M2 GROUP LTD (ASX: MTU)

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

2014 AGM

Introduction

I noted at our last AGM that the 2013 financial year was one of transformation for M2 as we took on greater scale and expanded our product suite. Our transformation continued in the 2014 financial year, as we significantly progressed the integration of our largest acquisition to date - the Dodo business - whilst simultaneously delivering our best year of organic growth, in absolute terms, since listing as a public company. I'd like to take this opportunity to thank the M2 team for all of their contributions to the outstanding results of this past year, as truly it is their success.

This week we passed the milestone of 10 years as a listed company. I'll take just a few minutes to reflect on our progress over this time.

We began our listed life with a market capitalisation of just $14 million, while today we stand at approximately $1.4 billion.

At the time of listing, we had a team of approximately 50 team members, wholly located in our Melbourne headquarters. We now have more than 3000 team members across all sites in Australia, New Zealand and the Philippines.

Our Total Shareholder returns in this time have been more than $8 per share, or approximately 3500%.

Our thanks go to those foundation shareholders who have been with us on this journey, as well as those who have more recently taken the time to get to know and invest in our Company.

Whilst we are celebrating our achievements over 10 years, we are not resting on our laurels and will continue to work hard for the future success of the company.

Financial Results

On the back of the acquisitions completed in calendar year 2013, as well as organic growth in the period, M2 delivered an excellent set of financial results in FY14, in line with our guidance to the market.

We recorded:

- a 50% increase in Revenue, to more than $1 billion,
- an increase of 48% in EBITDA, to $160 million,
- an increase of 53% in NPAT, to $67 million,

and while doing so, increased free cash flow by 52%.

Maintaining tight control over capex, delivering on synergies from the acquired businesses and achieving a record level of new sales has enabled us to deliver an increase of 36% in earnings per share and a combined interim and final dividend of 26 cents per share, an increase of 30%.

This dividend is in line with our policy of payment of 70% of reported NPAT, totalling a return of almost $47 million to shareholders in the 2014 financial year.

Our strong operating results are also reflected in improvements in our balance sheet, with our net debt at approximately $254 million at 30 June 2014, representing 1.6x FY14 EBITDA.

Amended Facility Agreement

As the close of fiscal year 2014 took us closer to its term, I am pleased to announce today that M2 has entered into an agreement with its lenders to amend the terms of its syndicated facility agreement. You may recall that this facility was originally entered into in May 2013 primarily to fund the Dodo and Eftel acquisitions.

Benefits of the amended facility agreement include committed funding for more than 3 years, additional flexibility and the potential to expand the facilities for future acquisitions, ensuring that the agreement is appropriately aligned to M2's evolving business requirements.

While demand for participation well exceeded our requirements – by one and a half times - there is no increase in the amount borrowed under the agreement. The re-pricing achieved was consistent with market levels, positive for the Company and in line with our financial modelling and guidance expectations.

This amendment was completed with the support of our existing lenders and we also welcome two new lenders to the syndicate. I'd like to thank all lenders involved for their support.

Business activity

The year saw a hive of activity as we bedded down our most recent acquisitions, completing two business restructures in order to centralise our customer support and operational functions. These were difficult processes to complete and our focus was on communicating with our team and conducting the process with respect.

Following these restructures, our team has responded with a renewed clarity and focus and continued to perform as a sales and service engine for our customers. We have appointed a new HR Director, Melissa Fitzpatrick, to lead talent identification and leadership development within the business, as we recognise that our team is core to our continued success.

We continually work to further improve on our service delivery but I am pleased to report that over this time of integration and restructure, our customer satisfaction scores remained high.

A number of initiatives increased our sales in the period. As stated at the last AGM, our intention was to take full advantage of the strength of our brand suite to organically increase market share. Throughout the year, we increased our marketing investment in the Dodo, iPrimus and Commander brands, with targeted advertising containing a strong call to action.

We launched new products into the Commander Dealer channel and incentivised this important channel to take our NBN-ready products to Australian businesses. We launched market-leading offers for NBN and broadband. At the close of the period, we had 20 Dodo Connect Kiosks in shopping centres around Victoria, driving sales in broadband, fixed voice and energy.

Energy is a new and important business for M2, and one that has rightly been a point of focus for shareholders over the last 12 months.

Energy

Our rationale in taking on the energy business through the acquisition of Dodo was carefully considered, following thorough due diligence and then investigation following the acquisition. The energy product proved to provide a profitable business which was operated at an incremental cost to the existing telecommunications operations and which was managed in Australia by an experienced team. We were encouraged by the excellent pre-payment context of the Dodo energy business, which has a positive effect on our working capital.

We, as a Board, engaged third party consultants to fully understand the risk involved in taking on an energy business. We carefully reviewed the structure of the energy market in Australia as well of the structure of the energy business in Dodo.

We manage the electricity risk inherent within the business through hedging, using a combination of Over The Counter as well as base and peak hedges. Our hedging is monitored by a dedicated Board sub-committee of the Audit and Risk Committee. For those unfamiliar with the world of electricity hedging, we are not completely covered for all risk, as this would completely remove all margin and make the business unprofitable. However, we are hedged to a tolerable risk margin; with an acceptable level of earnings at risk balanced with an acceptable margin.

Remuneration

Over the course of FY13, M2 undertook a formal review of remuneration practices and increased engagement with stakeholders in order to make appropriate changes to our remuneration structure and policies, bringing us largely in line with our peers in the S&P/ASX200. At the same time, we increased our disclosure, giving more insight into Executive performance measures and outcomes. Pleasingly, we received a high level of support at the 2013 AGM, with 99.4% of votes in favour of adopting the remuneration report.

We have continued to engage with stakeholders and review our practices in FY14. Today we seek your approval for potential termination benefits to key management personnel. Detail of the possible cessation benefits and the way in which they would be calculated are set out in the Notice of Meeting, but I would like to explain the proposed changes to you today.

Shareholder approval is sought to permit the Company to enter into contracts with Key Management Personnel which would, in certain strict and clearly defined circumstances, allow a total termination payment in excess of 12 months fixed salary, through the award of pro-rata short and long term incentive payments, on top of the relevant contracted notice period. These circumstances would occur if the KMP contract is terminated for convenience or if a fundamental change in role occurs and the KMP elects to terminate the contract by the Company.

Specifically, the Board seeks discretion to award pro-rata STI and LTI payments to a terminated KMP, which when calculated and paid in conjunction with a notice period or time in lieu, may total more than one years' salary.

Where the Board deems fair and appropriate, a pro-rated portion of incentives which would be measured against set deliverables and hurdles may be paid, but only where those set deliverables and hurdles on comparable term have been achieved. The deliverables and hurdles against which performance is measured have been disclosed in the Remuneration Report. The permission sought is not with any intent of any other discretionary, time or severance based payment components.

We believe this structure incentivises our KMP to continue to perform in their role as the company grows and considers potential acquisitions.

Our aim is to remunerate fairly and responsibly and in a manner which is consistent with market practice and this change is in line with our peers at present. We are confident that our remuneration practices and policy are commensurate with our peers in the S&P/ASX200 and demonstrate our continued commitment to best practice corporate governance and reporting. Feedback from our largest retail and institutional investors as well as proxy advisors has been supportive of our practices and disclosure.

We will continue to review our remuneration practices whilst providing clarity for our valued Executives.

I would like to welcome our CEO Geoff Horth, to the lectern, to give some more insight into the year that has passed, as well as to speak on our strategy and activities for the current year.

Thank you.