2020 Annual Report.

Building on growth.

macquarie
TELECOM GROUP

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the members of Macquarie Telecom Group Limited be held at Macquarie Telecom Group's Sydney office (Level 15, 2 Market Street, Sydney) on Friday 27 November 2020 at 9am.

• Contents

Company Highlights

Net Promoter Score of +72 for **customer service** in 2H FY20, means we are delivering an **outstanding** customer **experience.**

+72

Profitable Growth

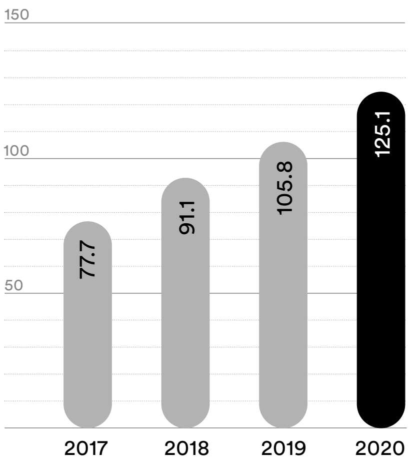
Financial Year	17	18	19	20	19 v 20
Consolidated Revenue	220.1	233.6	246.6	266.2	8%
EBITDA	40.3	47.8	52.1	*65.2	25%
EBIT	19.0	24.3	23.5	23.8	1%
Net Profit after Tax	14.2	17.0	16.5	13.5	-18%
Operating Cash Flow	41.4	42.9	38.5	45.9	19%

$266.2 million revenue

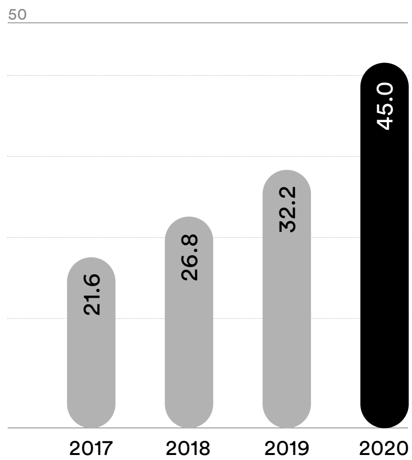
$65.2 million EBITDA

63.6 cps EPS

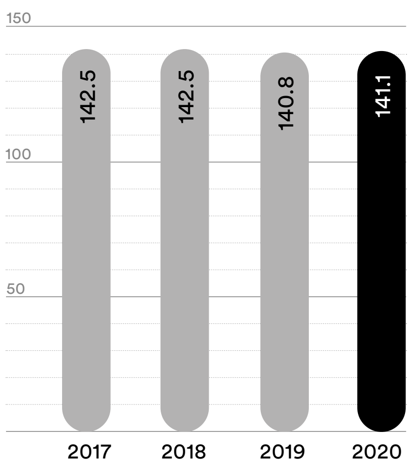
Hosting Revenue ($m)



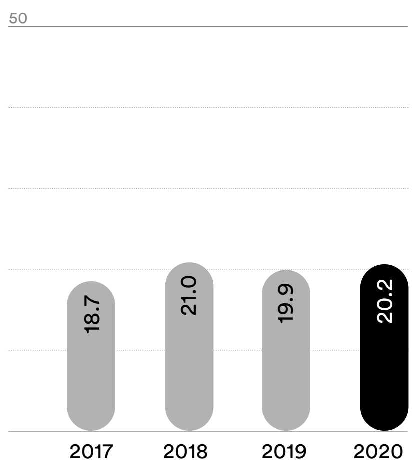
Hosting EBITDA ($m)



Telecom Revenue ($m)



Telecom EBITDA ($m)



* EBITDA post AASB16 has increased by $8.0m as rent is excluded under AASB16. Instead lease obligations are recognised on the balance sheet as right-of-use assets and lease liabilities. This results in $6.7m of depreciation of the right-of-use asset and $3.6m interest from the lease liability that is recognised outside of EBITDA. The impact to NPAT is $(1.8)m.

• Chairman's Message

I am pleased to report that the **2020** full year results have **delivered** the sixth consecutive year of **strong** performance and EBITDA **growth** for Macquarie Telecom Group.

These results are evidence of our track record of delivery and investment which will provide a long runway of significant growth opportunities.

Providing great customer experience has never been more important in the COVID-19 environment, and at +72 NPS the Group's revenue has increased by 8% to $266.2 million and EBITDA by 25% to $65.2 million compared to the prior year.

Macquarie Telecom Group delivered a net profit after tax from continuing operations of $13.5 million, decreasing by 18% on the prior year due to greater depreciation of capital expenditures from the company's continued major investments in data centres and across its businesses, and from the AASB 16 accounting changes.

Conversion of EBITDA to operating cash generated total operating cash flows of $45.9 million during the year, an improvement of 19% compared to FY19. The Company finishes the year with a robust balance sheet with total assets increasing to $324.3 million; $37.9 million in cash and cash equivalents and a $92 million undrawn debt facility.

The Hosting segment contributed $130.3 million in revenue, an increase of 18% compared to the prior year, and EBITDA of $45.0 million, an increase of 40%. Hosting's investments in data centres and infrastructure, and its hybrid IT, cyber security and secure cloud offerings, have placed Hosting 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. In FY21, the Data Centres' performance will be reported as its own business segment.

The Telecom segment continues to be an important part of the Group's overall offering, delivering $141.1 million in revenue and EBITDA of $20.2 million. This performance is reflective of a highly competitive market. Telecom's #SoUnTelco go-to-market strategy and a clear focus on great customer experience continue to be compelling in driving customer acquisition and a channel to cross sell Cloud Services solutions. Telecom provides a strong distribution channel for the Hosting business.

Macquarie Telecom Group's highly skilled and experienced management team continue to deliver and execute effectively on the company's growth strategy. The business has provided uninterrupted and secure, high quality service to our customer base in a changing environment. The Group is committed to building greater value by new investments in data centre capacity, sovereign security, cloud computing and telecom infrastructure, to achieve continued growth into the future.

Peter James
Chairman

Strong growth in cloud and cyber security underpins our significant investments.

Throughout the last six years, we have consistently pursued our strategy and our commitment to bringing to life our company purpose of making a difference in markets that are underserved and overcharged. Since the beginning, this strategy recognised the emerging cloud and cyber security markets megatrend. This strategy has again been validated by our sixth consecutive year of profit growth.

Our significant capital investment program has progressed well over the last year and we are confident that the acceleration of cloud adoption and cyber security in the post-COVID-19 economy means we have created a platform for continued growth.

In FY21, Macquarie Telecom Group plans to make very significant investments of between $140m and $148m. This investment is primarily to complete the development of Intellicentre 3 East on the Macquarie Park Data Centre Campus, as well as Intellicentre 5 South Bunker on the Canberra Data Centre Campus.

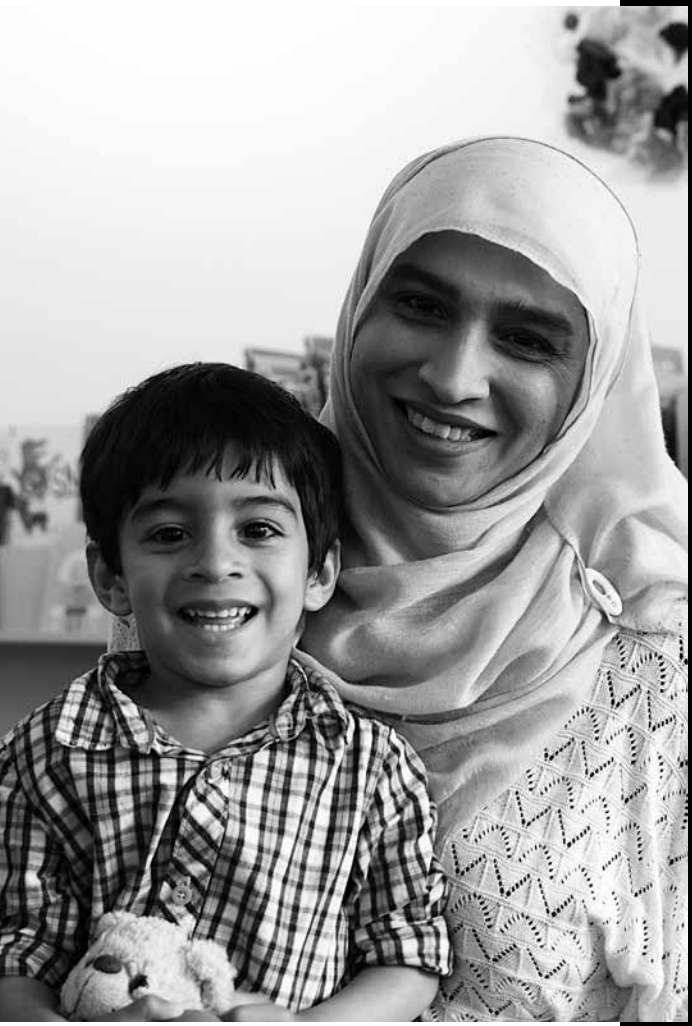
The Telecom business will continue to invest in NBN migration and SD-WAN, which will reduce overall as the core network rollout is completed. The combination of NBN's infrastructure and SD-WAN technology means we have a differentiated national Tier 1 telecom offering.

Macquarie Cloud Services has successfully developed its managed public cloud portfolio to enhance the current hybrid cloud offering. Customers are looking to move to the type of cloud that is the best fit for their software application, whether it be colocation, private cloud or public cloud.

Data Sovereignty and building Australian capability is now recognised as a national policy goal. Macquarie Government anticipates continued strong growth given our experience in the Government sector leveraging our strict security certifications. To deliver this, Macquarie Government will significantly increase its investment in new technology and expand its cyber security engineering team. Our investment in Intellicentre 5 South Bunker will provide us with additional cyber capability and cloud capacity.

David Tudehope
Chief Executive

The magic of story telling.



United Way and the Imagination Library provides a child with many opportunities to explore worlds beyond their home and the restrictions felt under the current pandemic. Jay has been enjoying the program since he was one. He loves to read and discuss the pictures in the books. Jay's parents are from non-english speaking backgrounds and this program supports them as well as Jay and his siblings.

"I am often in the dark, especially when it comes to choosing good children's books which reflect Australian culture and education. Well curated books in the program give me insight into Australian culture, nature, philosophy, history, literature, and language," says Jay's mum.

"The program is truly helpful for everyone, but especially for families with multicultural backgrounds or disadvantage, who have trouble finding good children's books.

Also, the magic of storytelling Ryde group helped me to connect with other mothers in the community."

Dolly Parton's Imagination Library, Australia

In 2014, United Way Australia brought Dolly Parton's Imagination Library to Australia, making it the fourth nation to adopt the global program. United Way, the world's largest charity, has been working with Macquarie Telecom Group staff since then to raise funds, donate resources and volunteer staff time in support.

Each month United Way mails a high-quality, age-appropriate book to all registered children up to 5 years of age, addressed to them, at no cost to the child's family. Countless parents have shared how excited their child is when their new book arrives each month.

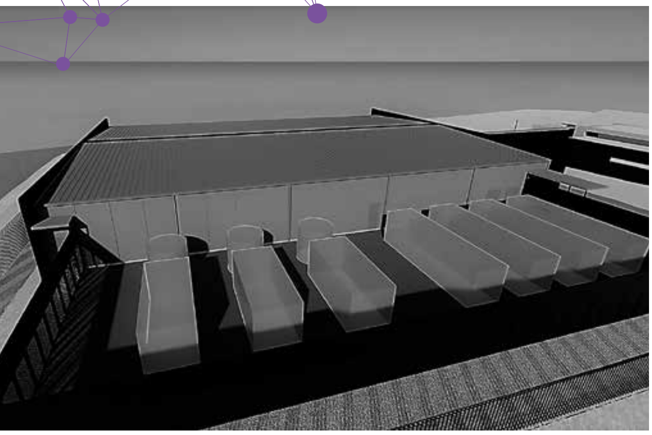
During the COVID-19 pandemic, the Imagination Library has continued to bring the magic of reading into the homes of families in isolation.

• Macquarie Government

Our sovereign cloud and cyber security services are trusted by over

42%

of federal government agencies



Macquarie Government has provided sovereign cloud and cyber security solutions to Australian governments for over 18 years. Our sovereign clouds and cyber security services are trusted by over 42% of federal government agencies.

Macquarie Government is one of a few Secure Internet Gateway (SIG) providers that's connected to the Intra-Government Communications Network (ICON) and the NSW Government's GovDC data centre. We're built to comply with the Australian Signals Directorate's Top 35 cyber mitigation strategies.

Our Security Operations Centre (SOC) and 120+ government-cleared cloud and security specialists ensure our government customers' data and systems are safe.

Our new Canberra Data Centre Campus, Intellicentre 5 South Bunker will help meet the growing demands of the Australian Government as its cloud journey accelerates, while providing essential capability, jobs and investment in Australia's economy.

On completion, the Canberra Data Centre campus will provide a safe haven for Government agencies to secure data with absolute certainty over who controls the data, where it resides, and who has access.

That creates an inherent cyber security and privacy risk, as companies that belong to jurisdictions outside of Australia are subject to different rules than our own. Those rules can impact our data, privacy and sovereignty.

The importance of locality and ownership

New guidelines from the Australian Cyber Security Centre (ACSC) and Australian Signals Directorate (ASD) could open up new opportunities for Australian cloud providers to take a greater slice of the pie and develop sovereign skills and infrastructure, stimulating our digital economy in the process. Crucially, these guidelines highlight the importance of locality and ownership – where data is stored and who has access.

This is all about data sovereignty, responsibility and accountability, terms that have become more prevalent in the mainstream recently as the Government places a huge focus on cyber crime amid increasing tensions with China.

The challenge with "follow the sun" support

Up until now, the focus had been on customer data. The challenge of having customer data stored in Australia, but support being provided by the cloud provider offshore (typically referred to as 'follow the sun" support), is being called out as a cyber security issue.

This single piece of advice will help drive business to local providers with onshore engineers. With the Australian economy needing local jobs, this couldn't be more timely.

By working with locally owned, operated and staffed providers, the risks of hosting data in globalised cloud environments which may be subject to multiple overlapping or concurrent jurisdictions, removes a significant layer of risk.

Expanding government sovereignty strategy

The wider strategy the Government is pursuing is to protect Australia's privacy, most notably the $1.67 billion cyber strategy launched by the Prime Minister in August 2020.

This means certain data will be required to not only be hosted in Australia, but in an accredited Australian data centre, across Australian networks and only accessed by the Australian government and Australian service providers.

Local data, local opportunities

More than ever, we are looking at our economy, our skill sets, and how we're going to innovate our way out of this crisis.

Pictured above: Architectural 3D rendering of Intellicentre 5 Bunker, Canberra Data Centre Campus, due for completion in December 2020.

• Macquarie Data Centres

The excitement is **building** for our new data centre, **IC3.**

A world of difference for BPAY Group.

As a key enabler of the Australian economy, BPAY Group processes over $400 billion in online payments each year, and constantly invests in its platforms to deliver trusted and innovative services. As their internal data centres were approaching the end of usability, taking the leap into the cloud was the obvious step, and there were three primary concerns.

Security As a brand, BPAY has 98% name recognition and strong consumer trust, so compromising data integrity and security was not an option for BPAY Payments.

Capacity Launching the new service Osko – a peer-to-peer payment product that allows anyone to instantly and securely move funds between banks – was planned to more than double BPAY Group's transaction load.

Sustainability The potential to reduce inefficiencies, use of aging data centres and BPAY Group's overall energy consumption.

Enter Macquarie Cloud Services.

A Proof of Concept gave BPAY Group the reassurance that migration to the cloud would improve security, capacity and resilience with Macquarie taking on day-to-day infrastructure management.

International and local research consistently confirmed the benefits of cloud storage enabling confident conversations with BPAY Group's Financial Institution customer base ensuring support for the shift. BPAY Group partnered with Macquarie Cloud Services to implement a customised hybrid private and public solution.

Here's what happened.

- Full migration to Macquarie Secure Hybrid Data Centres over 36-months, in 2 phases.
- New purpose-built infrastructure delivering performance, automation and availability improvements.
- Cost efficiencies gained including reduced reinvestment in aging server and network infrastructure.
- Implementation of high-level security options and enough capacity to process well over 4 million transactions a day.
- Uplifted business continuity capability, enabling service resilience and ensuring customer confidence that BPAY Group's services will always 'just work'.

It's made a difference.

"Make A Difference" is a personal mantra of John Banfield, BPAY Group CEO. Moving to Macquarie made a difference in many ways.

Changing data storage to hybrid private and public cloud "has enabled agility" and enhanced customer value.

BPAY Group are continually optimising their existing services and creating new services to meet changing customer needs. Now BPAY Group have the potential to significantly grow both capacity and revenue "Macquarie get that," says John Banfield.

"BPAY Group has achieved a substantial reduction in our energy costs in three years from 2017 to 2020. Choosing to partner with Macquarie Cloud Services, migrating to private cloud and co-location services, has helped us to achieve such a large reduction."

Angela Donohoe, CIO, BPAY Group

• Macquarie Telecom

On the road to peak performance.

A bus management company finds their driving force in Macquarie Telecom's SD-WAN.

Situation

For the past 25 years, Australian-owned Transit Systems has collaborated with governments to operate public buses. They currently manage bus fleets throughout Australia, the United Kingdom and Singapore, moving 280 million people. Operating out of depots from multiple locations, their buses are coming and going 24/7, every day of the year. This means Transit Systems' data network needs to be up and running uninterrupted, at the speed required by all applications they use. Their system is absolutely reliant on IT technology, since if there is an outage, the business effectively comes to a halt. But their incumbent MPLS system wasn't cutting it. They were dealing with underperforming links, old technology, and limited in-house expertise which was unsustainable given so many staff and customers depended on them.

Solution

Transit Systems has used Macquarie Telecom's services in various capacities since 2001, and when we became aware of Transit Systems' network struggles with their incumbent supplier, Macquarie Telecom proposed an SD-WAN solution. This covered the company's need for rapid deployment. When Transit Systems has a site that needs to go live but can't immediately connect the carriage links, they can still bring up the site. SD-WAN also provides a number of additional services that Transit Systems can leverage, including efficient controls and response ability for their management team, as they can now quickly search for information and turn services on and off as required.

The need for speed.

For a non-stop operation like Transit Systems, uninterrupted network connectivity is critical. Minimum downtime is a key requirement for Transit Systems' operations, so at most sites they now have at least two links going back into the network (in some cases three, for additional redundancy.) In addition to the network improvement, Macquarie Telecom included network monitoring as part of the deal, as a backup to their backups. And the addition of the NBN connection is also a major improvement, since nbn™ offers reliability far superior to the copper service it replaced.

Results

All in all, Transit Systems' transition has been the stuff of dreams. The company's previous ADSL links were often problematic at certain sites, and after the switch to NBN, the difference was clearly improved. NBN also added increased bandwidth to the connected sites. And the transition to NBN has been seamless, with Macquarie Telecom provisioning it all in the backend so the network could remain operational in the process. With a more dependable system and less internal monitoring, Transit Systems could take resources and attention formerly devoted to network management and reallocate them to managing customer experience.

Under one digital roof.

The SD-WAN Orchestrator allows for a single interface to manage all sites, operated by Macquarie Telecom, unlike Transit Systems' previous, internally monitored conglomeration. This gives Transit Systems a convenient one-stop shop for all of their network montiroing needs, as well as alleviating a lot of their former operational stress.

"In other organisations, you need to deal with multiple telcos, which is a monumental challenge. Macquarie Telecom takes that all away and manages it behind the scenes, which is a huge benefit for us."

"In other organisations, you need to deal with multiple telcos, which is a monumental challenge" Transit Systems' CIO, explains. "Macquarie Telecom takes that all away and manages it behind the scenes, which is a huge benefit for us." The visibility of the performance of the applications across the SD-WAN network helps immensely in maintaining oversight and being prepared for anything that happens or could happen on the network. "Having a single point of contact for all services has been a huge improvement. We now have all our accounts under one pane of glass."

No stopping now.

With their data in good hands and their network expanding, Transit Systems has had time to lay out big goals for the next years of the company. In the near future, they plan to expand their services to both New Zealand and the USA, with more countries hopefully to follow. They're also working with a university to incorporate AI technology to further increase efficiency and communication. Because if there's anywhere Transit Systems excels, it's in moving forward.

TRANSIT SYSTEMS

• Macquarie Cloud Services

Best place to work

2020

Here at Macquarie Cloud Services we're powered by people. We continue to strive to have the most engaged workforce in Australia. In times of uncertainty, keeping our people engaged means achieving amazing customer service, awesome partnerships and a happy workplace. That's why we're delighted to announce that we've been ranked at #13 Best Places to Work in Australia, making it the second year in a row we're in the top 20. It's our team culture, employee empowerment and the ability to make a difference that allows our people to provide a level of customer service beyond our peers in the industry. The proof is in the pudding with an industry leading Net Promoter Score (NPS) which has previously been externally validated by Martiz CX. Customer service is in our DNA and we'll continue to empower our people to go above and beyond for customers. Let's see how we stack up in 2021!

We offer an amazing graduate program, for cloud services.

We provide university graduates with the training, experience and opportunities for an outstanding career. When joining our graduate program, expect a 10-year roadmap for each individual that includes industry recognised certifications, invaluable experience solving customer problems and a fantastic culture. Through these industry accreditations and our own mature training program, graduates learn about hosting and cloud computing, equipping them for multiple career paths in networking, computing, cloud computing, cyber security, or software development through DevOps and automation.

Recognition of our achievements.

We're proud of what we've achieved this financial year, being recognised across multiple areas of our business.

2020 Top 20 Best Places to Work
Macquarie Cloud Services

Dell Technologies President's Circle Award
Macquarie Cloud Services
(1 of 7 Globally)

Red Hat Awards ANZ 2019
Managed Services
Partner of the Year

Preferred Solution Provider in the Azure Marketplace
Macquarie Cloud Services

2020 ARN Innovation Awards 2020 Finalist
Winner to be announced

• Directors’ Report

The Directors present their report on the Group consisting of Macquarie Telecom Group Limited and the entities it controlled (the “Group”) during the year ended 30 June 2020.

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 on 2 April 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, 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 16 July 1992. He is responsible for overseeing the general management and strategic direction of the Group and is actively involved in the Group’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 2011, the Australian Telecommunication Users Group awarded David the Charles Todd Medal for leadership in the telecom industry. In 2018 at the 12th Annual ACOMM telecom industry awards, David received the highest award, Australian Communications Ambassador.

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. Anouk is a Non-Executive director of ASX-Listed Enero Group and is Chair of their Audit and Risk Management Committee. Anouk also holds a Non-Executive Director role with 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 holds an executive role as CEO of Scape and Urbanest, Australia’s largest owner and operator of purpose built student accommodation assets. 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 Macquarie Telecom Group’s Board in March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.



Aidan Tudehope
Managing Director, Government and Hosting Group

Aidan is co-founder of Macquarie Telecom Group and has been a director since 16 July 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 Group'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's data networking strategy. He holds a Bachelor of Commerce degree.

Bart Vogel
Non-Executive Director

Bart joined the board on 22 July 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 Invocare Ltd. He is also a Non-Executive director of 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 the Chartered Accountants Australia and New Zealand, and a Fellow of the Australian Institute of Company Directors.

Adelle Howse
Non-Executive Director

Adelle Howse joined the board on 29 August 2019 and is a member of the Audit and Risk Management Committee and the Governance, Remuneration and Nominations Committee. Adelle provides strategic consulting to organisations on market positioning, finance, M&A, operational performance improvement and transformation. She has worked at executive and board level in the corporate environment for more than 20 years in energy and resources, construction, infrastructure, data centres, telecommunication and property sectors. Adelle is an independent director and Chair of the Audit Committee for Design Studio Group (SGX) and is the Chair of the Australian Mathematical Sciences Institute. She holds an Executive MBA from IMD, a PhD in Mathematics from the University of Queensland and a graduate diploma in Applied Finance and Investment. Adelle is a graduate of the Australian Institute of Company Directors and has completed LED1 from the Singapore Institute of Directors.

Directors' Interest in the Company

The interests of the directors in the shares of the Group and related bodies corporate are disclosed in the Remuneration Report. There has been no change to director interests since year end 30 June 2020 and the date of this report 26 August 2020.

Remuneration report

The Remuneration Report is set out on pages 25 to 31 and forms part of the 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:

		Board Committee Meetings	
	Directors' Meetings	Audit and Risk Management	Corporate Governance, Nomination and Remuneration
Number of meetings held:	17	4	1
Number of meetings attended:			
Peter James	17	3	1
David Tudehope	17	N/A	1
Aidan Tudehope	17	N/A	N/A
Anouk Darling	17	4	1
Bart Vogel	17	4	1
Adelle Howse (1)	14	3	1

As at the date of this report, the Group 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, Peter James and Adelle Howse.

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

(1) Adelle Howse was appointed to the Board as a Non-Executive Director on 29 August 2019 and has attended all board and committee meetings in FY20 since that time.

Company Secretary

Michael Gold (General Counsel and Company Secretary)

Michael was appointed as Company Secretary on 1 June 2019. He is also the General Counsel for the Group and has been with the Group since 2018. He holds a Bachelor of Commerce and Bachelor of Laws degree (BCom/LLB), a Graduate Diploma of Applied Corporate Governance 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 Group's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Principal activities

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

Review and results of operations

The Group generated a net profit after tax of $13.5 million for the year ended 30 June 2020, compared to a net profit after tax of $16.5 million in the prior year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the full year was $65.2 million, representing an increase of $13.1 million (25%) compared to the prior year. This increase was partially driven by a change in accounting policy for AASB 16 Leases as per Note 7.4 (a)(i).

Conversion of EBITDA to operating cash flows generated total operating cash flows of $45.9 million during the year, including payment of income tax ($6.6 million).

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 $141.1 million in revenue and EBITDA of $20.2 million, representing an increase in EBITDA of 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 and providing a channel to cross sell Cloud services solutions.

The Hosting segment contributed $130.3 million in revenue, an increase of 18% compared to the prior year, and EBITDA of $45.0 million, an increase of 40%. 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 Group has generated operating cash flows of $45.9 million and held cash and cash equivalents of $37.9 million as at 30 June 2020, with $48.0 million of secured debt.

The Group employed 456 employees at 30 June 2020 (2019: 433).

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

Consolidated revenue			
(A$ million)	**Full Year 2020**	Full Year 2019	Full Year 2018[1]
Telecom	**141.1**	140.8	142.5
Hosting	130.3	110.6	95.6
Eliminate inter-segment revenue	(5.2)	(4.8)	(4.5)
Hosting Total	**125.1**	105.8	91.1
Total Consolidated Revenue	**266.2**	246.6	233.6

[1] Comparatives have been reclassified to compare to current year

EBITDA			
(A$ million)	**Full Year 2020**	Full Year 2019	Full Year 2018
Telecom	20.2	19.9	21.0
Hosting	45.0	32.2	26.8
Total EBITDA	**65.2**	52.1	47.8

Reconciliation of EBITDA to profit before income tax			
(A$ million)	**Full Year 2020**	Full Year 2019	Full Year 2018
Total EBITDA	65.2	52.1	47.8
Finance Income	0.1	0.3	0.4
Finance Costs	(4.5)	(0.4)	-
Depreciation and amortisation expense	(41.4)	(28.6)	(23.5)
Profit before income tax	**19.4**	23.4	24.7

Earnings per share

Earnings per share for profit attributable to the ordinary equity holders of the Group:

	2020 cents	2019 cents
Basic earnings per share	63.6	78.0
Diluted earnings per share	62.7	77.0

Dividends

Dividends paid to members during the financial year were:

	2020 $'000	2019 $'000
(i) Final dividend for the year ended 30 June 2019 nil cents per share (year ended 30 June 2018: 25 cents) fully franked based on tax paid at 30%.	-	5,274

No interim dividend for FY20 was declared and no final dividend for FY20 has been declared as a result of the Group continuing its phase of significant capital-intensive growth.

Likely developments and expected results

The Company will prioritise the execution of the following in fiscal year 2021:

- Maintaining industry leading Net Promoter Score greater than +70 across all business segments;
- There are numerous opportunities in the Telecom business as customers look to strengthen online footprints and their customer facing options through demand for new technologies, including business nbn™ and SD-WAN. These new technologies enable corporates to re-evaluate their telecommunications services and consider adopting new alternatives. Telecom will leverage its six-year wholesale supply agreement with NBN Co. to offer dedicated, Australian-based nbn™ service delivery, assurance and support for Macquarie customers;
- Hosting will focus on completing the development of Macquarie Intellicentre 3 (IC3) East, which expands the Group's data centre capacity from a total load of 10MW to 28MW. The campus is designed to meet the growing needs of global hyperscalers and cloud, enterprise and government customers. The Group expects to achieve practical completion for the first data hall in the new Intellicentre Campus with an opening day mechanical, electrical and plant (MEP) of 2.4MW. The planned IC5 North Bunker (Stage 1) development will increase the Canberra DC capacity to 2.5MW, providing Secure internet Gateway, Secure Cloud Exchange, 24/7 security monitoring and allow the Group to take advantage of continued government digitisation efforts and demand for colocation and managed IT services. In FY21, Macquarie Data Centres will be reported as a segment;
- As part of the 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, including as an exclusive provider of Azure services; the Group expects continued strong demand for data and cloud services to meet the needs of corporates and government for private cloud compute and storage, greater mobility, digital platforms and lower capital costs; and
- Leveraging the 42% of the Australian Government who trust Macquarie Government, the Group will further grow the 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 Group and the expected results of those operations in years after the current year would be likely to result in unreasonable prejudice to the Group. 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 2020. Performance has been resilient to the external business and economic pressures arising from the measures to control the COVID-19 pandemic and referred to in Note 1.3.

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 implemented comprehensive plans in response to COVID-19 to protect the health and wellbeing of staff, customers and suppliers discussed in note 1.3. The Group is not subject to any significant environmental regulations in respect of its operations.

Indemnification and insurance of directors and officers

During the year, the Group 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.*

Auditor's independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

Indemnification and insurance of auditors

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

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: $15,000 (2019: $147,463) as disclosed in Note 7.2.

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 Group under ASIC Legislative Instrument 2016/191. The Group is an entity to which the Instrument applies.

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 Group 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 Group 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 Group'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 Group.

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

The remuneration of Non-Executive directors for the period ending 30 June 2020 is detailed in the table on page 28 of this report.

Remuneration of Key Management Personnel and senior managers

Objective

The Group aims to reward KMP and senior managers with a level of remuneration commensurate with their position and responsibilities within the Group and to:

- Reward senior managers for Group, 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 Group; 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 an employment contract. Details of the service agreements are provided on page 27.

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 Group-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 Group. The fixed remuneration component of the key management personnel is detailed on pages 27 and 28.

Variable remuneration – Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Group'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 Group is reasonable in the circumstances.

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 Group, individual, business and personal objectives. All measures are classified under the following three categories:

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

The Group 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 Group is approved by the Corporate Governance, Nomination and Remuneration Committee or the Board. 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 Group'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.

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 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 which vary year to year.

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 Group 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 Group 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 Group 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 Group 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.

Remuneration report (cont'd)

Remuneration of Directors for the year ended 30 June 2020

Name and Position		Short Term		
		Salary and Fees[1]	Cash Bonus[2]	Non – Monetary Benefits[3]
P James – Chairman	**2020**	**200,000**	**-**	**-**
	2019	200,000	-	-
D Tudehope – Chief Executive	**2020**	**569,464**	**303,501**	**12,425**
	2019	548,154	284,644	11,945
A Tudehope – Managing Director, Hosting Group	**2020**	**569,417**	**297,167**	**6,370**
	2019	552,384	177,234	5,616
A Darling – Non-Executive Director	**2020**	**115,000**	**-**	**-**
	2019	115,000	-	-
B Vogel – Non-Executive Director	**2020**	**130,000**	**-**	**-**
	2019	130,000	-	-
A Howse – Non-Executive Director[6]	**2020**	**96,718**	**-**	**-**
	2019	-	-	-
Total Directors' Remuneration	**2020**	**1,680,599**	**600,218**	**18,795**
	2019	1,545,538	461,878	17,561

Remuneration of Other Key Management Personnel for the year ended 30 June 2020

Name and Position		Short Term		
		Salary and Fees[1]	Cash Bonus[2]	Non – Monetary Benefits[3]
L Clifton - Group Executive, Macquarie Telecom	**2020**	**382,052**	**99,440**	**5,728**
	2019	363,526	125,536	5,616
J Mystakidis – Group Executive, Macquarie Cloud Services	**2020**	**408,833**	**236,933**	**963**
	2019	395,780	187,467	5,616
D Hirst – Group Executive	**2020**	**353,217**	**227,690**	**5,897**
	2019	338,217	160,388	5,873
B Henley – Group Executive and Chief Commercial Officer Telecom[7]	**2020**	**331,261**	**94,341**	**5,728**
	2019	318,827	112,002	6,238
H Cox – Chief Financial Officer[8]	**2020**	**253,000**	**77,278**	**-**
	2019	-	-	-
Total Other Key Management Personnel Remuneration	**2020**	**1,728,363**	**735,682**	**18,316**
	2019	1,416,350	585,393	23,343

[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 "Cash bonus" includes amounts accrued and paid for the variable remuneration Short Term Incentive in the respective financial years.

[3] 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.

[4] The Group 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.

Post Employment	Long Term	Share Based Payments		
Superannuation	Long Service Leave	Equity Performance Rights[4]	Cash Performance Rights[5]	Total
19,000	**-**	**-**	**-**	**219,000**
19,000	-	-	-	219,000
21,003	**9,439**	**-**	**740,897**	**1,656,279**
20,531	8,780	-	360,246	1,234,300
21,003	**9,265**	**-**	**740,897**	**1,644,119**
20,531	8,824	-	360,246	1,124,835
10,925	**-**	**-**	**-**	**125,925**
10,925	-	-	-	125,925
12,350	**-**	**-**	**-**	**142,350**
12,350	-	-	-	142,350
9,188	**-**	**-**	**-**	**105,906**
-	-	-	-	-
93,469	**18,704**	-	**1,481,794**	**3,893,579**
83,337	17,604	-	720,492	2,846,410

Post Employment	Long Term	Share Based Payments		
Superannuation	Long Service Leave	Equity Performance Rights[4]	Cash Performance Rights[5]	Total
26,253	**6,360**	**97,986**	**-**	**617,819**
20,531	6,205	95,498	-	616,912
21,003	**6,771**	**97,986**	**-**	**772,489**
20,531	6,205	95,498	-	711,097
26,253	**6,194**	**92,904**	**-**	**712,155**
20,531	5,744	85,418	-	616,171
26,148	**5,549**	**87,823**	**-**	**550,850**
20,531	5,161	61,356	-	524,115
18,582	**3,985**	**14,419**	**-**	**367,264**
-	-	-	-	-
118,239	**28,859**	**391,118**	**-**	**3,020,577**
82,124	23,315	337,770	-	2,468,295

[5] The Group has issued performance rights that convert to cash to the Chief Executive and Managing Director, Hosting Group as part of their variable remuneration Long-Term Incentive. They are designed to encourage superior performance against targeted performance conditions over the vesting period.

[6] Adelle Howse was appointed to the Board as a Non-Executive Director on 29 August 2019.

[7] Chief Financial Officer until 26 February 2019.

[8] Chief Financial Officer from 23 August 2019.

Remuneration report (cont'd)

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

	Balance 1 July 2019	Performance rights issued	Vested & Exercised[1]	Holdings at 30 June 2020	Vested & Exercisable at 30 June 2020[1]
Executive Directors[2]					
David Tudehope	54,000	14,000	20,000	48,000	-
Aidan Tudehope	54,000	14,000	20,000	48,000	-
Other KMP[3]					
Luke Clifton	54,000	14,000	20,000	48,000	-
Brent Henley	34,000	14,000	-	48,000	-
David Hirst	44,000	14,000	10,000	48,000	-
James Mystakidis	74,000	14,000	40,000[4]	48,000	-
Helen Cox	-	14,000	-	14,000	-

[1] Represents 2017 performance rights vested on 31 December 2019.

[2] Cash settled

[3] Equity settled

[4] 20,000 performance rights vested on 31 December 2018 but were exercised in FY20.

Shareholdings of key management personnel

	Holdings at 1 July 2019	Received on Exercising of Performance Rights[1]	Disposal of shares	Holdings at 30 June 2020
Directors				
Peter James	19,105	-	-	19,105
David Tudehope[2]	323,824	-	-	323,824
Aidan Tudehope[2]	41	-	-	41
David & Aidan Tudehope	11,657,990	-	-	11,657,990
Anouk Darling	3,737	-	-	3,737
Bart Vogel	22,922	-	-	22,922
Adelle Howse	-	-	-	-
Other KMP				
Luke Clifton	66,667	20,854	47,521	40,000
Brent Henley	-	-	-	-
David Hirst[3]	44,667	10,427	25,094	30,000
James Mystakidis[3 4]	49,050	47,521	96,571	-
Helen Cox	-	-	-	-
Total	**12,188,003**	**78,802**	**169,186**	**12,097,619**

[1] Represents the number of shares issued for 2017 performance rights vested on 31 December 2019, 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.

[4] Includes 26,667 rights that vested in the prior year.

All shareholdings referred to in the previous table are ordinary shares in the Group.

Transactions with director-related entities

There were no other transactions with director-related entities for the year ended 30 June 2020.

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.

	EBITDA	NPAT	Share Price	KMP STI as % of NPAT
Year ended 30 June	(A$ million)	(A$ million)	ASX Code: MAQ	%
2020	**65.2**	**13.5**	**44.00**	**9.9%**
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%

Signed in accordance with a resolution of the directors:

David Tudehope
Chief Executive

Sydney, 26 August 2020

• Corporate Governance Statement

Introduction

The Board is responsible for the corporate governance practices of the Group. 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. The Group will adopt the 4th Edition February 2019 Amendments in the next financial year.

A copy of the Corporate Governance Statement, the Audit and Risk Management Committee Charter and the Group's Code of Conduct are available in the corporate governance section of the Group'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 Group'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 Group 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 Group'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 Group.

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[1]	125	27.0%
Number of females in people management positions[1]	21	28.0%
Number of females on the Macquarie Telecom Group Board[1]	2	33.3%

[1] Workplace Gender Equality Agency report, 31 July 2020

Macquarie Telecom Group 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:

Board and Executive	
Objective	**Outcome**
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 have increased our female representation on our Board from 20% to 33.3%.

General	
Objective	**Outcome**
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 2020.	Macquarie Telecom currently has a female population of 27.0%.
Aim to maintain proportion of female people managers of total at 30.0%.	The proportion of female people managers is currently 28.0%.

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 Group's Diversity Officer.

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 on 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 Group 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.

Introduction (cont'd)

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 Group 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 Group's expense.

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

The Group'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 Group'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 Group 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 Group requests the external auditor to attend the Annual General Meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

Principle 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 Group'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 Group 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 Group. 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 Group.

Security holders have the option to receive communications from, and send communications to, the Group 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 Group'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 Group's risk profile and the material business risks it faces. This strategy and policy are reviewed at least annually as part of the annual strategic planning and budgeting process and is formally adopted by the Board.

The Group 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 Group has established an internal business risk management function which reports to the Audit and Risk Management Committee on the adequacy of the Group's risk framework and changes in the Group's risk profile and material business risks;
- a standardised approach to risk assessment is used across the Group 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 Group has any material exposure to economic, environmental or social sustainability risks. The Group 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.

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 Group'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 Group 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 Group.

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 Group are included in Note 4.5 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 2020, 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.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
26 August 2020

• Contents

• Consolidated Statement of Comprehensive Income

Year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Revenue	2.2	266,206	246,566
Expenses	2.3	(242,360)	(223,086)
Operating profit		**23,846**	23,480
Finance income		148	329
Finance costs	2.3	(4,558)	(453)
Profit before income tax		**19,436**	23,356
Income tax expense	5.1	(5,894)	(6,877)
Profit after income tax for the year attributable to owners of the parent		**13,542**	16,479
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange difference on translation of foreign operations		(41)	(65)
Total comprehensive income for the year attributable to owners of the parent		**13,501**	16,414

	Notes	2020 cents	2019 cents
Earnings per share for profit attributable to the ordinary equity holders of the Group:			
Basic earnings per share	2.4(a)	**63.6**	78.0
Diluted earnings per share	2.4(b)	**62.7**	77.0

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

• Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	3.1	37,894	17,064
Trade and other receivables	3.2	19,718	11,644
Accrued income		9,907	8,807
Prepayments		12,675	7,599
Other current assets		1,672	1,246
Current tax receivable	5.2	20	236
Total current assets		**81,886**	46,596
Non-current assets			
Property, plant and equipment	3.4	112,618	80,730
Intangible assets	3.5	28,363	19,406
Right-of-use assets	3.6	76,072	-
Deferred tax asset	5.2	10,644	8,395
Prepayments		13,104	4,886
Other non-current assets		1,587	1,256
Total non-current assets		**242,388**	114,675
Total assets		**324,274**	161,271
Current liabilities			
Trade and other payables	3.3	54,230	34,120
Provisions	3.7	2,307	1,803
Lease liabilities	3.6	5,053	-
Other current liabilities	3.8	6,158	7,070
Total current liabilities		**67,748**	42,993
Non-current liabilities			
Trade and other payables	3.3	3,182	-
Provisions	3.7	1,435	1,323
Lease liabilities	3.6	70,722	-
Borrowings	4.1	48,000	-
Other non-current liabilities	3.8	11,046	10,242
Total non-current liabilities		**134,385**	11,565
Total liabilities		**202,133**	54,558
Net assets		**122,141**	106,711
Equity			
Contributed equity	4.3	43,933	43,707
Other equity	4.3	-	(87)
Reserves	4.4	4,118	2,543
Retained earnings		74,090	60,548
Total equity		**122,141**	106,711

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

• Consolidated Statement of Changes in Equity

As at 30 June 2020

	Notes	Contributed Equity $'000	Other Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2018		43,140	-	872	49,343	93,356
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	4.3(b)	567	(567)	-	-	-
Share based payment	4.4	-	-	2,216	-	2,216
Issue of treasury share to employees	4.3(c)	-	480	(480)	-	-
Total		567	(87)	1,736	(5,274)	(3,058)
At 30 June 2019		43,707	(87)	2,543	60,548	106,711
Balance at 1 July 2019		43,707	(87)	2,543	60,548	106,711
Profit for the year		-	-	-	13,542	13,542
Other comprehensive income		-	-	(41)	-	(41)
Total comprehensive income for the year		-	-	(41)	13,542	13,501
Dividends provided for or paid		-	-	-	-	-
Acquisition of treasury shares	4.3(b)	226	(226)	-	-	-
Share based payment	4.4	-	-	1,929	-	1,929
Issue of treasury share to employees	4.3(c)	-	313	(313)	-	-
Total		226	87	1,616	-	1,929
At 30 June 2020		43,933	-	4,118	74,090	122,141

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

• Consolidated Statement of Cash Flows

As at 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		281,114	270,675
Payments to suppliers and employees		(228,768)	(220,705)
Interest received		148	329
Income tax paid		(6,589)	(11,671)
Net cash flows from operating activities	3.1	**45,905**	38,628
Cash flows from investing activities			
Acquisition of non-current assets:			
Property, Plant & Equipment		(48,335)	(34,666)
Intangibles		(15,806)	(11,422)
Proceeds from sale of property, plant and equipment		-	273
Net cash flows from investing activities		**(64,141)**	(45,815)
Cash flows from financing activities			
Dividends paid on ordinary shares	4.2	-	(5,274)
Proceeds from borrowings		48,000	-
Principal elements of lease payments		(4,772)	-
Interest and other finance costs paid		(4,161)	(861)
Net cash flows from/(used) in financing activities		**39,067**	(6,135)
Net increase/(decrease) in cash and cash equivalents		**20,831**	(13,322)
Cash and cash equivalents at the beginning of the financial year		**17,064**	30,298
Effects of exchange rate changes on cash and cash equivalents		**(1)**	88
Cash and cash equivalents at the end of year	3.1	**37,894**	17,064

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

• Notes to the Consolidated Financial Statements

As at 30 June 2020

1. About this report

This section sets out the basis of preparation of the consolidated financial statements and provides corporate financial information.

1.1 Corporate information

The financial report of Macquarie Telecom Group Limited ("Macquarie Telecom", the "Group" or the "Company") for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of directors on 26 August 2020. The directors have the power to amend and reissue the financial statements.

Macquarie Telecom Group Limited is the head entity of a consolidated group comprising of controlled entities as detailed in Note 6.3. All subsidiaries are wholly and ultimately owned by the parent 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.

1.2 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 Group 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 6.1 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.

(iv) Principles of consolidation

The consolidated financial statements are those of the Group, 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.

(v) Significant accounting judgements & estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. The most critical to the financial statements are outlined as follows:

Revenue from contracts with customers	Note 2.2
Recoverable amount of non-current assets	Note 3.5
Lease terms	Note 3.6
Coronavirus (COVID-19) pandemic	Note 1.3

1.3 COVID-19 Impact

In March 2020, COVID-19, a new virus causing respiratory illness was declared a world-wide pandemic by the World Health Organisation. Unprecedented measures have been put in place by governments and institutions to slow the spread of the virus, which have significantly disrupted business and economic activity in Australia and globally. As an essential service, the Group has continued to operate with minimal disruption to its own operations and ensured business continuity for all customers. Demand for Hosting products has increased since early March. There are some changes in Telecom product mix with higher demand for data and mobile.

The Group successfully implemented comprehensive plans to protect the health and wellbeing of staff, customers and suppliers, through a combination of remote and segregated working operations, physical and mental well-being and support programs, and additional cleaning and sanitisation was implemented at all the Group's offices and sites.

For the Group, the on-going COVID-19 pandemic has not significantly increased the estimation uncertainty in the preparation of the Consolidated Financial Statements. A thorough consideration of the potential COVID-19 impacts on carrying values of assets and liabilities, contracts and potential liabilities has been made with no material impact to the financial statements.

Management have addressed the impact of COVID-19 on the business, specifically focusing on the areas of significant judgement and estimates. Recognising there is a wide range of possible scenarios and macroeconomic outcomes which may cause disruption to our customers and/or suppliers, we have conducted risk and budgetary analyses which represent reasonable and supportable forward-looking views as at the reporting date. Management will continue to monitor and assess the potential impacts of the pandemic and act to anticipate and mitigate those effects.

However, the situation is unprecedented and the Group will continue to pay close attention to the potential implications of the pandemic and the impact on operations, which may include disruptions to the supply chain, availability of employees and changes in customer demand.

Significant judgements and estimates as a result of COVID-19

Estimated credit losses (ECL) and recoverability of receivables

Giving consideration to best available information at the reporting date including our understanding of our business as a provider of essential services, macroeconomic factors, customer credit quality, any changes in credit recoveries at the reporting date, and improvements to debt recovery processes; the Group's ECL methodology, credit risk thresholds and definitions of default are materially consistent with prior periods.

Management has considered that the COVID-19 restrictions impact specific industries differently, and therefore recoverability of receivables will vary accordingly. Industry risk assessments have been applied to customer accounts receivable noting patterns of slower payments which may indicate higher risk to recovery of receivables. Independent industry reports provided guidance to apply specific loss rates to industries in which our customers operate.

Given industry guidance on the likelihood of slower payment patterns, a focus on customer accounts receivable processes and terms has resulted in improved credit recoveries during the financial year. There has been no material impact to recovery patterns, and any increases to provisions have been applied in accordance with generally acceptable accounting principles.

Non-financial assets

Following the global COVID-19 pandemic management has concluded that an indicator of impairment results due to the overall economic downturn. An impairment analysis was applied to model expected value-in-use scenarios for both the Telecom and Hosting business units. There was no impairment to PPE, intangibles or right-of-use assets. The Group has no indefinite life intangible assets or goodwill.

2. Group performance

This section sets out the results for the Group and the performance of each segment.

2.1 Segment information

	Telecom		Hosting		Consolidated	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Revenue						
External service revenue	140,473	138,456	125,051	105,588	265,524	244,044
Inter-segment revenue	-	-	5,177	4,807	5,177	4,807
Other revenue	589	2,356	93	166	682	2,522
Total segment revenue	**141,062**	140,812	**130,321**	110,561	**271,383**	251,373
Inter-segment elimination	-	-	(5,177)	(4,807)	(5,177)	(4,807)
Total consolidated revenue and other income	**141,062**	140,812	**125,144**	105,754	**266,206**	246,566
Results						
EBITDA[1]	20,199	19,915	45,028	32,165	65,227	52,080
Depreciation and amortisation	(15,321)	(11,249)	(26,060)	(17,351)	(41,381)	(28,600)
Segment results before interest and tax	**4,878**	8,666	**18,968**	14,814	**23,846**	23,480
Finance income					148	329
Finance costs					(4,558)	(453)
Group profit from ordinary activities before income tax expense					**19,436**	23,356
Income tax expense					(5,894)	(6,877)
Net profit					**13,542**	16,479
Acquisition of non-current assets						
Allocated acquisitions	22,776	13,941	49,525	28,774	72,301	42,715
Unallocated acquisitions	-	-	-	-	3,232	3,373
Total acquisition of non-current assets	**22,776**	13,941	**49,525**	28,774	**75,533**	46,088

[1] Refer to note 7.4(a)(i) for impact of the adoption of AASB 16 *Leases* by segment.

2. Group performance (cont'd)

Accounting policy

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.

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.

2.2 Revenue

	2020 $'000	2019 $'000
Revenue from contracts with customers	265,524	244,044
Other revenue	682	2,522
Total revenue and other revenue	**266,206**	246,566

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
2020				
Telecom	136,945	3,528	589	141,062
Hosting	125,051	-	93	125,144
	261,996	**3,528**	**682**	**266,206**
2019				
Telecom	135,831	2,625	2,356	140,812
Hosting	105,588	-	166	105,754
	241,419	**2,625**	**2,522**	**246,566**

Accounting policy

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

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	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. 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.
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 that is at a point in time) 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.

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 and 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 is 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 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 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 met, the Group determine an appropriate measure of progress based on the nature of its overall promise for the single performance obligation. When the 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.

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.

Management recognises that there are customer's businesses operating in industries adversely impacted by COVID-19. These industries and businesses have been identified and mitigating processes are in place to limit collection risk. Please refer to Note 1.3 for judgements and estimates over collection risk.

2. Group performance (cont'd)

Significant accounting judgements, estimates and assumptions

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.

2.3 Expenses

	2020 $'000	2019 $'000
Amortisation of non-current assets		
Intangibles	10,795	8,807
Depreciation of non-current assets		
Property, plant and equipment	23,897	19,793
Right-of-use Asset - Buildings	6,606	-
Right-of-use Asset – Plant and Equipment	83	-
Total depreciation and amortisation expense	**41,381**	**28,600**
Bad and doubtful debts expensed	110	300
Operating lease rental[1]	-	9,985
Low-value assets lease payments	1,900	-
Employment costs	82,082	72,824
Network and service delivery costs	85,819	80,652
Net foreign exchange losses	-	83
Other expenses	31,068	30,642
	200,979	**194,486**
Total expenses	**242,360**	**223,086**
Finance costs – interest expense	988	453
Finance costs – lease liabilities	3,570	-
Total finance costs	**4,558**	**453**

[1] Operating lease expenses are now recognised as depreciation of Right-of-use Assets.

2.4 Earnings per share

	2020 cents	2019 cents
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the Group	63.6	78.0
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the Group	62.7	77.0
(c) Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the Group used in calculating basic and diluted earnings per share	13,542	16,479

	2020 No. of shares	2019 No. of shares
(d) Weighted average number of ordinary shares used in calculating basic earnings per share		
Weighted average number of ordinary shares[1]	21,306,082	21,130,307
Effect of dilutive securities of share performance rights	302,678	263,996
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	21,608,760	21,394,303

[1] Excludes treasury shares

Accounting policy

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

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.

3. Operating assets and liabilities

This section provides information that relates to the short-term assets and liabilities that are used to support the operating liquidity of the Group. This section also describes information relating to other assets and liabilities that support the long-term growth of the business.

3.1 Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank	37,894	12,064
Short term deposits	-	5,000
	37,894	17,064

	2020 $'000	2019 $'000
(a) Reconciliation of profit after income tax expense to net cash inflow from operating activities		
Profit after income tax expense	13,542	16,479
Amortisation of non-current assets	10,795	8,807
Depreciation of non-current assets	23,897	19,793
Depreciation of right-of-use asset	6,689	-
Loss on sale of property, plant and equipment	-	7
Share based payment	468	546
Net foreign currency loss/(gain)	-	134
Finance costs	4,558	453
Changes in operating assets and liabilities		
(Increase)/decrease in trade and receivables	1,387	(4,820)
(Increase)/decrease in accrued income	(1,100)	(910)
(Increase)/decrease in prepayments	(13,290)	(5,002)
(Increase)/decrease in net deferred tax assets	(788)	(1,402)
(Increase)/decrease in other receivables	(10,218)	(447)
Increase/(Decrease) in trade and other payables	13,407	775
Increase/(Decrease) in current tax receivables	216	(3,446)
Increase in provisions	616	150
Increase in other liabilities	(4,274)	7,511
Net cash inflow from operating activities	45,905	38,628

	Borrowings $'000	Lease liability $'000	Total $'000
(b) Changes in liability from financing activities			
Balance at 30 June 2019	-	-	-
Adoption of leases	-	78,707	78,707
Net cash from/ (used in) financing activities	47,012	(7,945)	39,067
Acquisition of leases	-	1,443	1,443
Other interest charges	988	3,570	4,558
Balance at 30 June 2020	48,000	75,775	123,775

(c) Changes in liability from financing activities
Additions to the right-of-use asset of $76,072,000 and shares issued under the employee share scheme of $226,000 (2019: 567,000) are considered non-cash investing activities. There were no other non-cash investing or financing activities.

Accounting policy

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.

3.2 Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	10,541	11,340
Provision for expected credit loss	(1,248)	(442)
Provision for credit notes	(129)	(347)
Other receivables	10,554	1,093
	19,718	11,644

The net movement in provision for expected credit loss and credit notes was $1,377,000 (2019: ($789,000)).

3. Operating assets and liabilities (cont'd)

Accounting policy

Classification
The Group has classified its financial assets as measured at amortised cost given the objective is to hold the assets to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets comprise of cash and cash equivalents, trade and other receivables. Trade receivables 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 any significant financing components. Other receivables generally arise from transactions outside the usual operating activities of the group. No interest is charged. Collateral is not normally obtained. The current other receivables are due and payable within 12 months from the end of the reporting period.

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

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
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 *Financial Instruments*, 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 ECL, 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 2020 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 ECL and 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.

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 4.6 (b) for credit risk exposure.

3.3 Trade and other payables

	2020 $'000	2019 $'000
(a) Current		
Trade payables	34,981	15,500
Other payables and accruals	16,362	15,533
Employee entitlements – annual leave	2,887	3,087
	54,230	34,120
(b) Non-current		
Other payables and accruals	**3,182**	-

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

Liabilities for other trade 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 consolidated entity.

Terms and conditions relating to trade liabilities are normally settled on 30-60 day terms.

Accounting policy

Classification
Financial liabilities are classified and measured at amortised cost or Fair Value Through Profit or Loss (FVTPL) under AASB 9 *Financial Instruments*. Reclassification of financial liabilities is not permitted upon the adoption of this accounting standard. The Group's financial liabilities include payables and interest-bearing borrowings.

Recognition, initial and subsequent measurement
Financial liabilities are recognised on the date the obligation is entered into, initially at fair value and, in the case of interest-bearing loans, 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 Consolidated Statement of Comprehensive Income

Derecognition
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire and also 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 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.

Please refer to Note 3.7 for accounting policy for employee entitlements.

3. Operating assets and liabilities (cont'd)

3.4 Property, plant and equipment

	Leasehold Improvement $'000	Plant & Equipment $'000	Land & Buildings $'000	Total $'000
Year ended 30 June 2020				
Opening net book value	29,028	34,986	16,716	80,730
Additions[1]	9,717	44,686	1,378	55,781
Disposals	-	-	-	-
Depreciation expense	(2,892)	(20,064)	(937)	(23,893)
Closing net book value	**35,853**	**59,608**	**17,157**	**112,618**
At 30 June 2020				
Cost	47,765	260,281	24,269	332,315
Accumulated depreciation	(11,912)	(200,673)	(7,112)	(219,697)
Net book value	**35,853**	**59,608**	**17,157**	**112,618**
At 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**

[1] Additions include assets acquired on deferred payment terms

Accounting policy

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;

Asset Class	Asset Type	Useful Life
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

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 3.5 for the policy on impairment of non-financial assets.

3.5 Intangible assets

	Software $'000	Product Development $'000	Total $'000
Year ended 30 June 2020			
Opening net book value	10,043	9,363	19,406
Additions - internal development	1,564	10,823	12,387
Additions – acquired[1]	7,365	-	7,365
Disposals	-	-	-
Amortisation	(6,138)	(4,657)	(10,795)
Closing net book value	**12,834**	**15,529**	**28,263**
At 30 June 2020			
Cost	73,767	33,718	107,485
Accumulated amortisation	(60,933)	(18,189)	(79,122)
Net book value	**12,834**	**15,529**	**28,363**
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**

[1] Additions include assets acquired on deferred payment terms.

Accounting policy

Intangibles
Intangible assets 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.

3. Operating assets and liabilities (cont'd)

Amortisation is calculated on a straight-line basis on all intangibles commencing form 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
The Group makes a formal estimate of recoverable amount when there is an indication of impairment resulting from the Group's assessment. 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.

Significant accounting judgements, estimates and assumptions

Recoverable amount of non-current assets
Judgement is exercised over the Group's future sales order growth and pricing and the utilisation of data centre capacity, the 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.

3.6 Right-of-use assets and lease liabilities

Right-of-use assets	2020 $'000	2019 $'000
Land and buildings - right-of-use	82,002	-
Less: Accumulated depreciation	(6,606)	-
	75,396	-
Plant and equipment - right-of-use	759	-
Less: Accumulated depreciation	(83)	-
	676	-
Total Right-of-use assets	76,072	-

Additions to the right-of-use assets during the year were $5,299,411. Refer to Note 2.3 for depreciation recognised on right-of-use assets.

Refer to Note 7.4(a)(i) for impact for the adoption of AASB 16.

Lease Liabilities	2020 $'000	2019 $'000
(a) Current liabilities		
Lease Liabilities	5,053	-
(b) Non-current liabilities		
Lease Liabilities	70,722	-

Refer to Note 2.3 for expenses relating to low-value leases and finance costs relating to lease liabilities. The total cash outflow for leases recognised in lease liabilities in FY20 was $7,945,026.

Accounting policy

Right-of-use asset
A right-of-use asset is recognised at the commencement date of a lease and measured at cost, which comprises the initial amount of the lease liability, adjusted for lease payments made at or before the commencement date net of any lease incentives received, initial direct costs incurred, and an estimate of costs expected for restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

The Group leases land and buildings for its offices and data centres under agreements of between five to twenty years with, in some cases, options to extend for a further ten years. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases plant and equipment under agreements of between one to four years.

The Group also leases office equipment under agreements of one to two years. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Lease Liabilities
A lease liability is recognised at the commencement date of a lease, at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments are comprised of fixed payments less any lease incentives receivable, variable lease payments depending on indexes, reasonably certain purchase options and any anticipated termination penalties. Variable lease payments that do not depend on indexes are expensed in the period in which they are incurred.

The carrying amounts are remeasured if future lease payments change due to index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Lease terms
Judgement is exercised in determining whether there is reasonable certainty that an option to extend or terminate the lease will be exercised, when identifying the lease term. Factors considered at the lease commencement date include the importance of the asset to the Group's operations; comparison to prevailing market rates; incurrence of significant penalties and existence of significant leasehold improvements. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

3. Operating assets and liabilities (cont'd)

3.7 Provisions – employee benefits

	2020 $'000	2019 $'000
(a) Current liabilities		
Employee benefits - Long Service Leave	2,307	1,803
(b) Non-current liabilities		
Employee benefits – Long Service Leave	1,435	1,323
(c) A reconciliation of the movement in the provision balance are as follows:		
At 1 July	3,126	2,976
Net additional amounts provided	975	601
Amounts used during the period	(359)	(451)
At 30 June	**3,742**	3,126
(d) The aggregate employee benefits liability is comprised of:		
Accrued wages, salaries, annual leave and on costs	9,428	9,182
Provision – current	2,307	1,803
Provision – non-current	1,435	1,323
	13,170	12,308

Accounting policy

Short term obligations
Liabilities for annual leave are expected to be settled within 12 months after 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.

Long-term 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 reporting period. These obligations are therefore measured as the present value of expected future payments to be made, discounted using market yields of high-quality corporate bonds with terms that match the estimated future cash outflows. Consideration is given to expected future salary levels and periods of service.

3.8 Other liabilities

	2020 $'000	2019 $'000
(a) Current		
Lease incentive[1]	-	267
Contract liability	6,158	6,803
	6,158	7,070
(b) Non-current		
Lease incentive[1]	-	1,871
Contract liability	6,880	8,371
Make good provision	4,166	-
	11,046	10,242

[1] Lease incentives are now recognised as part of the lease liabilities in Note 3.6.

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.

	2020 $'000	2019 $'000
Opening balance of contract liabilities as at 1 July	15,174	7,107
Revenue recognised that was included in the contract liability balance at 1 July	(6,743)	(4,021)
Net additions during the year	4,607	12,088
Ending balance of contract liabilities as at 30 June	**13,038**	15,174

Accounting policy

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.

4. Capital structure and risk management

This section sets out information about the policies and procedures adhered to in order to manage the capital structure and the financial risks that the Group is exposed to.

4.1 Borrowings

	2020 $'000	2019 $'000
Bank loans - secured	48,000	-
	48,000	-

The bank loans are secured against all the assets and undertakings of Macquarie Telecom Group Limited, Macquarie Telecom Pty Limited and Macquarie Data Centres Pty Ltd. This security is first ranking.

Loan covenants
The Group has complied with the financial covenants of its debt facilities during the 2020 financial year (2019: complied).

Financing arrangements
The Group has bank loans of $48,000,000 (2019: $nil). As at 30 June 2020, $92,000,000 (2019: $100,000,000) was available but unused at the reporting date.

The Group has bank guarantees of $6,437,869 (2019: $5,352,000). As at 30 June 2020, $5,562,131 (2019: $148,000) was available but unused at the reporting date.

Accounting policy
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Borrowing costs are expensed in the period in which they are incurred.

4.2 Dividends

	2020 $'000	2019 $'000
(a) Dividends paid during the reporting period		
25 cents per share final dividend for the year ended 30 June 2019 fully franked based on tax paid at 30%	-	5,274
	-	5,274

There was no interim dividend announced or paid for the year ended 30 June 2020.

	2020 $'000	2019 $'000
(b) Franking account balance		
The amount of franking credits available for the subsequent financial years based on a tax rate of 30% (2019: 30%)	**24,119**	17,531

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.

4.3 Contributed and other equity

	2020 $'000	2019 $'000
(a) Share capital		
Ordinary shares authorised and fully paid	43,933	43,707

	2020 Number	2020 $'000	2019 Number	2019 $'000
(b) Movements in shares on issue				
Balance at beginning of year	21,271,123	43,707	21,095,121	43,140
Conversion of performance rights	-	-	-	-
Employee share scheme issued	68,818	226	176,002	567
Balance at end of the year	**21,339,941**	**43,933**	21,271,123	43,707

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.

	2020 Number	2020 $'000	2019 Number	2019 $'000
(c) Other equity				
Balance at beginning of year	(26,667)	(87)	-	-
Issuance of shares to the Trust	(68,818)	(226)	(176,002)	(567)
Issue of shares under the LTI scheme	95,485	313	149,335	480
Balance at end of the year[1]	-	-	(26,667)	(87)

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

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.

Accounting policy

Issued capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Where any Group purchases the Company's equity instruments, 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.

Capital risk management
The Group's objectives 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.

4. Capital structure and risk management (cont'd)

4.4 Reserves and Retained Earnings

	2020 $'000	2019 $'000
(a) Reserves		
Foreign currency translation reserve	(248)	(207)
Share based payment reserve	4,366	2,750
	4,118	2,543
(b) Movements in reserves		
(i) Foreign currency translation reserve:		
Balance at beginning of year	(207)	(142)
Loss on translation of foreign controlled entity	(41)	(65)
Balance at end of year	**(248)**	(207)
(ii) Share based payment reserve:		
Balance at beginning of year	2,750	1,014
Share based payments expense	468	546
Deferred tax movements	1,240	793
Current income tax	221	877
Issue of treasury shares to employees	(313)	(480)
Balance at end of year	**4,366**	2,750
(c) Retained earnings:		
Balance at beginning of year	60,548	49,343
Net profit for the year	13,542	16,479
Total available for appropriation	74,090	65,822
Dividends paid or provided for	-	(5,274)
Balance at end of year	**74,090**	60,548

Accounting policy

Foreign currency translation
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 Group's functional and presentation currency.

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.

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 at the closing rate at the date of the balance sheet for assets and liabilities and at the monthly average exchange rates for income and expenses.

Exchange differences arising on translation of foreign subsidiaries are recognised in other comprehensive income and foreign translation reserve.

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 described in Note 4.5.

4.5 Share based payments

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

On 13 December 2019, the Group granted 142,000 equity and cash settled share performance rights (2019: 119,000) which have a vesting date of 1 March 2023, to executives and senior managers as part of their long-term incentives. 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 the 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 $6.59 and Tranche 2 was $5.77 equating to a total of $858,152. Performance rights totalling $1,157,680 vested on 31 December 2019, resulting in the issue of 68,818 shares from equity-settled rights based upon overachievement of the target as per the plan. An additional 40,000 performance rights vested were cash-settled.

The total number of outstanding performance rights at 30 June 2020 is 392,000 (2019: 435,000) valued at $3,775,885 (2019: $2,877,777) as measured at their grant dates, amortised over the period to the vesting dates. The amount of performance rights amortisation expense for the period was $1,949,525 (2019: $1,266,492), $1,481,794 for cash settled and $467,731 for equity settled (2019: $720,492 cash settled, and $546,000 equity settled). The liability recognised at year end for the cash settled transactions is $1,195,586 (2019: $838,398).

Initial grant date	Vesting date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number
Year ended 30 June 2020						
27 Nov 2015	31 Dec 2018	20,000	-	(20,000)	-	-
12 Aug 2016	31 Dec 2019	122,000	-	(106,000)	(16,000)	-
21 Dec 2017	31 Dec 2020	174,000	-	-	(16,000)	158,000
30 Oct 2018	31 Dec 2021	119,000	-	-	(19,000)	100,000
13 Dec 2019	1 Mar 2023	-	142,000	-	(8,000)	134,000
		435,000	**142,000**	**(126,000)**	**(59,000)**	**392,000**
Year ended 30 June 2019						
27 Nov 2015	31 Dec 2018[1]	132,000	-	(112,000)	-	20,000
12 Aug 2016	31 Dec 2019	132,000	-	-	(10,000)	122,000
21 Dec 2017	31 Dec 2020	186,000	-	-	(12,000)	174,000
30 Oct 2018	31 Dec 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.

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

Initial grant date	Vesting date	Performance conditions met	
12th August 2016	31st December 2019	Tranche 1 - 96%	Tranche 2 - 106%
21st December 2017	31st December 2020	Tranche 1 - 105%	Tranche 2 - 150%
30th October 2018	31st December 2021	Tranche 1 - 100 %	Tranche 2 - N/A
13th December 2019	1st March 2023	Tranche 1 - N/A	Tranche 2 - N/A

Accounting policy

The cash-settled performance rights are measured initially using the Monte Carlo simulation model at grant date. They are remeasured at the end of each reporting period. The cost of the equity-settled performance rights with employees is measured at the fair value of the instruments at grant date. The fair value is determined using the Monte Carlo Simulation model for those options subject to performance hurdles.

The cost of equity-settled performance rights 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 fair value at grant date. No expense is recognised for awards that do not vest based on non-market conditions.

4.6 Financial risk management

Objectives and policies

The Group's principal financial instruments, other than derivatives, are comprised of cash, short-term deposits and borrowings. 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 Group's financial instruments are market risk, credit risk and liquidity risk. The Board reviews and agrees policies from managing each of these risks which 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. The Group minimises the volatility of foreign exchange rates by locking in foreign exchange rates for payment of invoices. The Group's exposure to foreign currency risk is expressed in Australian dollars at the operating date was as follows:

	2020 AUD equivalent $'000			2019 AUD equivalent $'000		
	USD	**SGD**	**NZD**	USD	SGD	NZD
Cash and cash equivalents	**-**	**11**	**-**	1,827	11	-
Trade and other payables	**979**	**-**	**67**	96	-	35

Based on the financial instruments held at 30 June 2020, had the Australian dollar weakened/strengthened by 10% each of the denominated currencies above with all other variables held constant, the Group's post-tax profit would have been $136,000 higher/$167,000 lower (2019: $190,000 higher/$155,000 lower) as a result of foreign exchange gains/losses.

(ii) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. The Group also has cash at bank at variable rates.

The Group's borrowings outstanding, totalling $48,000,000 (2019: $nil), are principal and interest payment loans. If interest rates had changed by + / - 10% from year end rates with all other variables held constant, post-tax profit would have been $99,987 higher/lower (2019: $nil) as a result of higher/lower interest expense from these borrowings.

(iii) Other market risk

The Group does not carry any other market risk.

(iv) Cash flow and fair value interest rate risk

			Financial assets			Financial liabilities			
		$'000	Cash	Trade and other receivables	Total financial assets	Payables	Lease Liabilities	Borrowings[1]	Total financial liabilities
Floating interest rate		**2020**	**37,883**	**-**	**37,883**	**-**	**-**	**48,000**	**48,000**
		2019	12,053	-	12,053	-	-	-	-
Fixed interest rate maturing in	1 year or less	**2020**	**-**	**-**	**-**	**-**	**5,053**	**-**	**5,053**
		2019	5,000	-	5,000	-	-	-	-
	Over 1 to 2 years	**2020**	**-**	**-**	**-**	**-**	**4,070**	**-**	**4,070**
		2019	-	-	-	-	-	-	-
	More than 2 years	**2020**	**-**	**-**	**-**	**-**	**66,652**	**-**	**66,652**
		2019	-	-	-	-	-	-	-
Non-interest bearing		**2020**	**11**	**19,718**	**19,729**	**54,525**	**-**	**-**	**54,525**
		2019	11	11,644	11,655	34,120	-	-	34,120
Total as per the Balance Sheet		**2020**	**37,894**	**19,718**	**57,612**	**54,525**	**75,775**	**48,000**	**178,300**
		2019	17,064	11,644	28,708	34,120	-	-	34,120
Weighted average effective interest rate		2020 % pa	0.7	-		-	2.72 – 4.86	2.1	
		2019 % pa	1.10	-		-	-	-	

[1] Weighted average effective interest rate does not include other costs associated with the debt facility.

(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 Group, 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 4.6(a)(iv).

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 Financial Instruments, the identified impairment loss was immaterial. Refer to Note 3.5 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.

A discussion of the impact of COVID-19 on recoverability is contained in Note 1.3.

4. Capital structure and risk management (cont'd)

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 2020 and 30 June 2019 was determined as follows for trade receivables:

	Current[1] $'000	15 - 30 days $'000	31- 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
30 June 2020						
Expected loss rate	2%	10%	20%	25%	75%	
Gross carrying amount – trade receivables	5,698	3,058	1,017	299	469	10,541
Gross carrying amount – contract assets	9,907	-	-	-	-	9,907
Loss Allowance	**312**	**306**	**203**	**75**	**352**	**1,248**
30 June 2019						
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.

(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.

Maturities of financial liabilities	Weighted average interest rate %	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total contractual cash flow $'000
At 30 June 2020						
Non-interest bearing	-	51,344	-	3,181	-	54,525
Fixed rate						
Lease Liability	2.72% - 4.86%	4,074	4,042	7,243	102,193[1]	117,552
Variable						
Borrowings	2.1%[2]	489	489	35,619	13,377	49,974
		55,907	**4,531**	**46,043**	**115,570**	**222,051**
At 30 June 2019						
Non-interest bearing		34,120	-	-	-	34,120
Fixed rate		-	-	-	-	-
		34,120	**-**	**-**	**-**	**34,120**

[1] Contractual cashflows over 2 years includes options on lease terms that are reasonably certain but yet to be exercised.

[2] Weighted average effective interest rate does not include other costs associated with the debt facility.

5. Taxation

This section provides information on the tax position for the Group.

5.1 Income tax expense

	2020 $'000	2019 $'000
Current tax	7,210	8,279
Deferred tax	(1,017)	(1,397)
Prior year	(299)	(5)
Total income tax expense	**5,894**	**6,877**
Income tax expense is attributable to:		
Profit from continuing operations	**5,894**	6,877
Deferred income tax (credit)/expense included in income tax expense comprises:		
Increase in deferred tax assets[1]	(25,088)	(922)
Increase/(decrease) in deferred tax liabilities[1]	24,071	(480)
Net increase in deferred tax assets	**(1,017)**	(1,402)
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**19,436**	23,356
Prima facie tax at the Australian tax rate of 30% (2019: 30%)	5,831	7,007
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	(2)	10
Research and development incentive	(12)	(42)
Adjustments to tax in respect of prior years	(299)	(5)
Other	376	(93)
Income tax expense	**5,894**	6,877
Effective tax rate	**30%**	29%

[1] Increase in deferred tax assets and deferred tax liabilities is due to temporary differences arising from the initial recognition of right-of-use assets and lease liabilities under AASB 16.

5. Taxation (cont'd)

5.2 Current/deferred tax assets and liabilities

	2020 $'000	2019 $'000
Current tax receivable		
Current tax receivable	**20**	236
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for accounting purposes	1,180	3,800
Employee benefits	4,717	3,103
Accrued expenses	7,132	2,928
Provisions for impaired receivables and credit notes	413	237
Lease liabilities	22,733	-
Other assets	418	205
Total deferred tax assets	36,593	10,273
Set-off of deferred tax liabilities pursuant to set-off provisions	(25,949)	(1,878)
Net deferred tax assets	**10,644**	8,395
Deferred tax assets expected to be recovered within 12 months	8,747	5,080
Deferred tax assets expected to be recovered after more than 12 months	27,846	5,193
Total deferred tax assets	**36,593**	10,273

Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Depreciation due to timing differences for accounting purposes	2,104	1,088
Right of Use Assets	22,822	-
Other receivables	883	738
Prepayments	140	52
Total deferred tax liabilities	**25,949**	1,878
Set-off of deferred tax liabilities pursuant to set-off provisions	**(25,949)**	(1,878)
Net deferred tax liabilities	**-**	-
Deferred tax liabilities expected to be recovered within 12 months	4,174	889
Deferred tax liabilities expected to be recovered after more than 12 months	21,775	989
Total deferred tax liabilities	**25,949**	1,878

Accounting policy

Income taxes
The income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Management periodically evaluate tax regulations that are subject to interpretation and establish provisions where appropriate on amounts expected to be paid to 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 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 consolidated group
Macquarie Telecom Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation 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, the head entity 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 which 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*.

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.

6. Group structure

This section outlines the group structure and provides information about the parent entity and related parties.

6.1 Parent entity information

(a) Summary financial information

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

	2020 $'000	2019 $'000
Statement of financial position		
Current Assets	-	-
Total Assets	100,881	100,843
Current liabilities	8,844	9,172
Total liabilities	8,844	9,172
Net assets	92,037	91,671
Contributed equity	43,932	43,707
Reserves – Share based payment	4,612	3,206
Retained earnings	43,493	44,758
Equity	92,037	91,671
Loss for the year	**(1,265)**	(820)
Total comprehensive loss	**(1,265)**	(820)

(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 MCS. 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 and 28 April 2020 to include Macquarie Cloud Pty Limited and Macquarie Data Centres Pty Limited respectively and as such, both entities entered the Closed Group on their respective dates.

(c) Contingent liabilities of the parent entity

The Company has guaranteed MT's performance, including payments owned, 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 2020 and 30 June 2019.

(e) Going concern basis of accounting

Macquarie Telecom Group Limited (the "Company") has a current asset deficit of $8.8 million at the end of the financial year (2019: $(9.2) million (deficit)). 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 related parties of $8.8 million, which the Company can control the timing of the settlement; and
- 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.

6.2 Related party transactions

Key Management Personnel compensation	2020 $	2019 $
Short-term employee benefits	4,781,973	4,050,063
Post-employment benefits	211,708	165,461
Long-term benefits	47,563	40,919
Share-based payments	1,872,912	1,058,262
	6,914,156	5,314,705

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

6.3 Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following 100% owned subsidiaries in accordance with the accounting policy described in note 1.2:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2020 %	2019 %
Macquarie Telecom Pty Limited[1]	Australia	100.00	100.00
Macquarie Hosting Pty Limited	Australia	100.00	100.00
Macquarie Telecom Carrier Services Pty Limited	Australia	100.00	100.00
Macquarie Hosting (Singapore) Pte Limited	Singapore	100.00	100.00
Macquarie Cloud Pty Limited	Australia	100.00	100.00
Macquarie Data Centres Pty Limited	Australia	100.00	100.00

[1] Macquarie Data Centres Pty Limited is 100% owned subsidiary of Macquarie Telecom Pty Limited.

7. Other

This section details other information and disclosures not included in the other sections but required to comply with relevant Australian accounting standards and other regulatory bodies.

7.1 Commitments

	2020 $'000	2019 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at reporting date but not recognised as liabilities is as follows:		
Not later than one year		
Property, plant and equipment	61,248	8,329
Software	980	666
	62,228	**8,995**
(b) Other expenditure commitments		
The Group has other expenditure commitments at the reporting date relating to support and maintenance costs:		
Not later than one year	20,680	2,952
Later than one year and not later than five years	7,945	-
	28,625	2,952
(c) Lease commitments		
There are no lease commitment disclosures in the current year due to the adoption of AASB 16.		
Not later than one year	-	9,555
Later than one year and not later than five years	-	23,754
Later than one year and not later than five years	-	45,952
	-	79,261

7.2 Auditor's remuneration

The auditor of Macquarie Telecom Group is PricewaterhouseCoopers.

	2020 $	2019 $
Amounts received or due and receivable by the auditor of Macquarie Telecom Group for:		
An audit or review of the financial report of the Group and any other entity in the Group	259,200	255,000
Other services in relation to the Group and any other entity in the Group	15,000	147,463
	274,200	402,463

7.3 Events after the balance sheet 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.

7.4 Other significant accounting policies

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

(i) AASB 16 *Leases*

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees, eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

The Group has applied the modified retrospective approach and has not restated comparative amounts for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(i) *Practical expedients applied*

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation for Determining whether an *Arrangement contains a Lease*.

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

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 2.72% and 4.86%, depending on the term of the lease.

There were no onerous lease contracts that required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	$'000
Right-of-use assets	77,462
Other current assets	(498)
Deferred rent	(2,143)
Lease liabilities	78,707
Retained Earnings	-

7. Other (cont'd)

Operating lease commitments at 30 June 2019 of $79,261,000 are reduced by CPI, low value leases and other adjustments for lease payments by $10,891,000 to $68,370,000. The value of optional renewal terms of $55,500,000 are included, and then adjusted by $45,163,000 for the effect of discounting the fixed and renewal term payments. This results in lease liabilities under AASB 16 at 1 July 2019 of $78,707,000.

(iii) *Impact on segment disclosures and earnings per share*

Adjusted EBITDA increased as a result of the change in accounting policy.

	$'000
Telecom	1,532
Hosting	6,428
Group	7,974

Earnings per share decreased by 8.4c per share for the twelve months to 30 June 2020 as a result of the adoption of AASB 16.

(ii) Interpretation 23 *Uncertainty over Income Tax Treatments (IFRIC 23)*

The Interpretation requires the Group to consider uncertain tax treatments individually or collectively, if it is probable that the tax authorities will accept the uncertain tax treatment, and if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value. This measurement adopted assumes that the tax authority will have a right to examine and have full knowledge of all related information when making those examinations.

The Group elected to apply IFRIC 23 retrospectively from 1 July 2019. There was no impact from the adoption of IFRIC 23.

(b) New and amended accounting standards not yet effective

Certain new accounting standards and amendments have been published that are not mandatory for 30 June 2020 reporting periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The Group expects there to be no material impact from the adoption of these new and amended accounting standards not yet effective.

(c) Other accounting policies

Contract assets
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.

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

Make good provision
A provision has been made for the present value of anticipated costs for future restoration of leased land and buildings. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of lease end dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

• 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 39 to 74 are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 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 Group 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 accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2020.

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 6.1(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 1.2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

On behalf of the Board:

David Tudehope
Chief Executive

Sydney, 26 August 2020

• 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 2020 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 2020
- 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 (including Independence Standards)*** (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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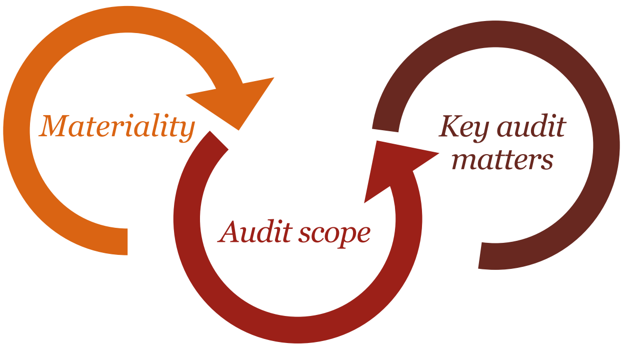
Our audit approach

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 $1,600,000, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation (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 a benchmark because, in our view, this is the key metric used to measure the performance of the Group.
- We utilised a 2.5% (of EBITDA) threshold 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.

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 Management Committee.

Key audit matter	How our audit addressed the key audit matter
Property, Plant and Equipment impairment assessment ***(Refer to note 3.4) [$112,618,000]***	
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. The Group's impairment assessment 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 • judgement over future cash flows in the impairment model due to the need to make estimates about future events and other circumstances	We evaluated the Group's cash flow forecasts and the process by which they were developed. We compared the Group's forecasts for the previous five financial years, including 2020, with the actual results for those years to assess the historical accuracy of forecasting for the Telecom and Hosting CGUs. We checked the forecasts used in each impairment model were consistent with the Board approved budget and that the determination of key assumptions were subject to oversight from the directors. We assessed the key assumptions and methodology used for the impairment assessment in particular, those key assumptions relating to the discount rate, future capital expenditure and revenue, expense and terminal growth rates. To do this we performed a number of procedures including the following: • tested the sensitivity of the calculations by varying key assumptions and applying other values within a reasonably possible range, for example by reducing certain growth assumptions • evaluated the appropriateness of the discount rate adopted, based on market data and industry research • evaluated the underlying cash flow assumptions in relation to revenue, expenses and EBITDA with reference to historical results, current year results, the impacts of COVID-19, and considered external industry information and market data • assessed whether the CGUs included assets, liabilities and cash flows directly attributable to each CGU and whether the allocation of corporate assets and overheads was reasonable • checked the calculations in the impairment model for mathematical accuracy. We also compared the market capitalisation of the Group to the Group's net assets as at 30 June 2020. We evaluated the adequacy of the disclosures made in the Financial Report in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Revenue from contracts with customers *(Refer to note 2.2) [$265,524,000]*	
The majority of revenue from contracts with customers 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 • evaluated the adequacy of the Group's revenue disclosures in light of the requirements of 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 2020, 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 25 to 31 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Macquarie Telecom Group Limited for the year ended 30 June 2020 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
PricewaterhouseCoopers

Sydney
26 August 2020

ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in the Annual Report as follows: The shareholder information set out below was applicable as at 10 September 2020.

A. Distribution of Equity Securities
Analysis of numbers of equity security holders by size of holding:

Fully Paid Ordinary Shares	Holders
1 - 1,000	1,566
1,001 - 5,000	278
5,001 - 10,000	39
10,001 - 100,000	51
100,001 and over	8
	1,952
The number of shareholders holding less than a marketable parcel of shares	88

B. Equity Security Holders
Twenty largest shareholders
The names of the 20 largest holders of quoted shares:

		Ordinary Shares	
		Number shares	% Held
1	Claiward Pty Limited	11,657,990	54.63
2	National Nominees Limited	2,145,083	10.05
3	J P Morgan Nominees Australia Limited	1,870,168	8.76
4	HSBC Custody Nominees (Australia) Limited	1,654,249	7.75
5	Mirrabooka Investments Limited	462,114	2.17
6	Ms Elizabeth Dibbs	319,699	1.50
7	Amcil Limited	218,675	1.03
8	Mr Richard Mews & Mrs Wee Khoon Mews <Mews Super Fund A/C>	106,776	0.50
9	Mr Neville Clyde Martin & Mrs Lauren Carol Martin <The Martin Superfund A/C>	96,000	0.45
10	Citicorp Nominees Pty Limited	87,057	0.41
11	Moat Investments Pty Ltd <Moat Investment A/C>	85,847	0.40
12	Maaku Pty Ltd <Hmha Family A/C>	85,000	0.40
13	Sanya Holdings Pty Ltd <The Biswas Family A/C>	64,180	0.30
14	Mrs Vicky Teoh	63,001	0.30
15	Mr Matthew James Wallace	55,000	0.26
16	Mr Denis Alan Aitken	50,000	0.23
17	Mast Financial Pty Ltd <A to Z Investment A/C>	49,125	0.23
18	Mast Capital Pty Ltd <Keyser Family A/C>	40,486	0.19
19	Luke Clifton	40,000	0.19
20	JT Management Co Pty Ltd <The James Super Fund A/C>	35,000	0.16

C. Substantial Shareholders
Substantial holders in the company are set out below:

		Ordinary Shares	
		Number shares	% Held
1	Claiward Pty Limited	11,657,990	54.63
2	National Nominees Limited	2,145,083	10.05
3	J P Morgan Nominees Australia Limited	1,870,168	8.76
4	HSBC Custody Nominees (Australia) Limited	1,654,249	7.75

D. Voting Rights
All ordinary shares carry one vote per share without restriction.

Macquarie Telecom Group

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Level 15, 2 Market St
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T 02 8221 7777

Sydney Telecom
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T 1800 004 943

Melbourne
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Melbourne VIC 3004
T 03 9206 6800

Brisbane
Level 12, 100 Creek St
Brisbane QLD 4000
T 1800 004 943

Perth
Level 10, 251 Adelaide Tce
Perth WA 6000
T 08 9229 0000

Canberra
Level 12, 221 London Circuit
Canberra ACT 2600
T 02 6103 3600

Intellicentres

Intellicentre 1
Level 16, 477 Pitt St
Sydney NSW 2000
T 1800 789 999

Intellicentre 2 & 3 East
Macquarie Park Data Centre Campus
17–23 Talavera Rd
Macquarie Park NSW 2113
T 02 8221 7256

Intellicentre 4 Bunker &
Intellicentre 5 South Bunker
Canberra Data Centre Campus
Fairbairn ACT

macquarietelecomgroup.com

macquarie
CLOUD SERVICES

macquarie
GOVERNMENT

macquarie
TELECOM

macquarie
DATA CENTRES