

**MACQUARIE TELECOM GROUP LIMITED**

**ANNUAL GENERAL MEETING**

**FRIDAY, 21 NOVEMBER 2014**

**CHAIRMAN'S ADDRESS**

Ladies and Gentlemen, good morning. My name is Peter James, the Chairman of Macquarie Telecom Group Limited, and I would like to extend a warm welcome to shareholders at the Annual General Meeting for 2014.

**INTRODUCTION OF BOARD**

I would like to introduce you to the Board Members here with me this morning:

**David Tudehope** – David is co-founder and Chief Executive of Macquarie Telecom.

**Aidan Tudehope** – Aidan is co-founder of Macquarie Telecom and is the Managing Director of Macquarie Hosting.

**Anouk Darling** – Anouk joined the Board in March 2012 and is a member of the Audit and Risk Management Committee and the Corporate Governance, Nomination and Remuneration Committee.

**Bart Vogel** – Bart joined the Board in July this year and is the Chairman of the Audit and Risk Management Committee and a member of the Corporate Governance, Nomination and Remuneration Committee.

I would also like to introduce Michael Simmonds our Chief Financial Officer.

**BUSINESS OF MEETING**

I will now take a moment to outline this morning's agenda. First you will hear an address from me and then from David. We will give you a brief overview of Macquarie Telecom's recent performance and overall business strategy. Then we will proceed to the ordinary business of the meeting.

**ORDINARY BUSINESS**

We will consider three items of ordinary business:

1. The receipt of the financial statements and accompanying reports;
2. The adoption of the remuneration report for the year ended 30 June 2014; and
3. The election of Bart Vogel as a Director.

**OTHER BUSINESS**

There has been no notice of other business validly given by any member under the Corporations Act 2001.

**NOTICE OF MEETING**

The notice of meeting was sent to all members. Can I take it that the notice of meeting convening this meeting is to be taken as read? Thank you.

**MINUTES OF THE PREVIOUS GENERAL MEETING**

The minutes of the previous general meeting of members of the company, which was the Annual General Meeting held on 22 November 2013, have been approved by the Board and signed by the Chair. The original minutes are tabled and are available for inspection by any member wishing to see them.

And now to the Chairman's Address:-

Once again, thank you for coming today. This is my first AGM as Chairman and as such I'd like to thank my predecessor Robert Kaye for his many years of dedicated service as Macquarie Telecom's Chairman; also to John Palfreyman who retired as a Director in March this year. My best wishes to both Robert and John.

Macquarie Telecom's financial result for fiscal 2014 was a net loss after tax of \$0.8 million, down \$12.1 million on last year, on revenue of \$196.8 million. This result was attributable to the impact of a combination of different factors.

Firstly, the consequence of our capital investment is that the Company's financial results have had to absorb the increase in operating expenses for staff and maintenance costs required to run the new data centre facilities. As revenue grows the impact of these new costs will be absorbed and bottom line growth will materialise.

Secondly, following industry trends Macquarie Telecom's dedicated managed hosting customers are progressively moving from its higher cost dedicated managed server infrastructure offering to its lower cost Virtual Private Cloud offering, a virtualised shared server infrastructure environment. This technology migration provides our customers with leading edge technology, faster service and enhanced online management controls at a reduced cost.

The speed of this migration has been greater than anticipated over the past six months putting downward pressure on Hosting earnings for the half. Over time it is expected that the profit impact of the migration to the lower cost Virtual Private Cloud offering will be offset by the reduced capital cost base and operating expenses required to support these products.

Thirdly, Macquarie Telecom's Mobiles business has also experienced rapid customer migration away from its higher margin offerings to its lower margin platforms in order to take advantage of greater mobile network coverage and performance. The Company's multi carrier offering is now gaining traction with Mobile revenue growing in fiscal 2014. The company expects the shift in Mobile margins to stabilise in the first half of the 2015 fiscal year with the momentum in revenue growth set to continue.

Fourthly, as previously announced to the market the company has experienced longer than expected lead times realising the contracted revenue of its customers under the Australian Government's Lead Agency Secure Internet Gateway program.

With the substantial completion of the company's investment program, the Board and management are focused on increased business performance, in an environment of rigorous cost management.

Shortly I will hand over to Chief Executive Officer, David Tudehope. But before I hand over to David, I would like to briefly review the financials of the past year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$25.5 million for the full year ended 30 June 2014, a decrease of \$9.6 million on the previous corresponding period.

Macquarie Telecom's Hosting business revenue increased by 1.0% compared to the previous corresponding period, contributing \$61.1 million, or 31% of total service revenue. The Hosting business recorded EBITDA of \$5.9 million a decrease of \$5.3 million on the previous corresponding period.

Macquarie Telecom's Telco (Data, Voice and Mobile) delivered \$135.7 million in revenue and EBITDA of \$24.6 million, a decrease of \$4.7 million from the previous corresponding period.

Due to the net loss result for the fiscal year no final dividend was declared, with total dividend for fiscal 2014 being 12.0 cents per share fully franked.

Capital expenditure for fiscal 2014 was \$33.5 million, of which approximately \$12.9 million was spent on the expansion of Hosting capacity in Sydney and Canberra and continued investment in our cloud computing offerings, and approximately \$20.6 million on business as usual capital expenditure.

Macquarie Telecom exited the year with a robust balance sheet. We have a \$50 million working capital facility in place to support strategic growth opportunities, of which \$23.5 million was drawn as at 30 June 2014. Combined with strong operating cash flows and our recent investments, Macquarie Telecom is well positioned to take advantage of future organic and inorganic growth opportunities as they emerge.

## **Outlook**

Trading for the first four months of the year has been steady and EBITDA profit for the first half of fiscal 2015 is expected to be in the range of \$11m - \$13m. Maintenance capex is expected to be approximately \$8m for the first half of fiscal 2015.

To conclude ladies and gentlemen, Macquarie Telecom has a highly skilled and experienced Board and management team which is executing the company's strategy. We enter the new financial year confident that our significant investments in data centre capacity and Cloud Computing, provides the platform for growth in the future.

I will now hand over to David Tudehope, Chief Executive of Macquarie Telecom.