subsidiaries (2009: nil).

Information with respect to the number of options issued by Macquarie Telecom Group Limited is as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of year	354,500	1.92	286,500	2.18
Granted	40,000	4.14	120,000	0.90
Forfeited	(36,000)	6.56	(52,000)	1.02
Exercised	(206,000)	1.66	-	-
Balance at end of year	152,500	1.76	354,500	1.92
Exercisable at end of year	12,500	0.97	234,500	2.44

The following table summarises information about total options outstanding and exercisable at 30 June 2010:

Exercise price	Outstanding options	Average option life (years)	Exercisable number of options	Expiry date
\$0.97	12,500	1.82	12,500	23 Apr 2012
\$0.90	100,000	3.38	-	14 Nov 2013
\$4.14	40,000	4.41	-	27 Nov 2014
	<u>152,500</u>	3.20	<u>12,500</u>	

No options were exercised after year end.

(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 TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
18. RESERVES AND RETAINED EARNINGS			
Other reserves	18(a)	148	43
Retained profits/(accumulated losses)	18(b)	26,324	(36,244)
(a) Other reserves			
<i>(i) Nature and purpose of reserves</i>			
The foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries.			
The employee equity benefits reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to Note 21 for further details of these plans.			
<i>(ii) Movements in reserves</i>			
<i>Foreign currency translation reserve:</i>			
Balance at beginning of year		(74)	(116)
Gain/(loss) on translation of foreign controlled entity		(3)	42
Disposal of discontinued operation		77	-
Balance at end of year		-	(74)
<i>Employee equity benefits reserve:</i>			
Balance at beginning of year		117	120
Share-based payments		31	(3)
Balance at end of year		148	117
		148	43
(b) Retained profits/(accumulated losses)			
Balance at beginning of year		(36,244)	(43,691)
Capital reduction	30	44,643	-
Profit attributable to members		17,925	7,447
Total available for appropriation		26,324	(36,244)
Dividends paid or provided for		-	-
Balance at end of year		26,324	(36,244)

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
19. STATEMENT OF CASH FLOWS			
(a) Reconciliation of the profit/(loss) after income tax (expense)/benefit to the net cash flows from operating activities			
Profit after income tax expense		17,925	7,447
Amortisation of non-current assets		602	580
Depreciation of non-current assets		15,166	14,751
Loss on sale of plant and equipment		-	16
Share-based payments expense/(credit)		31	(3)
Gain on sale of discontinued operation		(7,378)	-
Net foreign currency losses/(gains)		74	(173)
Changes in assets and liabilities			
Trade receivables		3,694	6,253
Other receivables		(1,721)	(125)
Accrued income		705	503
Prepayments		746	(1,132)
Deferred tax assets		(445)	1,597
Trade and other creditors		(2,765)	(4,281)
Other liabilities		(449)	254
Current tax liabilities		2,606	1,440
Deferred tax liabilities		(3)	(8)
Provision for employee benefits		133	432
Net cash flow from operating activities		28,921	27,551
(b) Reconciliation of cash			
Cash balance comprises:			
- Cash on hand and at bank		31,404	19,313
- Short-term deposits		24,900	16,000
	6	56,304	35,313
(c) Non-cash investing activities			

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010	2009
\$'000	\$'000

19. STATEMENT OF CASH FLOWS (cont'd)

(d) Financing facilities available

Total facilities:

- trade debt purchase facility	-	10,000
- bank guarantee facility	4,144	-
	<u>4,144</u>	<u>10,000</u>

Facilities used at reporting date:

- trade debt purchase facility	-	-
- bank guarantee facility	1,975	-
	<u>1,975</u>	<u>-</u>

Facilities unused at reporting date:

- trade debt purchase facility	-	10,000
- bank guarantee facility	2,169	-
	<u>2,169</u>	<u>10,000</u>

Facilities used at reporting date

1,975 -

Facilities unused at reporting date

2,169 10,000

Total facilities

4,144 10,000

Trade debt purchase facility

During the financial year 2006, the consolidated entity entered into an agreement with an unrelated third party for the purchase of its trade debts. The facility was renegotiated and renewed in 2008. Upon acceptance, funds were made available to the consolidated entity of an amount not exceeding the facility limit of \$10 million.

The facility was discontinued on 22 February 2010.

Bank guarantee facility

The consolidated entity has a guarantee facility with a financial institution for rental bonds. During the financial year this facility was renegotiated and as a result the consolidated entity is no longer required to provide bank deposits as security against the guarantees.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

20. EXPENDITURE COMMITMENTS**(a) Capital expenditure commitments**

Estimated capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Not later than one year	131	129
Payable later than one year	-	-
	<u>131</u>	<u>129</u>

(b) Lease expenditure commitments*Operating leases*

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

Minimum lease payments:

Not later than one year	5,082	4,891
Later than one year and not later than five years	19,853	8,146
Later than five years	874	856
	<u>25,809</u>	<u>13,893</u>

Aggregate expenditure commitments comprise:

Amounts provided for:

Lease incentive liability – current	262	479
Lease incentive liability – non-current	1,170	1,420

Amounts not provided for:

Rental commitments	25,809	13,893
	<u>27,241</u>	<u>15,792</u>

Finance lease and hire purchase commitments

The consolidated entity leases various plant and equipment with a carrying amount of \$0.2 million under finance leases expiring within one year subject to interest rates between 8% and 9%.

Minimum lease payments:

Not later than one year	349	1,529
Payable later than one year	-	349
Total minimum lease payments	<u>349</u>	<u>1,878</u>
Less future finance charges	<u>(7)</u>	<u>(106)</u>
Total lease liability	<u>342</u>	<u>1,772</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

CONSOLIDATED

2010 **2009**
\$'000 **\$'000**

20. EXPENDITURE COMMITMENTS (cont'd)

Aggregate expenditure commitments comprise:

Amounts provided for:

Lease liabilities – current	342	1,430
Lease liabilities – non-current	-	342
	<u>342</u>	<u>1,772</u>

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

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries, annual leave and on costs	6,449	5,426
Provisions (current)	1,260	971
Provisions (non-current)	981	1,136
	<u>8,690</u>	<u>7,533</u>

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 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 389 employees and directors eligible for these plans.

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

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

During the year, there were nil options (2009: 120,000) issued under the Employee Option Plan to eligible employees. At 30 June 2010, there were 112,500 (2009: 219,500) options on issue under this plan. During the year, 86,000 options were exercised (2009: nil) and 21,000 (2009: 52,000) options were forfeited. Employee options are contingent on (a) the employee remaining in employment with the company and (b) the company's share price reaching an amount equal to or greater than 25% higher than the option exercise price for 20 consecutive days prior to the date of exercise.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

During the year, there were nil shares (2009: nil) issued under the Discretionary Share Plan to eligible employees, and nil shares (2009: 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. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie, or three years from the date of issuance.

The market value of Macquarie shares closed at \$4.62 on 30 June 2010.

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

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

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

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of year	219,500	1.25	151,500	1.44
Granted	-	-	120,000	0.90
Forfeited/expired	(21,000)	0.95	(52,000)	1.02
Exercised	(86,000)	1.76	-	-
Balance at end of year	112,500	0.91	219,500	1.25
Exercisable at end of year	12,500	0.97	99,500	1.66

(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 2009.

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
				\$
67,000	1 February 2005	31 January 2007 and 31 January 2008	31 January 2010	2.00
32,500	23 April 2007	23 April 2009	23 April 2012	0.97
120,000	14 November 2008	14 November 2010	14 November 2013	0.90
219,500				

(b) Options granted during the reporting period

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

(c) Options exercised during the reporting period

There were 86,000 options exercised by employees during the year.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

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

(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 2010:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
12,500	23 April 2007	23 April 2009	23 April 2012	0.97
100,000	14 November 2008	14 November 2010	14 November 2013	0.90
<u>112,500</u>				

(e) Superannuation commitments

MT makes contributions in accordance with the superannuation law in respect of each eligible employee. At the end of the financial year, contributions of up to 9% (2009: 9%) of employees' salaries and wages are legally enforceable in Australia.

22. CONTINGENT LIABILITIES

The consolidated entity currently disputes certain charges levied by some of its suppliers which total \$0.1 million (2009: \$0.1 million) 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, which excludes the disputed amounts. A contingent liability exists for the difference between the amount recorded in the trade creditors and the negotiated settlement of these disputes, up to a maximum of \$0.1 million.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

23. EARNINGS PER SHARE

	CONSOLIDATED	
	2010	2009
	cents	cents
(a) Basic earnings per share		
From continuing operations	50.6	29.7
From discontinued operation	36.2	6.4
Total basic earnings per share	86.8	36.1
(b) Diluted earnings per share		
From continuing operations	50.1	29.7
From discontinued operation	36.0	6.4
Total diluted earnings per share	86.1	36.1
	2010	2009
	\$'000	\$'000
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share		
Profit from continuing operations	10,440	6,126
Profit from discontinued operation	7,485	1,321
	17,925	7,447
	2010	2009
	Number of shares	Number of shares
(d) Weighted average number of ordinary shares used in calculating basic profit/(loss) per share	20,659,729	20,608,621
Effect of dilutive securities:		
Share options	156,915	41,503
Adjusted weighted average number of ordinary shares used in calculating diluted profit/(loss) per share:	20,816,644	20,650,124
Number of options that are not dilutive and not included in the calculation of diluted profit/(loss) per share		
- Options over ordinary shares	-	312,997

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 2010

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel

Key management personnel of the consolidated group are defined as those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly.

Directors:

R Kaye	Chairman
D Tudehope	Chief Executive
A Tudehope	Managing Director – Hosting
S Butler	Non-Executive Director
J Palfreyman	Non-Executive Director

Other Key Management Personnel:

C Greig	Group Executive, Telco Business
M Simmonds	Chief Financial Officer
A Smith*	Group Executive, Sales and Account Management
J Scollay**	Group Executive, Sales and Account Management
S Gatward**	Group Executive, Telecom Services

* Ceased employment during the financial year

** Appointed during the financial year.

(b) Compensation of Key Management Personnel

(i) Compensation 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 Managing Director – Hosting of the Company.

The Committee addresses the people management processes and reviews the remuneration arrangements for non-executive directors, 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 Managing Director – Hosting 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".

(ii) Compensation by category

	CONSOLIDATED	
	2010	2009
	\$	\$
Short-term employee benefits	3,796,080	3,023,873
Post employment benefits	110,227	87,584
Share-based payments	26,648	15,486
	<u>3,932,955</u>	<u>3,126,943</u>

Information regarding individual directors' and executives' remuneration is provided in the Remuneration Report on pages 6 to 11.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(c) Shareholdings of key management personnel

30 June 2010		<i>Balance 1 July 2009</i>	<i>Granted as remuneration</i>	<i>On exercise of options</i>	<i>Net change other</i>	<i>Balance 30 June 2010</i>
Directors						
R Kaye		5,000	-	40,000	-	45,000
D Tudehope		353,741	-	-	-	353,741
A Tudehope		3,591	-	-	-	3,591
D & A Tudehope	26(c)(i)	12,501,390	-	-	-	12,501,390
S Butler		7,500	-	40,000	(7,500)	40,000
J Palfreyman		10,000	-	40,000	-	50,000
Executives						
C Greig		-	-	10,000	-	10,000
M Simmonds		-	-	20,000	-	20,000
A Smith*		-	-	-	-	-
J Scollay**		-	-	-	-	-
S Gatward**		-	-	-	3,000	3,000
Total		12,881,222	-	150,000	(4,500)	13,026,722

* Ceased employment during the financial year

** Appointed during the financial year.

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

(d) Shares issued on exercise of compensation options

During the financial year there were 150,000 shares (2009: nil) issued to key management personnel on exercise of compensation options.

(e) Other transactions and balances with key management personnel

Services

Services provided by any related party have been disclosed in the Remuneration Report.

CONSOLIDATED

2010	2009
\$	\$

25. AUDITORS' REMUNERATION

The auditor of Macquarie is PricewaterhouseCoopers.

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

– an audit or review of the financial report of the Company and any other entity in the consolidated entity	200,000	220,000
– other services in relation to the Company and any other entity in the consolidated entity	30,800	81,950
	<u>230,800</u>	<u>301,950</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

26. RELATED PARTY DISCLOSURES

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

R Kaye
D Tudehope
A Tudehope
S Butler
J Palfreyman

(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 can charge MT a fee for the provision of services to customers and can be charged a management fee by MT for servicing any customers contracted to the Company. No such fees were levied during the current financial year (2009: nil).

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Macquarie and its 100% owned Australian subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned Australian subsidiaries based on their accounting profit/(loss) for the period. 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.

Amounts due from/payable to wholly owned entities

On 30 June 2010, the Company had current and non-current receivables with a carrying value of \$30,722,790 (2009: \$11,264,177) due from MT, which was a result of tax consolidations and advances made to MT in relation to normal commercial transactions.

On 30 June 2010, the Company had a current receivable of \$1,012,853 (2009: \$1,038,714) due from Macquarie Hosting Pty Limited ("MH"), which was a result of tax consolidations.

On 30 June 2010, the Company had an amount payable to Macquarie Telecom Carrier Services Pty Limited ("MTCS") of \$1,115,213 (2009: \$3,169,035), which was a result of tax consolidations.

(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 2010, being the number of instruments held, were:

- (i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which owns 60% (2009: 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) 7,183 ordinary shares were on issue to a director-related entity of D Tudehope and A Tudehope;
- (iii) 350,149 ordinary shares were on issue to a director-related entity of D Tudehope;
- (iv) 5,000 ordinary shares were on issue to a director-related entity of R Kaye. R Kaye also has an interest in 40,000 ordinary shares.
- (v) S Butler has an interest in 40,000 ordinary shares; and
- (vi) 10,000 ordinary shares were on issue to a director-related entity of J Palfreyman. J Palfreyman also has an interest in 40,000 ordinary shares and 40,000 options over ordinary shares.

(d) Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

27. SEGMENT INFORMATION

Segment description

The consolidated entity operates in four primary business segments. The voice segment relates to the provision of voice telecommunications services to Australian corporate, Australian government, and Singapore corporate customers. The data segment relates to the provision of services utilising the Macquarie data network to Australian corporate, Australian government and Singapore corporate customers. The hosting segment relates to the provision of services utilising the Macquarie data hosting facility to Australian corporate and Australian government customers. The mobiles segment relates to the provision of mobile telecommunications services to Australian corporate and Australian government customers.

Transfer prices between business segments are set at an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers have been eliminated on consolidation.

Geographically, the consolidated entity operated in two locations – Australia and Singapore.

Segment accounting policies

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

Changes in reported segments

On 30 July 2009 Macquarie Telecom Group Limited, the parent entity of the consolidated group sold to CITIC 1616 Holdings Limited all the issued shares in Macquarie Telecom Pte Limited, a wholly owned subsidiary incorporated in Singapore.

The Singapore business has been disclosed as a discontinued operation and has therefore been excluded from the Voice and Data business segments for 30 June 2010 reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

27. SEGMENT INFORMATION (cont'd)

Segment information on primary business segments

	Voice		Data		Hosting		Mobiles		Discontinued Operation		Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue												
Sales to customers outside the consolidated entity	104,126	118,017	58,635	61,601	44,489	33,879	28,742	28,140	934	12,173	236,926	253,810
Inter-segment revenue	-	-	-	-	-	-	-	-	305	3,796	305	3,796
Total segment revenue	104,126	118,017	58,635	61,601	44,489	33,879	28,742	28,140	1,239	15,969	237,231	257,606
Inter-segment elimination									(305)	(3,796)	(305)	(3,796)
Unallocated revenue									-	9	2,125	1,235
Total consolidated revenue									934	12,182	239,051	255,045
Results												
Segment result before income tax	14,554	15,350	(2,319)	(4,894)	8,142	3,857	1,795	2,097	139	1,783	22,311	18,193
Unallocated expenses									(32)	(462)	(6,818)	(7,268)
Profit/(loss) before income tax, finance costs and gain on sale of discontinued operation									107	1,321	15,493	10,925
Finance costs									-	-	(204)	(402)
Gain on sale of discontinued operation									7,378	-	7,378	-
Consolidated entity profit before income tax									7,485	1,321	22,667	10,523
Income tax (expense)/benefit									-	-	(4,742)	(3,076)
Consolidated entity profit after income tax									7,485	1,321	17,925	7,447

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

27. SEGMENT INFORMATION (cont'd)

Segment information on primary business segments

	Voice		Data		Hosting		Mobiles		Discontinued Operation		Consolidated	
Depreciation	476	613	5,452	5,784	7,047	5,980	76	36	-	-	13,051	12,413
Unallocated depreciation									31	447	2,115	2,338
Total depreciation									31	447	15,166	14,751
Amortisation	-	-	303	303	-	-	-	-	-	-	303	303
Unallocated amortisation									1	15	299	277
Total amortisation									1	15	602	580

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

27. SEGMENT INFORMATION (cont'd)

Segment information on primary business segments

Balance sheet segments have been prepared for continuing operations only.

	Voice		Data		Hosting		Mobiles		Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Assets										
Segment assets	35,321	35,383	26,551	27,798	24,365	19,429	10,434	8,557	96,671	91,167
Unallocated assets									14,957	4,820
Total assets									111,628	95,987
Liabilities										
Segment liabilities	16,929	19,853	11,339	13,401	6,992	5,472	5,135	4,885	40,395	43,611
Unallocated liabilities									2,038	1,552
Total liabilities									42,433	45,163
Other segment information										
Acquisition of plant and equipment, intangible assets and other non-current assets	201	177	4,660	4,977	7,629	5,226	225	151	12,715	10,531
Unallocated acquisitions									3,891	2,431
Total acquisitions									16,606	12,962

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

27. SEGMENT INFORMATION (cont'd)**Segment information on secondary geographic segments**

	Australia		Discontinued Operation (Singapore)		Consolidated	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	238,117	242,862	934	12,183	239,051	255,045
Segment non-current assets (excluding deferred tax assets)	27,734	26,908	-	541	27,734	27,449
Other segment information						
Acquisition of plant and equipment, intangible assets and other non-current assets	16,599	12,714	7	248	16,606	12,962

Reconciliation of segment results to profit before taxation expense and discontinued operation:

	CONSOLIDATED	
	2010	2009
	\$	\$
Segment result before tax		
Voice	14,554	15,350
Data	(2,319)	(4,894)
Hosting	8,142	3,857
Mobile	1,795	2,097
Unallocated expenses	(6,786)	(6,806)
Finance costs	(204)	(402)
	<u>15,182</u>	<u>9,202</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

28. FINANCIAL RISK MANAGEMENT

Objectives and policies

The consolidated entity's principal financial instruments comprise finance leases, hire purchase contracts, cash and short-term deposits. The receivables financing facility was discontinued during the year.

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

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

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

Interest rate risk

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

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through use of finance leases and hire purchase contracts.

Credit risk

Information regarding the consolidated entity's credit risk policies and objectives is set out in Note 28(b).

Foreign exchange risk

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

The consolidated entity holds the following financial instruments:

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	56,304	35,313
Trade and other receivables	10,268	12,687
Accrued income	9,074	10,373
Other financial assets	-	1,506
Other current assets	2,091	2,947
	<u>77,737</u>	<u>62,826</u>
Financial liabilities		
Trade and other payables	<u>34,058</u>	<u>37,628</u>
	<u>34,058</u>	<u>37,628</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

28. FINANCIAL RISK MANAGEMENT (cont'd)

a) Market risk

(i) Foreign exchange risk

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

	2010				2009			
	\$'000 USD	\$'000 SGD	\$'000 HKD	\$'000 NZD	\$'000 USD	\$'000 SGD	\$'000 HKD	\$'000 NZD
Cash and cash equivalents	2,327	-	-	-	188	254	-	-
Trade and other receivables	-	-	-	-	148	270	-	-
Other current assets	-	-	-	-	-	76	-	-
Accrued income	-	-	-	-	-	593	-	-
Other financial assets	-	-	-	-	211	72	-	-
Trade and other payables	399	19	-	-	(222)	(870)	(18)	(83)

Consolidated entity sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the consolidated entity's post-tax profit for the year would have been \$303,000 higher/\$248,000 lower (2009: \$36,000 higher/\$30,000 lower) mainly as a result of foreign exchange gains/losses on translation of US denominated financial instruments as detailed in the above table.

Consolidated entity sensitivity to Australian dollar movements against the Singapore dollar has decreased following the sale of the Singapore subsidiary on 31 July 2009 (Note 29). As such, foreign exchange risk to the Singapore dollar is no longer regarded as significant.

(ii) Interest rate risk

The consolidated entity's and parent entity's main interest risk arises from cash and cash equivalents with banks. The consolidated entity's borrowings are at fixed interest rates.

Based on the cash and cash equivalents at 30 June 2010, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been \$145,000 higher/lower (2009: \$88,000 higher/lower) as a result of higher/lower interest income from these financial assets.

(iii) Other price risk

Neither the consolidated entity nor parent entity carries any other price risk.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

28. FINANCIAL RISK MANAGEMENT (cont'd)

iv) Cash flow and fair value interest rate risk

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

	Floating interest rate		Fixed interest rate maturing in						Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years							
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 % pa	2009 % pa
(i) Financial assets														
Cash	31,404	19,313	24,900	16,000	-	-	-	-	-	-	56,304	35,313	4.85	4.48
Receivables – trade	-	-	-	-	-	-	-	-	10,268	12,687	10,268	12,687	N/A	N/A
Accrued income	-	-	-	-	-	-	-	-	9,074	10,373	9,074	10,373	N/A	N/A
Other financial assets	-	-	-	1,506	-	-	-	-	-	-	-	1,506	N/A	4.24
Other – current	-	-	-	-	-	-	-	-	2,091	2,947	2,091	2,947	N/A	N/A
Total financial assets	31,404	19,313	24,900	17,506	-	-	-	-	21,433	26,007	77,737	62,826		
(ii) Financial liabilities														
Payables	-	-	-	-	-	-	-	-	34,058	37,628	34,058	37,628	N/A	N/A
Total financial liabilities	-	-	-	-	-	-	-	-	34,058	37,628	34,058	37,628		

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

28. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers including receivable and committed transactions. Customers are assessed for their creditworthiness by using a third party credit rating agency. If there are no independent credit ratings available, credit risk is assessed by taking into account the financial position of the company, past experience and other factors. The consolidated entity mitigates the credit risk of the top 20 customers through trade credit insurance. The credit quality of the financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 58.

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade receivables		
Group 1	7,297	9,868
Group 2	4,892	4,530
Provision for doubtful debts	(2,688)	(2,907)
	<u>9,501</u>	<u>11,491</u>

Group 1 Aged 0–60 days including past due, but not impaired.
Group 2 Aged 60+ days against which provision has been made.

(c) Liquidity risk

Financing arrangement

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

The consolidated entity had access to the following undrawn borrowing facilities at the reporting date

	Consolidated	
	2010	2009
	\$'000	\$'000
Receivables financing	-	10,000
	<u>-</u>	<u>10,000</u>

Maturities of financial liabilities

	Less than 6 months	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flow
Consolidated entity at 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-interest bearing	34,058	-	-	-	-	34,058
Variable rate	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-
	<u>34,058</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,058</u>

(d) Fair value estimation

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

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

29. DISCONTINUED OPERATION

Description

On 30 July 2009, Macquarie Telecom Group Limited, the parent entity of the consolidated group, announced that it had entered into a Share Sale Agreement in respect of its Singapore subsidiary Macquarie Telecom Pte Limited, with CITIC 1616 Holdings Limited. The transaction was completed on 31 July 2009 with Macquarie Telecom and CITIC subsequently agreeing on a final sale consideration of SG\$11.3 million (A\$9.4 million).

Financial information relating to the discontinued operation for the period to date of disposal is set out below. Further information is set out in Note 27 – Segment Information.

Financial performance and cash flow information

Macquarie Telecom Pte Limited's financial performance and cash flow information presented are for the one month ended 31 July 2009 (2010 column) and the year ended 30 June 2009.

	Consolidated	
	2010	2009
	\$'000	\$'000
Revenue	934	12,182
Expenses	(827)	(10,861)
Profit from operating activities	107	1,321
Finance costs	-	-
Profit before income tax	107	1,321
Income tax	-	-
Profit after income tax of discontinued operation	107	1,321
Gain on sale of discontinued operation before income tax	7,378	-
Income tax	-	-
Gain on sale of the discontinued operation after income tax	7,378	-
Profit from discontinued operation	7,485	1,321

	Consolidated	
	2010	2009
	\$'000	\$'000
Net cash used in ordinary activities	(269)	(92)
Net cash inflow/(outflow) from investing activities (includes inflow of \$9,368,000 from the sale of the discontinued operation less selling costs of \$716,000 and cash held by discontinued operation at date of disposal of \$125,000)	8,527	(282)
Net cash outflow from financing activities	-	(1,270)
Net increase/(decrease) in cash and cash equivalents	8,258	(1,644)

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

29. DISCONTINUED OPERATION (cont'd)

Details of the sale of the discontinued operation

	Consolidated 2010 \$'000	2009 \$'000
Consideration received:		
Total disposal consideration	9,368	-
Loan repaid	(5,933)	-
Value of shares	3,435	-
Carrying amount of net liabilities	4,789	-
Components of equity to be reclassified to profit and loss	(77)	-
Intercompany elimination adjustment	8	-
Costs to sell	(777)	-
Gain on sale before income tax	7,378	-
Income tax expense	-	-
Gain on sale after income tax	7,378	-

Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities, excluding cash and intercompany accounts, as at the date of sale (31 July 2009) were:

	31 July 2009 \$'000
Trade and other receivables	397
Accrued income	594
Other financial assets	282
Other debtors	303
Plant and equipment	423
Total assets	1,999
Trade and other payables	958
Provision and other liabilities	24
Total liabilities	982
Net assets	1,017

30. CAPITAL REDUCTION

On 27 November 2009, the shareholders resolved at the Annual General Meeting that the paid-up capital of the parent company Macquarie Telecom Group Limited be reduced in the amount of \$44,643,416 by debiting the capital account and crediting accumulated losses of the Company in accordance with section 256B of the *Corporations Act 2001*. The capital reduction does not affect any existing shareholder rights.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

31. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2010 \$'000	2009 \$'000
Statement of financial position		
Current assets	9,156	4,593
Total assets	73,504	47,499
Current liabilities	5,573	5,000
Total liabilities	5,573	5,000
<i>Shareholders' equity</i>		
Contributed equity	42,723	87,025
Reserves		
Employee equity benefits reserve	148	117
Retained profit	25,060	(44,643)
	67,931	42,499
Profit/(loss) for the year	25,060	(4,926)
Total comprehensive income	25,060	(4,926)

(b) Guarantees entered into by the parent entity

Macquarie Telecom Group Limited, Macquarie Telecom Pty Limited, Macquarie Hosting 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 that Macquarie Telecom Group Limited is wound up. Macquarie Telecom Pte Ltd left the Closed Group on its sale on 31 July 2009. The Closed Group is the same as the consolidated group.

(c) Contingent liabilities of the parent entity

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

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

Macquarie Telecom Group Limited did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2010 or 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2010

32. EVENTS OCCURING AFTER THE REPORTING DATE

On 26 August 2010, the directors declared a fully franked special dividend of 20 cents per share and a fully franked ordinary dividend of 20 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2010, to be paid to the shareholders on 14 October 2010.

These dividends have not been included as a liability in these financial statements. The total estimated dividends to be paid is \$8.33 million.

DIRECTORS' DECLARATION

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

(1) In the opinion of the directors:

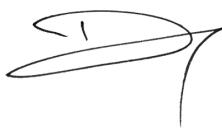
- (a) the financial report, the additional disclosures included in the directors' report designated as audited, and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2010.

(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 31(b) will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

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

On behalf of the Board:



David Tudehope
Chief Executive

Sydney, 26 August 2010

PricewaterhouseCoopers
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**Independent Auditor's Report to the Members of
Macquarie Telecom Group Limited**

Report on the financial report

We have audited the accompanying financial report of Macquarie Telecom Group Limited (the Company), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Macquarie Telecom Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Macquarie Telecom Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Telecom Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Wayne Andrews
Partner

Sydney
26 August 2010

PricewaterhouseCoopers
ABN 52 780 433 757

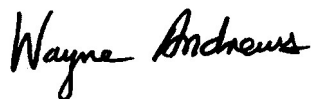
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Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Wayne Andrews
Partner
PricewaterhouseCoopers

Sydney
26 August 2010