

# Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report  
for the year ended 30 June 2011

## DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2011.

### 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 73

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.

David Tudehope  
(Chief Executive)  
Age 44

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. David received the Australian Telecommunication User Group's highest award in 2011 'the Charles Todd Medal'.

Aidan Tudehope  
(Managing Director –  
Hosting)  
Age 39

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 is on the Australian Government's IT Industry Innovation Council and holds a Bachelor of Commerce degree.

Stephen Butler  
(Non-Executive Director)  
Age 44

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.

John Palfreyman  
(Non-Executive Director)  
Age 52

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.

## 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 323,291 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 25,000 ordinary shares.
- (e) S Butler has an interest in 30,000 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 45	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 20 years.
Richard Lutterbeck Age 40	Richard was appointed as company secretary of the Company in February 2009. In addition, he holds the position of Group Commercial and Strategy Manager. Richard has been with the Company since 2001. He holds a Bachelor of Economics degree and a Masters of Business Administration.

### INDEPENDENT PROFESSIONAL ADVICE

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

### PRINCIPAL ACTIVITIES

Macquarie Telecom Group Limited is the head entity of a consolidated group comprising Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS"), Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS") and Ninefold Pty Limited ("Ninefold"). Formerly part of the consolidated group, Macquarie Telecom Pte Limited was sold on 31 July 2009 (see Note 29). Ninefold entered the consolidated group on its date of incorporation, 12 January 2011.

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

<b>EARNINGS PER SHARE</b>	<b>2011</b>	<b>2010</b>
	cents	cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic profit/(loss) per share	84.8	50.6
Diluted profit/(loss) per share	84.5	50.1
Earnings per share for profit attributable to the ordinary equity holders of the company		
Basic profit/(loss) per share	84.8	86.8
Diluted profit/(loss) per share	84.5	86.1

## REVIEW AND RESULTS OF OPERATIONS

The consolidated entity achieved earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$37.2 million in the year ended 30 June 2011, up from \$29.0 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.

<b>REVENUE</b> (A\$ million)	<b>Full Year 2011</b>	Full Year 2010	Full Year 2009
<i>Hosting</i>			
<b>Hosting Total</b>	53.8	44.5	33.9
<i>Telco</i>			
Voice	86.3	104.1	118.0
Data	59.2	58.6	61.6
Mobiles	28.2	28.8	28.1
<b>Telco Total</b>	173.7	191.5	207.7
<b>Total Continuing Operations</b>	227.5	236.0	241.6
<b>EBITDA</b> (A\$ million)	<b>Full Year 2011</b>	Full Year 2010	Full Year 2009
<i>Hosting</i>			
<b>Hosting Total</b>	14.5	15.2	9.8
<i>Telco</i>			
Voice	16.2	15.0	16.0
Data	8.8	3.4	1.2
Mobiles	3.6	1.9	2.1
<b>Telco Total</b>	28.6	20.3	19.3
<i>Corporate Office</i>			
<b>Corporate Office Total</b>	(5.9)	(6.5)	(5.9)
<b>Total Continuing Operations</b>	37.2	29.0	23.2

## DIRECTORS' REPORT

In the 12 months to 30 June 2011, Macquarie Telecom's service revenue from continuing operations was \$226.7 million, a decrease of 3.9% 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 20.9% to \$53.8 million. Hosting now represents 23.6% of Macquarie Telecom's revenue. It generated an EBITDA profit of \$14.5 million, down 4.6% on the corresponding period due to a \$3.6 million investment made to take advantage of the emergence of Cloud computing.

Macquarie Telecom's Telco (Data, Voice and Mobile) business remains an important part of the company's overall offering, delivering \$173.7 million in revenue and an EBITDA profit of \$28.6 million, up 40.9% on the previous corresponding period. Strict cost control and automation has contributed to the improved margins in the Telco business.

Capital expenditure for the full year was \$30.6 million, up from \$16.6 million in 2010.

Macquarie Telecom has generated operating cash flows of \$38.9 million and held cash and cash equivalents of \$53.5 million as at 30 June 2011.

The consolidated entity employed 404 employees at 30 June 2011 (2010: 389 employees).

### 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.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the year ended 30 June 2011.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Refer to Note 31 for significant events occurring after the balance date.

### SHARE OPTIONS

Details of options on issue at 30 June 2011 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 performance hurdles in relation to variable senior manager remuneration.

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

#### Remuneration link to performance

Macquarie'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 2011 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 internal and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

##### *Structure*

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

The fixed remuneration component of the key management personnel is detailed on page 10.

#### Variable remuneration – Short Term Incentive (“STI”)

##### *Objective*

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

##### *Structure*

Actual STI payments granted to each senior manager and executive director depend on the extent to which specific operating targets set at the beginning of the financial year are met or exceeded. The operational targets consist of a number of Key Performance Indicators (“KPIs”) covering both financial and non-financial measures of performance and may be based on Company, individual, business and personal objectives. All measures are classified under the following four categories: (a) financial; (b) customer related; (c) operational; and (d) people management. The Company has predetermined benchmarks which must be met in order to trigger payments under the STI scheme. There is an overachievement element to these payments, meaning it is possible to achieve greater than 100% of the base incentive amount.

## DIRECTORS' REPORT

### REMUNERATION REPORT (cont'd)

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 Directors for the year ended 30 June 2011:

Directors		Short Term					Long Term		Total	Total Performance Related	Long Term Incentive Provision	
		Primary and bonus				Post Employment	% Bonus Granted	Bonus and Share-based Payments				
		Salary and Fees	Cash Bonus	Non – Monetary Benefits <sup>(i)</sup>	Other <sup>(ii)</sup>	Super-annuation		Cash Bonus <sup>(iii)</sup>				Options <sup>(iv)</sup>
R Kaye – Chairman	2011	170,000	-	-	-	15,199	-	-	-	185,199	0.0%	-
	2010	170,000	-	-	-	14,461	-	-	-	184,461	0.0%	-
D Tudehope – Chief Executive <sup>(v)</sup>	2011	467,273	304,431	(17,356)	37,996	15,199	175.5%	57,012	-	864,554	41.8%	-
	2010	473,455	229,436	(11,880)	37,996	14,461	134.7%	-	-	743,468	30.9%	-
A Tudehope – Managing Director Hosting <sup>(v)</sup>	2011	433,455	239,311	(20,547)	37,996	15,199	221.1%	57,012	-	762,425	38.9%	-
	2010	435,084	174,441	9,518	37,996	14,461	145.8%	-	-	671,500	26.0%	-
S Butler – Non-Executive Director	2011	100,000	-	-	-	9,000	-	-	-	109,000	0.0%	-
	2010	100,000	-	-	-	9,000	-	-	-	109,000	0.0%	-
J Palfreyman – Non-Executive Director	2011	114,450	-	-	300,599	-	-	-	27,414	442,463	6.2%	-
	2010	114,450	-	-	381,372	-	-	-	16,148	511,970	3.2%	-
Total Directors' Remuneration	2011	1,285,178	543,742	(37,903)	376,591	54,597		114,024	27,414	2,363,643		-
	2010	1,292,989	403,877	(2,362)	457,364	52,383		-	16,148	2,220,399		-

## DIRECTORS' REPORT

### REMUNERATION REPORT (cont'd)

#### Remuneration of Other Key Management Personnel for the year ended 30 June 2011:

Other Key Management Personnel		Short Term						Long Term		Total	Total Performance Related	Long Term Incentive Provision
		Primary and bonus				Post Employment	% Bonus Granted	Bonus and Share-based Payments				
		Salary and Fees	Cash Bonus	Non – Monetary Benefits <sup>(i)</sup>	Other <sup>(ii)</sup>	Super-annuation		Cash Bonus <sup>(vi)</sup>	Options <sup>(iv)</sup>			
C Greig – Group Executive, Telco Business <sup>(v)</sup>	2011	309,631	219,963	(8,839)	18,904	15,199	180.3%	-	657	555,515	39.7%	-
	2010	302,083	162,656	13,278	18,904	14,461	133.3%	-	1,750	513,132	32.0%	-
M Simmonds – Chief Financial Officer <sup>(v)</sup>	2011	286,068	190,841	14,659	13,667	15,199	190.8%	-	3,284	523,718	37.1%	31,902
	2010	273,942	116,246	(2,710)	12,000	14,461	129.2%	-	8,750	422,689	29.6%	-
S Gatward - Group Executive, Telecom Services	2011	284,592	188,882	8,143	22,404	15,199	188.9%	-	-	519,220	36.4%	33,444
	2010	254,375	89,370	(696)	20,273	14,461	98.6%	-	-	377,783	23.7%	-
J Scollay* - Group Executive, Sales <sup>(v)</sup>	2011	311,900	222,772	2,808	-	15,199	159.1%	-	-	552,679	40.3%	-
	2010	73,576	33,250	6,540	-	3,615	103.2%	-	-	116,981	28.4%	-
Total Other Key Management Personnel Remuneration	2011	1,192,191	822,458	16,771	54,975	60,796		-	3,941	2,151,132		65,346
	2010	903,976	401,522	16,412	51,177	46,998		-	10,500	1,430,585		-

## 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:

\* Ceased employment 15 July 2011

- (i) The category "Non-Monetary Benefits" represent amounts accrued or released in respect of annual leave and long service leave.
- (ii) The category "Other" includes the value of any non-cash benefits provided including motor vehicle allowances, and in the case of non-executive directors, consulting services to the consolidated entity. All amounts paid were on normal commercial terms and conditions and at market rates.
- (iii) The Long Term Incentive Plan ("LTIP") has the following characteristics: (a) the period of the scheme is two years; and (b) the amount payable is determined with reference to actual Earnings Per Share ("EPS") against an EPS target for the second year.
- (iv) 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.
- (v) Denotes one of the five highest remunerated executives.
- (vi) The Executive Long Term Discretionary Incentive Plan ("ELTDIP") has the following characteristics: (a) the period of the scheme is four years; and (b) the amount payable is determined with reference to a mix of financial measures including: (1) the achievement of budget net profit after tax for each year; (2) the achievement of budget net profit after tax accumulated for all four years; and (3) target share price for the fourth year. If the senior executive leaves before the end of the period he forfeits all entitlements under the scheme.

# DIRECTORS' REPORT

## REMUNERATION REPORT (cont'd)

### Equity compensation: granted and vested during the year

During the financial year there were nil options granted as equity compensation to directors and key management personnel (2010: 40,000).

	<i>Vested Number</i>	<i>Granted Number</i>	<i>Grant date</i>	<i>Terms and conditions for each grant</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>
<b>Directors</b>							
J Palfreyman	40,000	-	7 Dec 2009	1.37	4.14	27 Nov 2011	27 Nov 2014
Total	40,000	-					

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 1 July 2010</i>	<i>Granted as remuner- ation</i>	<i>Options exercised</i>	<i>Balance 30 June 2011</i>	<i>Vested and exercisable</i>	<i>Not vested and exercisable</i>	<i>Consideration received \$</i>	<i>Fair value of options when exercised \$</i>
D Tudehope	-	-	-	-	-	-	-	
A Tudehope	-	-	-	-	-	-	-	
S Butler	-	-	-	-	-	-	-	
J Palfreyman	40,000	-	-	40,000	-	40,000	-	
C Greig	12,500	-	(12,500)	-	-	-	11,425	
M Simmonds	50,000	-	(50,000)	-	-	-	45,000	
S Gatward	-	-	-	-	-	-	-	
J Scollay*	-	-	-	-	-	-	-	
Total	102,500	-	(62,500)	40,000	-	40,000	56,425	

\* Ceased employment 15 July 2011

## 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
<b>Number of meetings held:</b>	21	6	4
<b>Number of meetings attended:</b>			
R Kaye	20	5	4
D Tudehope	21	-	4
A Tudehope	20	-	-
S Butler	21	5	4
J Palfreyman	21	6	4

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 71 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: \$24,750 (2010: \$30,800) as disclosed in Note 25.

Signed in accordance with a resolution of the directors:



David Tudehope  
Chief Executive

Sydney, 24 August 2011

# 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](http://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 2011. 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 and April 2007. 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](http://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 2011

	Notes	CONSOLIDATED	
		2011	2010
		\$'000	\$'000
Revenue from continuing operations	3	230,605	238,117
Expenses	3	(205,678)	(222,731)
<b>Profit before income tax and finance costs</b>		24,927	15,386
Finance costs		(18)	(204)
<b>Profit before income tax</b>		24,909	15,182
Income tax expense	5	(7,217)	(4,742)
<b>Profit from continuing operations</b>		17,692	10,440
Profit from discontinued operation (net of tax)	29	-	7,485
<b>Net profit for year</b>	18(b)	17,692	17,925
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	18(a)	-	74
<b>Total comprehensive income for the year</b>		17,692	17,999
		cents	cents
<b>Earnings per share from continuing operations attributable to the ordinary equity holders of the company:</b>			
Basic profit per share	23	84.8	50.6
Diluted profit per share	23	84.5	50.1
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic profit per share	23	84.8	86.8
Diluted profit per share	23	84.5	86.1

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

# STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2011

	Notes	CONSOLIDATED		
		2011	2010	2009
		\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	6	53,463	56,304	35,313
Receivables	7	6,327	10,268	12,687
Accrued income	8	7,876	9,074	10,373
Other financial assets		-	-	1,506
Other	9	2,072	2,091	2,947
<b>TOTAL CURRENT ASSETS</b>		<b>69,738</b>	<b>77,737</b>	<b>62,826</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment*	10	33,632	20,920	21,328
Intangibles*	11	8,023	5,249	4,253
Deferred tax assets	5	5,654	6,157	5,712
Other	12	1,262	1,565	1,868
<b>TOTAL NON-CURRENT ASSETS</b>		<b>48,571</b>	<b>33,891</b>	<b>33,161</b>
<b>TOTAL ASSETS</b>		<b>118,309</b>	<b>111,628</b>	<b>95,987</b>
<b>CURRENT LIABILITIES</b>				
Payables	13	34,318	34,058	37,628
Borrowings	14	-	342	1,430
Current tax liabilities	5	4,072	4,360	1,754
Provisions	15	1,499	1,260	971
Other	16	66	262	479
<b>TOTAL CURRENT LIABILITIES</b>		<b>39,955</b>	<b>40,282</b>	<b>42,262</b>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	14	-	-	342
Deferred tax liabilities	5	-	-	3
Provisions	15	898	981	1,136
Other	16	863	1,170	1,420
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,761</b>	<b>2,151</b>	<b>2,901</b>
<b>TOTAL LIABILITIES</b>		<b>41,716</b>	<b>42,433</b>	<b>45,163</b>
<b>NET ASSETS</b>		<b>76,593</b>	<b>69,195</b>	<b>50,824</b>
<b>EQUITY</b>				
Contributed equity	17	42,811	42,723	87,025
Reserves	18	182	148	43
Retained profit/(loss)	18	33,600	26,324	(36,244)
<b>TOTAL EQUITY</b>		<b>76,593</b>	<b>69,195</b>	<b>50,824</b>

\* See Note 2(d) for details regarding the reclassification of assets from property, plant and equipment to intangibles. The above statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

### YEAR ENDED 30 JUNE 2011

	Contributed Equity	Reserves (Note 18)	Retained Profit/ (Loss)	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2009</b>	87,025	43	(36,244)	50,824
<b>Total comprehensive income for the year</b>	-	74	17,925	17,999
Capital reduction (Note 17(d))	(44,643)	-	44,643	-
<b>Transactions with owners in their capacity as owners:</b>				
Share-based payments expense	-	31	-	31
Exercise of options	341	-	-	341
	341	31	-	372
<b>At 30 June 2010</b>	42,723	148	26,324	69,195
	Contributed Equity	Reserves (Note 18)	Retained Profit/ (Loss)	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2010</b>	47,723	148	26,324	69,195
<b>Total comprehensive income for the year</b>	-	-	17,692	17,692
<b>Transactions with owners in their capacity as owners:</b>				
Share-based payments expense	-	34	-	34
Exercise of options	88	-	-	88
Dividends provided for or paid	-	-	(10,416)	(10,416)
	88	34	(10,416)	(10,294)
<b>At 30 June 2011</b>	42,811	182	33,600	76,593

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

# STATEMENT OF CASH FLOWS

## YEAR ENDED 30 JUNE 2011

	Notes	CONSOLIDATED	
		2011	2010
		\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of goods and services tax)		253,476	262,754
Payments to suppliers and employees (inclusive of goods and services tax)		(211,483)	(232,742)
Interest received		3,183	1,733
Interest paid		(18)	(204)
Income tax paid		(7,076)	(2,656)
Other receipts		821	-
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	19	<b>38,903</b>	<b>28,885</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of non-current assets		(30,602)	(16,606)
Disposal of subsidiary – net sale proceeds	29	-	8,527
Proceeds from sale of non-current assets		4	-
Proceeds from other financial assets		-	1,238
<b>NET CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>		<b>(30,598)</b>	<b>(6,841)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		88	341
Repayment of finance lease principal		(342)	(1,430)
Dividends paid on ordinary shares		(10,416)	-
<b>NET CASH FLOWS (USED IN) FINANCING ACTIVITIES</b>		<b>(10,670)</b>	<b>(1,089)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,365)</b>	<b>20,955</b>
Cash and cash equivalents at the beginning of the financial year		56,304	35,313
Effects of exchange rate changes on cash and cash equivalents		(476)	36
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	6	<b>53,463</b>	<b>56,304</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 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 2011 was authorised for issue in accordance with a resolution of directors on 24 August 2011.

Macquarie is the head entity of a consolidated group (“Group”) comprising Macquarie Telecom Pty Limited (“MT”), Macquarie Hosting Pty Limited (“MH”), Macquarie Telecom Carrier Services Pty Limited (“MTCS”), Macquarie Telecom Network Carrier Services Pty Limited (“MTNCS”) and Ninefold Pty Limited (“Ninefold”). Formerly part of the consolidated group, Macquarie Telecom Pte Limited was sold on 31 Jul 2009 (see Note 29). Ninefold Pty Limited entered the consolidated group on its date of incorporation, 12 January 2011.

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

The nature of the operations and principal activities of the Group are described in Note 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*, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.

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

#### *Compliance with IFRS*

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Macquarie 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 (p)) and the depreciation and amortisation 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 2011

### 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) Property, plant and equipment

##### *Cost and valuation*

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Property, plant and equipment includes costs in relation to infrastructure development projects where future benefits are probable to exceed these costs.

##### *Depreciation*

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

The estimated useful lives are as follows:

Plant and equipment	1 to 10 years
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Leasehold improvements are amortised over the lease term. Buildings are under construction and a depreciation period has not been determined. Land is not depreciated.

##### *Reclassification of assets from property, plant and equipment to intangibles*

At 30 June 2011, \$8.0 million of software and product development assets were reclassified from property, plant and equipment to intangibles in order to better reflect the nature of the assets held. There is no impact on the net profit of the consolidated entity for prior, current or future periods as a result of the reclassification. There were no changes to the useful lives or carrying amounts of any reclassified assets. Prior period comparative amounts have been reclassified accordingly (2010: \$5.2 million; 2009: \$4.3 million).

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### (e) Intangibles

##### *Cost and valuation*

All assets reported as intangibles are held at cost less accumulated amortisation and impairment losses. Intangibles includes costs in relation to the development of software systems and products where future benefits are expected to exceed these costs. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project during the development phase. Software and product development costs are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

##### *Amortisation*

Amortisation is calculated on a straight-line basis on all intangibles commencing from the time the asset is ready for use.

Amortisation periods are:

Software	3 to 6 years
Product development	1 to 4 years

#### (f) Transmission capacity

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

#### (g) Impairment of assets

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

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

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

Impairment losses are recognised in the income statement.

#### (h) Cash and cash equivalents

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

#### (i) Trade and other receivables

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

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.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### (j) Accrued income

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

#### (k) Payables

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

Liabilities for other trade creditors and other creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

#### (l) Leases

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

##### *Operating leases*

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

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

##### *Finance leases*

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

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

#### (m) Employee benefits

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

#### (n) Share-based payment transactions

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options 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.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### (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 income*

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

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### *(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 consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

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

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

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

#### *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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

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.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### (s) Segment reporting

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

#### (t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount 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.

#### (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 30 has been prepared on the same basis as the consolidated financial statements except as set out in Note 2(q) above "Tax consolidation legislation".

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

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

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

#### (y) New accounting standards and interpretations

The group has adopted AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*. Amongst other amendments, the standard amends AASB 8 *Operating Segments* and specifies that total assets and liabilities shall be reported for each reportable segment if such amounts are regularly provided to the chief operating decision maker. Assets and liabilities of reportable segments are not regularly reported to the group's chief operating decision maker, and as such, this information has not been included in the financial statements. There has been no impact on the measurement of the group's assets and liabilities.

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations are set out below.

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

*AASB 9 Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. 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 2011

### CONSOLIDATED

2011                      2010  
\$'000                      \$'000

### 3. REVENUE AND EXPENSES

#### (a) Revenue and other income – continuing operations

Revenue from services	226,710	235,992
Interest	3,067	2,125
Profit on disposal of plant and equipment	7	-
Other income	821	-
<b>Total revenue and other income – continuing operations</b>	<b>230,605</b>	<b>238,117</b>

#### (b) Revenue and other income – discontinued operation (Note 29)

Revenue from services	-	934
<b>Total revenue and other income – discontinued operation</b>	<b>-</b>	<b>934</b>

#### (c) Expenses – continuing operations

Amortisation of non-current assets		
Leasehold improvements	211	298
Intangibles	3,128	2,637
Transmission capacity	303	303
Depreciation of non-current assets		
Property, plant and equipment	11,777	12,498
<b>Total depreciation and amortisation expense</b>	<b>15,419</b>	<b>15,736</b>
Bad and doubtful debts – trade debtors *	(1,044)	360
Operating lease rental	6,124	5,318
Employment costs	62,081	59,165
Carrier costs	103,010	123,584
Net foreign exchange differences	456	52
Other	19,632	18,516
	190,259	206,995
<b>Total expenses – continuing operations</b>	<b>205,678</b>	<b>222,731</b>

\*Includes recoveries of debts previously provided of \$1.5 million

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
<b>3. REVENUE AND EXPENSES (cont'd)</b>		
<b>(d) Expenses – discontinued operation (Note 29)</b>		
Amortisation of non-current assets		
Leasehold improvements	-	1
Depreciation of non-current assets		
Property, plant and equipment	-	31
Total depreciation and amortisation expense	-	32
Bad and doubtful debts – trade debtors	-	(20)
Operating lease rental	-	41
Employment costs	-	160
Carrier costs	-	459
Net foreign exchange differences	-	13
Other	-	142
	-	795
<b>Total expenses – discontinued operation</b>	-	827

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011	2010
\$'000	\$'000

#### 4. DIVIDENDS

(a) Dividends paid during the reporting period

(i) Final dividend for the year ended 30 June 2010 of 20 cents per share (2010: nil) fully franked based on tax paid at 30%.

4,163	-
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(ii) Special dividend for the year ended 30 June 2010 of 20 cents per share (2010: nil) fully franked based on tax paid at 30%.

4,163	-
-------	---

(iii) Interim dividend for the year ended 30 June 2011 of 10 cents per share (2010: nil) fully franked based on tax paid at 30%.

2,090	-
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<u>10,416</u>	<u>-</u>
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(b) Dividends not recognised at the end of the reporting period

Since year end, the directors declared the payment of a final dividend of 12 cents per share (2010: final and special dividend 40 cents) fully franked based on tax paid of 30%. The aggregate amount of the declared dividends expected to be paid on 13 October 2011 out of retained earnings at 30 June 2011, but not recognised as a liability at year end, is

<u>2,509</u>	<u>8,326</u>
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(c) Franking account balance

The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2010: 30%)

<u>9,339</u>	<u>7,016</u>
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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 dividend 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 \$1,075,481 (2010: \$3,568,221).

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
<b>5. INCOME TAX</b>		
<b>(a) Income tax expense</b>		
Current tax	6,714	5,190
Deferred tax	503	(448)
	7,217	4,742
Income tax expense is attributable to:		
Profit from continuing operations	7,217	4,742
Profit from discontinued operation	-	-
Aggregate income tax expense	7,217	4,742
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	324	(314)
Increase/(decrease) in deferred tax liabilities	179	(134)
	503	(448)
<b>(b) Numerical reconciliation of income tax expense to <i>prima facie</i> tax payable</b>		
Profit from continuing operations before income tax expense	24,909	15,182
Profit from discontinued operation before income tax expense	-	7,485
	24,909	22,667
Prima facie tax at the Australian tax rate of 30% (2010: 30%)	7,473	6,800
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Singapore taxable amounts not brought to account	-	67
Difference in overseas tax rates	-	2
Expenditure not allowable for income tax purposes	194	311
Government investment allowance concession	-	(112)
Decrease in foreign income tax offsets carried forward	68	58
Research and development concession	(138)	-
Research and development concession – prior year	(301)	-
Adjustments to tax in respect of prior years	(79)	(171)
Exempt gain on sale of discontinued operation	-	(2,213)
Income tax expense	7,217	4,742

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

## CONSOLIDATED

2011      2010  
\$'000      \$'000

## 5. INCOME TAX (cont'd)

## NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Tax losses	-	71
Foreign income tax offsets (“FITO”)	90	158
Accelerated depreciation for accounting purposes	4,488	4,292
	<u>4,578</u>	<u>4,521</u>
Employee benefits	1,139	1,067
Accrued expenses	1,049	1,174
Provisions for doubtful debts and credit notes	406	809
Other assets	314	206
Fringe benefits tax	-	33
Subtotal other	<u>2,908</u>	<u>3,289</u>
Total deferred tax assets	<u>7,486</u>	<u>7,810</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,832)</u>	<u>(1,653)</u>
Net deferred tax assets	<u>5,654</u>	<u>6,157</u>

## Movements – Consolidated

	Tax Losses	FITO	Accelerated Depreciation	Other	Total
<b>At 1 July 2009</b>	-	216	3,858	3,422	7,496
Charged/(credited) to the income statement	71	(58)	434	(133)	314
<b>At 30 June 2010</b>	71	158	4,292	3,289	7,810
Charged/(credited) to the income statement	(71)	(68)	196	(381)	(324)
<b>At 30 June 2011</b>	-	90	4,488	2,908	7,486

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011      2010  
\$'000      \$'000

#### 5. INCOME TAX (cont'd)

##### CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Current tax liabilities	4,072	4,360
	<u>4,072</u>	<u>4,360</u>

##### NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

Accelerated depreciation for tax purposes	1,626	1,464
	<u>1,626</u>	<u>1,464</u>
Other debtors	161	189
Prepayments	45	-
Subtotal other	<u>206</u>	<u>189</u>
Total deferred tax liabilities	<u>1,832</u>	<u>1,653</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(1,832)</u>	<u>(1,653)</u>
Net deferred tax liabilities	<u>-</u>	<u>-</u>

##### Movements – Consolidated

	<u>Accelerated Depreciation</u>	<u>Prepayments</u>	<u>Other</u>	<u>Total</u>
<b>At 1 July 2009</b>	1,539	-	248	1,787
Charged/(credited) to the income statement	(75)	-	(59)	(134)
Disposal of discontinued operation	-	-	-	-
<b>At 30 June 2010</b>	<u>1,464</u>	<u>-</u>	<u>189</u>	<u>1,653</u>
Charged/(credited) to the income statement	162	45	(28)	179
<b>At 30 June 2011</b>	<u>1,626</u>	<u>45</u>	<u>161</u>	<u>1,832</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 5. INCOME TAX (cont'd)

#### Tax consolidation

Macquarie and its 100% owned Australian resident subsidiaries 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*.

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and on hand	21,960	31,404
Short-term deposits	28,984	24,900
Restricted cash*	2,519	-
	53,463	56,304

\* Bank deposits held by financial institutions as security against letters of credit.

### 7. RECEIVABLES

#### CURRENT

Trade debtors	6,998	12,189
Provision for doubtful debts	(963)	(2,688)
Provision for credit notes	(596)	(1,513)
Other receivables	888	2,280
	6,327	10,268

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011	2010
\$'000	\$'000

#### 7. RECEIVABLES (cont'd)

(a) Terms and conditions relating to the above financial instruments:

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

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

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

At 1 July	(4,202)	(3,667)
Amounts written off	622	560
Net provision released/(additional amounts provided)	2,021	(1,147)
Disposal of discontinued operation	-	52
At 30 June	<u>(1,559)</u>	<u>(4,202)</u>

#### 8. ACCRUED INCOME

Accrued income	<u>7,876</u>	<u>9,074</u>
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#### 9. OTHER CURRENT ASSETS

Prepayments	<u>2,072</u>	<u>2,091</u>
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# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
Leasehold improvements		
At cost	1,987	1,535
Accumulated amortisation	(1,159)	(952)
	<u>828</u>	<u>583</u>
Plant and equipment (a)		
At cost	91,943	70,317
Accumulated depreciation	(71,751)	(50,211)
	<u>20,192</u>	<u>20,106</u>
Plant and equipment under lease		
At cost	-	12,015
Accumulated depreciation	-	(11,784)
	<u>-</u>	<u>231</u>
Land and buildings under construction		
At cost	12,612	-
Accumulated depreciation	-	-
	<u>12,612</u>	<u>-</u>
Total written down amount	<u>33,632</u>	<u>20,920</u>

(a) Reclassification of assets from property, plant and equipment to intangibles

At 30 June 2011, \$8.0 million of software and product development assets were reclassified from property, plant and equipment to intangibles in order to better reflect the nature of the assets held. There is no impact on the net profit of the consolidated entity for prior, current or future periods as a result of the reclassification. There were no changes to the useful lives or carrying amounts of any reclassified assets. Prior period comparative amounts have been reclassified accordingly (2010: \$5.2 million; 2009: \$4.3 million).

### Reconciliations

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

*Leasehold improvements*

Opening balance	583	549
Additions	456	341
Disposals	-	-
Exchange differences	-	-
Amortisation expense	(211)	(299)
Disposal of discontinued operation	-	(8)
	<u>828</u>	<u>583</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>10. PROPERTY, PLANT AND EQUIPMENT (cont'd)</b>		
<i>Plant and equipment*</i>		
Opening balance	20,106	19,944
Additions	11,632	12,604
Disposals	-	(115)
Transfers**	63	-
Exchange differences	-	(3)
Depreciation expense	(11,609)	(11,925)
Disposal of discontinued operation	-	(399)
	20,192	20,106
	20,192	20,106
 <i>Plant and equipment under lease</i>		
Opening balance	231	835
Transfers**	(63)	-
Depreciation expense	(168)	(604)
	-	231
	-	231
 <i>Land and buildings under construction</i>		
Opening balance	-	-
Additions	12,612	-
	12,612	-
	12,612	-

\*During the year, fully depreciated plant and equipment of \$2.0 million were retired.

\*\*At the end of the lease, plant and equipment under lease was transferred to plant and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
<b>11. INTANGIBLES</b>		
Software*		
At cost	16,434	10,846
Accumulated amortisation	(9,276)	(7,150)
	7,158	3,696
Product development*		
At cost	6,313	7,388
Accumulated amortisation	(5,448)	(5,835)
	865	1,553
Total written down amount	8,023	5,249

### Reconciliations

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

#### Software

Opening balance	3,696	2,246
Additions – internal development	3,185	2,113
Additions – acquisition	2,401	915
Exchange differences	-	-
Amortisation expense**	(2,124)	(1,562)
Disposal of discontinued operation	-	(16)
	7,158	3,696

#### Product development\*\*\*

Opening balance	1,553	2,007
Additions – internal development	316	633
Disposals	-	(12)
Exchange differences	-	-
Amortisation expense**	(1,004)	(1,075)
	865	1,553

\*Software and product development costs include capitalised development costs being an internally generated asset.

\*\*Amortisation of \$3,128,000 (2010: \$2,637,000) is included in expenses in the statement of comprehensive income.

\*\*\*During the year, fully amortised product development of \$1.4 million was retired.

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	Notes	CONSOLIDATED	
		2011 \$'000	2010 \$'000
<b>12. OTHER NON-CURRENT ASSETS</b>			
Transmission capacity		4,722	4,722
Accumulated amortisation		(3,460)	(3,157)
		<u>1,262</u>	<u>1,565</u>
<b>13. PAYABLES</b>			
<b>CURRENT</b>			
Trade creditors	22	20,878	23,440
Other creditors and accruals		11,842	9,302
Annual leave entitlements		1,598	1,316
		<u>34,318</u>	<u>34,058</u>
(a) Australian dollar equivalents			
Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:			
- Singapore dollars		-	19
- New Zealand dollars		3	-
- United States dollars		270	399
		<u>270</u>	<u>399</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.			
<b>14. BORROWINGS</b>			
<b>CURRENT</b>			
Obligations under finance leases	20(b)	-	342
		<u>-</u>	<u>342</u>
<b>NON-CURRENT</b>			
Obligations under finance leases	20(b)	-	-
		<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

	Notes	CONSOLIDATED	
		2011	2010
		\$'000	\$'000
<b>15. PROVISIONS</b>			
<b>CURRENT</b>			
Employee benefits (a)	21	1,301	1,260
Leased premises make-good		198	-
		<u>1,499</u>	<u>1,260</u>
<b>NON-CURRENT</b>			
Employee benefits (a)	21	898	981
		<u>898</u>	<u>981</u>

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

### Long service leave

At 1 July		2,241	2,107
Charged/(credited) to profit or loss			
- additional provisions recognised		546	402
Amounts used during the period		(588)	(268)
At 30 June		<u>2,199</u>	<u>2,241</u>

### 16. OTHER LIABILITIES

#### CURRENT

Lease incentive	20(b)	66	262
		<u>66</u>	<u>262</u>

#### NON-CURRENT

Lease incentive	20(b)	863	1,170
		<u>863</u>	<u>1,170</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011                      2010  
\$'000                      \$'000

#### 17. CONTRIBUTED EQUITY

##### (a) Share capital

Ordinary shares fully paid (no par value)	42,811	42,723
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	Notes	2011	2011	2010	2010
		Number of shares	\$	Number of shares	\$
<b>(b) Movements in shares on issue</b>					
Balance at beginning of year		20,814,621	42,723,019	20,608,621	87,025,435
Capital reduction	17(d)	-	-	-	(44,643,416)
Conversion of share options	17(c)	97,500	88,275	206,000	341,000
Balance at end of year		20,912,121	42,811,294	20,814,621	42,723,019

##### (c) Share options

###### *Options over ordinary shares*

There were no options over ordinary shares issued during the year.

At the end of the year, there were 55,000 (2010: 152,500) 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 (2010: nil).

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

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of year	152,500	0.97	354,500	1.92
Granted	-	-	40,000	4.14
Forfeited	-	-	(36,000)	6.56
Exercised	(97,500)	0.91	(206,000)	1.66
Balance at end of year	55,000	3.26	152,500	1.76
Exercisable at end of year	15,000	0.92	12,500	0.97

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 17. CONTRIBUTED EQUITY (cont'd)

The following table summarises information about total options outstanding and exercisable at 30 June 2011:

Exercise price	Outstanding options	Average option life (years)	Exercisable number of options	Expiry date
\$0.97	5,000	0.82	5,000	23 Apr 2012
\$0.90	10,000	2.38	10,000	14 Nov 2013
\$4.14	40,000	3.41	-	27 Nov 2014
	<u>55,000</u>	2.99	<u>15,000</u>	

No options were exercised after year end.

#### (d) Capital reduction

In the prior financial year, 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.

#### (e) Terms and conditions of contributed equity

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

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

Notes	CONSOLIDATED	
	2011	2010
	\$'000	\$'000

### 18. RESERVES AND RETAINED EARNINGS

Other reserves	18(a)	<u>182</u>	<u>148</u>
Retained profits	18(b)	<u>33,600</u>	<u>26,324</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 18. RESERVES AND RETAINED EARNINGS (cont'd)

#### (a) Other reserves

##### (i) Nature and purpose of reserves

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.

	Note	CONSOLIDATED	
		2011	2010
		\$'000	\$'000
<i>(ii) Movements in reserves</i>			
<i>Foreign currency translation reserve:</i>			
Balance at beginning of year		-	(74)
Gain/(loss) on translation of foreign controlled entity		-	(3)
Disposal of discontinued operation		-	77
Balance at end of year		-	-
<i>Employee equity benefits reserve:</i>			
Balance at beginning of year		148	117
Share-based payments expense		34	31
Balance at end of year		182	148
		182	148
<b>(b) Retained profits/(accumulated losses)</b>			
Balance at beginning of year		26,324	(36,244)
Capital reduction	30	-	44,643
Net profit for the year		17,692	17,925
Total available for appropriation		44,016	26,324
Dividends paid or provided for		(10,416)	-
Balance at end of year		33,600	26,324

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011                      2010  
\$'000                      \$'000

#### 19. STATEMENT OF CASH FLOWS

##### (a) Reconciliation of the profit after income tax expense to the net cash flows from operating activities

Profit after income tax expense	17,692	17,925
Amortisation of non-current assets	3,642	3,239
Depreciation of non-current assets	11,777	12,529
Profit on sale of plant and equipment	(7)	-
Share-based payments expense	34	31
Gain on sale of discontinued operation	-	(7,378)
Net foreign currency losses	476	38
<b>Changes in assets and liabilities</b>		
Trade receivables	2,553	3,694
Other receivables	1,392	(1,721)
Accrued income	1,198	705
Prepayments	19	746
Deferred tax assets	503	(445)
Trade and other creditors	260	(2,765)
Other liabilities	(503)	(449)
Current tax liabilities	(289)	2,606
Deferred tax liabilities	-	(3)
Provisions	156	133
Net cash flow from operating activities	38,903	28,885

##### (b) Non-cash investing activities

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

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### CONSOLIDATED

2011                      2010  
\$'000                      \$'000

#### 19. STATEMENT OF CASH FLOWS (cont'd)

##### (c) Financing facilities available

Total facilities:

- bank guarantee facility	4,144	4,144
	<u>4,144</u>	<u>4,144</u>

Facilities used at reporting date:

- bank guarantee facility	3,512	1,975
	<u>3,512</u>	<u>1,975</u>

Facilities unused at reporting date:

- bank guarantee facility	632	2,169
	<u>632</u>	<u>2,169</u>

Facilities used at reporting date	3,512	1,975
Facilities unused at reporting date	632	2,169
Total facilities	<u>4,144</u>	<u>4,144</u>

##### *Bank guarantee facility*

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

##### *Cash advance facility*

After the end of the reporting period on 25 July 2011, the consolidated entity entered into a \$30 million cash advance facility with a financial institution. The facility allows the entity to draw down up to \$30 million in \$500,000 parcels for interest periods of 1, 3 and 6 months for a period of 2 years.

### CONSOLIDATED

2011                      2010  
\$'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

- Plant and equipment	1,571	131
- Land and buildings under construction	7,947	-

Payable later than one year	-	-
	<u>9,518</u>	<u>131</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

## CONSOLIDATED

2011                      2010  
\$'000                      \$'000

**20. EXPENDITURE COMMITMENTS (cont'd)****(b) Lease expenditure commitments***Operating leases*

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

## Minimum lease payments:

Not later than one year	4,667	5,082
Later than one year and not later than five years	17,956	19,853
Later than five years	-	874
	<u>22,623</u>	<u>25,809</u>

## Aggregate expenditure commitments comprise:

## Amounts provided for:

Lease incentive liability – current	66	262
Lease incentive liability – non-current	863	1,170

## Amounts not provided for:

Rental commitments	22,623	25,809
	<u>23,552</u>	<u>27,241</u>

*Finance lease and hire purchase commitments*

The consolidated entity leased various plant and equipment under finance leases which were fully repaid in the prior financial year.

## Minimum lease payments:

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

## Aggregate expenditure commitments comprise:

## Amounts provided for:

Lease liabilities – current	-	342
Lease liabilities – non-current	-	-
	-	<u>342</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

Notes	CONSOLIDATED	
	2011	2010
	\$'000	\$'000

### 21. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

#### Employee benefits

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries, annual leave and on costs		8,993	6,449
Provisions (current)	15	1,301	1,260
Provisions (non-current)	15	898	981
		<u>11,192</u>	<u>8,690</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 404 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 (2010: nil) issued under the Employee Option Plan to eligible employees. At 30 June 2011, there were 15,000 (2010: 112,500) options on issue under this plan. During the year, 97,500 options were exercised (2010: 86,000) and nil (2010: 21,000) 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 2011

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

During the year, there were nil shares (2010: nil) issued under the Discretionary Share Plan to eligible employees, and nil shares (2010: 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. Ordinary shares issued under the Share Purchase Plan are not disposable until the earlier of the date of termination of employment with Macquarie, or three years from the date of issuance.

The market value of Macquarie shares closed at \$10.20 on 30 June 2011.

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:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of year	112,500	0.91	219,500	1.25
Granted	-	-	-	-
Forfeited/expired	-	-	(21,000)	0.95
Exercised	(97,500)	0.91	(86,000)	1.76
Balance at end of year	15,000	0.92	112,500	0.91
Exercisable at end of year	15,000	0.92	12,500	0.97

#### (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 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>				

#### (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 97,500 options exercised by employees during the year.

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 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 employees as at 30 June 2011.

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
5,000	23 April 2007	23 April 2009	23 April 2012	0.97
10,000	14 November 2008	14 November 2010	14 November 2013	0.90
<u>15,000</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% (2010: 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 (2010: \$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 2011

**23. EARNINGS PER SHARE**

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>cents</b>	<b>cents</b>
<b>(a) Basic earnings per share</b>		
From continuing operations	84.8	50.6
From discontinued operation	-	36.2
Total basic earnings per share	84.8	86.8
<b>(b) Diluted earnings per share</b>		
From continuing operations	84.5	50.1
From discontinued operation	-	36.0
Total diluted earnings per share	84.5	86.1
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(c) Reconciliation of earnings used in calculating earnings per share</b>		
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share		
Profit from continuing operations	17,692	10,440
Profit from discontinued operation	-	7,485
	17,692	17,925
	<b>2011</b>	<b>2010</b>
	<b>Number of shares</b>	<b>Number of shares</b>
<b>(d) Weighted average number of ordinary shares used in calculating basic profit/(loss) per share</b>		
	20,869,710	20,659,729
Effect of dilutive securities:		
Share options	70,726	156,915
Adjusted weighted average number of ordinary shares used in calculating diluted profit/(loss) per share:	20,940,436	20,816,644
Number of options that are not dilutive and not included in the calculation of diluted profit/(loss) per share		
- Options over ordinary shares	-	-

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 2011

### 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
J Scollay*	Group Executive, Sales and Account Management
S Gatward	Group Executive, Telecom Services

\* Ceased employment 15 July 2011

#### (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	
	2011	2010
	\$	\$
Short-term employee benefits	4,254,003	3,524,956
Long-term employee benefits	179,370	-
Post employment benefits	115,393	99,381
Share-based payments	31,355	26,648
	<u>4,580,121</u>	<u>3,650,984</u>

Information regarding individual directors' and executives' remuneration is provided in the Remuneration Report on pages 6 to 12.

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 24. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

#### (c) Shareholdings of key management personnel

30 June 2011	Balance 1 July 2010	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2011
<i>Directors</i>					
R Kaye	45,000	-	-	(15,000)	30,000
D Tudehope	353,741	-	-	(30,450)	323,291
A Tudehope	3,591	-	-	-	3,591
D & A Tudehope 26(c)(i)	12,501,390	-	-	-	12,501,390
S Butler	40,000	-	-	(10,000)	30,000
J Palfreyman	50,000	-	-	-	50,000
<i>Executives</i>					
C Greig	10,000	-	12,500	-	22,500
M Simmonds	20,000	-	50,000	(20,000)	50,000
J Scollay*	-	-	-	-	-
S Gatward	3,000	-	-	(1,600)	1,400
Total	13,026,722	-	62,500	(77,050)	13,012,172

\* Ceased employment 15 July 2011

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

#### (d) Shares issued on exercise of compensation options

During the financial year there were 62,500 shares (2010: 150,000) 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

2011	2010
\$	\$

### 25. AUDITOR'S REMUNERATION

The auditor of Macquarie is PricewaterhouseCoopers.

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

- an audit or review of the financial report of the Company and any other entity in the consolidated entity	215,000	200,000
- other services in relation to the Company and any other entity in the consolidated entity	24,750	30,800
	<u>239,750</u>	<u>230,800</u>

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

### 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 (2010: 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.

#### **Corporate structure simplification**

On 1 January 2011, the group simplified its corporate structure. The effect of this was to transfer the net assets of two of its operating entities, Macquarie Telecom Carrier Services Pty Limited and Macquarie Hosting Pty Limited, to Macquarie Telecom Pty Limited. The net assets were transferred at cost within the wholly owned group and there was no impact on the financial position or result of the consolidated entity.

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

On 30 June 2011, the Company had current and non-current receivables with a carrying value of \$87,314,301 (2010: \$30,722,790) due from MT, which was a result of tax consolidations and advances made to MT in relation to normal commercial transactions. During the year, impairment provisions of \$59,033,000 on the receivable due from MT were reversed.

On 30 June 2011, the Company had a current receivable of nil (2010: \$1,012,853) due from Macquarie Hosting Pty Limited (“MH”). The prior year balance was a result of tax consolidations. On 1 January 2011, the Company forgave the inter-company receivable of \$1,004,175 due from Macquarie Hosting Pty Limited as part of the corporate structure simplification.

On 30 June 2011, the Company had an amount payable to Macquarie Telecom Carrier Services Pty Limited (“MTCS”) of nil (2010: \$1,115,213). The prior year balance was a result of tax consolidations. On 1 January 2011, the Company forgave the inter-company receivable of \$1,296,369 due from Macquarie Telecom Carrier Services Pty Limited as part of the corporate structure simplification.

*Transactions with director-related entities*

#### **Services**

J Palfreyman was paid \$300,599 (2010: \$381,372) for the provision of consulting services to the consolidated entity. All amounts paid were on normal commercial terms and conditions and at market rates.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

### 26. RELATED PARTY DISCLOSURES (cont'd)

#### (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 2011, being the number of instruments held, were:

- (i) D Tudehope and A Tudehope collectively wholly own Claiward Pty Ltd, an entity which owns 60% (2010: 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;
- (ii) 7,183 ordinary shares were on issue to a director-related entity of D Tudehope and A Tudehope;
- (iii) 323,291 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 25,000 ordinary shares.
- (v) S Butler has an interest in 30,000 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.

### 27. SEGMENT INFORMATION

#### Segment description

The consolidated entity operates in four primary operating segments providing services to Australian corporate and Australian government customers. The Voice segment relates to the provision of voice telecommunications services. The Data segment relates to the provision of services utilising the Macquarie data network. The Hosting segment relates to the provision of services utilising the Macquarie data hosting facility. The Mobile segment relates to the provision of mobile telecommunications services.

Geographically, the consolidated entity operated in one location this financial reporting period being Australia and two locations in the previous corresponding period being Australia and Singapore.

#### Segment accounting policies

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

#### Prior year change 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.

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 27. SEGMENT INFORMATION (cont'd)

#### Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Discontinued Operation		Consolidated	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue												
Sales to customers outside the consolidated entity	85,903	104,126	58,879	58,635	53,715	44,489	28,213	28,742	-	934	226,710	236,926
Other income	450	-	307	-	69	-	-	-	-	-	826	-
Inter-segment revenue	-	-	-	-	-	-	-	-	-	305	-	305
Total segment revenue	86,353	104,126	59,186	58,635	53,784	44,489	28,213	28,742	-	1,239	227,536	237,231
Inter-segment elimination									-	(305)	-	(305)
Unallocated revenue									-	-	3,069	2,125
Total consolidated revenue									-	934	230,605	239,051
Results												
Segment result before income tax	15,922	14,554	3,695	(2,319)	7,462	8,142	3,417	1,795	-	139	30,496	22,311
Unallocated revenue/expenses									-	(32)	(5,569)	(6,818)
Profit before income tax, finance costs and gain on sale of discontinued operation									-	107	24,927	15,493
Finance costs									-	-	(18)	(204)
Gain on sale of discontinued operation									-	7,378	-	7,378
Consolidated entity profit before income tax									-	7,485	24,909	22,667
Income tax expense									-	-	(7,217)	(4,742)
Consolidated entity profit after income tax									-	7,485	17,692	17,925

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 27. SEGMENT INFORMATION (cont'd)

#### Segment information on primary operating segments

	Voice		Data		Hosting		Mobiles		Discontinued Operation		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Depreciation	255	428	4,152	4,839	6,549	6,635	31	15	-	-	10,987	11,917
Unallocated depreciation									-	31	790	612
Total depreciation									-	31	11,777	12,529
Amortisation	61	48	983	915	535	418	119	61	-	-	1,699	1,443
Unallocated amortisation									-	1	1,943	1,796
Total amortisation									-	1	3,642	3,239

Balance sheet segments have been prepared for continuing operations only.

	Voice		Data		Hosting		Mobiles		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Other segment information</b>										
Acquisition of property, plant and equipment and intangible assets	871	201	3,913	4,660	22,073	7,629	158	225	27,015	12,715
Unallocated acquisitions									3,587	3,891
Total acquisitions									30,602	16,606

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 27. SEGMENT INFORMATION (cont'd)

#### Segment information on secondary geographic segments

	Australia		Discontinued Operation (Singapore)		Consolidated	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Segment revenue	230,605	238,117	-	934	230,605	239,051
Segment non-current assets (excluding deferred tax assets)	42,917	27,734	-	-	42,917	27,734
Other segment information						
Acquisition of plant and equipment, intangible assets and other non-current assets	30,602	16,599	-	7	30,602	16,606

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

	CONSOLIDATED	
	2011 \$	2010 \$
Segment result before tax		
Voice	15,922	14,554
Data	3,695	(2,319)
Hosting	7,462	8,142
Mobile	3,417	1,795
Unallocated expenses	(5,569)	(6,786)
Finance costs	(18)	(204)
	<u>24,909</u>	<u>15,182</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 28. FINANCIAL RISK MANAGEMENT

#### Objectives and policies

The consolidated entity's principal financial instruments comprise finance leases, cash and short-term deposits.

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 financing facilities.

#### 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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	53,463	56,304
Trade and other receivables	6,327	10,268
Accrued income	7,876	9,074
Other financial assets	-	-
Other current assets	2,072	2,091
	<u>69,738</u>	<u>77,737</u>
<b>Financial liabilities</b>		
Trade and other payables	<u>34,318</u>	<u>34,058</u>
	<u>34,318</u>	<u>34,058</u>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 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:

	2011				2010			
	\$'000 USD	\$'000 SGD	\$'000 HKD	\$'000 NZD	\$'000 USD	\$'000 SGD	\$'000 HKD	\$'000 NZD
Cash and cash equivalents	2,499	-	-	-	2,327	-	-	-
Trade and other receivables	-	-	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-	-	-
Accrued income	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-
Trade and other payables	270	-	-	3	399	19	-	-

#### *Consolidated entity sensitivity*

Based on the financial instruments held at 30 June 2011, 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 \$308,000 higher/\$252,000 lower (2010: \$303,000 higher/\$248,000 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 2011, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been \$109,000 higher/lower (2010: \$145,000 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 2011

### 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							
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 % pa	2010 % pa
<b>(i) Financial assets</b>														
Cash	21,959	31,404	31,503	24,900	-	-	-	-	1	-	53,463	56,304	5.35	4.85
Receivables – trade	-	-	-	-	-	-	-	-	6,327	10,268	6,327	10,268	N/A	N/A
Accrued income	-	-	-	-	-	-	-	-	7,876	9,074	7,876	9,074	N/A	N/A
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Other – current	-	-	-	-	-	-	-	-	2,072	2,091	2,072	2,091	N/A	N/A
<b>Total financial assets</b>	<b>21,959</b>	<b>31,404</b>	<b>31,503</b>	<b>24,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,276</b>	<b>21,433</b>	<b>69,737</b>	<b>77,737</b>		
<b>(ii) Financial liabilities</b>														
Payables	-	-	-	-	-	-	-	-	34,318	34,058	34,318	34,058	N/A	N/A
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,318</b>	<b>34,058</b>	<b>34,318</b>	<b>34,058</b>		

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

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 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 60.

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Trade receivables</b>		
Group 1	5,881	6,045
Group 2	1,117	6,144
Provision for doubtful debts	(963)	(2,688)
	<u>6,035</u>	<u>9,501</u>

Group 1           Aged 0–30 days including past due, but not impaired.  
Group 2           Aged 30+ days against which provision has been made.

#### (c) Liquidity risk

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.

#### *Cash advance facility*

After the end of the reporting period on 25 July 2011, the consolidated entity entered into a \$30 million cash advance facility with a financial institution. The facility allows the entity to draw down up to \$30 million in \$500,000 parcels for interest periods of 1, 3 and 6 months for a period of 2 years

#### *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 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-interest bearing	34,318	-	-	-	-	34,318
Variable rate	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-
	<u>34,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,318</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 2011

### 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).

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	-	934
Expenses	-	(827)
<b>Profit from operating activities</b>	<b>-</b>	<b>107</b>
Finance costs	-	-
<b>Profit before income tax</b>	<b>-</b>	<b>107</b>
Income tax	-	-
<b>Profit after income tax of discontinued operation</b>	<b>-</b>	<b>107</b>
Gain on sale of discontinued operation before income tax	-	7,378
Income tax	-	-
<b>Gain on sale of the discontinued operation after income tax</b>	<b>-</b>	<b>7,378</b>
<b>Profit from discontinued operation</b>	<b>-</b>	<b>7,485</b>
	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Net cash used in ordinary activities	-	(269)
Net cash inflow 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
Net cash outflow from financing activities	-	-
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>8,258</b>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 29. DISCONTINUED OPERATION (cont'd)

#### Details of the sale of the discontinued operation

	Consolidated	
	2011	2010
	\$'000	\$'000
Consideration received:		
Total disposal consideration	-	9,368
Loan repaid	-	(5,933)
<b>Value of shares</b>	-	<b>3,435</b>
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)
<b>Gain on sale before income tax</b>	-	<b>7,378</b>
Income tax expense	-	-
<b>Gain on sale after income tax</b>	-	<b>7,378</b>

#### 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
<b>Total assets</b>	<b>1,999</b>
Trade and other payables	958
Provision and other liabilities	24
<b>Total liabilities</b>	<b>982</b>
<b>Net assets</b>	<b>1,017</b>

# NOTES TO THE FINANCIAL STATEMENTS

## AT 30 JUNE 2011

### 30. 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:

	2011 \$'000	2010 \$'000
<b>Statement of financial position</b>		
Current assets	347	9,156
Total assets	146,239	73,504
Current liabilities	4,172	5,573
Total liabilities	4,172	5,573
<i>Shareholders' equity</i>		
Contributed equity	42,811	42,723
Reserves		
Employee equity benefits reserve	182	148
Retained profit	99,074	25,060
	<b>142,067</b>	<b>67,931</b>
<b>Profit for the year</b>	<b>84,430</b>	<b>25,060</b>
<b>Total comprehensive income</b>	<b>84,430</b>	<b>25,060</b>

#### (b) Guarantees entered into by the parent entity

Macquarie Telecom Group Limited (the "Company"), Macquarie Telecom Pty Limited ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS"), Macquarie Telecom Network Carrier Services Pty Limited ("MTNCS") 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 the Company has guaranteed to pay any deficiency in the event of winding up of MT, MH, MTCS, MTNCS and Macquarie Telecom Pte Ltd. MT, MH, MTCS, MTNCS and Macquarie Telecom Pte Ltd have also given a similar guarantee in the event that the Company is wound up. Macquarie Telecom Pte Ltd left the Closed Group on its sale on 31 July 2009. The Deed of Cross Guarantee was amended on 20 July 2011 to include Ninefold Pty Limited and as such, Ninefold Pty Limited entered the Closed Group on this date.

#### (c) Contingent liabilities of the parent entity

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

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

Macquarie Telecom Group Limited did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2011 or 30 June 2010.

## NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2011

### 31. EVENTS OCCURRING AFTER THE REPORTING DATE

On 25 July 2011, the consolidated entity entered into a \$30 million cash advance facility with a financial institution. Refer to Note 19 for details regarding this facility.

On 24 August 2011, the directors declared a fully franked final dividend of 12 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2011, to be paid to the shareholders on 13 October 2011. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$2.51 million.

The impact on the franking account of the dividend 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 \$1,075,481.

## 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 2011 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 2011.
- (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, 24 August 2011



## 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 balance sheet as at 30 June 2011, and 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 the Macquarie Telecom Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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.

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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## Independent auditor's report to the members of Macquarie Telecom Group Limited (continued)

### *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 2011 and of its 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 12 of the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Wayne Andrews'.

Wayne Andrews  
Partner

Sydney  
24 August 2011



## Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2011, 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.

A handwritten signature in black ink that reads 'Wayne Andrews'.

Wayne Andrews  
Partner  
PricewaterhouseCoopers

Sydney  
24 August 2011

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