

Macquarie Telecom Group Limited

ACN 056 712 228

Annual Report
for the year ended 30 June 2019

Directors' Report

Your directors present their report on the consolidated entity consisting of Macquarie Telecom Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

Names, qualifications, experience and special responsibilities

Peter James (Chairman)

Peter has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies particularly in emerging technologies, digital disruption, e-commerce and media. He is an experienced business leader with significant strategic and operational expertise. Peter travels extensively reviewing innovation and consumer trends primarily in the US, Asia and the Middle East. He is a successful investor in several Digital Media and Technology businesses in Australia and the US. Peter holds a BA degree with Majors in Business and Computer Science and is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Computer Society. Peter joined the board in 2012 and was appointed Chairman of Macquarie Telecom Group in July 2014. Peter is Chairman of the Corporate Governance, Nomination and Remuneration Committee and a member of the Audit and Risk Management Committee. Peter is also a non-executive director and Chairman of Nearmap, Dreamscape Networks, Droneshield, Aquabotix and Keytone Dairy.

David Tudehope (Chief Executive)

David is Chief Executive and co-founder of Macquarie Telecom Group 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 is a member of the Australian School of Business Advisory Council at the University of NSW and was a member of the Australian Government's B20 Leadership Group. David holds a Bachelor of Commerce degree at the University of NSW. In 2018, David was named Australian Communications Ambassador at the 12th Annual ACOMM Awards.

Aidan Tudehope (Managing Director, Hosting Group)

Aidan is co-founder of Macquarie Telecom Group and has been a director since 1992. He is the Managing Director of Macquarie Government and Hosting Group with a focus on business growth, operational efficiency, cyber security and customer satisfaction. He has been responsible for the Company's data centre strategy and execution of the investment in Intellicentre 2 and Intellicentre 4 Bunker (Canberra). He leads the Government business, encompassing Macquarie's Secure Government Cloud and Secure Internet Gateway offerings. As the former Chief Operating Officer for Macquarie Telecom, Aidan played an integral part in the strategy and direction of the Hosting business since its first state-of-the-art data centre, Intellicentre 1 opened in 2001, as well as being instrumental in the development of Macquarie Telecom data networking strategy. He holds a Bachelor of Commerce degree.

Anouk Darling (Non-Executive Director)

Anouk has over 20 years' experience in marketing and brand strategy, she has been central to some of Australia's largest re-branding projects across a broad range of sectors including energy, finance, retail and airlines. She works as an 'Operating Partner' to private equity firm Allegro Funds Pty Ltd across their portfolio of companies as required. Allegro have appointed Anouk as Non-Executive Director to portfolio companies where she can apply her expertise: Ngahua Group Ltd based in NZ, Endeavour Colleges and Food Service Group Australia Holdings. Anouk is a Non-Executive director of Discovery Parks, majority owned by superannuation fund Sunsuper, which has more than one million members and \$66 billion in funds under management and is chair of their Nomination & Remuneration Committee. Anouk also holds a Non-Executive role with ASX listed Eneo Group and is Chair of their Audit and Risk Management Committee. She has a BA, MBA (major in Marketing), Digital Marketing Analytics executive certificate from MIT, Sloan School of Management and an AICD membership. Anouk joined the Board in March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

Directors' Report

Bart Vogel (Non-Executive Director)

Bart joined the board in 2014. He is the Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee. Bart is the Chairman of Infomedia Ltd and Invokecare Ltd. He is also a Non-Executive director of Salmat Ltd, BAI Communications and the Children's Cancer Institute Australia. Bart's executive career included 20 years' experience in the management consulting industry with Bain & Co, AT Kearney and Deloitte Consulting. He enjoyed 13 years as a leader in the IT and telecommunications industries with Asurion, with Computer Power Group and as the Australia and Asia Pacific leader of Lucent Technologies. He holds a Bachelor of Commerce (Hons) Degree, is a Fellow of Chartered Accountants Australia and New Zealand, and a Fellow of the Australian Institute of Company Directors.

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

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

- (a) David Tudehope and Aidan Tudehope collectively wholly own Claiward Pty Ltd, an entity which holds 11,657,990 (55%) of the ordinary shares of Macquarie Telecom Group. 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 David Tudehope and Aidan Tudehope respectively;
- (b) a director-related entity of David Tudehope and Aidan Tudehope holds 83 ordinary shares;
- (c) a director-related entity of David Tudehope holds 323,649 ordinary shares and David Tudehope holds a further 133 shares;
- (d) a director-related entity of Peter James holds 19,105 ordinary shares;
- (e) a director-related entity of Anouk Darling holds 3,737 ordinary shares; and
- (f) a director-related entity of Bart Vogel holds 22,922 ordinary shares.

Company secretaries

Matthew Healy (resigned 1 June 2019)

Matthew was Company Secretary of the Company from 1 June 2018 to 1 June 2019.

Michael Gold (appointed 1 June 2019)

Michael was appointed as Company Secretary on 1 June 2019. He is also the General Counsel for the Group and has been with the Company since 2018. He holds a Bachelor of Commerce and Bachelor of Laws degree (Bcom/LLB) and is a Fellow of the Governance Institute of Australia.

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

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

Directors' Report

Review and results of operations

The Group generated a net profit after tax of \$16.5 million in the year ended 30 June 2019, compared to a net profit after tax of \$17.0 million in the prior year.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the full year was \$52.1 million, representing an increase of \$4.3 million (9.0%) compared to the prior year.

Continued improvements in revenue and profitability have been realised primarily relating to the Group's differentiated market offering across hybrid IT and telecom, utilisation of its quality data centre infrastructure, exposure to the strong ongoing migration of business and government onto the "cloud" and its focus on the delivery of a superior customer experience.

The Telecom segment continues to be an important part of the Group's overall offering, delivering \$140.8 million in revenue and EBITDA of \$19.9 million, representing a decrease in EBITDA of 5.2% on the prior year. This performance is reflective of a highly competitive market. The segment's #SoUntelco go-to-market strategy and a clear focus on providing a great customer experience continue to be compelling in driving customer acquisition.

The Hosting segment contributed \$105.8 million in revenue, an increase of 16.1% compared to the prior year, and EBITDA of \$32.2 million, an increase of 20.1%. The segment's investments in data centres and infrastructure, and its hybrid IT, cyber security and secure cloud offerings, have placed it in a strategic sweet spot to assist its customers in the journey to the cloud. Significant sales success has been realised during the year as the segment continues to leverage these investments.

The Company has generated operating cash flows of \$38.6 million and held cash and cash equivalents of \$17.1 million as at 30 June 2019, with no debt.

The consolidated entity employed 433 employees at 30 June 2019 (2018: 392).

The following tables summarise the revenue and EBITDA performance of the Group's operating segments compared to the year.

Consolidated revenue

(A\$ million)

	Full Year 2019	Full Year 2018 ¹	Full Year 2017 ¹
Telecom	140.8	142.5	142.5
Hosting	110.6	95.6	82.0
Eliminate inter-segment revenue	(4.8)	(4.5)	(4.4)
Hosting Total	105.8	91.1	77.6
Consolidated revenue	246.6	233.6	220.1

¹ Comparatives have been reclassified to compare to current year.

Directors' Report

EBITDA

(A\$ million)

	Full Year 2019	Full Year 2018	Full Year 2017
Telecom	19.9	21.0	18.7
Hosting	32.2	26.8	21.6
Total EBITDA	52.1	47.8	40.3

Reconciliation of EBITDA to profit before income tax

(A\$ million)

	Full Year 2019	Full Year 2018	Full Year 2017
Total EBITDA	52.1	47.8	40.3
Finance income	0.3	0.4	0.5
Finance costs	(0.4)	-	-
Depreciation and amortisation expense	(28.6)	(23.5)	(21.2)
Profit before income tax	23.4	24.7	19.6

Earnings per share

	2019 cents	2018 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	78.0	80.9
Diluted earnings per share	77.0	79.2

Dividends

	2019 \$'000	2018 \$'000
Dividends paid to members during the financial year were:		
(i) Final dividend for the year ended 30 June 2018 25 cents per share (year ended 30 June 2017: 25 cents) fully franked based on tax paid at 30%	5,274	5,243
ii) Interim dividend for the year ended 30 June 2019 Nil cents per share (2018: 25 cents fully franked based on tax paid at 30%).	-	5,273

No interim dividend for FY19 was declared and no final dividend for FY19 has been declared as a result of the Company entering a phase of significant capital intensive growth.

Directors' Report

Likely developments and expected results

The Company will prioritise the execution of the following in fiscal year 2020:

- Maintaining industry leading Net Promoter Score greater than +70 across all business segments;
- The Telecom business will continue to migrate thousands of customers services to the nbn™ in fiscal year 2020 under the Company's six-year wholesale supply agreement with NBN Co. to offer dedicated, Australian based nbn™ service delivery, assurance and support for Macquarie customers. Telecom will leverage the new NBN and SD Wan technology for growth;
- Hosting will focus on developing Phase 1, Macquarie Intellicentre 3 (IC3) East, to enable the Company to expand its data centre capacity from a total load of 10MW to 26MW. The Campus is designed to meet the growing needs of global hyperscalers and cloud, enterprise and Government customers. The company expects to achieve practical completion for the first data hall in the new Intellicentre Campus in the second half of 2020 with an opening day mechanical, electrical and plant (MEP) of 2.4MW;
- As part of a Hybrid IT cloud strategy, Macquarie Cloud Services will offer public cloud to its colocation dedicated and multi-tenanted private cloud launch platform in order to attract new logos and improve customer retention; and
- Leveraging the 42% of the Australian Government who trust Macquarie Government, we will further grow our Government customer revenue in cyber security and Secure Cloud computing.

The directors believe, on reasonable grounds, that to include in this report further 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 2019.

Significant events after the balance date

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected, the group's operations, results or state of affairs, or may do so in future years.

Environmental regulations

The Directors are committed to compliance with all relevant laws and regulations to ensure the protection of the environment, the community and the health and safety of employees, contractors and customers. The Group is not subject to any significant environmental regulations in respect of its operations.

Remuneration report

The Remuneration Report is set out on pages 7 to 13 and forms part of this Directors' Report.

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 was as follows:

	Directors' Meetings	Board Committee Meetings:	
		Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	14	3	1
Number of meetings attended:			
Peter James	14	3	1
David Tudehope	14	-	1
Aidan Tudehope	13	-	-
Anouk Darling	14	3	1
Bart Vogel	14	3	1

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 Bart Vogel (chair of the Committee), Anouk Darling and Peter James.

The members of the Corporate Governance, Nomination and Remuneration Committee are Peter James (chair of the Committee), David Tudehope, Anouk Darling and Bart Vogel.

Indemnification and insurance of directors and officers

During the year, the Company paid premiums in respect of a contract insuring all the directors of Macquarie Telecom against costs incurred in defending proceedings for conduct against them other than involving;

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as prohibited by section 199B of the *Corporations Act 2001*.

Directors' Report

Remuneration report

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

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;
- Place a significant portion of Key Management Personnel (KMP) and other senior manager remuneration 'at risk', dependent upon meeting predetermined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable KMP and other 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 Telecom's remuneration philosophy directly aligns a percentage of short-term incentives and all long-term incentives granted to employees with key business outcomes such as company profit growth, customer satisfaction and total shareholder return.

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive director and KMP 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

Each Non-Executive director is appointed via a letter of appointment. 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 23 November 2012 when shareholders approved an aggregate remuneration of \$750,000 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.

Each Non-Executive director receives a fee for being a director of the Company.

The Non-Executive directors of the Company may hold shares in the Company.

The remuneration of Non-Executive directors for the period ending 30 June 2019 is detailed in the table on page 11 of this report.

Directors' Report

Remuneration report (continued)

Remuneration of Key Management Personnel and senior managers

Objective

The Company aims to reward KMP and senior managers with a level of remuneration commensurate with their position and responsibilities within the Company and 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 with each of the Chief Executive and the Managing Director, Hosting Group 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 10.

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 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 Group 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, 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 pages 11 and 12.

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 KMP and senior managers charged with meeting those targets. The total potential STI available is set at a level to provide sufficient incentive to the KMP and senior manager to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Directors' Report

Remuneration report (continued)

Structure

Actual STI payments granted to each KMP and senior manager 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 several 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 three categories:

- profitability; and
- customer-related; and
- sales growth.

The Company has predetermined benchmarks which must be met to trigger payments under the STI scheme. There is an overachievement element to these payments, meaning it is possible to achieve greater than 100% of the base incentive amount.

On a half-yearly basis, after consideration of performance against KPIs, an overall performance rating for the Company is approved by the Corporate Governance, Nomination and Remuneration Committee. The individual performance of each KMP senior manager is also rated and considered when determining the amount, if any, of the STI component to be paid. 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 KMP and senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

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

Structure

Performance rights are granted to a participant in the LTI plan under two Tranches:

- One third under Tranche 1 with a performance period of two years
- Two thirds under Tranche 2 with a performance period of three years

The Board believes that this allocation and the associated performance periods drive a continual focus on the achievement of consistent profit growth over a three-year period.

Performance rights issued to the Chief Executive and Managing Director, Hosting Group are cash settled whereas those issued to other Key Management Personnel are equity settled. Equity settled performance rights, when vested, entitle the participant to an equivalent number of shares.

Vesting of both cash settled and equity settled performance rights is subject to fully satisfying the performance conditions. Dividends are not paid on performance rights.

The vesting of performance rights is the subject to the combination of:

- Macquarie Telecom Group's total shareholder return (TSR) performance for both Tranches; and
- The Net Promoter Score (NPS) for Tranche 2 only.

Directors' Report

Remuneration report (continued)

TSR is measured by the growth in share price from the start of the performance period to the end of the performance period, plus the aggregate of all dividends paid on a share during the performance period. For these purposes, the share price at the start of each performance period is measured as the volume weighted average price (VWAP) of shares during the month of the preceding performance period, and the share price at the end of a performance period is measured as the VWAP during the month of June in which the performance period ends.

The proportion of performance rights that vest will depend on the Macquarie Telecom Group's performance over the relevant periods. The Board has chosen an absolute TSR measure.

The Board has set challenging targets, with a minimum TSR of 15% per annum required before any Performance Rights vest, 20% TSR per annum as the base target and a TSR stretch target of 30% per annum. The TSR stretch target is for Tranche 2 only and gives participants the opportunity to increase the amount of the Tranche 2 award by an additional 50%.

NPS is the net promoter score determined by the Board and only affects those performance rights available to vest in Tranche 2.

Service agreements

The Chief Executive and Managing Director, Hosting Group 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 Group (as the case may be). Under the terms of the present agreements:

- The Chief Executive and Managing Director, Hosting Group 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 Group'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 Group (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 Group (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 (continued)

Remuneration of Directors for the year ended 30 June 2019

	Short Term							Long Term		Total
	Primary and bonus					Post Employ - ment	Total	Performance Rights		
		Salary and Fees ¹	Cash bonus	Long Service Leave	Non-monetary benefits ²	Superannuation		Equity Performance Rights ³	Cash Performance Rights ⁴	
P James - Chairman	2019	200,000	-	-	-	19,000	219,000	-	-	219,000
	2018	192,500	-	-	-	18,287	210,787	-	-	210,787
D Tudehope - Chief Executive	2019	548,154	284,644	8,780	11,945	20,531	874,054	-	360,246	1,234,300
	2018	561,675	227,791	10,152	11,509	20,049	831,176	-	41,169	872,345
A Tudehope - Managing Director Hosting Group	2019	552,384	177,234	8,824	5,616	20,531	764,589	-	360,246	1,124,835
	2018	524,142	167,376	12,527	5,400	20,049	729,494	-	41,169	770,663
A Darling - Non-Executive Director	2019	115,000	-	-	-	10,925	125,925	-	-	125,925
	2018	111,250	-	-	-	10,569	121,819	-	-	121,819
B Vogel - Non-Executive Director	2019	130,000	-	-	-	12,350	142,350	-	-	142,350
	2018	126,250	-	-	-	11,994	138,244	-	-	138,244
Total Directors' Remuneration	2019	1,545,538	461,878	17,604	17,561	83,337	2,125,918	-	720,492	2,846,410
	2018	1,515,817	395,167	22,679	16,909	80,948	2,031,520	-	82,338	2,113,858

¹ The category "Salary and Fees" includes amounts accrued and released in respect of annual leave and other benefits including motor vehicle allowances.

² The category "Non-Monetary Benefits" includes the value of any non-cash benefits provided including car parking. All amounts paid were in the normal commercial terms and conditions and at market rates.

³ The Company has issued performance rights over ordinary shares to Key Management Personnel and senior managers as part of their long term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period. If the rights holder leaves before the vesting date they forfeit all entitlements under the scheme.

⁴ The Company has issued performance rights that convert cash to the Chief Executive and Managing Director, Hosting Group as part of their long-term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period.

Directors' Report

Remuneration report (continued)

Remuneration of Other Key Management Personnel for the year ended 30 June 2019:

	Short Term							Long Term		Total
	Primary and bonus					Post Employ - ment	Total	Performance Rights		
		Salary and Fees ¹	Cash bonus	Long Service Leave	Non-monetary benefits ²			Superannuation	Equity Performance Rights ³	
L Clifton - Group Executive, Macquarie Telecom	2019	363,526	125,536	6,205	5,616	20,531	521,414	95,498	-	616,912
	2018	367,789	143,861	9,531	5,400	20,049	546,630	76,107	-	622,737
J Mystakidis - Group Executive, Macquarie Cloud Services	2019	395,780	187,467	6,205	5,616	20,531	615,599	95,498	-	711,097
	2018	377,213	174,521	13,170	5,400	20,049	590,353	76,107	-	666,460
D Hirst - Group Executive	2019	338,217	160,388	5,744	5,873	20,531	530,753	85,418	-	616,171
	2018	321,898	140,519	15,418	5,400	20,049	503,284	60,265	-	563,549
B Henley - Group Executive and Chief Commercial Officer Telecom ⁵	2019	318,827	112,002	5,161	6,238	20,531	462,759	61,356	-	524,115
	2018	282,910	88,027	1,387	5,400	20,049	397,773	21,009	-	418,782
Total Other Key Management Personnel Remuneration	2019	1,416,350	585,393	23,315	23,343	82,124	2,130,525	337,770	-	2,468,295
	2018	1,349,810	546,928	39,506	21,600	80,196	2,038,040	233,488	-	2,271,528

¹ The category "Salary and Fees" includes amounts accrued and released in respect of annual leave and other benefits including motor vehicle allowances.

² The category "Non- Monetary Benefits" includes the value of any non- cash benefits provided including car parking. All amounts paid were in the normal commercial terms and conditions and at market rates.

³ The Company has issued performance rights over ordinary shares to Key Management Personnel and senior managers as part of their long term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period. If the rights holder leaves before the vesting date they forfeit all entitlements under the scheme.

⁴ The Company has issued performance rights that convert cash to the Chief Executive and Managing Director, Hosting Group as part of their long- term incentives. They are designed to encourage superior performance against targeted performance conditions over the vesting period.

⁵ Chief Financial Officer until 26 February 2019.

Directors' Report

Remuneration Report (continued)

The table below summarises the holdings of performance rights granted to KMP and movements in holdings during the year.

KMP	Balance 1 July 2018	Performance rights issued	Vested & Exercised ¹	Holdings at 30 June 2019	Vested & Exercisable at 30 June 2019 ¹
Executive directors ²:					
David Tudehope	40,000	14,000	-	54,000	-
Aidan Tudehope	40,000	14,000	-	54,000	-
Other KMP ³:					
Luke Clifton	60,000	14,000	(20,000)	54,000	-
Brent Henley	20,000	14,000	-	34,000	-
David Hirst	50,000	14,000	(20,000)	44,000	-
James Mystakidis	60,000	14,000	-	74,000	20,000
	270,000	84,000	(40,000)	314,000	20,000

¹ Represents 2016 performance rights vested on 31 December 2018.

² Cash settled

³ Equity settled

Shareholdings of key management personnel

	Holdings at 1 July 2018	Received on Exercising of Performance Rights ¹	Disposal of shares	Holdings at 30 June 2019
Directors:				
Peter James	19,105	-	-	19,105
David Tudehope ²	323,824	-	-	323,824
Aidan Tudehope ²	41	-	-	41
David & Aidan Tudehope	12,501,390	-	(843,400)	11,657,990
Anouk Darling	3,737	-	-	3,737
Bart Vogel	22,922	-	-	22,922
Other KMP:				
Luke Clifton	40,000	26,667	-	66,667
Brent Henley	-	-	-	-
David Hirst ²	18,000	26,667	-	44,667
James Mystakidis ³	49,050	-	-	49,050
Total	12,978,069	53,334	(843,400)	12,188,003

¹ Represents the number of shares issued for 2016 performance rights vested on 31 December 2018, including any shares issued for overachievement of the target in accordance with the plan.

² Includes holdings by director-related entities.

³ Relates to holdings by a related party

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

Directors' Report

Transactions with director-related entities

There were no other transactions with director-related entities for the year ended 30 June 2019.

Performance of Macquarie Telecom Group Limited

The following table shows earnings before interest, tax, depreciation and amortisation ("EBITDA"), net profit after tax ("NPAT"), closing share price, KMP short-term incentives as a percentage of NPAT ("KMP STI as % of NPAT") over the last five years.

Year ended 30 June	EBITDA	NPAT	Share Price	KMP STI as % NPAT
	(A\$ million)	(A\$ million)	ASX Code: MAQ	%
2019	52.1	16.5	19.86	6.4%
2018	47.8	17.0	20.34	5.5%
2017	40.3	14.2	14.25	8.7%
2016	32.3	5.3	11.84	16.1%
2015	26.3	(4.3)	6.15	-14.9%

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 Legislative Instrument 2016/191. The Company is an entity to which the Instrument applies.

Audit Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Non-audit services

Taxation advice, compliance work and LTI related advisory 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 2001*. The nature and scope of each type of non-audit service provided did not compromise the auditor independence as none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

PricewaterhouseCoopers received or is due to receive the following amounts for the provision of non-audit services: \$147,463 (2018: \$328,131) as disclosed in Note 28.

Signed in accordance with a resolution of the directors:



David Tudehope
Chief Executive

Sydney, 27 August 2019.

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") Corporate Governance Principles and Recommendations with 3rd Edition 2014 Amendments. 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.macquarietelecomgroup.com, together with all other information which the ASXCGC recommends be made publicly available.

Principle 1

Lay solid foundation for management and oversight

The Board acts on behalf of and is accountable to the security holders. The expectations of security holders 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 security holders 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 and senior executives;
- endorsing key executive appointments and ensuring executive succession planning;
- reviewing and approving remuneration of the Chief Executive and senior executives including policies and benchmarking;
- overseeing and monitoring progress in relation to the Company's diversity objectives and compliance with its diversity policy; 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.

The Company's human resources policies require that background checks are performed on all persons prior to their appointment, or putting forward candidates for election, as a director. Security holders are provided with all material information about a director standing for election or re-election in the explanatory memorandum to the Notice of Annual General Meeting.

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

Corporate Governance Statement

The Company Secretary is appointed by the Board as a whole. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters relating to the proper functioning of the Board. Each director has the right to communicate directly with the Company Secretary.

Macquarie Telecom embraces diversity and believes it is a critical factor in our success. Diversity means all differences between people including gender, age, race, ethnicity, disability, sexual orientation, religion and culture. To attract and retain a diverse workforce, we are committed to promoting a culture, which celebrates diversity and an atmosphere in which all employees and candidates for employment are treated fairly, with respect and have equal access to opportunities at work.

The current proportion of female employees at Macquarie Telecom is as follows:

	Total Females	% Females
Number of females in entire organisation *	125	29.1%
Number of females in people management positions *	18	31.0%
Number of females on the Macquarie Telecom Board *	1	20.0%

* Workplace Gender Equality Agency report, May 2019

Macquarie Telecom recognises that by promoting a culture of diversity, the business benefits at multiple levels, by:

- attracting a high calibre and wide range of talent;
- increasing levels of engagement across the organisation;
- retaining and promoting highly skilled staff;
- increasing innovation which drives business results; and
- enhancing customer relationships.

In accordance with the ASXCGC, Macquarie Telecom established objectives to promote diversity. The objectives and the progress toward achieving them are outlined below:

Objective	Outcome
Board and Executive	
Board and Executive level vacancies: continue to aim to proactively source and consider a minimum of 30% female applicants for Board and executive level vacancies.	Macquarie Telecom has policies and practices in place to support our ongoing commitment to this objective.
Board composition: maintain female representation on the Macquarie Telecom Board of Directors.	We continue to maintain 20% female representation on our Board.
General	
Ensure that Macquarie Telecom continues to have a Diversity Officer responsible for reviewing progress and report annually to the Board.	A HR employee continues to hold the position of Diversity Officer.
Aim to maintain a Macquarie Telecom female population of 26% or greater by June 2019.	Macquarie Telecom currently has a female population of 29.1%.
Aim to maintain current ratio of female people managers (as reported in FY18 Annual Report – 30.0%).	The proportion of female people managers is currently 31.0%.

Macquarie Telecom is committed to the development and career advancement of women. All managers, regardless of gender, have equal access to training, development and career opportunities. We will continue to raise the profile of gender diversity and further our efforts to date.

Responsibility for ratifying diversity objectives will remain with the Board. The objectives set will be managed and reported by the Company's Diversity Officer.

Corporate Governance Statement

The performance of the Board, its committees and individual directors is reviewed on a regular basis. Performance is evaluated having regard to the fulfilment of the Board, and its committees responsibilities.

The performance of senior executives is reviewed in a half yearly basis against agreed measurable and qualitative indicators as part of the company-wide performance and development review process. Details of the measurable indicators and the manner in which they are linked to performance are set out in the remuneration report to the Directors' Report. Qualitative indicators include the extent to which a senior executive's performance has been aligned to the Company values.

Responsibility for evaluating the Board's performance falls to the Corporate Governance, Nomination and Remuneration Committee (refer to Principle 2). The performance of senior executives is evaluated by the Chief Executive and Managing Director, Hosting Group and, where considered appropriate, the Board as a whole.

Principle 2

Structure the Board to add value

The Board has established a Corporate Governance, Nomination and Remuneration Committee. The majority of the members of the Committee are independent directors. The names of the members of the Committee and their attendances at meetings of the Committee appear in the Directors' Report.

In relation to Nomination matters, the Committee supports and advises the Board in fulfilling its responsibilities to security holders by ensuring that the Board is comprised of individuals who are best able to discharge their responsibilities of directors having regard to the law and the highest standards of governance by:

- assessing the skills and diversity required on the Board;
- assessing the extent to which the required skills are represented on the Board;
- establishing a process for the review of the performance of individual directors and the Board as a whole, having regard to the Board's key responsibilities; and
- establishing the processes for the identification of suitable candidates for appointment to the Board.

The Board encourages a mix of skills in its directorship. It currently has a diverse range of skills amongst its directors including extensive IT, Telecommunications industry and Government experience. Skills include corporate leadership, strategic and operational management, experience with other boards, strategic brand strategy, marketing and digital, chartered accounting and risk management.

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.

An induction process exists whereby new directors are inducted in the strategies, objectives, business plans, values and culture of the company including meeting with key executives and senior management personnel across all business functions. The continuing professional development of directors is encouraged and support is provided to address skills gap where they are identified.

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.

Corporate Governance Statement

Principle 3

Act ethically and responsibly

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 executives and all other employees dealing in the Company's shares.

Principle 4

Safeguard integrity in financial reporting

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

The Chief Executive, Chief Financial Officer, Managing Director, Hosting Group, 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.

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.

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.

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 the ASX and the Company Secretary is responsible for these communications.

Principle 6

Respect the rights of security holders

The Company provides security holders access to information about its governance and performance, including Annual Reports, full-year and half-year financial statements, directors' commentaries and analyst briefings through its website at www.macquarietelecomgroup.com.

In addition to this the principal methods of communication with security holders are through Annual General Meetings and investor day presentations. The Board encourages security holders to use these events to ask questions and make comments on the business, operations and management of the Company. Security holders that are unable to attend the Annual General Meeting are provided with the opportunity to provide questions and comments to the Chairman and the auditor of the Company.

Security holders have the option to receive communications from, and send communications to, the Company and its security registry electronically.

Principle 7

Recognise and manage risk

The Audit and Risk Management Committee (refer to Principle 4) is responsible for reviewing and reporting to the Board on the effectiveness of the Company's management of risk, including systems for internal controls, that effectively safeguards assets and enhances the value of security holders' investments.

The Board has adopted a formal risk management strategy and policy that takes into account the Company's risk profile and the material business risks it faces. This strategy and policy is reviewed at least annually as part of the annual strategic planning and budgeting process and is formally adopted by the Board. The latest review of the company's risk profile and material business risks was completed at the end of the reporting period.

The Company does not have an internal audit function, however assurance is gained as:

- the Board has direct oversight of the key areas of the organisation and have the capacity, expertise and access to information to assess those areas properly;
- the Company has established an internal business risk management function which reports to the Audit and Risk Management Committee on the adequacy of the Company's risk framework and changes in the Company's risk profile and material business risks;
- a standardised approach to risk assessment is used across the Company to ensure that risks are consistently assessed and reported to the Board if required; and
- directors are provided with detailed financial information and reports by executives on a monthly basis and have the right to request additional information as required to support informed decision making.

The Board does not believe that the Company has any material exposure to economic, environmental or social sustainability risks. The Company manages a series of operational risks which it believes to be inherent in the industry in which it operates including service interruption and network reliability, management of outsourcing, emerging technology and delivery platforms and regulatory framework.

Corporate Governance Statement

Principle 8

Remunerate fairly and responsibly

The functions of the Corporate Governance, Nomination and Remuneration Committee (refer to Principle 2) 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 executive team and monitors, reviews and makes recommendations to the Board as to the remuneration policies of the Company generally. The names of the members of the Committee and their attendance 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 executives consists of a combination of fixed and variable (at risk) remuneration. The bonus paid to a senior executive is based on a review of their individual performance.

Details of shares issued to employees of controlled entities of the Company are included in Note 22 to the financial statements.



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Telecom Group Limited for the year ended 30 June 2019, 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, appearing to read 'Jason Hayes', with a large, stylized flourish extending from the end of the signature.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
27 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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Consolidated Statement of Comprehensive Income

Year ended 30 June 2019

	Notes	2019 \$000	2018 \$000
Revenue	7	246,566	233,586
Expenses	8	(223,086)	(209,278)
Operating profit		23,480	24,308
Finance income		329	448
Finance costs		(453)	(12)
Profit before income tax		23,356	24,744
Income tax expense	9	(6,877)	(7,731)
Profit after income tax for the year attributable to owners of the parent		16,479	17,013
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange difference on translation of foreign operations		(65)	(11)
Total comprehensive income for the year attributable to owners of the parent		16,414	17,002
		2019 Cents	2018 Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	4(a)	78.0	80.9
Diluted earnings per share	4(b)	77.0	79.2

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

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	2019 \$000	2018 \$000
Current assets			
Cash and cash equivalents	10	17,064	30,298
Trade and other receivables	11	11,644	7,077
Accrued income	12	8,807	7,897
Other current assets	13	8,845	6,395
Current tax receivable	9	236	-
Total current assets		46,596	51,667
Non-current assets			
Property, plant and equipment	14	80,730	65,983
Intangible assets	15	19,406	16,945
Deferred tax asset	9	8,395	6,200
Other non-current assets	16	6,142	2,890
Total non-current assets		114,673	92,018
Total assets		161,269	143,685
Current liabilities			
Trade and other payables	17	34,120	33,466
Current tax liabilities	9	-	4,087
Provisions	18(a)	1,803	1,752
Other current liabilities	19(a)	7,070	4,282
Total current liabilities		42,993	43,587
Non-current liabilities			
Provisions	18(b)	1,323	1,224
Other non-current liabilities	19(b)	10,242	5,519
Total non-current liabilities		11,565	6,743
Total liabilities		54,558	50,330
Net assets		106,711	93,355
Equity			
Contributed equity	20	43,707	43,140
Other equity	20(c)	(87)	-
Reserves	21(a)	2,543	872
Retained profits	21(b)	60,548	49,343
Total equity		106,711	93,355

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

Year ended 30 June 2019

	Contributed Equity \$000	Other Equity \$000	Reserves \$000	Retained Earnings \$000	Total \$000
Balance at 1 July 2017	42,991	-	594	42,846	86,431
Profit for the year	-	-	-	17,013	17,013
Other comprehensive income	-	-	(11)	-	(11)
Total comprehensive income for the year	-	-	(11)	17,013	17,002
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(10,516)	(10,516)
Share based payment	-	-	438	-	438
Performance shares rights vested	149	-	(149)	-	-
Total	149	-	289	(10,516)	(10,078)
As at 30 June 2018	43,140	-	872	49,343	93,355
Balance at 1 July 2018					
43,140	-	872	49,343	93,355	
Profit for the year	-	-	-	16,479	16,479
Other comprehensive income	-	-	(65)	-	(65)
Total comprehensive income for the year	-	-	(65)	16,479	16,414
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(5,274)	(5,274)
Acquisition of treasury shares	567	(567)	-	-	-
Share based payment	-	-	2,216	-	2,216
Issue of treasury share to employees	-	480	(480)	-	-
Total	567	(87)	1,736	(5,274)	(3,058)
As at 30 June 2019	43,707	(87)	2,543	60,548	106,711

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

Consolidated Statement of Cash Flows

Year ended 30 June 2019

	Notes	2019 \$000	2018 \$000
Cash flow from operating activities			
Receipts from customers		270,675	254,793
Payments to suppliers and employees		(220,705)	(202,513)
Interest received		329	492
Income tax paid		(11,671)	(9,837)
Net cash flows from operating activities	23	38,628	42,935
Cash flows from investing activities			
Acquisition of non-current assets:			
Property, Plant & Equipment		(34,666)	(22,728)
Intangibles		(11,422)	(11,097)
Proceeds from sale of property, plant and equipment		273	-
Net cash flows from investing activities		(45,815)	(33,825)
Cash flows from financing activities			
Dividends paid on ordinary shares	5(a)	(5,274)	(10,516)
Interest and other finance costs paid		(861)	(12)
Net cash flows from financing activities		(6,135)	(10,528)
Net decrease in cash and cash equivalents		(13,322)	(1,418)
Cash and cash equivalents at the beginning of the financial year		30,298	31,766
Effects of exchange rate changes on cash and cash equivalents		88	(50)
Cash and cash equivalents at the end of the year	10	17,064	30,298

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

Notes to the Consolidated Financial Statements As at 30 June 2019

1. Basis of preparation of the financial statements

(a) Corporate information

The financial report of Macquarie Telecom Group Limited ("Macquarie Telecom" or the "Company") for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of directors on 27 August 2019. The directors have the power to amend and reissue the financial statements.

Macquarie Telecom Group Limited 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 Cloud Services Pty Limited ("MCS"), Macquarie Cloud Pty Limited ("MC"), Macquarie Hosting (Singapore) Pte Limited ("MHS") and Macquarie Data Centres Pty Limited ("MDC"). All subsidiaries are wholly and ultimately owned by the head entity.

Macquarie Telecom Group Limited 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 the Directors' report.

(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 and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a for-profit entity for the purpose of preparing the financial statements. The financial report also complies with International Financial Reporting Standards Board ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements are prepared on a historical cost basis unless otherwise noted.

(i) 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 Legislative Instrument 2016/191 issued by the Australian Securities and Investment Commission. The Company is an entity to which the instrument applies.

(ii) Comparatives

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

(iii) Parent entity financial information

The financial information for the parent entity, Macquarie Telecom Group Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements.

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

Notes to the Consolidated Financial Statements As at 30 June 2019

1. Basis of preparation of the financial statements (continued)

(c) New and amended accounting standards effective during the year

The following standards have been adopted during the year in the financial statements.

(i) AASB 15 Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining the quantum and timing of revenue recognition. The AASB equivalent of IFRS 15 *Revenue from Contract with Customers* replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

(i) Impact on opening retained earnings and full year financial statements

There was no material impact on the Group's opening retained earnings and full year financial statements ended 30 June 2019.

(ii) Accounting policies

The Group has concluded that AASB 15 does not have a significant impact on the pre-existing revenue accounting policies. The key revenue streams and policies are detailed in Note 7.

Under AASB 15, revenue is recognised when a customer obtains control of the good or services. Determining the timing of the transfer of control requires judgement. The Group recognises revenue when:

- The amount of revenue can be reliably measured;
- It is probable the economic benefit will flow to the Group; and
- The criteria for revenue recognition for each revenue stream has been satisfied.

Service revenue is recognised net of customer discounts and allowances. The payment terms are normally 14 days from the invoice issue date.

(ii) AASB 9 Financial instruments

AASB 9 *Financial instruments*, the AASB equivalent of IFRS 9 *Financial Instruments*, introduces a new model for classification and measuring of financial assets and liabilities, an 'expected credit loss' ("ECL") impairment model and reformed approach to hedge accounting. In accordance with the transitional provisions of AASB 9, comparative figures have not been restated.

In accordance with the ECL impairment model in AASB 9, the Group was required to revisit its methodology and accounting policies for the impairment of trade receivables and contract assets identified in AASB 15 *Revenue from Contracts with Customers*. The Group has assessed the financial impact of adopting the new impairment model on transition to be immaterial.

2. Other significant accounting policies

(a) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Macquarie Telecom Group Limited and all entities that Macquarie Telecom Group Limited controlled during the year and at balance sheet date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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 the control ceases.

Notes to the Consolidated Financial Statements As at 30 June 2019

2. Other significant accounting policies (continued)

(b) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and other various factors that management believes to be reasonable under the circumstances. The actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The judgements, estimates and assumptions discussed below are those that the Group considers to be most critical to its financial statements.

Revenue from contracts with customers

The application of the various accounting principles in AASB 15 related to the measurement and recognition of revenue, requires the Group to make judgements and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting treatment, including whether promised goods and services specified in an arrangement are distinct performance obligations.

Recoverable amount of non-current assets

The major sources of estimation uncertainty in assessing the recoverable amount of non-current assets are judgements relating to future sales order growth and pricing and the utilisation of data centre capacity; the Group's ability to manage operating and capital expenditure and the cost of capital. Should the future performance of the Group differ from these estimations the assessment of the recoverable amount of non-current assets would be different and may impact the impairment testing result.

(c) Financial instruments

Financial assets

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

The Group has classified its financial assets as measured at amortised cost as both of the following conditions are met:

- It is held within business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group financial assets comprise of cash and cash equivalents, trade and other receivables.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commit to purchase or sell the asset. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements As at 30 June 2019

2. Other significant accounting policies (continued)

Initial and subsequent measurement

At initial recognition, the Group measures a financial asset at its fair value. Subsequently, financial assets at amortised cost are measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment from these financial assets are recognised in profit or loss. Any gain or loss on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

Impairment of financial assets

From 1 July 2018, the Group assesses on forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past invoice date. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2019 and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward looking information on macro-economic factors effecting the ability of the customers to settle the receivables.

The loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement when determining whether the credit risk of a financial assets has increased significantly since initial recognition and when estimating expected credit loss ("ECL"). The Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, current market conditions as well as forward looking estimates at the end of each reporting period.

Financial liabilities

Classification

Financial liabilities are classified and measured at amortised cost or Fair Value Through Profit or Loss (FVTPL) under AASB 9. Reclassification of financial liabilities is not permitted upon the adoption of this accounting standard. The Company's financial liabilities include payables and loan from related party.

Recognition, initial and subsequent measurement

Financial liabilities are recognised on the date when the obligation has been entered into. The Group financial liabilities are recognised initially at fair value and, in the case of loans from related parties, net of directly attributable transaction costs. Financial liabilities are subsequently measured using the effective interest rate (EIR) method.

Gains and losses are recognised in profit or loss when the liabilities are recognised as well as through EIR amortisation process.

Amortisation cost is calculated by taking into account any discounts or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group also derecognises a financial liability when the existing financial liability is replaced by another from the same party on substantially different terms, or the terms of the existing liability are

Notes to the Consolidated Financial Statements As at 30 June 2019

2. Other significant accounting policies (continued)

substantially modified. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference in the respective carrying amounts is recognised in profit and loss.

(d) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Translation of financial reports of overseas subsidiary

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for the statement of comprehensive income are translated at the monthly average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

3. New accounting standards, amendments and interpretations

Certain new accounting standards and amendments have been published that are not mandatory for 30 June 2019 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and amendments are set out below:

(a) AASB 16 Leases

AASB 16 Leases was published in January 2016 and replaces AASB 117 "Leases" and related interpretations. The standard requires lessees to recognise a right-of-use assets and lease liability for all leases meeting the lease definition set out by the standard unless certain exemptions are available.

The Group will adopt AASB 16 on a simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The standard will be applied for the Group for the first time for the year ended 30 June 2020.

The Group has established a project team, which has been engaged in identifying the provision of the standard, determining appropriate accounting policies and judgement, and implementing a system solution capable of quantifying the impact of the standard and accounting entries. Refer to Note 24 for operating lease commitments.

Notes to the Consolidated Financial Statements

As at 30 June 2019

4. Earnings per share

	2019 cents	2018 cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the company	78.0	80.9
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the company	77.0	79.2
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	16,479	17,013
(d) Weighted average number of ordinary shares used in calculating basic earnings per share		
	2019 No of shares	2018 No of shares
Weighted average number of ordinary shares ¹	21,130,307	21,095,121
Effect of dilutive securities of share performance rights	263,996	460,481
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	21,394,303	21,555,602

¹ Excludes treasury shares

Basic earnings per share

Basic earnings per share is determined by dividing:

- the net profit attributable to equity holders of the Company excluding any costs of servicing equity other than ordinary shares; by
- the weighted average number of ordinary 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 by taking into account:

- the after-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.

Notes to the Consolidated Financial Statements As at 30 June 2019

5. Dividends

	2019 \$000	2018 \$000
(a) Dividends paid during the reporting period		
25 cents per share final dividend for the year ended 30 June 2018 fully franked based on tax paid at 30%	5,274	5,243
Nil per share interim dividend for the year ended 30 June 2019 (2018: 25 cents fully franked based on tax paid at 30%).	-	5,273
	5,274	10,516

(b) Franking account balance

The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2018: 30%)

17,531	8,759
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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 income tax payable, and
- (ii) franking debits that will arise from the payment of the dividends recognised as a liability at the reporting date.

6. Segment information

The group operates in two primary segments providing services to corporate and government customers. There are two reportable segments as follows;

Segment	Segment description
Telecom	The Telecom segment relates to the provision of voice and mobile telecommunications services and the provision of service utilising the Macquarie Telecom data network.
Hosting	The Hosting segment relates to the provision of service utilising Macquarie Telecom's data hosting facilities.

All activities are primarily conducted in Australia.

Notes to the Consolidated Financial Statements

As at 30 June 2019

6. Segment information (continued)

	Telecom		Hosting		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$000	\$000	\$000	\$000	\$000	\$000
Revenue						
External service revenue	138,456	142,276	105,588	90,836	244,044	233,112
Inter-segment revenue	-	-	4,807	4,484	4,807	4,484
Other revenue	2,356	186	166	288	2,522	474
Total segment revenue	140,812	142,462	110,561	95,608	251,373	238,070
Inter-segment elimination	-	-	(4,807)	(4,484)	(4,807)	(4,484)
Total consolidated revenue and other income	140,812	142,462	105,754	91,124	246,566	233,586
Results						
EBITDA	19,915	21,008	32,165	26,844	52,080	47,852
Depreciation and amortisation	(11,249)	(9,128)	(17,351)	(14,416)	(28,600)	(23,544)
Segment results before interest and tax	8,666	11,880	14,814	12,428	23,480	24,308
Finance income					329	448
Finance costs					(453)	(12)
Consolidated entity profit from ordinary activities before income tax expense					23,356	24,744
Income tax expense					(6,877)	(7,731)
Net Profit					16,479	17,013
Acquisition of non-current assets						
Allocated acquisitions	13,941	8,897	28,774	21,574	42,715	30,471
Unallocated acquisitions	-	-	-	-	3,373	3,362
Total acquisition of non-current assets	13,941	8,897	28,774	21,574	46,088	33,833

The Group has identified its operating segments based on the internal reports reviewed by the Group Chief Operating decision maker in assessing performance and determining the allocation of resources. Segment revenues and expenses comprise amounts that are directly attributable to a segment and the relevant portion that can be allocated on a reasonable basis. The Group's Chief Operating Decision Maker is the Chief Executive.

Notes to the Consolidated Financial Statements

As at 30 June 2019

7. Revenue

Revenue is measured at the fair value of the consideration received or receivable.

(a) Revenue and other revenue	2019	2018
	\$000	\$000
Revenue from contracts with customers	244,044	233,112
Other revenue	2,522	474
Total revenue and other revenue	246,566	233,586

The Group adopted AASB 15 *Revenue from contracts with customers* on 1 July 2018. The impact of initial application of the standard is described in Note 1.

The Group satisfies its performance obligations according to the following table.

Type of product	Segment	Nature, timing of satisfaction of performance obligations
Service revenue	All	<p>This includes recurring revenue and one-off billings in respect of recurring services. Revenue is allocated based upon the standalone selling price of distinct performance obligations and recognised when the performance obligations are satisfied (i.e when the service is transferred to the customer) after taking into account all discounts as applicable.</p> <p>For services recognised over time this is based on the level of service that control has transferred to date relative to the remaining service promised under the contract.</p>
Hardware revenue	Telecom	Hardware revenue relates to the sale of mobile phones, tablets and related products. It is recognised when performance obligations associated with the sale have been satisfied with the customer (i.e. when the hardware is delivered to the customer) after taking into account all discounts as applicable.
Other revenue	All	Other revenue is recognised when the underlying service occurs and is amortised over the contract period. This includes rebates and commissions.

Contract cost

Contract cost is recognised as the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset is less than a year.

Notes to the Consolidated Financial Statements

As at 30 June 2019

7. Revenue (continued)

Revenue disaggregation

Revenue reported for the year includes revenue from contracts with customers, comprising service revenue, hardware revenue and other revenue. The table below disaggregates the Group's revenue by reporting segment.

	Service revenue \$000	Hardware revenue \$000	Other revenue \$000	Total \$000
Telecom	135,831	2,625	2,356	140,812
Hosting	105,588	-	166	105,754
	241,419	2,625	2,522	246,566

Collection risk assessment

The Group assess collectability at the inception of a contract. If a contract meets collectability criterion at contract inception, the criterion should not be reassessed unless there is an indication of a significant change in fact and circumstances. If consideration for an overall arrangement is not considered collectible but cash is received, revenue cannot be recognised until there are no remaining obligations and substantially all the considerations have been received, or the contract is terminated, or the Group stops transferring goods and services and has no obligations to transfer additional goods and services and non-refundable in all cases. Prior to the adoption of the new accounting standard, revenue was recognised when cash was received for poor credit customers and suspended customers.

Performance obligations

To the extent that a product or service in multiple performance obligation arrangements is subject to other specific accounting guidance, such as leasing guidance, that product or service is accounted for in accordance with such specific guidance. For all other products or services in these arrangements, the criteria below are considered to determine when the products or services are distinct and how to allocate the arrangement consideration to each distinct performance obligation. A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. If the Group enters into two or more contracts at or near the same time, the contracts may be combined and accounted for as one contract, in which case the Group determines whether the products or services in the combined contract are distinct. The contracts may be combined and accounted for as one contract if the contracts are negotiated as a package with a single commercial objective, or the amount of consideration to be paid in one contract depends on the price or performance of the other contract, or the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

A product or service that is promised to a customer is distinct if both of the following criteria are met:

- The customer can benefit from the product or service either on its own or together with other resources that are readily available to the customer (that is, the product or service is capable of being distinct); and
- The Group's promise to transfer the product or service to the customer is separately identifiable from other promises in the contract (that is, the product or service is distinct within the context of the contract).

If these criteria are not met, the Group determines an appropriate measure of progress based on the nature of its overall promise for the single performance obligation. When products and services are distinct, the arrangement consideration is allocated to each performance obligation on a relative standalone selling price basis. The revenue policies in the Services, Hardware and Other Revenue sections above are then applied to each performance obligation, as applicable.

Notes to the Consolidated Financial Statements

As at 30 June 2019

7. Revenue (continued)

The group allocates the transaction price to each performance obligations on a relative standalone selling price basis ("SSP"). The SSP is the price at which the group would sell a promised product or service separately to a customer and in most cases the SSP is based on the observable price of products or services sold separately in circumstances to similar customers.

8. Expenses

	2019 \$000	2018 \$000
Amortisation of non-current assets		
Intangibles	8,807	6,710
Depreciation of non-current assets		
Property, plant and equipment	19,793	16,834
Total depreciation and amortisation expense	28,600	23,544
Bad and doubtful debts expensed	300	388
Operating lease rental	9,985	10,280
Employment costs	72,824	64,386
Network and service delivery costs	80,652	84,570
Net foreign exchange losses	83	50
Other expenses	30,642	26,060
	194,486	185,734
Total expenses	223,086	209,278

9. Income tax and deferred tax

(a) Income tax expense	2019 \$000	2018 \$000
Current tax	8,279	7,910
Deferred tax - current year	(1,397)	(395)
Prior year	(5)	216
Total current tax expense	6,877	7,731
Income tax expense is attributable to:		
Profit from continuing operations	6,877	7,731
Deferred income tax (credit)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(922)	(424)
Increase/(decrease) in deferred tax liabilities	(480)	245
Net increase in deferred tax assets	(1,402)	(179)

Notes to the Consolidated Financial Statements

As at 30 June 2019

9. Income tax and deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable	2019 \$000	2018 \$000
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Profit from continuing operations before income tax expense	23,356	24,744
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Prima facie tax at the Australian tax rate of 30% (2018: 30%)	7,007	7,423
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Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:

Expenditure not allowable for income tax purposes	10	341
Research and development incentive	(42)	(249)
Adjustment to tax in respect of prior years	(5)	216
Other	(93)	-
Income tax expense	6,877	7,731

Effective tax rate	29%	31%
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Deferred tax assets	2019 \$000	2018 \$000
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The balance comprises temporary differences attributable to:

Depreciation due to timing differences for accounting purposes	3,800	3,568
Employee benefits	3,103	1,741
Accrued expenses	2,928	2,880
Provisions for impaired receivables and credit notes	237	134
Other assets	205	235
Total deferred tax assets	10,273	8,558
Set-off deferred tax liabilities pursuant to set-off provisions	(1,878)	(2,358)
Net deferred tax assets	8,395	6,200

Deferred tax assets expected to be recovered within 12 months	5,080	3,822
Deferred tax assets expected to be recovered after more than 12 months	5,193	4,736

Total deferred tax assets	10,273	8,558
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Notes to the Consolidated Financial Statements

As at 30 June 2019

9. Income tax and deferred tax (continued)

Total deferred tax assets consolidated movement	Accelerated Depreciation \$000	Other \$000	Total \$000
At 30 June 2017	3,743	4,391	8,134
Charged to profit or loss	(176)	600	424
At 30 June 2018	3,567	4,991	8,558
Charged to profit or loss	233	689	922
Charged to share based payment reserve 21(a)	-	793	793
At 30 June 2019	3,800	6,473	10,273

Current tax liabilities	2019 \$000	2018 \$000
Current tax (refund receivable)/liabilities	(236)	4,087

Deferred tax liabilities

The balance comprises temporary differences attributable to:

Depreciation due to timing differences for accounting purposes	1,088	1,836
Other receivables	738	447
Prepayments	52	75
Total deferred tax liabilities	1,878	2,358
Set-off of deferred tax liabilities pursuant to set-off provisions	(1,878)	(2,358)
Net deferred tax liabilities	-	-

Deferred tax liabilities expected to be recovered within 12 months	889	1,616
Deferred tax liabilities expected to be recovered after more than 12 months	989	742
Total deferred tax liabilities	1,878	2,358

Total deferred tax liabilities consolidated movement	Accelerated Depreciation \$000	Prepayments \$000	Other \$000	Total \$000
At 30 June 2017	1,474	177	462	2,113
Charged to profit or loss	362	(102)	(15)	245
At 30 June 2018	1,836	75	447	2,358
Charged to profit or loss	(748)	(23)	291	(480)
At 30 June 2019	1,088	52	738	1,878

Notes to the Consolidated Financial Statements As at 30 June 2019

9. Income tax and deferred tax (continued)

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 regulations are 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 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 and 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.

Tax consolidation group

Macquarie Telecom Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidated legislation with effect from 1 July 2002. 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 and 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. 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.

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 profit/(loss) for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with AASB 112 *Income Taxes* and UIG 1052 *Tax Consolidation Accounting*.

Notes to the Consolidated Financial Statements

As at 30 June 2019

9. Income tax and deferred tax (continued)

Goods and Services Tax (GST)

Revenue, 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 assets 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 Consolidated 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 is classified as operating cash flows.

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

10. Cash and cash equivalents

	2019	2018
	\$000	\$000
Cash at bank	12,064	30,298
Short term deposits	5,000	-
	17,064	30,298

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 know amounts of cash and which are subject to insignificant risk of changes in values.

11. Trade and other receivables

	2019	2018
	\$000	\$000
Current		
Trade receivables	11,340	6,177
Provision for loss	(442)	(330)
Provision for credit notes	(347)	(116)
Other receivables	1,093	1,346
	11,644	7,077

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 14 days and therefore are all classified as current. The Group measures trade receivables at their transaction price as the trade receivables do not contain a significant financing component.

Notes to the Consolidated Financial Statements

As at 30 June 2019

11. Trade and other receivables (continued)

Other Receivables

These amounts generally arise from transactions outside the usual operating activities of the group. No interest is charged. Collateral is not normally obtained. The non-current other receivables are due and payable within 30 days from the end of the reporting period.

Risk Exposure

All of the financial assets at amortised cost are denominated in Australian dollar. As a result, there is no exposure to foreign currency risk. Refer to Note 26 for credit risk exposure.

(a) Movements in provision for loss and credit notes are as follows;

	2019	2018
	\$000	\$000
At 1 July	(446)	(876)
Amounts written-off	106	388
Net additional amounts released / (provided)	(449)	42
At 30 June	(789)	(446)

12. Accrued income

	2019	2018
	\$000	\$000
Contract assets	8,807	7,897
	8,807	7,897

Accrued income represents the estimated amount of unbilled services provided to all customers as at the balance date after taking into account all discounts as applicable but where the group is yet to establish an unconditional right to the consideration. Contract assets are treated as financial assets for impairment purposes.

13. Other current assets

	2019	2018
	\$000	\$000
Prepayment	7,599	5,159
Deferred expense	1,158	1,084
Other assets	88	152
	8,845	6,395

Prepayment expenses are primarily related to expenses paid in advance and deferred over the life of the contract.

Notes to the Consolidated Financial Statements

As at 30 June 2019

14. Property, plant and equipment

	Leasehold Improvement \$000	Plant & Equipment \$000	Land & Buildings \$000	Total \$000
Year ended 30 June 2019				
Opening net book value	21,549	30,229	14,205	65,983
Additions	9,615	21,576	3,475	34,666
Disposals	-	(126)	-	(126)
Depreciation expense	(2,136)	(16,693)	(964)	(19,793)
Closing net book value	29,028	34,986	16,716	80,730
At 30 June 2019				
Cost	38,048	215,590	22,891	276,529
Accumulated depreciation	(9,020)	(180,604)	(6,175)	(195,799)
Net book value	29,028	34,986	16,716	80,730
Year ended 30 June 2018				
Opening net book value	15,554	30,715	13,820	60,089
Additions	7,781	13,595	1,352	22,728
Disposals	-	(1)	-	(1)
Depreciation expense	(1,786)	(14,080)	(967)	(16,833)
Closing net book value	21,549	30,229	14,205	65,983
At 30 June 2018				
Cost	28,433	194,230	19,416	242,079
Accumulated depreciation	(6,884)	(164,001)	(5,211)	(176,096)
Net book value	21,549	30,229	14,205	65,983

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 is calculated on a straight-line basis on all property, plant and equipment commencing from the time the asset is ready to use. The estimated useful lives are as follows;

The estimated useful lives are as follows:

Leasehold improvement		
Fitout	2.5 to 5 years	
Plant and equipment		
Office equipment	3 to 20 years	
Infrastructure	3 to 25 years	
Land and Buildings		
Buildings	10 to 45 years	

Notes to the Consolidated Financial Statements

As at 30 June 2019

14. Property, plant and equipment (continued)

Leasehold improvements are depreciated over the shorter of the lease term and the useful life of the assets.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer to Note 15 for the policy on impairment of non-financial assets.

15. Intangible assets

	Software \$000	Product Development \$000	Total \$000
Year ended 30 June 2019			
Opening net book value	11,789	5,156	16,945
Additions - internal development	541	7,184	7,725
Additions - acquired	3,697	-	3,697
Disposals	(154)	-	(154)
Amortisation	(5,830)	(2,977)	(8,807)
Closing net book value	10,043	9,363	19,406
At 30 June 2019			
Cost	64,838	22,895	87,733
Accumulated amortisation	(54,795)	(13,532)	(68,327)
Net book value	10,043	9,363	19,406
Year ended 30 June 2018			
Opening net book value	7,835	4,723	12,558
Additions - internal development	2,848	2,340	5,188
Additions - acquired	5,909	-	5,909
Amortisation	(4,803)	(1,907)	(6,710)
Closing net book value	11,789	5,156	16,945
At 30 June 2018			
Cost	60,847	15,711	76,558
Accumulated amortisation	(49,058)	(10,555)	(59,613)
Net book value	11,789	5,156	16,945

All assets reported as intangibles are held at cost less accumulated amortisation and impairment losses. Intangibles include 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 studies and where the Group has an intention and ability to use the asset.

Notes to the Consolidated Financial Statements

As at 30 June 2019

15. Intangible assets (continued)

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

The estimated useful lives are as follows:

Software	3 to 4 years
Product development	3 years

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that a non-financial asset may be impaired. Where an indicator of impairment exists, the Group 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.

The 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 assets.

Impairment losses are recognised in the Consolidated Statement of Comprehensive Income.

16. Other non-current assets

	2019	2018
	\$000	\$000
Prepayments	4,888	2,326
Deferred expenses	1,254	564
	6,142	2,890

17. Trade and other payables

	2019	2018
	\$000	\$000
Trade payables	15,500	20,695
Other payables and accruals	15,533	9,875
Employee entitlements - annual leave	3,087	2,896
	34,120	33,466

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

Liabilities for other trade and other payables 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 Group.

Terms and conditions relating to the above financial instrument:

- Trade liabilities are normally settled on 30 – 60 day terms.

Notes to the Consolidated Financial Statements

As at 30 June 2019

18. Provisions – employee benefits

	2019 \$000	2018 \$000
(a) Current liabilities		
Employee benefits	1,803	1,752
(b) Non-current liabilities		
Employee benefits	1,323	1,224

Employee benefits relate to the Company's liability for long service leave.

(i) Short term obligations

Liabilities for wages and salaries, bonus and annual leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Other long-term employee benefit obligations

The group also has liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit and loss.

A reconciliation of the movement in the provision balance are as follows:	2019 \$000	2018 \$000
Employee benefits		
At 1 July	2,976	2,643
Net additional amounts provided	601	568
Amounts used during the period	(451)	(235)
At 30 June	3,126	2,976

	2019 \$000	2018 \$000
The aggregate employee benefits liability is comprised of:		
Accrued wages, salaries, annual leave and on costs	9,182	8,294
Provision - current	1,803	1,752
Provision - non- current	1,323	1,224
	12,308	11,270

Notes to the Consolidated Financial Statements

As at 30 June 2019

19. Other liabilities

	2019 \$000	2018 \$000
(a) Current		
Lease incentive	267	168
Contract liability ¹	6,803	3,674
Software financing facility	-	440
	7,070	4,282
(b) Non-current		
Lease incentive	1,871	2,086
Contract liability ¹	8,371	3,433
Software financing facility	-	-
	10,242	5,519

¹ Contract liabilities in relation to service revenue were previously presented as deferred revenue.

Contract liabilities

Contract liabilities represents the groups obligations to transfer goods and services to a customer and are recognised when a customer pays consideration before the group has transferred the goods or services to the customer. Contract liabilities are amortised based on the contract period.

Revenue recognised in relation to contract liabilities

The following table shows how much revenue is recognised in the current reporting period related to the carried-forward contract liabilities.

	2019 \$000	2018 \$000
Opening balance of contract liabilities as at 1 July	7,107	6,213
Revenue recognised that was included in the contract liability balance at 1 July	(4,021)	(2,281)
Net additions during the year	12,088	3,175
Ending balance of contract liabilities as at 30 June	15,174	7,107

Notes to the Consolidated Financial Statements

As at 30 June 2019

20. Contributed equity

	2019	2018
	\$000	\$000
(a) Share capital		
Ordinary shares authorised and fully paid	43,707	43,140

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.

Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Group, 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 per share, either in person or by proxy, at a meeting of the Group.

(b) Movement in share on issue

	Notes	2019		2018	
		Number	\$000	Number	\$000
Balance at beginning of year		21,095,121	43,140	20,967,121	42,991
Conversion of performance rights ¹		-	-	128,000	149
Employee share scheme issued	20(c)	176,002	567	-	-
Balance at end of the year		21,271,123	43,707	21,095,121	43,140

Where any Group company purchases the company's equity instruments (for example as the result of a share buy-back or a share-based payment plan) the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Macquarie Telecom Group Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Macquarie Telecom Group Limited.

Shares held by the Macquarie Telecom Group Limited Employee Share Trust are disclosed as treasury shares.

Notes to the Consolidated Financial Statements

As at 30 June 2019

20. Contributed equity (continued)

(c) Other equity

(i) Treasury shares

Treasury shares are shares in Macquarie Telecom Group Limited that are held by the Macquarie Telecom Group Limited Employee Share Trust for the purpose of issuing shares under the Macquarie Telecom Employee share scheme and the executive long-term incentive (LTI) scheme. Shares issued to employees are recognised on a first-in-first-out basis.

	Number of shares	\$000
Opening balance 1 July 2018	-	-
Issuance of shares to the Trust	(176,002)	(567)
Issue of shares under the LTI scheme	149,335	480
Closing balance 30 June 2019 ¹	(26,667)	(87)

¹ Represents the number of shares vested but not exercised at closing balance date.

Capital risk management

The Group's objective when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Notes to the Consolidated Financial Statements

As at 30 June 2019

21. Reserves and retained profits

		2019	2018
	Notes	\$000	\$000
Other reserves	21 (a)	2,543	872
Retained earnings	21 (b)	60,548	49,343
		63,091	50,215

(a) Other reserves

Foreign currency translation reserve

Exchange differences arising on translation of foreign subsidiaries are recognised in other comprehensive income and foreign translation reserve as describe in Note 2(d).

Share based payments reserve

The share based payments reserve is used to recognise the fair value of performance rights and options as an expense as describe in Note 22.

Movements - other reserves

	2019	2018
	\$000	\$000
(i) Foreign currency translation reserve:		
Balance at beginning of year	(142)	(131)
Loss on translation of foreign controlled entity	(65)	(11)
Balance at end of year	(207)	(142)
(ii) Share based payment reserve:		
Balance at beginning of year	1,014	725
Share based payments expense	546	438
Deferred tax movements	793	-
Current income tax	877	-
Performance rights vested	-	(149)
Issue of treasury shares to employees	(480)	-
Balance at end of year	2,750	1,014
(b) Retained earnings:		
Balance at beginning of year	49,343	42,846
Net profit for the year	16,479	17,013
Total available for appropriation	65,822	59,859
Dividends paid or provided for	(5,274)	(10,516)
Balance at end of year	60,548	49,343

Notes to the Consolidated Financial Statements

As at 30 June 2019

22. Share based payment

The Group provides benefits to Key Management Personnel (KMP) and senior managers, including directors and employees, in the form of share-based payment transactions.

The cost of the cash-settled transactions are measured by the market value of the number of shares calculated at the balance sheet date.

The cost of the equity-settled transactions with employees is measured by reference to the fair value of the instruments 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:

- The extent to which the vesting period has expired; and
- 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 are 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.

During the year, the Company granted 119,000 performance rights which have a vesting date of 31 December 2021, to KMP and senior managers as part of their long-term incentives based on specific performance conditions. The performance conditions are linked to total shareholder return (TSR) and customer satisfaction based on Net Promoter Score (NPS). The performance rights were valued using Monte Carlo Simulation model which considered key assumptions of price volatility and dividend yield. The average fair value at grant date of each right in Tranche 1 was \$8.49 and Tranche 2 was \$7.82 equating to a total of \$957,156. Performance rights totalling 132,000 vested on 31 December 2018, resulting in 176,002 shares being issued based upon overachievement of the target in accordance with the plan.

The total number of outstanding performance rights at 30 June 2019 is 435,000 (2018: 450,000) valued at \$2,877,777 (2018: \$2,088,021) as measured at their grant date, amortised over the period to the vesting date. The amount of performance rights amortisation expense for the period was \$1,266,492 (2018: \$529,207), \$720,492 for cash settled and \$546,000 for equity settled (2018: \$82,338 cash settled and \$446,869 equity settled). The liability recognised at year end for the cash settled transactions is \$838,398 (2018: \$117,906).

Set out below are summaries of performance rights granted under the plan:

Year ended 30 June 2019

Initial grant date	Vesting date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed / Cancelled during the year Number	Balance at end of the year Number
27 th November 2015	31 st December 2018 ¹	132,000	-	(112,000)	-	20,000
12 th August 2016	31 st December 2019	132,000	-	-	(10,000)	122,000
21 st December 2017	31 st December 2020	186,000	-	-	(12,000)	174,000
30 th October 2018	31 st December 2021	-	119,000	-	-	119,000
		450,000	119,000	(112,000)	(22,000)	435,000

¹ Shares at end of year balance date are vested but not exercised.

Notes to the Consolidated Financial Statements

As at 30 June 2019

22. Share based payment (continued)

Year ended 30 June 2018

		Balance at start of the year	Granted during the year	Exercised during the year	Lapsed / Cancelled during the year	Balance at end of the year
Initial grant date	Vesting date	Number	Number	Number	Number	Number
25 th September 2014	31 st December 2017	96,000	-	(96,000)	-	-
27 th November 2015	31 st December 2018	132,000	-	-	-	132,000
12 th August 2016	31 st December 2019	138,000	-	-	(6,000)	132,000
21 st December 2017	31 st December 2020	-	186,000	-	-	186,000
		366,000	186,000	(96,000)	(6,000)	450,000

Performance rights outstanding at the end of the year have the following vesting date.

Initial grant date	Vesting date	Performance conditions met	
27 th November 2015	31 st December 2018	Tranche 1	100%
		Tranche 2	150%
12 th August 2016	31 st December 2019	Tranche 1	96%
		Tranche 2	106%
21 st December 2017	31 st December 2020	Tranche 1	105%
		Tranche 2	N/A
30 th October 2018	31 st December 2021	Tranche 1	N/A
		Tranche 2	N/A

Notes to the Consolidated Financial Statements

As at 30 June 2019

23. Cash flow information

(a) Reconciliation of profit after income tax expense to net cash inflow from operating activities	2019 \$000	2018 \$000
Profit after income tax expense	16,479	17,013
Amortisation of non-current assets	8,807	6,710
Depreciation of non-current assets	19,793	16,833
Loss on sale of property, plant and equipment	7	-
Share based payment	546	438
Net foreign currency loss/(gain)	134	(63)
Finance costs	453	-
Change in operating assets and liabilities		
(Increase)/decrease in trade and receivables	(4,820)	820
(Increase)/decrease in accrued income	(910)	(1,243)
(Increase)/decrease in prepayments	(5,002)	(94)
(Increase)/decrease in net deferred tax assets	(1,402)	(179)
(Increase)/decrease in other receivables	(447)	(802)
Increase/(Decrease) in trade and other payables	775	4,771
(Decrease)/increase in current tax liabilities	(3,446)	(1,927)
Increase/(Decrease) in provisions	150	333
Increase/(Decrease) in other liabilities	7,511	325
Net cash inflow from operating activities	38,628	42,935

(b) Non-cash investing activities

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

(c) Financing facilities available

(i) Bank guarantee facility

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

(ii) Software financing facility

The consolidated entity has no financing facility for software licences at the balance sheet date.

(iii) Bank debt facility

The consolidated entity has an undrawn \$100 million debt facility with a syndicate of banks.

Notes to the Consolidated Financial Statements

As at 30 June 2019

23. Cash flow information (continued)

	2019	2018
	\$000	\$000
Total facilities:		
Bank guarantee facility	5,500	5,200
Software financing facility	-	1,343
Bank debt facility - secured	100,000	
	105,500	6,543
Facilities used at reporting date:		
Bank guarantee facility	5,352	4,730
Software financing facility	-	440
Bank debt facility - secured	-	-
	5,352	5,170
Facilities unused at reporting date:		
Bank guarantee facility	148	470
Software financing facility	-	903
Bank debt facility - secured	100,000	-
	100,148	1,373
Facilities used at reporting date	5,352	5,170
Facilities unused at reporting date	100,148	1,373
Total facilities	105,500	6,543

24. Expenditure commitments

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at reporting date but not recognised as liabilities is as follows:	2019	2018
	\$000	\$000
Not later than one year		
Property, plant and equipment	8,329	1,994
Software	666	64
	8,995	2,058

Notes to the Consolidated Financial Statements

As at 30 June 2019

24. Expenditure commitments (continued)

(b) Operating lease commitments

All operating leases relate to premises, parking spaces and office equipment in various locations and have a lease term of between 12 months and 20 years.

	2019	2018
	\$000	\$000
Minimum lease payments:		
Not later than one year	9,555	8,048
Later than one year and not later than five years	23,754	21,632
Later than five years	45,952	38,677
	79,261	68,357

(c) Other expenditure commitments

The consolidated entity has other expenditure commitments at the reporting date relating to support and maintenance costs:

Not later than one year	2,952	-
Later than one year and not later than five years	-	-
	2,952	-

25. Related party disclosures

(a) Key Management Personnel compensation

	2019	2018
	\$	\$
Short-term employee benefits	4,050,063	3,846,231
Post-employment benefits	165,461	161,144
Long-term benefits	40,919	62,185
Share-based payments	1,058,262	315,826
	5,314,705	4,385,386

There were no related party transactions during the year. All transactions with key management personnel were made on normal commercial terms and conditions and at market rates.

Notes to the Consolidated Financial Statements

As at 30 June 2019

26. Financial risk management

Objectives and policies

The Group's principal financial instruments comprise of cash and short-term deposits. It also has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

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

(a) Market risk

(i) Foreign exchange risk

The Group operates primarily in Australia and is exposed to foreign exchange risk arising mainly from its international operations and overseas suppliers. Commercial transactions in Australia are mainly in Australian dollars. Foreign currency transactions are not significant to the consolidated operations. As such, the Group choose not to hedge its foreign exchange risk using forward exchange contracts. The consolidated entity's exposure to foreign currency risk expressed in Australian dollars at the operating date was as follows:

	2019			2018		
	AUD equivalent \$000			AUD equivalent \$000		
	USD	SGD	NZD	USD	SGD	NZD
Cash and cash equivalents	1,827	11	-	1,721	428	-
Trade and other payables	96	-	35	92	-	33

Based on the financial instruments held at 30 June 2019, had the Australian dollar weakened/strengthened by 10% each of the denominated currencies above with all other variables held constant, the consolidated entity's post-tax for against year would have been \$190,000 higher/\$155,000 lower (2018: \$253,000/\$207,000 lower) as a result of foreign exchange gains/losses.

(ii) Interest rate risk

The Group's main interest risk arises from cash and cash equivalents. This risk is managed by ensuring that surplus cash is invested in at call investment account and short term deposits.

Based on the cash and cash equivalents at 30 June 2019, if interest rates had changed by +/- 10% from the year end rates with all other variables held constant, post-tax profit would have been \$31,000 higher/lower (2018: \$49,000) as a results of higher/lower interest income from these financial assets.

(iii) Other market risk

The Group does not carry any other market risk.

Notes to the Consolidated Financial Statements

As at 30 June 2019

26. Financial risk management (continued)

Cash flow and fair value interest rate risk

	Floating interest rate 2019 2018 \$000		Fixed interest rate maturing in						Non-interest bearing 2019 2018 \$000		Total carrying amount as per the Balance Sheet 2019 2018 \$000		Weighted average effective interest rate 2019 2018 % pa	
			1 year or less		Over 1 to 2 years		More than 2 years							
			2019	2018	2019	2018	2019	2018						
			\$000	\$000	\$000	\$000	\$000	\$000						
(i) Financial assets														
Cash	12,053	29,871	5,000	-	-	-	-	-	11	428	17,064	30,298	1.10	1.63
Trade and other receivables	-	-	-	-	-	-	-	-	11,644	7,077	11,644	7,077	-	-
Total financial assets	12,053	29,871	5,000	-	-	-	-	-	11,655	7,505	28,708	37,375		
(ii) Financial liabilities														
Payables	-	-	-	-	-	-	-	-	34,120	33,466	34,120	33,466	-	-
Software financing facility	-	-	-	440	-	-	-	-	-	-	-	440	-	1.03
Total financial liabilities	-	-	-	440	-	-	-	-	34,120	33,466	34,120	33,906		

Notes to the Consolidated Financial Statements

As at 30 June 2019

26. Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposure 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 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 in Note 26(a).

Impairment of financial assets

The Group has only one type of financial asset that is subject to the expected credit loss model, which are trade receivables from provision of services. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial. Refer to Note 2 for the policy on impairment of financial assets.

Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and a number of days past invoice date. The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for trade receivables:

30 June 2019	Current ¹	15 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Expected loss rate	1%	2%	6%	10%	30%	
Gross carrying amount - trade receivables	4,618	4,945	888	560	329	11,340
Gross carrying amount - contract assets	8,807	-	-	-	-	8,807
Loss Allowance	134	100	53	56	99	442

¹ Current includes all invoices less than 15 days from invoice date which are not past due.

30 June 2018	Current ¹	15 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Expected loss rate	1%	7%	10%	15%	30%	
Gross carrying amount - trade receivables	3,206	2,425	468	59	19	6,177
Gross carrying amount - contract assets	7,897	-	-	-	-	7,897
Loss Allowance	111	158	47	9	5	330

¹ Current includes all invoices less than 15 days from invoice date which are not past due.

Notes to the Consolidated Financial Statements

As at 30 June 2019

26. Financial risk management (continued)

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally invested on at call investment account and short-term deposits.

Maturities of financial liabilities

	Less than 6 months \$'000	6–12 months \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total contractual cash flow \$'000
Consolidated					
At 30 June 2019					
Non-interest bearing	34,120	-	-	-	34,120
Fixed rate	-	-	-	-	-
	34,120	-	-	-	34,120
At 30 June 2018					
Non-interest bearing	33,466	-	-	-	33,466
Fixed rate	220	220	-	-	440
	33,686	220	-	-	33,906

(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 Consolidated Financial Statements

As at 30 June 2019

27. 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:

(a) Summary of financial information

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

Statement of financial position	2019	2018
	\$000	\$000
Current Assets	-	-
Total Assets	100,843	107,625
Current liabilities	9,172	12,619
Total liabilities	9,172	12,619
Net assets	91,671	95,005
Contributed equity	43,707	43,140
Reserves		
Share based payment reserve	3,206	1,014
Retained earnings	44,758	50,852
Equity	91,671	95,005
Loss for the year	(820)	(606)
Total comprehensive loss	(820)	(606)

(b) Guarantee entered into by parent entity

Macquarie Telecom Group Limited (the "Company"), Macquarie Telecom Pty Ltd ("MT"), Macquarie Hosting Pty Limited ("MH"), Macquarie Telecom Carrier Services Pty Limited ("MTCS") and Macquarie Cloud Services Pty Limited ("MCS") (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 and MCH. MT, MH, MTCS and MCS have also given a similar guarantee in the event that the Company is wound up. The Deed of Cross Guarantee was amended on 20 July 2011 to include Macquarie Cloud Pty Limited and as such, it entered the Closed Group on that 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 2019 and 30 June 2018.

Notes to the Consolidated Financial Statements

As at 30 June 2019

27. Parent entity financial information (continued)

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") has a current asset deficiency of \$9.2 million at the end of the financial year (2018: \$12.6 million). The financial statements for the Company have been prepared on a going concern basis as the directors believe the Company can pay its debts as and when they fall due. This conclusion is based on the following factors:

- The current asset deficiency includes an amount payable to a wholly owned entity of \$9.2 million, which the Company can control the timing of settlement.
- The Company's assets are receivable from a wholly owned entity which itself has a surplus of current assets sufficient to fund the remaining balance.

28. Auditor's remuneration

	2019	2018
	\$	\$
The auditor of Macquarie Telecom is PricewaterhouseCoopers.		
Amounts received or due and receivable by the auditor of Macquarie Telecom for:		
An audit or review of the financial report of the Company and any other entity in the consolidated entity	255,000	238,300
Other services in relation to the Company and any other entity in the Group	147,463	328,131
	402,463	566,431

Directors' Declaration

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

- (1) In the opinion of the directors:
 - (a) The financial statements and notes set out on pages 22 to 60 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 2019 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) The declaration has been made after receiving the declarations required to be made to the directors in with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2019.
- (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 27(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 issues by the International Accounting Standards Board.

On behalf of the Board,



David Tudehope
Chief Executive

Sydney

27 August 2019



Independent auditor's report

To the members of Macquarie Telecom Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Macquarie Telecom Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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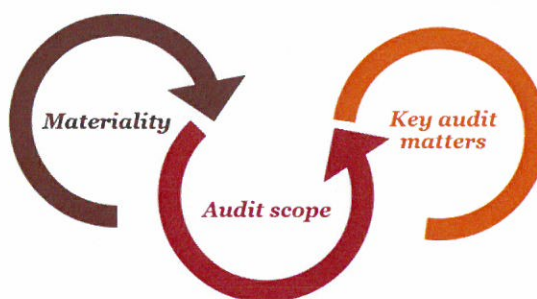
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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of \$1,301,000 which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortization (EBITDA).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group EBITDA as the benchmark because, in our view, this is a key metric used to measure the performance of the Group.
- We utilised 2.5% (of EBITDA) based on our professional judgement, noting it is within the range of commonly acceptable EBITDA related materiality thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group specialises in the provision of telecommunication and hosting services to corporate and government customers in Australia. We ensured that the audit team possessed the appropriate skills and competencies which are needed for the audit of the Group, including team members with technology and telecommunications industry experience. We performed most of the audit procedures at the Group's corporate head office in Sydney.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter

How our audit addressed the key audit matter

Property, Plant and Equipment impairment assessment

(Refer to note 14) [\$80,830,000]

The Group assessed Property, Plant and Equipment for impairment at the cash generating unit (CGU) level by considering if impairment indicators were present. The Group has determined the CGUs to be the same as the reportable segments, being Telecom and Hosting. We focused our procedures on the Hosting CGU as the majority of the Property, Plant and Equipment balance relate to that CGU.

The Group's impairment assessment for the Hosting Segment is a key audit matter due to the:

- significance of the Property, Plant and Equipment balance to the consolidated statement of financial position
- judgement involved in the impairment indicator assessment due to the need to make estimates about future events and other circumstances, such as future data centre capacity and pricing.

We performed the following procedures, amongst others, to evaluate the Group's impairment assessment:

- enquired of management and inspected a selection of Board of Director Meeting minutes to assess whether there were any:
 - significant new customers or customer losses
 - significant changes in the manner in which assets are expected to be used
 - potential data centre capacity or pricing changes
 - expected changes to data centre capacity, pricing or the business environment that could significantly impact the future performance of the Hosting CGU
- compared the actual performance of the Hosting CGU for the year to the Board of Director approved budget
- considered if there were changes in the market interest rates that may significantly affect the discount rate that the Group would use in its impairment models.

We noted that the market capitalisation of the Group exceeded the Group's net assets of \$106,711,000 by \$316,584,348 as at 30 June 2019.

Revenue recognition – Revenue from contracts with customers

(Refer to note 7) [\$244,044,000]

Majority of the revenue from contracts with customer is generated from service revenue.

We considered revenue recognition a key audit matter because:

- revenue is the most financially significant item in the Consolidated Statement of Comprehensive Income
- there are high volumes of transactions and multiple arrangements with customers that may relate to more than just the current financial period
- revenue recognition relies on the successful interaction of systems and information from carriers for accurate billing to customers
- for certain employees, part of their remuneration incentive is linked to revenue outcomes.

We performed the following procedures, among others:

- identified and investigated a selection of journal entries with specific risk characteristics that impact revenue balances. This included agreeing those journal entries to supporting documentation and discussing with management the underlying rationale for those journal entries
- tested, for a sample of new customer contracts, whether revenue had been recorded at the correct amount and in the correct financial period, in accordance with the Group's revenue recognition policy. This included assessing whether:
 - evidence of an underlying arrangement with the customer existed
 - the amounts invoiced to the customer were calculated in accordance with the contracted fee schedules
 - the performance obligations had been met by the Group
- evaluated the design and tested a sample of key manual controls related to revenue recognition including those related to the implementation of price changes and the allocation of cash to customer accounts
- assessed the adequacy of the Group's revenue disclosures in light of the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report, and Corporate Governance Statement. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.



Report on the remuneration report

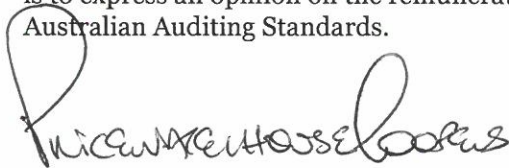
Our opinion on the remuneration report

We have audited the remuneration report included in pages 7 to 13 of the Directors' Report for the year ended 30 June 2019.


In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



PricewaterhouseCoopers



Jason Hayes
Partner

Sydney
27 August 2019