

# Growth + Prosperity

*M2 Telecommunications Group Limited  
Annual Report 2008*







# Annual Report 08

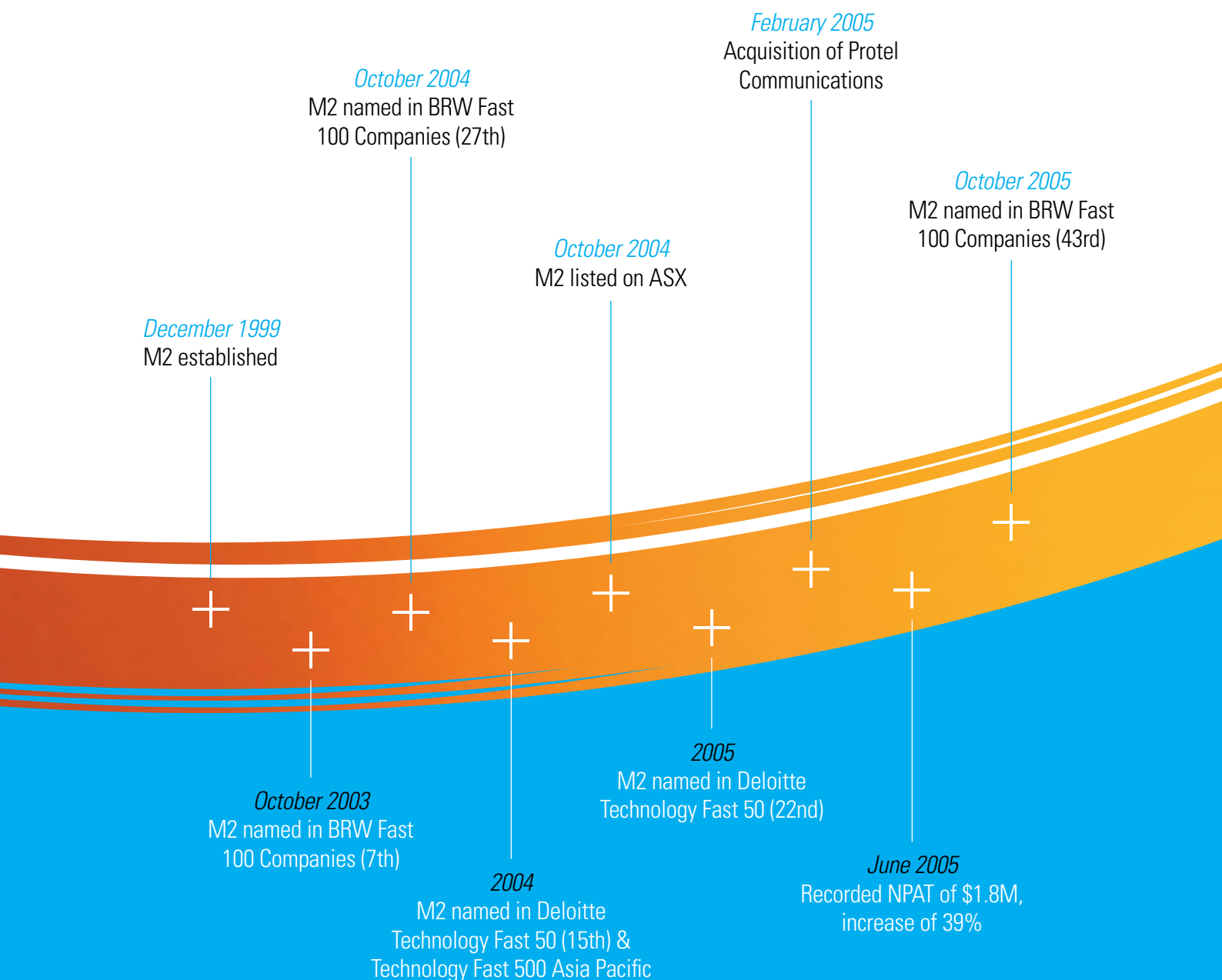
*M2 Telecommunications Group Limited*

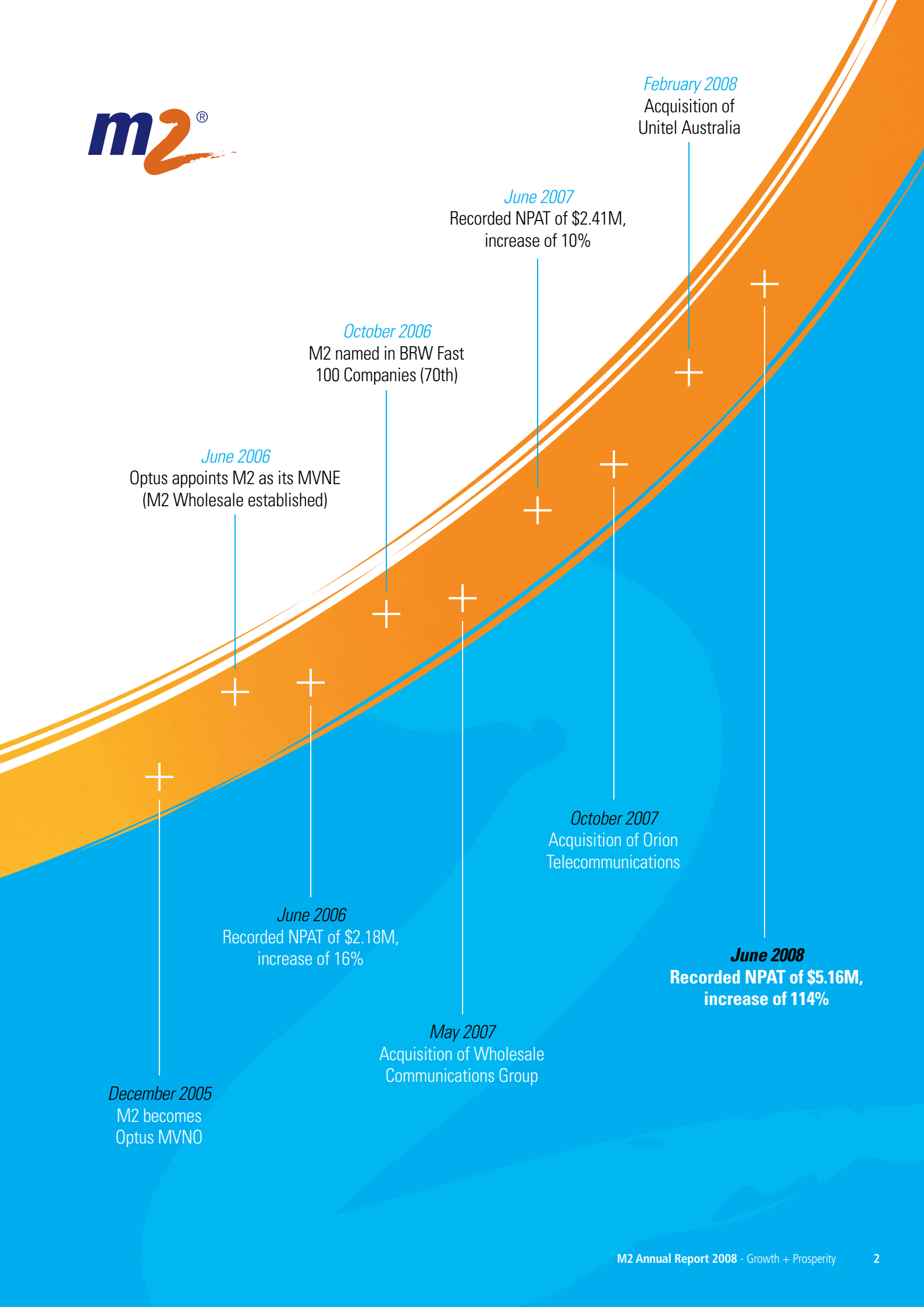
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# Growth + Prosperity

- > Since establishing in 1999, M2 has become the largest non-infrastructure telco in Australia.
- > Coupled with organic growth and selective acquisitions, M2 has demonstrated seven consecutive years of both revenue growth and bottom line profitability.





*February 2008*  
Acquisition of  
Unitel Australia

*June 2007*  
Recorded NPAT of \$2.41M,  
increase of 10%

*October 2006*  
M2 named in BRW Fast  
100 Companies (70th)

*June 2006*  
Optus appoints M2 as its MVNE  
(M2 Wholesale established)

*June 2006*  
Recorded NPAT of \$2.18M,  
increase of 16%

*October 2007*  
Acquisition of Orion  
Telecommunications

**June 2008**  
**Recorded NPAT of \$5.16M,**  
**increase of 114%**

*May 2007*  
Acquisition of Wholesale  
Communications Group

*December 2005*  
M2 becomes  
Optus MVNO

# Chairman's Letter

Dear Shareholder,

On behalf of the Board of M2 Telecommunications Group Limited ("M2"), I am pleased to present this Annual Report, pertaining to the period from July 1 2007 to June 30 2008.

At the end of my 2007 Chairman's letter I remarked *"we enter the 2007/08 financial year with high hopes for continued growth in shareholder returns, by capitalising upon the strong foundations laid during 2006/07, both organically and through our recent acquisitions."*

Foremost, I am proud to be able to report that the 2008 financial year was by far our most successful year to date, delivering a step-change in terms of growth achieved across all key financial measurements, including revenue (up 149% to \$109.2M), earnings (Net Profit After Tax up 114% to \$5.16M). 2007/8 was the 7th consecutive year of record profits for M2, again demonstrating the Company's capability to increase scale whilst delivering growth in earnings and, in turn, shareholder returns.

The delivery of such a significantly increased profit result for the year is particularly pleasing in light of known risks associated with integrating a number of businesses which were acquired in the latter part of the previous period and during the year, namely Wholesale Communications Group (May 2007), Tenex Communications (June 2007), Orion Telecommunications (October 2007) and Unitel Australia (February 2008).

The acquisitions combined with organic growth achieved during the year have seen M2's (annualised) revenue "run-rate" increase to more than \$140 million as at the end of June 2008.

This considerable lift in scale provides improved economies across most aspects of the business, building the foundation for further improvement in net profit margin.

Accompanying the substantial revenue and earnings growth has been a marked growth in the size of the M2 team, now numbering 169 individuals, located across M2's four offices in Melbourne (head office), Hobart, Sydney and Wollongong.

There are many pertinent developments to report from the busy year that was, which are detailed within our Group Managing Director / CEO Review. However, below I have set out key highlights;

- > Earnings Before Interest and Tax (EBIT) of \$7.83M, as compared with \$3.23M in the previous year, representing an EBIT increase of 127%.
- > Net Profit After Tax (NPAT) increased by 114% from the previous year to a new record high of \$5.16M.
- > Revenues of \$109.2M, as compared with \$43.79M last year, an increase of 150%.
- > Earnings Per Share (EPS) increase of 70% from the previous year.
- > M2 assumed the position as Australia's largest non-infrastructure telecommunications company (in revenue terms).
- > Cash flow and cash assets continued to remain strong, with the company's balance sheet remaining relatively lowly geared.
- > Revenue and earnings results were both above guidance issued early in the 2007/8 financial year.
- > Declaration of fully franked dividends for both the half and full year, both in excess of 70% of NPAT.
- > Further expansion of the suite of products and services, both in Australia and New Zealand.
- > Strong organic growth of M2 Wholesale, following three year extension of appointment as Optus' endorsed wholesale aggregator for 3G mobiles.
- > Completion of acquisition of ASX listed Orion Telecommunications in October 2007 and subsequent consolidation of all M2 (retail) call centre facilities within the Orion/Southern Cross Telco offices in Hobart, Tasmania.
- > Acquisition of Unitel Australia from Commander Communications (ASX: CDR) in February 2008.
- > Execution of a \$9M+ wholesale supply agreement with People Telecom (ASX: PEO) for supply of 3G mobile services.



The talent and commitment of M2's growing team remains the central ingredient to our success and sustainability. My sincere gratitude is extended once again to M2 employees.

Looking to the year ahead, we move forward with confidence in the knowledge that the M2 Group now has a complete suite of services across both our M2 Telecom (retail) and M2 Wholesale business units, combined with the scale and management talent to facilitate continued growth.

Finally, let me thank you for your support as a shareholder of M2. We are pleased to have been able to deliver growth in our shareholder return. On behalf of the Board of M2, I can once again offer our commitment to remain focused on a continuation of sustainable growth at both the top and bottom line.

Yours faithfully,



Craig L Farrow  
Chairman

### + Key Dates

Record Date for Dividend	15 October 2008
Dividend Paid	31 October 2008
Annual General Meeting	31 October 2008
Half Year End	31 December 2008
Half-Year Results released	27 February 2009
Financial Year End	30 June 2009

“Foremost, I am proud to be able to report that the 2008 financial year was by far our most successful year to date”



# Group Managing Director / CEO's Review

## What a year!

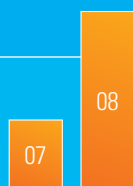
**As our Chairman has stated in his letter, the 2007/8 financial year has been far and away the most successful and significant in our 9 year journey since M2 was founded in 1999.**

By every numerical measure M2 has grown dramatically. Whether it be the size of our team, our profit, our revenue, Earnings Per Share or Dividends Per Share, we have set new records in every regard. To the best of our knowledge (at the time of writing), no other listed telecommunications company has delivered year-on-year performance growth which rivals that of M2 in 2008.

The few sections within my report below, starting with "the numbers that matter", have been prepared so as to provide our shareholders and prospective shareholders with an insight into why we are so proud of what M2 has achieved in what has been a remarkable 12 months and why we believe the future is very promising.

# The numbers that matter...

## 169

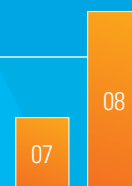


156% increase

**The number of men and women who were members of the M2 team on June 30 2008.**

This number comes first on the list of the numbers that matter, as it is these 169 talented individuals which are directly responsible for the success we now enjoy. M2 employed 66 people at the same time last year (**156% year-on-year growth**).

## \$109.2m

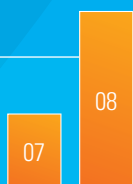


149% increase

**The consolidated M2 Group revenues for the year ending June 30 2008.**

This revenue growth represents a **149% year-on-year increase**, contributed to by the sizable new revenues associated with strategic acquisitions together with strong organic growth delivered, particularly within the burgeoning M2 Wholesale business unit. Whilst strong revenues are valuable for buying power and market credibility it is growth in net profitability which remains the central focus of the management and Board.

## \$5.16m

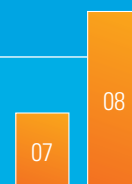


114% increase

**The Net Profit After Tax (NPAT) for the year to June 30 2008.**

This is a strong **114% increase** in NPAT year-on-year (NPAT of \$2.4M in 2006/7) and exceeds the NPAT earnings guidance released by the company in November 2007. This outstanding NPAT result is after the deduction of a non-recurring (non-cash) abnormal cost item which reduced NPAT by \$590,000, which when removed, shows a "normalised" NPAT of \$5.75M, representing a 139% increase on the year before.

## \$9.11m

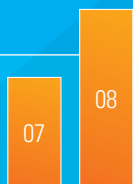


137% increase

**The Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended June 30 2008.**

EBITDA increased **year-on-year by 137%** from \$3.84M in 2006/7. As with NPAT above, EBITDA was impacted by the same abnormal cost item, meaning that "normalised" EBITDA is in fact higher also, at \$9.70M, up 153% on the previous year.

## 70%

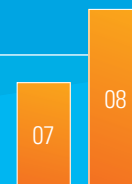


70% increase

**The Earnings Per Share (EPS) increase for the year to June 30 2008, as compared with the previous year.**

This **70% EPS growth** is strong when viewed on a stand-alone basis, but is even more significant when considering that during the 2007/8 year more than 30% more ordinary fully paid MTU shares were issued and interest costs were introduced, relating to acquisitions made during the period (detailed following), each of which serve to dilute EPS growth.

## 3.0 cents



50% increase

**The Dividend Per Share (DPS) declared for the 6 months to June 30 2008.**

This is a **50% increase** in the final dividend declared in the previous corresponding period. Combined with the 2.0 cents interim dividend paid for the 6 months to December 31 2007, the full year DPS (interim + final) is 5.0 cents, up 67% year on year. M2 has now declared 8 consecutive dividends, each of which has been at or in excess of the Board's dividend policy of 70% x NPAT, evidencing the consistently strong operating cash flows of the Company.

# M2 Services + Target Markets

In short, M2 provides a full suite of telecommunications services (fixed line, mobile and data) to both retail and wholesale target markets, via a Network Reseller business model.

A Network Reseller is defined as a company which delivers telecommunications services under its own brand(s) using the network infrastructure of others. The place of the Network Reseller in the Australian telecommunications landscape and where M2 fits in the market is covered in some detail in the following section headed 'Why M2 is unique and sustainable'.

The M2 Group is divided into two operating businesses, M2 Wholesale and M2 Telecom (retail). Both M2 Wholesale and M2 Telecom offer a comprehensive suite of telecommunications services to distinct markets, as described below;

## M2 Wholesale

M2 Wholesale was established approximately 2½ years ago to provide mobile telecommunications services to small and medium sized Resellers (existing and new entrants), following Singtel Optus' appointment of M2 as its exclusively endorsed wholesale aggregator for Optus 3G mobile services, Australia-wide. As at end June 2008, M2 Wholesale was generating approximately \$90 million in annualised revenues across a full suite of wholesale telecoms services. Wholesale Communications Group (acquired May 2007) and Unitel Australia (acquired February 2008) fall under the M2 Wholesale umbrella.



unitel  
delivering the future



WHOLESALE COMMUNICATIONS GROUP  
EXCEEDING EXPECTATIONS

## M2 Telecom

M2 Telecom was established nearly 7 years ago (originally known as "M2 Connect") to provide telecommunications services to small and medium sized businesses. As at end of June 2008, M2 Telecom was generating annualised revenues of approximately \$55 million. Orion Telecommunications (and its operating subsidiary Southern Cross Telco), acquired by M2 in October 2007, is now integrated within the M2 Telecom operating business, providing a full suite of telecoms services to small businesses and domestic customers in selected regional markets. Also under the M2 Telecom umbrella are two wholly owned on-line retail enterprises, GreenMobiles and Simply Mobiles.



southern cross  
TELCO  
The clear alternative.



GreenMobiles™  
Our planet is on the line

## Why M2 is unique and sustainable

### Australia's largest Reseller (non-infrastructure telco)

The Australian telecommunications services market can (broadly speaking) be broken into three categories or "tiers", as illustrated by the table below. Within these three tiers are (a) those companies with full end-to-end network infrastructure (such as wire, cable, fibre or mobile network infrastructure) which can most simply be termed "Network Owners", (b) "Partial Network Owners" which will have some but not all of the network infrastructure required to deliver services to their customers (such as DSLAM's for broadband data or fixed line voice switches) and (c) "Network Resellers", those companies which source all of their services (on a wholesale basis) from either Network Owners, Partial Network Owners or other Network Resellers.

With annualised recurring revenues in excess of \$140M (as at June 2008), M2 is presently Australia's largest Reseller telecommunications company and therefore the leader amongst the Tier 3 providers. Being a large scale Network Reseller provides M2 with several strategic advantages, including;

- > Sourcing wholesale services from primarily Tier 1 suppliers such as Telstra, Optus, Telecom (NZ) and Vodafone (NZ),
- > technology independence and flexibility,
- > strong "buying power" due to scale,
- > low capital expenditure,
- > aligned interests with its Carrier suppliers (by not competing in infrastructure development).
- > Excess capacity across telecoms infrastructure (fixed, mobile & data) makes the Network Reseller model long term viable and complementary with Tier 1 & Tier 2 providers.

#### Australian Telecommunications Services Industry (Fixed Line, Mobile, Data and Content services)

Tier 1 Network Owners	Tier 2 Partial Network Owners	Tier 3 Network Resellers
(Full Network Infrastructure)	(Partial Network Infrastructure)	(No Network Infrastructure)



### Fractional market share

The Australian telecommunications services market in 2008 is estimated to be approximately \$35 billion - \$40 billion in revenue terms. With M2's abovementioned \$140 million in annualised revenues, our present market share sits at less than half of one percent (0.5%). M2's share in the New Zealand market is even more fractional again due to our relatively recent entry into that market.

Whilst there are segments of the telco market that M2 elects not to pursue at this time (eg; corporate and government), the size of the market available to M2 (through both its retail and wholesale arms) is massive relative to its current penetration. One industry commentator said of M2's place in the market that we were "yet to become a rounding error"! I enthusiastically agree with this description as it illustrates the scope for further market penetration available to M2.

### Long Serving, vested management team and Board

Amongst our proudest achievements is the longevity of service across all levels of management at M2. Several members of our executive and senior management teams have been with the company since incorporation or shortly thereafter and many more have been serving the company for 5 years or more. Similarly, all members of the Board of Directors have been with the company since incorporation.

The unity amongst the management of M2 is a core foundation of the positive company culture and knowledge base that has seen the Company deliver strong, sustainable year-on-year earnings growth. Furthermore, all Board members, executive management and a significant proportion of the wider M2 team are MTU shareholders and/or are participating in the Company's Employee Share Plan (ESP), established in 2007.

### M2 Wholesale - "One-stop shop" for 300+ Reseller telco's & ISP's

M2 Wholesale has been the stand-out operating division of the M2 Group in terms of growth since its formation in mid 2006. From a standing start, M2 Wholesale revenues are presently in excess of \$90M (annualised) and is continuing to deliver strong organic growth.

In October 2007 M2's key strategic appointment as the exclusively endorsed wholesale enabler for Optus' 3G mobile network was extended for a further three years, demonstrating the success of this unique alliance between the two companies.

The acquisition of Unitel Australia from Commander Communications (ASX: CDR) in late February 2008 rounded out the M2 Wholesale product suite with a full range of fixed line services to complement its mobile and data wholesaling service offerings.

M2 Wholesale now services more than 300 Network Resellers and Internet Service Providers (ISP's) across the country. Considerable scope exists to expand both customer numbers and average wholesale spend amongst existing M2 Wholesale customers. This expansion and cross-selling opportunity are central areas of focus in 2008/9.

### **M2 Telecom – Equipped and ready for accelerated growth**

The acquisition of Orion Telecommunications in October 2007 was of high strategic value to M2's retail business as it provided (through its Southern Cross Telco operating subsidiary) an established (12+ years) customer contact centre in Hobart, Tasmania.

The Hobart contact centre now serves as the hub for all M2's retail operations and is presently being reconfigured and equipped to accommodate up to 75% more capacity (completion September '08) to accommodate new customer inflow from a number of recently introduced sales channels and marketing alliances.

2007/8 also saw the launch of M2 Telecom's dedicated online ventures, Simply Mobiles ([www.simplymobiles.com.au](http://www.simplymobiles.com.au)) and Green Mobiles ([www.greenmobiles.com.au](http://www.greenmobiles.com.au)). Strong inroads have been made already into the dynamic world of on-line marketing and sales, with additional resources recently added to further build sales momentum in these ventures.

### **Modestly geared balance sheet**

The recent acquisition of Unitel Australia (Feb '08) saw M2 enter into its first material debt facility, in the form of a \$10M loan, as funding for what was an all-cash acquisition. The decision to introduce debt onto the M2 balance sheet was carefully considered by the M2 Board and determined on the basis that the loan covenants could be comfortably met and that ample "head room" existed in the event that the operating performance of the business was to suffer an unforeseen setback.

We are very conscious of the less favourable credit environment that is likely to be a feature of the Australian (and world) economy for some time to come and are pleased to have a modest debt position, one which we intend to continue to diligently manage.

### **Economic down-turn resilience**

It is a reasonable assumption that the coming year will not be as economically buoyant as in recent years. To this end, the exposure faced by the M2 business in less favourable economic times has been carefully considered. Relative to other business models which may rely upon discretionary spending behaviour, the vast majority of services supplied to M2 customers (retail and wholesale) could be reasonably described as non-discretionary / commodity services, thus providing greater consistency of demand through cycles.

Fixed line, mobile and broadband data services, which make up 95%+ of all M2 revenues and nearly 100% of our earnings are relatively constant in demand terms given that they are basic tools of trade for small businesses and are everyday use services for individuals.

When considering economic factors, it is appropriate to again consider the negligible share of the telecoms market presently held by M2 (less than 0.5%). As a "challenger" alternative in the market, we view leaner economic times as an opportunity to attract businesses and individuals to M2, by offering more creative, more competitive services which better meet customer needs in a changing economic climate.

### **Our (enlarged!) team, our success**

Many companies speak of their team and how they are the "number one asset" of their business, some even mean it. In M2's case, as a committed Network Reseller with no network infrastructure, our team genuinely means everything to our success.

As mentioned earlier in this report, we are very fortunate to have a large number of long serving members of our management team. This good fortune also extends to members of our now greatly expanded organisation across all roles, from customer service to technology to finance to sales to administration, many of whom have been with the business for several years or more.

The development of a strong, positive company culture has been a focus of the founding management of M2 since day one. However, the challenge of maintaining that culture during the last 12 months of rapid expansion and acquisition of other companies (each with their own personalities!) has been greater than ever before. Notwithstanding our fair share of "growing pains" (our team has nearly tripled in size in 12 months!), I'm most pleased to report that team integration has been a success, which is a credit to the maturity and positive approach adopted by every team member.

To add to the challenge of a year of rapid team growth, we have expanded our presence geographically, courtesy of the various locations of the businesses acquired, including new operations in Sydney (wholesale customer support and account management), Hobart (customer contact centre & retail technology) and Wollongong (systems engineering and high level technical support). M2's head quarters remain in Southbank in Melbourne, housing executive management, finance, M2 Wholesale (product development & operations), M2 Telecom channel support and central services teams.

To assist in developing a consistent M2 team experience across all offices, the M2 Culture Committee was formed in February 2008, with representatives from each location. The Committee has already introduced several national initiatives including complimentary gym memberships for all team members, complimentary health checks and flu vaccinations, regular supply of fresh fruit, quarterly team events and new monthly awards recognizing outstanding team members across all areas of the business.

2008 also saw a heightened emphasis and resource allocation toward team training and development, including leadership training and other skill-specific training and education. We have a long way to go in this regard but it is a central focus moving forward to equip our management and team to succeed within what is now a much larger, more diverse organisation.



## Acquisitions

### Orion Telecommunications / Southern Cross Telco

On October 11 2007 the purchase by M2 of all of the share capital of Orion Telecommunications Limited, via a scheme of arrangement, was completed.

The acquisition of Orion was highly strategic in that it provided M2 with the established customer base and customer contact centre of Southern Cross Telco, together with a base of in excess of \$25M per annum in recurring customer revenues, primarily small office / home office (SOHO) and regional customers.

A team of 66 people from Southern Cross Telco joined M2 through the acquisition.

As previously mentioned, following the acquisition, the Hobart customer contact centre has undergone a major physical make-over, including a significant capacity increase to accommodate future growth and the absorbing of all back-of-house functions for the M2 Telecom customer base, previously operated out of M2's Melbourne head office.

### Unitel Australia

On February 22 2008 the purchase by M2 of all the share capital of Unitel Australia Pty Ltd (Unitel) was completed. Unitel was purchased from Commander Communications Limited (ASX: CDR).

As with Orion, Unitel was a strategic addition to M2 but in this case on the wholesale side of the business. Unitel provided M2 Wholesale with unique intellectual property, systems and processes particularly in the area of fixed line / local access wholesale services. Secondly, Unitel added a base of more than \$36M in recurring annual revenues together with 9 specialist support staff and management.

Since the acquisition of Unitel, sizable organic growth has been experienced in fixed line wholesale services, lifting annualised revenues from this product type to beyond \$40M. Furthermore, with M2 Wholesale now able to offer a full suite of wholesale services (fixed, mobile and data services), there has been a marked increase in new customer contracts for multiple products/services.

Whilst Southern Cross Telco and Unitel did not contribute toward consolidated earnings and revenues for the full financial year due to being acquired during the period, both businesses have made solid contributions to the earnings and EPS delivered by the consolidated M2 Group, at or above forecast levels.

## New Products and Initiatives

### New Products and Services

The year was by far our most active in terms of the development and introduction of new products and services, across both our retail and wholesale operations. Below are a sampling of the new product initiatives in 2007/8;

- > 3G Wireless Broadband services & plans
- > ADSL2+ high speed broadband services combined with fixed voice services
- > New 3G mobile cap plans (for individuals) and fleet cap plans (for businesses)
- > Peak / Off-Peak wholesale data services
- > Local access resale & switchless wholesale voice plans
- > New small business plans bundled with M2's "Phone & Fly" travel incentives
- > 3G mobile and wireless broadband via Vodafone in New Zealand (launch 08/08)
- > Several new products and/or enhancements to existing products are in the midst of the development cycle at present, set for release in later in 2008 and early 2009

### A Greener M2

On 6 September 2007 M2 launched Australia's first mobile services offering specifically aimed at combating climate change. GreenMobiles offers (online only) a range of market competitive mobile cap plans, each of which has M2 reinvesting 10% of all monies spent by GreenMobiles customers into the purchase of Australian Greenhouse Office (AGO) approved carbon abatements through the Australian Climate Exchange (ACX). Furthermore, each GreenMobiles customer is provided with an electronically delivered monthly statement (no paper wastage) and a "MobileMuster" disposal bag for recycling of old phones and accessories.

M2 has taken its green approach to its own workplace by appointment of an Environmental Ambassador from amongst our team, conducting a full environmental best practice audit and proactively purchasing carbon abatements from ACX to offset our company-wide carbon footprint.

## Where to in 2008/9

### **More earnings growth & improvement in net profit margin**

The 2008/9 financial year is entered with excitement in terms of the opportunities now available to our much larger enterprise but also with caution to ensure that we properly bed down the acquisitions and organically generated growth of the last 12 months.

Pleasingly, M2's annualised (or "run rate") revenue and earnings as at July 2008 are already considerably above that which was generated in the 2007/8 financial year, due to full year contributions which will come from Southern Cross Telco and Unitel, together with strong organic growth experienced in the final months of the period to 30 June 2008.

During 2009 a concerted effort will be undertaken across the business to further increase the underlying net profit margin (that is, earnings as a percentage of revenue) of the consolidated M2 Group. A company-wide efficiency program named "Project Optimise" was introduced in early 2008 with the express purpose of identifying ways and means to deliver a more productive and therefore more profitable M2.

Revenue and earnings guidance will be issued by the Directors in late August 2008 for the 12 months to June 30 2009, following the release of audited financials for the year to June 30 2008.

### **More products and more products per customer**

Several new products are scheduled for release during the 2008/9 financial year, across both the M2 Telecom (retail) and M2 Wholesale divisions. Speed and feature enhancements to 3G wireless broadband services, launch of 3G mobile voice & data in New Zealand (through Vodafone), new entry level ADSL2+ plans and "unlimited" (all-inclusive) mobile offerings are amongst the products M2 will add to its suite this financial year, most of which will be in commercial release prior to the end of December 2008.

Another key focus for 2008/9 is the active cross-selling of additional telecoms products and services to M2's existing customers (retail and wholesale). The opportunity here is very substantial due to each "typical" customer having an active demand for at least 3 different telecommunications services and yet M2 presently provides its customers (on average) considerably less than this number. Both the M2 Telecom retail customer contact centre and M2 Wholesale's account management teams are resourced and ready to proactively secure deeper product penetration across the M2 Group customer base during the year ahead.

### **Continue to assess selective acquisitions**

In the last 15 months M2 has demonstrated a capability for identifying, negotiating, completing and integrating complementary acquisitions. An ongoing mandate exists to explore opportunities to further participate in industry consolidation on the basis that the best interests of M2 shareholders are considered at all times.

Given the scale and breadth of the Australian telecommunications industry, acquisition/consolidation opportunities do clearly exist for M2. However, the focus of any such opportunities remains firmly fixed on those opportunities which are materially EPS accretive.

Fortunately, the underlying organic growth prospects for M2 remain promising in the year ahead, thus allowing acquisitions and other non-organic transactions to be carefully considered and acted upon only in the event that outstanding EPS and/or strategic benefits are presented.

### A final word

In concluding this report for the year that was, I would like to once again thank our extraordinary team of people in all M2 locations around the country for your diligence and professionalism in an epic year of change, growth and success.

Thanks also to our suppliers, alliance partners and financial services providers.

We enter 2009 as a far more substantial business in terms of underlying revenues, earnings and presence in our chosen market segments. These enlarged foundations auger well for a year of continued growth and further consolidation of our position in the Australian telecommunications industry.

Finally, to our shareholders, I thank each of you for your support of M2 to date and hope that as we continue to build upon the solid foundations established over the last 9 years, that you remain with us to share in and benefit from M2's achievements in the future.



Vaughan Bowen  
**Group Managing Director / CEO**

“The 2008/9 financial year is entered with excitement in terms of the opportunities now available to our much larger enterprise...”

# Directors' Report

In compliance with the provisions of the Corporations Act 2001, the directors of M2 Telecommunications Group Limited ('M2' or 'the Company') submit the following report for the Company and its controlled entities for the financial year ended 30 June 2008.

## Directors

The names and details of the directors of M2 during the financial year and at the date of this report are as follows:

### **Craig L Farrow** **Chairman**

B Ec, Dip Fin Services, FCA, FAICD

Appointed director 18 February 2000

Appointed Chairman 28 April 2006

Mr Farrow is a founding partner of Brentnalls SA, Chartered Accountants and former National Chairman of the Brentnalls National Affiliation of Accounting Firms. He is Chairman of Tonkin Consulting Engineers, and a national director of the Institute of Chartered Accountants in Australia. In addition, Mr Farrow is a director and Board adviser to several private consulting and trading enterprises. Formerly Chairman of the Institute of Chartered Accountant's Public Practice Advisory Committee, Mr Farrow is also highly awarded, including being a Fellow of the Governor's Leadership Foundation and receiving the Institute of Chartered Accountants 1999 National President's Award for services to the Institute and the profession. Within the last three years, Mr Farrow has held no other listed company directorships.

Mr Farrow is Chair of M2's Audit Committee and a member of the Nomination and Remuneration Committee.

### **Vaughan G Bowen**

#### **Group Managing Director & Chief Executive Officer**

B Com, MAICD

Appointed 14 February 2000

Mr V. Bowen co-founded M2 in late 1999 and as Group Managing Director he has successfully steered M2 from a start-up technology enterprise to its current position as a fast growing and profitable national telecommunications company. Named a finalist in the Entrepreneur of the Year Awards in 2004, Mr Bowen's innovative approach to branding, sales and alliance marketing provides M2 with a considerable competitive advantage, evidenced by the strong and profitable growth M2 has enjoyed over recent years. Prior to joining M2, Mr Bowen spent several years managing and profitably growing the South East Asian operations of Secure Parking, one of the region's largest facilities management companies. Within the last three years, Mr Bowen has held no other listed company directorships.

### **Max G Bowen**

#### **Non Executive Director**

Appointed 14 February 2000

Mr M. Bowen provides the Board with valuable experience gained in a management and business career spanning more than four decades. Founding Chairman of M2, Mr Bowen spent over 20 years developing commercial property throughout Sydney and overseas. Over the last 10 years, Mr Bowen has acted in a senior advisory capacity to corporations and public utilities, including PricewaterhouseCoopers, Optus, Sydney Olympic Village, Sydney Harbour Foreshore Authority and Federal Airports Corporation. Within the last three years, Mr Bowen has held no other listed company directorships.



### **Dennis N Basheer**

#### ***Non-Executive Director***

Appointed 14 February 2000

Mr Basheer is an experienced company director with a focus on property development, project management and franchise developments. Until late 2003, Mr Basheer served as an executive director of M2 and was involved in corporate and channel sales. Currently M2's South Australian Dealer, Mr Basheer remains heavily involved in the promotion of M2's services, specialising in major retail opportunities nationally. Within the last three years, Mr Basheer has held no other listed company directorships.

Mr Basheer is a member of M2's Nomination and Remuneration Committee.

### **John S Hynd**

#### ***Non-Executive Director***

LLB, MAICD

Appointed 18 February 2000

Mr Hynd is founding partner of Hynd & Co, a commercial law firm in Adelaide. He has over 20 years experience in commercial transactions, corporate advice, corporate governance, insolvency and property development. A fellow of the Australian Taxation Institute, member of the Advisors Group with Family Business Australia and a former member of the Law Council of the Law Society, Mr Hynd's broad business experience provides M2 with valuable assistance with mergers and acquisitions and strategic planning. Within the last three years, Mr Hynd has held no other listed company directorships.

Mr Hynd is Chair of M2's Nomination and Remuneration Committee and a member of the Audit Committee.

## **Company Secretaries**

The names and details of the company secretaries of M2 during the financial year and at the date of this report are as follows:

### **Kellie Dean**

BA, LLB, Grad Dip App Corp Gov, ACIS

Appointed 30 November 2007

Ms Dean is responsible for all company secretarial matters, as well as legal affairs for M2. Prior to her appointment, Ms Dean was Company Secretary for Orion Telecommunications Ltd, which was acquired by M2 in October 2007. An associate of Chartered Secretaries Australia, Ms Dean has experience in the areas of management, human resources, compliance and legal matters.

### **Darryl Inns**

B Bus (Accounting), CPA

Appointed 23 July 2004

Resigned 30 November 2007

Mr Inns is Chief Financial Officer for M2 and resigned as Company Secretary following the appointment of Ms Dean. Mr Inns is a Certified Practising Accountant and has served in senior finance roles in technology and manufacturing companies in both Australia and in the United Kingdom. He has recently completed a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia.

## Former Audit Partners

No directors or officers of M2 have been a partner or director of Ernst & Young, the Company's auditor.

## Principal Activity

The principal activity of the consolidated entity during the financial year was the supply of fixed line voice, mobile telecommunications and broadband data services within the Australian and New Zealand markets through its M2 Telecom (retail) and M2 Wholesale (wholesale) operating divisions.

## Review of Operations and Results

Please refer to the Chairman's Letter on page 3 and Group Managing Director/CEO's Report on page 5 for further details relating to M2's operations and results for the 2007/2008 financial year. This information is to be read in conjunction with the Directors' Report.

## Significant Changes in State of Affairs

During the financial year, M2 completed two major acquisitions.

In October 2007, M2 acquired Orion Telecommunications Ltd ('Orion'), a company listed on Australian Securities Exchange ('ASX'), and its operating subsidiary, Southern Cross Telco Ltd, via a scheme of arrangement. As part consideration for this acquisition, M2 issued 18,179 530 shares, bringing the number of total ordinary shares outstanding to 78,353,745 as at 11 October 2007.

Orion was delisted from ASX on 19 December 2007.

In February 2008, M2 completed the acquisition of Unitel Australia Pty Ltd, the wholesale network services business of Commander Communications Ltd (ASX:CDR). Unitel was acquired for a minimum

cash consideration of \$10,000,000, financed primarily through bank debt, with up to \$2,500,000 to be paid over 36 months, following the achievement of certain performance based milestones.

On 7 January 2008, M2 issued an additional 530,000 ordinary shares, pursuant to its Employee Share Plan, as approved by shareholders at the Annual General Meeting ('AGM') on 5 October 2007. Total ordinary shares outstanding are 78,883,745.

## Events After Balance Date

No events after balance date to report.

## Likely Future Developments and Results

The directors expect that the financial performance of the business will remain strong in the 2008-2009 financial year, through the anticipated growth in revenue and earnings in the M2 Telecom (retail) and M2 Wholesale (wholesale) operating divisions.

## Environmental Regulation and Performance

M2 is not subject to any significant environment regulation under any law of the Commonwealth or of a State or Territory.

## Indemnities and Insurance

During the financial year, M2 paid a premium in respect of a contract insuring the directors and officers of the Company and any related body corporate against any liability that may arise from the carrying out of their duties and responsibilities to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors are also subject to indemnification under the Company's Constitution and are party to a Deed of Indemnity and Access.

## Dividends

Details of dividends paid during the financial year and the final dividend declared for payment are as follows:

	Payment Date	Cents per Share	Franking	Total Dividend Paid / Declared
<b>Dividends Paid:</b>				
Final dividend	31 October 2007	2.00	Fully Franked	\$1,187,338
Interim dividend	31 March 2008	2.00	Fully Franked	\$1,577,675
<b>TOTAL</b>		<b>4.00</b>		<b>\$2,765,013</b>
<b>Dividend Declared:</b>				
Final dividend	31 October 2008	3.00	Fully Franked	\$2,366,512

## Directors' Meetings

The number of directors' meetings, including meetings of each Board committee held during the financial year and the number of meetings attended by each director is as follows:

Director	Board Meeting		Audit Committee		Nomination & Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Craig Farrow	11	11	2	2	1	1
Vaughan Bowen	11	11	-	-	-	-
Max Bowen	11	11	-	-	-	-
Dennis Basheer	11	11	-	-	1	1
John Hynd	11	11	2	2	1	1

## Directors' Shareholdings and Options

The following table sets out the details of each director's relevant interest in M2 shares and options (where section 205G of the Corporations Act 2001 required the director to notify ASX of that holding), as the date of this report.

### Shares held in M2 Telecommunications Group Ltd:

Director	Balance at 30 June 2007	Shares granted as remuneration	On exercise of Options	Net Change	Balance 25 August 2008
Craig Farrow	1,008,000	-	-	20,000	1,028,000
Vaughan Bowen	12,382,666	-	-	500,000	12,882,666
Max Bowen	4,932,274	-	-	(4,900,000)	32,274
Dennis Basheer	5,244,906	-	-	-	5,244,906
John Hynd	2,832,524	-	-	-	2,832,524
<b>TOTAL</b>	<b>26,400,370</b>	<b>-</b>	<b>-</b>	<b>(4,380,000)</b>	<b>22,020,370</b>

### Options held in M2 Telecommunications Group Ltd:

Director	Number of Shares under Option	Class of Shares	Exercise price of Option	Expiry date of Options
Craig Farrow	-	-	-	-
Vaughan Bowen	500,000	Ordinary	\$0.475	Tranche 1 (250,000): 23 February 2010 Tranche 2 (250,000): 23 February 2011
Max Bowen	-	-	-	-
Dennis Basheer	-	-	-	-
John Hynd	-	-	-	-
<b>TOTAL</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

In the event that the Company makes a bonus issue of shares to ordinary shareholders, each option holder will receive a bonus issue of options, such that the proportion which the number of options held by that option holder bears to the number of shares on issue is the same both prior to and following the bonus issue of shares.



## Remuneration Report

In accordance with s.300A of the Corporations Act 2001 and Regulation 2M.0.03, the following report outlines the remuneration arrangements for key management personnel and relevant group and company executives for the financial year ended 30 June 2008.

This report also provides the remuneration disclosures required by Accounting Standards AASB 124 *Related Party Disclosures*, which are permitted to be transferred to the Remuneration Report by Regulation 2M.6.04, and are therefore subject to audit.

### Board Policy

The performance of the Company depends upon the quality of its key management personnel (which includes directors, company secretary and senior managers). Remuneration levels are set to enable M2 to attract and retain appropriately qualified and experienced personnel, who will create sustainable value for shareholders and other stakeholders. To this end, the Company embodies the following principles in its remuneration framework:

- > Provide competitive rewards to attract high calibre personnel;
- > Link executive rewards to shareholder value;
- > Have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- > Establish appropriate, demanding performance hurdles for variable executive remuneration.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for key management personnel. They assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of insuring maximum stakeholder benefit from the retention of high quality directors and other key management personnel. Specific details relating to the structure and membership of this Committee can be found in the Corporate Governance Statement, immediately following the Directors' Report.

### Remuneration Structure

In accordance with corporate governance guidelines, the remuneration structure for non-executive directors and other key management personnel is distinct.

#### *Non-executive director remuneration*

In accordance with the Company's Constitution and ASX Listing Rules, the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined is then divided between the directors as agreed. The current aggregate remuneration is set at \$150,000 per year.

Each non-executive director receives fees for their services. They also receive reimbursement of all reasonable and proper expenses incurred while carrying out their director duties. In addition, the Board provides \$2,000 each financial year for each director to utilise for the purpose of attending training or professional development courses and events.

No proportion of non-executive directors' fees is based upon performance.

The amount of aggregate remuneration and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market). M2 consider it good governance for directors to have a stake in the company on whose Board they sit.

The remuneration of non-executive directors for the period ending 30 June 2008 is detailed in Table 1 on page 20 of this Report.



“ Remuneration levels are set to enable M2 to attract and retain appropriately qualified and experienced personnel, who will create sustainable value for shareholders and other stakeholders. ”

#### *Other key management personnel remuneration*

M2 aims to reward other key management personnel ('Executives') with a level and mix of remuneration commensurate with their position and responsibilities within the Company. In addition, it aims to:

- > reward Executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- > align the interests of Executives with those of shareholders;
- > link rewards with the strategic goals and performance of the Company; and
- > ensure total remuneration is competitive by market standards.

In determining the level and make-up of Executive remuneration, the Nomination and Remuneration Committee reviews market levels of remuneration for comparable executive roles from which the Committee makes its recommendations to the Board. It is the Committee's policy that employment contracts are entered into with all Executives.

Executive remuneration consists of the following key elements:

- > Fixed Remuneration
- > Variable Remuneration - Short-Term Incentive ('STI')

The proportion of fixed remuneration and variable remuneration is established for each Executive by the Nomination and Remuneration Committee.

#### *Fixed Remuneration*

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The level of fixed remuneration is set in accordance with the Board's remuneration policy and the external compensation environment and is reviewed annually.

The amount of fixed remuneration paid to Executives during the financial year is detailed in Table 2 on page 20.

#### *Variable Remuneration — Short Term Incentive (STI)*

The objective of the STI program is to link the achievement of M2's operational targets with the remuneration received by the Executives responsible for meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to Executives to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Actual STI payments granted to an Executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typical measures include contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. The Company has predetermined benchmarks which must be met in order to trigger payments under the STI scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Company and each business unit is approved by the Nomination and Remuneration Committee. The individual performance of each Executive is also rated and all three ratings are taken into account when determining the amount, if any, of the STI pool that is allocated to an Executive.

The aggregate of annual STI payments available for Executives is subject to the approval of the Nomination and Remuneration Committee. Payments made are usually delivered as a cash bonus in the following reporting period.

The amount of variable remuneration paid to Executives during the financial year is detailed in Table 2 on page 20.

## Key Management Personnel Remuneration

The disclosures in this section include the directors and senior managers who fall within the definitions contained in the Corporations Act 2001 and also the key management personnel as defined in AASB 124 *Related Party Disclosures*. They include the five most highly remunerated company and group executives during the financial year.

### Elements of Key Management Personnel Remuneration

#### Key elements

The remuneration packages contain the following key elements:

- > Primary benefits – salary/fees and non monetary benefits, which may include the provision of motor vehicles, telecommunications and car parking;
- > Share Options; and
- > Post employment benefits – superannuation.

#### Options

##### M2 Employee Share Options Plan

In 2007, M2 introduced an Employee Share Options Plan ('ESOP'). The purpose of the ESOP was to provide an avenue for the alignment of Executive objectives with those of shareholders, and to provide an additional element to Executive remuneration that was competitive to the external compensation environment.

All senior Executives of M2 will be eligible to participate in the ESOP. However, the issue of options under the ESOP to Executive directors is subject to the approval of M2 shareholders.

Under the ESOP, senior Executives may be offered options to acquire M2 Shares. Any shares issued under the ESOP consequent upon exercise of the options will rank equally with all other M2 Shares and application will be made for them to be quoted on ASX. No application will be made for the options to be quoted on ASX.

Options issued under the ESOP vest (and may only then be exercised) one or two years (as determined by the M2 Board) after they are offered to the eligible Executive.

Unless the M2 Board determines otherwise, no fee will be payable on the issue of any option under the ESOP. The exercise price for each option (payable on exercise of the option) will be determined by the Board at the time of issue of the option.

Options issued under the ESOP may be exercised, once they are vested, at any time within two years from the date on which they vest.

Options are not generally transferable and cease to be exercisable at the end of the exercise period or within a specified time after the cessation of the Executive's employment (which time depends on the circumstances of the cessation).

An option holder may not attend and vote at annual general meetings and other shareholder meetings and is not entitled to participate in any rights issues unless the options have been exercised. Any bonus issue will proportionately increase the number of options held by any Executive who has been granted options.

#### Consideration for taking office

No payments were made to key management personnel before they took office as part of the consideration for the person agreeing to hold office.

Details of options are:

Executive	Grant Date	Number of Options Granted	Fair Value at Grant Date \$	Exercise price of Option	Expiry date of Options	Number of Options vested
<b>Vaughan Bowen</b> Group Managing Director/CEO	23 February 2007	500,000	\$190,500	\$0.475	Tranche 1 (250,000): 23 Feb 2010 Tranche 2 (250,000): 23 Feb 2011	0
<b>Steve Wicks</b> General Manager - Retail	23 February 2007	500,000	\$78,500	\$0.475	Tranche 1 (250,000): 23 Feb 2010 Tranche 2 (250,000): 23 Feb 2011	0
<b>Darryl Inns</b> Chief Financial Officer	23 February 2007	500,000	\$78,500	\$0.475	Tranche 1 (250,000): 23 Feb 2010 Tranche 2 (250,000): 23 Feb 2011	0
<b>Terry Doyle</b> General Manager - Wholesale	23 February 2007	350,000	\$54,950	\$0.475	Tranche 1 (175,000): 23 Feb 2010 Tranche 2 (175,000): 23 Feb 2011	0
<b>Ryan Banting</b> Head of Strategy	23 February 2007	350,000	\$54,950	\$0.475	Tranche 1 (175,000): 23 Feb 2010 Tranche 2 (175,000): 23 Feb 2011	0
<b>TOTAL</b>		<b>2,200,000</b>				<b>0</b>

### Director and Executive Remuneration

The following tables outline the remuneration received by key management personnel – including directors and Executives, for the financial year ended 30 June 2008. A comparison with the financial year ended 30 June 2007 is also included.

**Table 1: Directors' remuneration for financial year ended 30 June 2008**

		Short Term			Post Employment		Share-based Payment	TOTAL	% Performance Related
		Salary & Fees (1) \$	Cash STI \$	Non Monetary Benefits \$	Superannuation \$	Other post employment benefits	Options (2) \$	\$	% (3)
<b>Craig Farrow</b>	2008	51,450	-	-	-	-	-	51,450	-
Chairman	2007	42,900	-	-	-	-	-	42,900	-
<b>Vaughan Bowen</b>	2008	289,192	40,000	50,353	29,627	-	190,500	599,672	38.4
Group Managing Director/CEO	2007	230,000	-	21,184	20,700	-	-	271,884	-
<b>Max Bowen</b>	2008	18,250	-	-	-	-	-	18,250	-
Non-Executive Director	2007	16,500	-	-	-	-	-	16,500	-
<b>Dennis Basheer</b>	2008	18,250	-	-	-	-	-	18,250	-
Non-Executive Director	2007	16,500	-	-	-	-	-	16,500	-
<b>John Hynd</b>	2008	18,250	-	-	-	-	-	18,250	-
Non-Executive Director	2007	16,500	-	-	-	-	-	16,500	-
<b>TOTALS</b>	<b>2008</b>	<b>395,392</b>	<b>40,000</b>	<b>50,353</b>	<b>29,627</b>	-	<b>190,500</b>	<b>705,872</b>	-
	<b>2007</b>	<b>322,400</b>	-	<b>21,184</b>	<b>20,700</b>	-	-	<b>364,284</b>	-

(1) Includes all amounts paid to companies related to the director, for director services.

(2) The remuneration value ascribed to share options has been calculated in accordance with AASB 2 Share-based Payment, whereby the fair value of options determined at grant date is spread evenly (and recognised as an expense) over the vesting period. There were no alternations to the terms and conditions of options issued as remuneration since their grant date.

(3) Based upon the value of the short term STI and the value ascribed to share options.

**Table 2: Executive Remuneration for financial year ended 30 June 2008**

		Short Term			Post Employment		Share-based Payment	TOTAL	% Performance Related
		Salary & Fees \$	Cash STI \$	Non Monetary Benefits \$	Superannuation \$	Other post employment benefits	Options (1) \$	\$	% (4)
<b>Steve Wicks</b>	2008	195,989	10,000	14,462	18,539	-	78,500	317,490	27.9
General Manager - Retail	2007	190,000	-	14,581	17,100	-	-	221,681	-
<b>Darryl Inns (2)</b>	2008	168,895	20,000	11,431	17,055	-	78,500	295,881	33.3
Chief Financial Officer	2007	140,789	-	13,868	12,671	-	-	167,328	-
<b>Terry Doyle</b>	2008	145,653	20,000	9,846	15,795	-	54,950	246,244	30.4
General Manager - Wholesale	2007	102,357	-	-	9,212	-	-	111,569	-
<b>Ryan Banting</b>	2008	144,653	20,000	-	14,818	-	54,950	234,421	32.0
Head of Strategy	2007	114,492	-	-	10,304	-	-	124,796	-
<b>Kellie Dean (3)</b> , Company Secretary & Legal Affairs	2008	97,147	-	-	9,243	-	-	106,390	-
	2007	-	-	-	-	-	-	-	-
<b>TOTALS</b>	<b>2008</b>	<b>752,337</b>	<b>70,000</b>	<b>35,739</b>	<b>75,450</b>	-	<b>266,900</b>	<b>1,200,426</b>	-
	<b>2007</b>	<b>547,638</b>	-	<b>28,449</b>	<b>49,287</b>	-	-	<b>625,374</b>	-

(1) The remuneration value ascribed to share options has been calculated in accordance with AASB 2 Share-based Payment, whereby the fair value of options determined at grant date is spread evenly (and recognised as an expense) over the vesting period. There were no alternations to the terms and conditions of options issued as remuneration since their grant date.

(2) Resigned as Company Secretary on 30 November 2007.

(3) Appointed 30 November 2007. Includes remuneration received from Orion Telecommunications Ltd (as a company executive), acquired by M2 in October 2007, during the full financial year ended 30 June 2008.

(4) Based upon the value of the short term STI and the value ascribed to share options.

## Employment Contracts

The following terms are contained in the employment contracts for each Executive:

<b>Duration of contract:</b>	12 months commencing 1 July 2008, renewable for a further 12 months (rolling)
<b>Period of notice required to terminate contract:</b>	3 months
<b>Termination payments:</b>	If contract is terminated by the Company prior to the expiry of its term (12 months), the executive is entitled to a payment equal to the amount of remuneration due under the contract (other than for serious misconduct)

## Proceedings on Behalf of the Company

No proceedings have been brought on behalf of M2, nor has any application been made in respect of the Company under s.237 of the Corporations Act 2001.

## Non-Audit Services

During the year, M2's auditors, Ernst & Young, provided non-audit services to the Company. Details of amounts paid or payable to the auditor for non-audit services provided during the year by Ernst & Young are outlined below:

<b>Non-Audit Service</b>	<b>Amount Paid or Payable</b>
Due diligence services	\$93,000
<b>TOTAL</b>	<b>\$93,000</b>

In accordance with advice provided by M2's Audit Committee, the directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Also in accordance with advice from the Audit Committee, the directors are satisfied that this provision of non-audit services did not compromise the auditor's independence due to the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Codes of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## Auditor's Independence Declaration

The auditor's independence declaration, made under section 307C of the Corporations Act 2001 is included on page 22 of this report.

## Rounding Off of Amounts

M2 is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and in accordance with that Class Order, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the directors

Vaughan Bowen  
**Group Managing Director/CEO**

Melbourne, 25 August 2008



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## Auditor's Independence Declaration to the Directors of M2 Telecommunications Group Limited

In relation to our audit of the financial report of M2 Telecommunications Group Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'David Shewring'.

David Shewring  
Partner  
25 August 2008

Liability limited by a scheme approved  
under Professional Standards Legislation

# Corporate Governance Statement

M2 Telecommunications Group Limited ('M2') is a strong advocate for corporate governance. We believe in transparency, accountability and integrity for the benefit of our shareholders, employees, customers and all other interested stakeholders.

Since its listing on the ASX in October 2004, M2 continually reviews and refines its corporate governance policies and charters in light of the "Principles of Good Corporate Governance and Best Practice Recommendations", as developed by the ASX Corporate Governance Council ('ASX Guidelines' or 'recommendations').

During the financial year ended 30 June 2008, M2 believes it achieved reasonable compliance with the recommendations based on M2's circumstances, its size and activities. Where recommendations have not been implemented, a full explanation is disclosed, based upon the "if not, why not" approach adopted by the Council.

This statement has been drafted in accordance with the revised ASX Guidelines, as published by the Council in August 2007.

## Principle 1: Lay solid foundations for management and oversight

The Board of Directors is accountable to shareholders for the proper management of the business and affairs of M2. The Board and executives use their diverse skills to work together to consistently operate in the best interests of the Company.

The Board has confirmed its role and responsibilities in a written charter. They undertake the following functions and responsibilities:

- > approve, monitor and modify the strategic direction of M2;
- > ensure the principles of corporate governance are upheld and consistently reviewed;
- > monitor the performance of executives;
- > ratify the appointment or removal of the Group Managing Director and the Company Secretary;
- > ensure that appropriate risk management systems, internal control and reporting systems are in place and are operating effectively;
- > approve and monitor financial results;

- > approve decisions concerning acquisitions and capital, including capital restructures and dividend policies of M2; and
- > comply with the reporting and other requirements of the law.

The Board has delegated the daily financial and operational management to executives, who are responsible to the Board. They too operate in the interests of the Company and all its stakeholders.

In recent times, M2 has been reviewing its process for evaluating the performance of executives. Formal executive performance reviews take place in July/August each year, with performance assessed against key performance indicators relevant to each particular role within the business. Executive's performance was assessed in July 2007, in accordance with the relevant process adopted at that time.

The Nomination and Remuneration Committee is responsible for ensuring that Board and executive performance is assessed, and its effectiveness in improving deliverable outcomes.

## Principle 2: Structure the Board to add value

M2's Board comprises five (5) directors: Chairman, Group Managing Director/CEO and three (3) non-executive directors.

### Board Size

M2 is confident its current Board size is adequate, in reference to the size and structure of the Company and it allows the Board to effectively and efficiently discharge its role and responsibilities. The Board composition further provides a variety of perspectives and skills to enable the Board to add value to M2 and its subsidiaries.

### Skills, Experience & Expertise

The skills, experience and expertise relevant to the position of director, held by each of M2's directors at the date of this Statement, is detailed in the Directors' Report.

### Term of Office

The term of office for each director during the reporting year is detailed in the Directors' Report.



### Director Independence

An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

In considering whether a director is independent, the Board has regard to the series of relationships affecting independence, as outlined in Principle 2, and the interests disclosed by them. Based upon this information, the following table outlines the independent status of each M2 director:

Director	Title	Independent?	Reason
<b>Craig Farrow</b>	Chairman	Yes	Independent from management and free of any material(1) business or other relationship
<b>Vaughan Bowen</b>	Group Managing Director/CEO	No	Employed in an executive capacity and a substantial shareholder of the Company
<b>Max Bowen</b>	Non-Executive Director	No	Former substantial shareholder of the Company, and father of Vaughan Bowen
<b>Dennis Basheer</b>	Non-Executive Director	No	A substantial shareholder of the Company
<b>John Hynd</b>	Non-Executive Director	Yes	Independent from management and free of any material(1) business or other relationship

(1) The Company considers materiality in the context of annual consolidated revenue

Whilst ASX Guidelines recommend that the board should consist of a majority of independent directors, the Company believes that the individuals on the M2 Board make quality and independent judgments at all times and act in the best interests of all relevant stakeholders.

### Chairman

The Chair of M2, Mr Craig Farrow, is classed as an independent director (in accordance with ASX Guidelines). Mr Farrow is responsible for the leadership of the Board and for the efficient organisation and conduct of the Board's functioning.

### Separate Role of Chair & CEO

In accordance with ASX Guidelines, the role of the Chair and Group Managing Director/CEO is not exercised by the same individual, with Craig Farrow acting as Chair for the Company, and Vaughan Bowen as Group Managing Director/CEO. The Chair and CEO have clear lines of responsibility and accountability.

### Independent Advice & Access to Company Secretary

Each member of the Board and the Board Committees has the right to seek independent legal and other professional advice, at M2's expense, concerning any aspect of the Company's operation or undertakings, if it is considered necessary for the execution of their functions and responsibilities.

Executives supply the Board with information and reports on a regular basis as part of Board reporting. The directors are entitled to request additional information and are encouraged to contact an executive where further information or clarification is required.

The Company Secretary is appointed by and reports to the Board on all corporate governance issues. Ms Dean is responsible for the provision of timeframes and information to enable the Board to effectively discharge its duties and responsibilities. All directors, and Board committees, have access to Ms Dean to assist them in carrying out their role.

### Nomination and Remuneration Committee

The selection and appointment process of future directors is deemed to be the responsibility of the whole Board. However, M2 has established a Nomination and Remuneration Committee for the purpose of identifying potential candidates for Board selection. In nominating candidates, the Committee shall take into consideration such factors as judgement, skill, diversity and experience and also the extent to which the candidate would be a desirable addition to the Board and any Board Committee.

During the financial year, the Nomination and Remuneration Committee consisted of three (majority independent) non-executive directors:

John Hynd (Chair)  
 Craig Farrow  
 Dennis Basheer

The role and responsibilities of the Nomination and Remuneration Committee are detailed in the Nomination and Remuneration Committee Charter. The meetings and attendance of the Board Committees are detailed in the Directors' Report .

M2 does not have a formal written policy for the appointment of new directors. The Company's Constitution does, however, detail the formal selection and removal procedures of directors.

### **Evaluating Board Performance**

The Nomination and Remuneration Committee is responsible for the establishment of process for Board evaluation, with the Chairman also providing leadership in the execution of any review.

In recent times, M2 has been reviewing its process for evaluating the performance of the Board, its committees and individual directors. The Board undertook an evaluation in November 2007, with all directors providing input on the effectiveness of board processes, meetings, board composition and reporting. This took the form of a questionnaire, with directors having an opportunity to discuss and comment on such matters with the Chairman. The Board will continue to review and implement additional board review mechanisms over the coming year.

The Company has implemented an education policy for its directors, with each director having access to an allowance of \$2,000 per year for the purpose of attending and/or participating in professional development activities relevant to their duties as a director.

### **Principle 3: Promote ethical and responsible decision making**

#### **Code of Conduct**

All directors, executives and employees of M2 are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. A Code of Conduct has been established, which guides directors, executives and employees in the performance of their duties.

#### **Share Trading**

M2's policy in the trading of securities regulates dealings by the Company's directors, executives and employees in shares issued by M2. Consistent with legal prohibitions relating to insider trading, all of M2's directors, executives and employees are prohibited from trading in the Company's shares whilst in possession of unpublished price sensitive information which concerns M2.

The policy also prohibits the trading in securities during the following "black-out" periods:

1. Between 1 January each year until such time as the half year financial results of the Company are released to ASX; and
2. Between 1 July of each year until such time as the full year financial results of the Company are released to ASX.

### **Principle 4: Safeguard integrity in financial reporting**

M2 is committed to safeguarding the integrity of its financial reporting. Structures and procedures are in place to ensure the truthful and factual presentation of the Company's financial position. The Board also undertakes to monitor and assess the integrity of the financial reports.

### **Audit Committee**

M2's Audit Committee is responsible for reviewing the Company's policies and procedures for compliance with international reporting standards; reviewing audit plans; accounting policies and the integrity of the financial reports and ensuring the independence of external auditors.

During the reporting year, the Audit Committee consisted of two non-executive directors, Craig Farrow (Chair) and John Hynd.

Whilst the ASX Guidelines recommend that this Committee should exist with a minimum of three directors, of which a majority are independent, it is felt that the size of the Board renders this unnecessary. M2 is confident that its current Committee members bring valuable knowledge, skills and experience to Committee deliberations. Further, despite the Chair also being the Chair of the Board, Mr Farrow is the most appropriate director to fulfil this role, having regard to his qualifications and extensive financial accounting knowledge and skills.

The Audit Charter details the Committee's role and responsibilities, composition, structure and membership requirements. Further, it also contains information on the procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners.

The meetings and attendance of the Audit Committee are detailed in the Directors' Report.

### **Principle 5: Make timely and balanced disclosure**

In compliance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules, M2 is committed to the principles of timely and balanced disclosure through the adoption and adherence of a comprehensive Continuous Disclosure Policy.

M2's Group Managing Director and the Company Secretary, carry the responsibility and accountability to ensure the principles of continuous disclosure are upheld and maintained. They ensure ASX and media releases are timely, reviewed, do not omit any material information and that they are factual and presented in a clear and balanced way.

### **Principle 6: Respect the rights of shareholders**

M2 recognises the importance of this principle and will at all times strive to communicate regularly and clearly with shareholders.

The investor relations section of M2's website clearly details and provides links to all of M2's ASX and company releases, general meeting information, financial reports and investor presentations. This is updated regularly to ensure shareholders have ready access to Company information.



M2's Continuous Disclosure Policy promotes positive communication with shareholders, outlining the Company's commitment to its obligations relating to the communication of price sensitive information.

Shareholders are encouraged to attend and participate at general meetings. They must also vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to M2's Constitution.

M2 will arrange for its external auditors to always attend the Annual General Meeting and to be readily available to answer shareholder's questions about the conduct of the audit and the preparations and content of the auditor's report.

### Principle 7: Recognise and manage risk

The Board, together with executives, constantly seeks to identify, monitor and mitigate risk.

The following risk management controls are currently embedded in M2's management and reporting systems:

- > a comprehensive annual insurance program;
- > an internal audit function;
- > annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- > careful review of all agreements and legal documentation;
- > crisis management systems for M2 IT systems; and
- > strategic and operational plans.

The Board recognises that ASX Guidelines provide for a number of specific recommendations relating to risk management, however, the Company's rapid growth during the financial year has meant that risk management policies have not yet been formalised. Over the coming 12 months, M2 will be reviewing its risk management system and developing additional policies for the management of material business risks.

Prior to the approval and release of the Company's annual financial results, M2's Group Managing Director and Chief Financial Officer are required to state to the Board, in writing, that:

- (i) the integrity of financial statements is founded on a sound system of risk management and internal compliance and control; and
- (ii) M2's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

### Principle 8: Remunerate fairly and responsibly

M2's current remuneration practices are set to enable the Company to attract and retain highly talented and motivated directors, executives and employees.

The Remuneration Report details and discloses the annual remuneration for key management personnel of M2.

M2 has established a Nomination and Remuneration Committee to assist the Board to adopt and review remuneration policies which will:

- > enable M2 to attract and retain directors (executive and non-executive) and executives who will create sustainable value for shareholders and other stakeholders; and
- > fairly and responsibly reward executives and directors, having regard to the performance of the Group, the performance of the individual and the external compensation environment.

The role and responsibilities of the Nomination and Remuneration Committee are detailed in the Nomination and Remuneration Committee Charter. As mentioned previously, this Committee consisted of three non-executive directors, John Hynd (Chair), Craig Farrow and Dennis Basheer. Details relating to the meetings held during the financial year are contained within the Directors' Report.

Fees paid to non-executive directors are detailed in the Remuneration Report. They are paid their fees in cash. They do not receive any bonus payments nor are they entitled to any termination payment upon retirement or resignation.

M2's equity-based remuneration is made in accordance with thresholds approved by shareholders. Shareholders approved the Company's Employee Share Plan in October 2007, and further approved the issue of 500,000 Options to the Group Management Director/CEO, pursuant to the M2 Executive Management Team Option Plan.

Further details relating to monetary and non-monetary remuneration components for directors and executives can be found in the Remuneration Report.

### Disclosure of Corporate Governance Policies and Charters

ASX Guidelines provide that corporate governance policies and charters should be disclosed (or a summary thereof) on the Company's website. Over the coming 12 months, M2 will be reviewing its policies and charters, with a view to updating to reflect the Company's growth in size and shareholder base. The Investor Relations section of the M2 website will also be included in such a review.

# Financial Statements

## INCOME STATEMENT

For the year ended 30 June 2008

	Notes	CONSOLIDATED		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Revenue</b>	6(a)	109,213	43,794	4,252	1,853
Cost of Sales		(81,833)	(31,949)	-	-
Cost of goods sold (inventory)		(2,665)	(1,025)	-	-
<b>Gross Profit</b>		24,715	10,820	4,252	1,853
Employee benefits expense	6(b)	(9,572)	(4,217)	-	-
Depreciation & Amortisation	6(c)	(1,275)	(609)	-	-
Employee share option	24(a)	(449)	-	(449)	
Employee share loan	24(a)	(141)	-	(141)	
Other Expenses	6(d)	(5,446)	(2,540)	(495)	(304)
<b>Profit from continuing operations before tax and finance costs</b>		7,832	3,454	3,167	1,549
Finance costs	6(e)	(339)	(15)	-	-
<b>Profit from continuing operations before income tax</b>		7,493	3,439	3,167	1,549
Income tax expense	7	(2,336)	(1,032)	9	86
<b>Profit from continuing operations after income tax</b>		5,157	2,407	3,176	1,635
<b>Net profit attributable to members of the parent</b>		5,157	2,407	3,176	1,635
Total recognised income and expense for the period		5,157	2,407	3,176	1,635
Attributable to:					
Equity holders of the parent		5,157	2,407	3,176	1,635
		5,157	2,407	3,176	1,635
Earnings per share (cents)	9				
- basic for profit for the year		7.01	4.05		
- diluted for profit for the year		6.71	3.97		
- dividends paid per share	8	5.00	3.00		

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

# BALANCE SHEET

As at 30 June 2008

	Notes	CONSOLIDATED		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	10	6,893	2,649	55	27
Trade and other receivables	11	21,428	7,500	117	-
Inventories	12	300	60	-	-
Other current assets	13	1,422	830	13	10
<b>Total Current Assets</b>		<b>30,043</b>	<b>11,039</b>	<b>185</b>	<b>37</b>
<b>Non-Current Assets</b>					
Available for sale financial assets	14	2	6	-	-
Investments in controlled entities	15	-	-	2,955	2,955
Receivables	16	160	81	31,902	5,700
Deferred tax assets	7	2,787	1,045	29	167
Property, plant and equipment	17	1,291	844	-	-
Intangible assets and goodwill	18	32,710	8,711	-	-
<b>Total Non-Current Assets</b>		<b>36,950</b>	<b>10,687</b>	<b>34,886</b>	<b>8,822</b>
<b>Total Assets</b>		<b>66,993</b>	<b>21,726</b>	<b>35,071</b>	<b>8,859</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	19	25,739	11,686	121	66
Interest-bearing loans and borrowings	20	1,085	112	1,000	-
Deferred consideration	21	833	-	-	-
Income tax payable		-	186	-	186
Provisions	22	599	274	-	-
<b>Total Current Liabilities</b>		<b>28,256</b>	<b>12,258</b>	<b>1,121</b>	<b>252</b>
<b>Non-Current Liabilities</b>					
Interest-bearing loans and borrowings	20	9,082	160	9,000	-
Deferred consideration	21	1,667	-	-	-
Deferred tax liabilities	7	195	7	-	-
Provisions	22	179	11	-	-
<b>Total Non-Current Liabilities</b>		<b>11,123</b>	<b>178</b>	<b>9,000</b>	<b>-</b>
<b>Total Liabilities</b>		<b>39,379</b>	<b>12,436</b>	<b>10,121</b>	<b>252</b>
<b>Net Assets</b>		<b>27,614</b>	<b>9,290</b>	<b>24,950</b>	<b>8,607</b>
<b>Equity</b>					
Contributed equity	23	23,709	8,368	23,709	8,368
Reserves	24(a)	590	-	590	-
Retained earnings		3,315	922	651	239
<b>Total Equity</b>		<b>27,614</b>	<b>9,290</b>	<b>24,950</b>	<b>8,607</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	CONSOLIDATED				PARENT			
	Issued Capital \$000	Retained Earnings \$000	Employee equity benefit reserve \$000	Total Equity \$000	Issued Capital \$000	Retained Earnings \$000	Employee equity benefit reserve \$000	Total Equity \$000
<b>At 1 July 2006</b>	7,871	296	-	8,167	7,871	385	-	8,256
Profit for the period	-	2,407	-	2,407	-	1,635	-	1,635
<b>Total income / expense for the period</b>	-	2,407	-	2,407	-	1,635	-	1,635
Issue of share capital	497	-	-	497	497	-	-	497
Costs associated with share issue	-	-	-	-	-	-	-	-
Equity dividends	-	(1,781)	-	(1,781)	-	(1,781)	-	(1,781)
<b>At 30 June 2007</b>	<b>8,368</b>	<b>922</b>	-	<b>9,290</b>	<b>8,368</b>	<b>239</b>	-	<b>8,607</b>
<b>At 1 July 2007</b>	8,368	922	-	9,290	8,368	239	-	8,607
Profit for the period	-	5,157	-	5,157	-	3,176	-	3,176
<b>Total income / expense for the period</b>	-	5,157	-	5,157	-	3,176	-	3,176
Issue of share capital	15,341	-	-	15,341	15,341	-	-	15,341
Employee share option	-	-	449	449	-	-	499	449
Employee share loan	-	-	141	141	-	-	141	141
Costs associated with share issue	-	-	-	-	-	-	-	-
Equity dividends	-	(2,764)	-	(2,764)	-	(2,764)	-	(2,764)
<b>At 30 June 2008</b>	<b>23,709</b>	<b>3,315</b>	<b>590</b>	<b>27,614</b>	<b>23,709</b>	<b>651</b>	<b>590</b>	<b>24,950</b>

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



# STATEMENT OF CASH FLOW

For the year ended 30 June 2008

	Notes	CONSOLIDATED		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		97,817	47,084	-	-
Payments to suppliers and employees		(88,210)	(42,970)	(203)	(247)
Interest received		214	212	2	3
Interest paid		(339)	(15)	-	-
Income tax paid		(2,190)	(1,061)	(131)	(97)
Dividend received		-	-	4,250	1,850
<b>Net cash flows from operating activities</b>	10 (a)	<b>7,292</b>	<b>3,250</b>	<b>3,918</b>	<b>1,509</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of property, plant and equipment		(581)	(576)	-	-
Advances from /to subsidiary		-	-	(11,126)	(215)
Purchase of intangibles		(300)	(510)	-	-
Cash inflow from purchase of Orion Telecommunications	25	929	-	-	-
Cash outflow from purchase of Wholesale Communications Group	25	-	(846)	-	-
Cash outflow from purchase of Unitel Australia	25	(10,227)	-	-	-
<b>Net cash flows used in investing activities</b>		<b>(10,179)</b>	<b>(1,932)</b>	<b>(11,126)</b>	<b>(215)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowings		10,000	-	10,000	-
Repayment of borrowings		(105)	(1,098)	-	-
Dividends paid		(2,764)	(1,781)	(2,764)	(1,781)
<b>Net cash flows from financing activities</b>		<b>7,131</b>	<b>(2,879)</b>	<b>7,236</b>	<b>(1,781)</b>
Net increase/(decrease) in cash and cash equivalents		4,244	(1,561)	28	(487)
<b>Cash and cash equivalents at beginning of period</b>		<b>2,649</b>	<b>4,210</b>	<b>27</b>	<b>514</b>
<b>Cash and cash equivalents at end of period</b>	10	<b>6,893</b>	<b>2,649</b>	<b>55</b>	<b>27</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2008

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## 1. CORPORATE INFORMATION

The financial report of M2 Telecommunications Group Ltd (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 25 August 2008.

M2 Telecommunications Group Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The parent and ultimate parent of the Group is M2 Telecommunications Group Ltd.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) 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 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000), unless otherwise stated, under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

### (b) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008 are outlined in the following table:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Int. 4 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009



Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income.  Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	These amendments are not expected to have any impact on the Group's financial report as the Group does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009



Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	1 January 2009	<p>Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.</p> <p>In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.</p>	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009



M2 Telecommunications Group Ltd has adopted AASB 7 Financial Instruments; Disclosures and consequential amendments which became applicable on 1 July 2007. The adoption of this standard has only affected disclosures in these financial statements. There has been no affect on profit and loss or financial position of the entity.

#### **(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of M2 Telecommunications Group Ltd and its subsidiaries as at 30 June each year ("the Group"). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by M2 Telecommunications Group Ltd are accounted for at cost in the separate financial statements of the parent entity. The acquisition of subsidiaries is accounted for using the purchase price method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which M2 Telecommunications Group Ltd has control.

#### **(d) Business Combinations**

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published price at the date of the exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less cost to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination

over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where settlement is performance based, obligation is taken up when it is considered probable that the payment will occur and that the consideration can be measured reliably based on expectations.

#### **(e) Segment reporting**

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. Management has assessed the reportable business segments under AASB 114 Segment Reporting and have determined that an adoption of AASB 8 Segment Reporting (applicable from 1 January 2009), additional operating segments will most likely be reported. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

#### **(f) Foreign currency translation**

Both the functional and presentation currency of M2 Telecommunications Group Ltd and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

#### **(g) Cash and cash equivalents**

Cash and cash equivalents deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

#### **(h) Trade and other receivables**

Trade receivables, which generally have 14-60 day terms, are recognised and carried at amortised cost which is at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### **(i) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs are accounted for on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **(j) Investments and other financial assets**

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs.

#### *Recognition and derecognition*

All regular way purchases and sales of financial assets are recognised on the trade date ie. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

#### *(i) Loans and receivables*

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gain and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *(ii) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

#### **(k) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 2 to 10 years.

Motor vehicles - over 4 years determined by the life of the lease.

Lease equipment - over 2 to 5 years, determined by the life of the lease.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### *(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. 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 assessment of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash generating units exceeds its estimated recoverable amount.



The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the depreciation line item.

#### *(ii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

### **(l) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

### **(m) Derecognition of financial assets and financial liabilities**

#### *(i) Financial Assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

#### *(ii) Financial liabilities*

Financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### **(n) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.



Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

#### **(o) Intangible assets**

##### *Acquired both separately and from a business combination*

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Amortisation is charged on assets with finite lives. This expense is taken to the income statement. Trademarks, licenses and customer contractual intangibles are amortised over the period of expected future sales from the related asset. Intangible assets include software purchased and are amortised over a period of between 2 years and 4 years, being the estimated life of the asset.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### **(p) Impairment of financial assets**

##### *(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount

of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### *(ii) Available-for-sale investments*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### **(q) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **(r) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised the fair value of the consideration received less directly attributable transaction costs.



After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

#### **(s) Provisions and employee leave benefits**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting using a current pre tax rate that reflects the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance costs.

The increase in the provision due to the passage of time is recognised as a borrowing cost.

##### *Employee leave benefits*

###### *(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

###### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### **(t) Share-based payment transactions**

##### *(i) Equity settled transactions:*

The Group provides benefits to its employees in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives; and
- the Employee Share Loan Plan (ESLP), which provides benefits to all employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of M2 Telecommunications Group Ltd if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by M2 Telecommunications Group Ltd to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by M2 Telecommunications Group Ltd in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Shares in the Group reacquired on-market and held by the ESLP are classified and disclosed as reserved shares and deducted from equity.

#### **(u) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### **(v) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

##### *(ii) Rendering of services*

Where the contract outcome can be reliably measured:

- Control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured.

Where the contract outcome cannot be reliably measured:

- Revenue is recognised only to the extent of the expenses recognised that are recoverable.

##### *(iii) Interest*

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

##### *(iv) Licence Fees*

Licence fees are brought to account as revenue in accordance with the terms of the licence agreement when substantially all obligations arising from the licence arrangement have been fulfilled.

##### *(v) Rental Revenue*

Rental income from operating leases is recognised on a straight line basis over the lease term.

##### *(vi) Dividends*

Revenue is recognised when the Group's right to receive payment is established.

#### **(w) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

#### **(x) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all taxable temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary difference except:

- when the deferred liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences is associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Tax consolidation legislation*

##### *(i) Members of the tax consolidated group and the tax sharing arrangement*

M2 Telecommunications Group Ltd and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2004. M2 Telecommunications Group Ltd is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement.

The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

At the balance date, the possibility of default is remote.

##### *(ii) Tax effect accounting by members of the tax consolidated group*

M2 Telecommunications Group Ltd and its 100% owned Australian resident subsidiaries within the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises 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. The allocation of taxes to the head entity is recognized as an increase/decrease in the controlled entities inter-company accounts with the tax consolidated Group head entity.

##### **(y) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

## (z) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The purpose is to manage the financial risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Audit and Risk Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

## Risk Exposures and Responses

### Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 25 and note 26.

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
<b>Financial Assets</b>				
Cash and cash equivalents	6,893	2,649	55	27
<b>Financial Liabilities</b>				
Interest bearing loans (Current and non-current)	10,167	272	10,000	-
<b>Net exposure</b>	<b>(3,274)</b>	<b>2,377</b>	<b>(9,945)</b>	<b>27</b>



### *Sensitivity Analysis*

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	<b>Net Profit</b>		<b>Net Assets</b>	
	<b>Higher / (Lower)</b>		<b>Higher / (Lower)</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Consolidated</b>				
+ 1.0% (100 basis points)	(33)	24	(33)	24
- 0.5% (50 basis points)	16	(12)	16	(12)
<b>Parent</b>				
+ 1.0% (100 basis points)	(99)	-	(99)	-
- 0.5% (50 basis points)	50	-	50	-

### *Fair values*

The carrying amounts and fair values of all the Group's financial instruments recognised in the financial statements are equal. Market values have been used to determine the fair value listed available-for-sale investments. The fair values of borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.



### *Credit Risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and available for sales financial assets. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameter set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise risk of default of counterparties.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, trade receivables, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance sheet date is addressed in each applicable note.

The Group trades only with recognised, credit worthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentration of credit risk with the Group.

### *Liquidity Risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities, bank loans, finance leases and committed available credit lines.

The Group minimises liquidity risk by maintaining a significant level of cash and equivalents as well as ensuring the Group has access to the use of credit facilities as required.

### *Maturity analysis of financial assets and liabilities*

The risks implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property plant and equipment and investments in working capital.

<b>Year ended 30 June 2008</b>	<b>&lt; 6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>TOTAL</b>
<b>2008 Consolidated</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	6,893	-	-	6,893
Trade and other receivables	21,428	-	-	21,428
<b>Financial Liabilities</b>				
Trade and other payables	25,739	-	-	25,739
Interest bearing loans and borrowings	1,483	482	11,209	13,174
<b>Net maturity</b>	<b>1,099</b>	<b>(482)</b>	<b>(11,209)</b>	<b>(10,592)</b>
<b>2007 Consolidated</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	2,649	-	-	2,649
Trade and other receivables	7,500	-	-	7,500
<b>Financial Liabilities</b>				
Trade and other payables	11,686	-	-	11,686
Interest bearing loans and borrowings	57	55	160	272
<b>Net maturity</b>	<b>(1,594)</b>	<b>(55)</b>	<b>(160)</b>	<b>(1,809)</b>
<b>2008 Parent</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	55	-	-	55
Trade and other receivables	117	-	-	117
<b>Financial Liabilities</b>				
Trade and other payables	121	-	-	121
Interest bearing loans and borrowings	1,440	440	11,127	13,007
<b>Net maturity</b>	<b>(1,389)</b>	<b>(440)</b>	<b>(11,127)</b>	<b>(12,956)</b>
<b>2007 Parent</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	27	-	-	27
<b>Financial Liabilities</b>				
Trade and other payables	66	-	-	66
Interest bearing loans and borrowings	-	-	-	-
<b>Net maturity</b>	<b>(39)</b>	<b>-</b>	<b>-</b>	<b>(39)</b>

At balance date, the Group has available approximately \$3.87 million of unused credit facilities available for its immediate use.



#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

##### Significant accounting judgements

###### *Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumption about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount

of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax asset and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

##### Significant accounting estimates and assumptions

###### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

###### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

#### 5. SEGMENT REPORTING

The Group's primary segment reporting format is by business units, as the Group's risks and rates of return are affected predominantly by differences in the markets served by these business units. Secondary segment information is reported geographically.

The operating business units are organised and managed separately according to the nature of the market each business unit serves, with each segment representing a strategic business unit that offers different products and serves different markets.

The Retail business segment offers unique packaged telecommunications services, targeted particularly to small and medium sized enterprises, offering fixed line voice services, including line rental services, mobile voice and data services, full service IT, terrestrial dial-up and high speed broadband internet services as well as mobile telephone hardware.

The Wholesale business segment offers the full suite of fixed line voice services, including line rental services, mobile voice and data services, terrestrial dial-up and high speed broadband internet services and mobile telephone hardware to the telecommunications reseller market at wholesale rates.



Transfer prices between business segments are set at an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

### Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007.

#### (a) Primary Segment

Business Segments	Retail		Wholesale		Unallocated		Total	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Revenue</b>								
Sales to external customers	51,850	33,321	57,363	10,473	-	-	109,213	43,794
Other revenues from external customers	-	-	-	-	-	-	-	-
Inter-segment sales	-	-	-	-	-	-	-	-
Total segment revenue	51,850	33,321	57,363	10,473	-	-	109,213	43,794
<b>Results</b>								
Segment result	4,763	3,104	2,730	335	-	-	7,493	3,439
Profit /(loss) before income tax							7,493	3,439
Income tax expense							(2,336)	(1,032)
Net Profit for the year							5,157	2,407
<b>Assets and Liabilities</b>								
Total segment assets	30,931	14,495	35,711	7,027	234	204	66,876	21,726
Total segment liabilities	7,731	7,591	21,656	4,594	9,875	251	39,262	12,436
<b>Other segment information</b>								
Capital expenditure	554	575	27	1	-	-	581	576
Depreciation	335	444	206	10	-	-	541	454
Amortisation	507	155	227	-	-	-	734	155
Other non cash expenses	-	-	-	-	-	-	590	291
<b>Cash Flow Information</b>								
Net Cash Flow from operating activities	6,365	3,614	3,118	697	(2,191)	(1,061)	7,292	3,250
Net Cash Flow from investing activities	352	(1,079)	(10,531)	(853)	-	-	(10,179)	(1,932)
Net Cash Flow from financing activities	3,717	-	6,178	(1,098)	(2,764)	(1,781)	7,131	(2,879)

*b) Secondary Segment*  
*Geographical segments*

The Group's geographical segments are determined based on the location of the Group's assets.

The following table presents revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2008 and 30 June 2007.

Geographical Segments	AUSTRALIA		OUTSIDE AUSTRALIA		TOTAL	
	2008	2007	2008	2007	2008	2007
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>						
Sales to external customers	106,934	43,036	2,279	758	109,213	43,794
Other revenue from external customers	-	-	-	-	-	-
<b>Segment revenue</b>	<b>106,934</b>	<b>43,036</b>	<b>2,279</b>	<b>758</b>	<b>109,213</b>	<b>43,794</b>
<b>Other segment information</b>						
Segment Assets	66,471	21,457	405	269	66,876	21,726
Total Assets	66,471	21,457	405	269	66,876	21,726
Capital Expenditure	581	646	-	6	581	652

## 6: REVENUE AND EXPENSES

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>(a) Revenue</b>				
- Rendering of services	107,838	41,862	-	-
- Licence and other income	1,099	1,695	-	-
- Interest received	259	219	2	3
- Other revenue	17	18	-	-
- Dividends				
- Subsidiaries	-	-	4,250	1,850
	109,213	43,794	4,252	1,853
<b>(b) Employee benefits expense</b>				
Wages and salaries	7,995	3,788	-	-
Defined contribution superannuation expense	745	368	-	-
Annual leave provision	689	48	-	-
Long service leave provision	143	13	-	-
	9,572	4,217	-	-
<b>(c) Depreciation &amp; amortisation included in the income statement</b>				
Depreciation	541	454	-	-
Amortisation of patents and licences	579	155	-	-
Amortisation of identifiable intangible assets	155	-	-	-
	1,275	609	-	-
<b>(d) Other expenses</b>				
Business Development, Selling & Marketing	929	475	-	-
Facilities & Equipment	1,328	593	-	-
Consulting	1,034	229	-	-
Corporate Costs	573	292	472	292
Bank & Merchant Fees	620	336	-	-
Bad Debts	519	230	-	-
Other	443	385	23	12
	5,446	2,540	495	304
<b>(e) Finance costs</b>				
Finance charges payable under finance leases and hire purchase contracts	23	15	-	-
Bank loans and overdrafts	316	-	-	-
	339	15	-	-

## 7. INCOME TAX

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>(a) Income tax expense</b>				
The major components of income tax expense are:				
<b>Income Statement</b>				
<i>Current income Tax</i>	-	-	-	-
<i>Current income tax charge</i>	2,472	1,297	(148)	(75)
<i>Deferred income tax</i>	-	-	-	-
Relating to origination and reversal of temporary differences	(136)	(265)	139	(11)
Income tax expense reported in the income statement	2,336	1,032	(9)	(86)

### (b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable tax rate is as follows:

Accounting profit before income tax	7,493	3,439	3,757	1,549
At the Group's statutory income tax rate of 30% (2007: 30%)	2,248	1,032	1,127	465
Expenditure not allowable for income tax purposes	9	27	-	(6)
Share based payments	177	-	-	-
Dividend income	-	-	(1,275)	(555)
Other	(98)	(27)	139	10
Income tax expense/(benefit) reported in the consolidated income statement	2,336	1,032	(9)	(86)

**(c) Recognised deferred tax assets and liabilities**

	CONSOLIDATED				PARENT			
	2008	2008	2007	2007	2008	2008	2007	2007
	Current Income Tax \$000	Deferred Income Tax \$000	Current Income Tax \$000	Deferred Income Tax \$000	Current Income Tax \$000	Deferred Income Tax \$000	Current Income Tax \$000	Deferred Income Tax \$000
Opening Balance	(186)	1,038	(1,205)	772	(186)	167	(1,205)	156
Charge to income	(1,887)	(449)	(1,309)	266	147	(138)	75	11
Charged to equity	-	-	-	-	-	-	-	-
Other payments	2,190	-	1,061	-	131	-	944	-
Acquisitions	-	1,977	1,267	-	-	-	-	-
Other	-	26	-	-	25	-	-	-
Closing Balance	117	2,592	(186)	1,038	117	29	(186)	167
Tax expense in income statement		2,336		1,032		(9)		(86)
Amounts recognised in the balance sheet:								
Deferred Tax Asset		2,787		1,045		29		167
Deferred Tax Liability		(195)		(7)		-		-
		2,592		1,038		29		167

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000

Deferred income tax at 30 June relates to the following:

*Deferred tax assets*

Trade and other receivables	227	-	-	-
Intangibles	141	113	-	-
Trade and other payables	829	932	29	167
Tax losses	1,590	-	-	-
Gross deferred tax assets	2,787	1,045	29	167

*Deferred Tax Liabilities*

Other assets	161	7	-	-
Trade and other payables	34	-	-	-
Gross deferred tax liabilities	195	7	-	-

Deferred tax assets are recognised for deductible temporary differences as management considers that it is possible that future taxable profits will be available to utilise those temporary differences.

## 8: DIVIDENDS PAID AND DECLARED

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Paid during the year</i>				
Dividends on ordinary shares:				
Final franked dividends for 2007: 2.00 cents (2006: 2.00 cents)	1,187	1,187	1,187	1,187
Interim franked dividends for 2008: 2.00 cents (2007: 1.00 cents)	1,577	594	1,577	594
	2,764	1,781	2,764	1,781
<i>Declared (not recognised as a liability as at 30 June 2008)</i>				
Dividends on ordinary shares:				
Final franked dividends for 2008: 3.00 cents (2007: 2.00 cents)	2,367	1,187	2,367	1,187

### Franking credit balance

The amount of franking credits available for the subsequent financial year are:

	2008	2007
	\$'000	\$'000
- franking account balance as at the end of the financial year at 30% (2007:30%)	2,301	1,632
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,133	420
	3,434	2,052
The amount of franking credits available for future reporting periods:		
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during period	1,014	509
	2,420	1,543

The tax rate at which paid dividends have been franked is 30% (2007: 30%).

Dividends proposed will be franked at the rate of 30% (2007: 30%).

## 9: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holder of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:



**CONSOLIDATED**

**(a) Earnings used in calculating earnings per share**

	<b>2008</b>	<b>2007</b>
	\$	\$
For basic and diluted earnings per share:		
Net profit from continuing operations attributable to ordinary equity holders of the parent	5,157	2,407

**(b) Weighted average number of shares**

	<b>2008</b>	<b>2007</b>
	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	73,579	59,482
Effect of dilution:		
Share Options	3,267	1,160
Weighted average number of ordinary shares adjusted for the effect of dilution	76,846	60,642
There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements		

**10: CASH AND CASH EQUIVALENTS (CURRENT)**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$000	\$000	\$000	\$000
Cash at bank and in hand	5,377	714	55	27
Short-term deposit	1,516	1,935	-	-
	<b>6,893</b>	<b>2,649</b>	<b>55</b>	<b>27</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Included within Short-term deposits is an amount of \$1.44 million which is held in trust for the Phone & Fly travel dollars loyalty program.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Reconciliation of net profit after tax to net cash flows from operations</b>				
Net Profit	5,157	2,407	3,176	1,635
<i>Adjustment for:</i>				
Amortisation of intangible assets	578	155	-	-
Amortisation of identifiable intangible assets	155	-	-	-
Share option and ESP fair value	590	-	590	-
Depreciation	541	454	-	-
Disposal of assets	-	21	-	-
<i>Changes in assets and liabilities</i>				
Increase / (Decrease) in provisions	493	61	-	-
(Increase) / Decrease in trade and other receivables	(11,598)	219	-	(253)
(Increase) / Decrease in other assets	2,672	(361)	(3)	2
(Increase) / Decrease in other receivables	(75)	199	-	8
(Increase) / Decrease in inventories	(178)	17	-	-
(Increase) / Decrease in deferred tax assets	(1,742)	(273)	138	-
Increase / (Decrease) in deferred tax liabilities	188	-	-	-
Increase / (Decrease) in income tax payable	(303)	(1,019)	(432)	97
Increase / (Decrease) in trade and other payables	10,814	1,370	449	20
Net cash flow from operating activities	7,292	3,250	3,918	1,509

## 11: TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Trade receivables	22,104	9,313	-	-
Allowance for impairment loss (a)	(676)	(1,813)	-	-
	21,428	7,500	-	-

### (a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14-60 day terms. An allowance for impairment loss is made when there is objective evidence that a trade receivable is impaired. An impairment loss of \$519 thousand (2007: \$230 thousand) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Movements in the provision for impairment loss were as follows:

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>At 1 July</b>	1,813	523	-	-
Charge for the year	519	230	-	-
Amounts written off	(1,656)	(431)	-	-
Adjustment to provision	-	1,491	-	-
<b>At 30 June</b>	<b>676</b>	<b>1,813</b>	<b>-</b>	<b>-</b>

At 30 June, the ageing analysis of trade receivables is as follows:

	As at 30 June 2008		As at 30 June 2007	
	Gross	Allowance	Gross	Allowance
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
Current	19,789	-	6,517	-
31 – 60 days	431	-	137	-
61 – 90 days	259	-	136	-
91 days and over	1,625	676	2,520	1,813
Closing Balance	22,104	676	9,310	1,813
<b>Parent</b>				
Current	-	-	-	-
31 – 60 days	-	-	-	-
61 – 90 days	-	-	-	-
91 days and over	-	-	-	-
Closing Balance	-	-	-	-

As at 30 June 2008 the consolidated entity had debts that were past due but not doubtful in the amount of \$1.6 million (2007: \$983 thousand). These trade receivables comprise trade receivables that have a good debt history and are considered recoverable. The past due but not doubtful balance of \$1.6 million (2007: \$983 thousand) consists of \$431 thousand in 31 to 60 days (2007: \$137 thousand), \$259 thousand in 61 to 90 days (2007: \$136 thousand) and \$949 thousand in 90 days and over (2007: \$710 thousand).

## 12: INVENTORIES (CURRENT)

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Finished goods (at cost)	300	60	-	-
Total inventories at the lower of cost and net realisable value	300	60	-	-

## 13: OTHER ASSETS

Bartercard Trade Balance	383	592	-	-
Prepayments	1,039	238	13	10
<b>Total Other Assets</b>	<b>1,422</b>	<b>830</b>	<b>13</b>	<b>10</b>

## 14: AVAILABLE FOR SALE FINANCIAL ASSETS

At fair value					
Shares (Australian listed) - Investment in shares in BBX Ltd	(a)	2	6	-	-

Available-for-sale investments consist of in ordinary shares, and therefore have no fixed maturity date or coupon rate.

### (a) Listed Shares

The fair valued of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

## 15: INVESTMENTS IN CONTROLLED ENTITIES (NON-CURRENT)

Investments in controlled entities (note 27) - at cost	-	-	2,955	2,955
	-	-	2,955	2,955

## 16: RECEIVABLES (NON-CURRENT)

Other Receivables	160	81	141	-
Amount due from related companies	-	-	31,761	5,700
	160	81	31,902	5,700

The amount due from related companies represents advances to finance the acquisition of indirect interest in subsidiary, which is non-interest bearing. It forms part of the net investments in subsidiaries, which is eliminated on consolidation.

## 17: PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)

	CONSOLIDATED		PARENT	
	Plant and equipment \$000	Total \$000	Plant and equipment \$000	Total \$000
<b>Year ended 30 June 2008</b>				
At 1 July 2007,				
net of accumulated depreciation and impairment	844	844	-	-
Additions	581	581	-	-
Acquisition of subsidiary	407	407	-	-
Depreciation charge for the year	(541)	(541)	-	-
At 30 June 2008,				
net of accumulated depreciation and impairment	1,291	1,291	-	-
<b>At 30 June 2008</b>				
Cost or fair value	2,347	2,347	-	-
Accumulated depreciation and impairment	(1,056)	(1,056)	-	-
Net carrying amount	1,291	1,291	-	-



The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2008 is \$156 thousand (2007: \$234 thousand). There was no addition or disposal of plant and equipment held under finance leases and hire purchase contracts during the year included (2007: \$158 thousand and \$21 thousand respectively).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

	CONSOLIDATED		PARENT	
	Plant and equipment \$000	Total \$000	Plant and equipment \$000	Total \$000
<b>Year ended 30 June 2007</b>				
At 1 July 2006,				
net of accumulated depreciation and impairment	514	514	-	-
Additions	576	576	-	-
Acquisition of subsidiary	454	454	-	-
Disposals	(21)	(21)	-	-
Transfers	(225)	(225)	-	-
Depreciation charge for the year	(454)	(454)	-	-
At 30 June 2007,				
net of accumulated depreciation and impairment	844	844	-	-
<b>At 1 July 2006</b>				
Cost or fair value	1,578	1,578	-	-
Accumulated depreciation and impairment	(1,064)	(1,064)	-	-
Net carrying amount	514	514	-	-
<b>At 30 June 2007</b>				
Cost or fair value	1,381	1,381	-	-
Accumulated depreciation and impairment	(537)	(537)	-	-
Net carrying amount	844	844	-	-

## 18: INTANGIBLE ASSETS AND GOODWILL (NON-CURRENT)

	<b>CONSOLIDATED</b>			
	<b>Trade marks &amp; Licenses</b>	<b>Identifiable Intangible Assets</b>	<b>Goodwill</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Year ended 30 June 2008</b>				
At 1 July 2007, net of accumulated amortisation and impairment	1,294	-	7,417	8,711
<u>Additions</u>				
Software	300	-	-	300
Customer Contracts – WCG	-	478	(478)	-
Goodwill – Orion	-	-	12,186	12,186
Goodwill - Unitel	-	-	12,727	12,727
Total additions	300	478	24,435	25,213
Adjustment to fair value from provisional accounts	-	-	(480)	(480)
Amortisation	(579)	(155)	-	(734)
At 30 June 2008, net of accumulated amortisation and impairment	1,015	323	31,372	32,710
<b>At 30 June 2008</b>				
Cost (gross carrying amount)	2,483	478	31,852	34,813
Adjustment to fair value from provisional accounts	-	-	(480)	(480)
Accumulated amortisation and impairment	(1,468)	(155)	-	(1,623)
Net carrying amount	1,015	323	31,372	32,710
<b>At 1 July 2006</b>				
Cost (gross carrying amount)	1,230	-	2,087	3,317
Accumulated amortisation and impairment	(516)	-	-	(516)
Net carrying amount	714	-	2,087	2,801
<b>Year ended 30 June 2007</b>				
At 1 July 2006, net of accumulated amortisation and impairment	714	-	2,087	2,801
Additions	510	-	5,330	5,840
Transfers	225	-	-	225
Amortisation	(155)	-	-	(155)
At 30 June 2007, net of accumulated amortisation and impairment	1,294	-	7,417	8,711
<b>At 30 June 2007</b>				
Cost (gross carrying amount)	2,183	-	7,417	9,600
Accumulated amortisation and impairment	(889)	-	-	(889)
Net carrying amount	1,294	-	7,417	8,711

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Cash Generating Units				
<i>(i) Goodwill</i>				
Protel Communications International Pty Ltd	2,087	2,087	-	-
Wholesale Communications Group Pty Ltd	4,372	5,330	-	-
Orion Telecommunications Ltd	12,186	-	-	-
Unitel Australia Pty Ltd	12,727	-	-	-
Total Goodwill	31,372	7,417	-	-
<i>(ii) Identifiable Intangibles</i>				
Wholesale Communications Group Pty Ltd – Customer Contracts	478	-	-	-
Wholesale Communications Group Pty Ltd – Customer Contracts Accumulated Amortisation	(155)	-	-	-
Total Identifiable Intangibles	323	-	-	-

## (a) Description of the Group's intangible assets and goodwill

### *(i) Trademarks and licences*

This category includes intangible assets including the following:

#### *1) Messagemate licence*

The Messagemate licence is the right to exploit certain intellectual property acquired in connection with the acquisition of the Messagemate business. In September 2003 the rights were assigned to a third party for a fixed amount of consideration receivable over a period. The asset is amortised over the period of the contract, being 8 years.

#### *2) Purchased software*

Software purchased in the normal course of business is amortised over a 2 to 4 year period.

### *(ii) Goodwill*

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Goodwill acquired through business combinations and patents and licences is allocated to the Protel cash generating unit.

### *Cash generating unit*

The recoverable amount of the cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The pre-tax discount rate applied to cash flow projections is 13.18% (2007: 12%).

The cash generating units include the following:

- (a) Protel cash generating unit
- (b) WCG cash generating unit
- (c) Orion cash generating business
- (d) Unitel cash generating business

### Key assumptions used in value in use calculations for the cash generating units for 30 June 2008 and 30 June 2007

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the above mentioned cash generating units:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year; and
- Budgeted overheads – the basis used to determine the value assigned to the budgeted overheads is the average overheads achieved in the year immediately before the budgeted year.
- Discount rates – discount rates reflect management’s estimate of the time value of money and the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

Growth rate estimates – the basis used for growth rates reflect management’s estimate, determined by future investment in sales generation methods and by growth rates achieved within the previous period.

### 19: TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Trade payables (i)	15,003	3,910	2	12
Other payables	5,247	3,274	132	67
Accrued expenses	3,699	2,437	-	-
Withholding Tax Payable	102	135	-	-
Goods and Services Tax	487	140	(13)	(13)
Other Liabilities	3,701	1,790	-	-
	28,239	11,686	121	66

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.



## 20: INTEREST BEARING LIABILITIES

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

	<b>Maturity</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Current</b>					
Obligations under finance leases and hire purchase contracts	2009	85	112	-	-
Bank Loan	2008	1,000	-	1,000	-
		<b>1,085</b>	<b>112</b>	<b>1,000</b>	<b>-</b>
<b>Non-Current</b>					
Obligations under finance leases and hire purchase contracts	2011	82	160	-	-
Bank Loan	2013	9,000	-	9,000	-
		<b>9,082</b>	<b>160</b>	<b>9,000</b>	<b>-</b>

Terms and conditions relating to the above financial instruments

(i) The finance leases obligations are repayable monthly. Interest rates are 7.7%, 7.9% and 11.9%

The finance leases are secured directly over the assets financed.

(ii) The Bank Loan obligation is repaid annually. Interest rate is 8.8%.

## 21: DEFERRED CONSIDERATION

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>				
Obligations under share sale agreement for Unitel business purchase	833	-	-	-
	833	-	-	-
<b>Non-Current</b>				
Obligations under share sale agreement for Unitel business purchase	1,667	-	-	-
	1,667	-	-	-

Terms and conditions relating to the above deferred consideration

The deferred consideration is in relation to the Unitel Australia Pty Ltd acquisition. Payment of the deferred consideration is dependant on the performance of the business for the period of 3 years. The payment is considered to be probable and therefore taken up as a liability within the accounts.

## 22: PROVISIONS

	CONSOLIDATED		PARENT	
	Employee benefits \$000	Total \$000	Employee benefits \$000	Total \$000
<b>Year ended 30 June 2008</b>				
At 1 July 2007	285	285	-	-
Arising during the year	831	831	-	-
Utilised	(338)	(338)	-	-
At 30 June 2008	778	778	-	-
Current 2008	599	599	-	-
Non-current 2008	179	179	-	-
	778	778	-	-
Current 2007	274	274	-	-
Non-current 2007	11	11	-	-
	285	285	-	-



## 23: CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Ordinary Shares (i)	23,709	8,368	23,709	8,368
	23,709	8,368	23,709	8,368

### (i) Ordinary shares

Issued and fully paid	23,709	8,368	23,709	8,368
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Fully paid shares carry one vote per share in respect of its issued shares.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its shares.

	CONSOLIDATED		PARENT	
	No.	\$000	No.	\$000
<i>Movement in ordinary shares on issue</i>				
At 1 July 2006	59,367	7,872	59,367	7,911
Share issue on 8 May 2007 in consideration of purchase of business	807	496	807	496
At 30 June 2007	60,174	8,368	60,174	8,368
Employee share allotment issued on 7 January 2008	530	252	530	252
Share issue on 11 October 2007 in consideration of purchase of business	18,180	15,089	18,180	15,089
Transactions costs on issue shares	-	-	-	-
At 30 June 2008	78,884	23,709	78,884	23,709

### Capital Management

When managing capital, managements objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2007, management paid dividends of \$2,764 thousand, (2007: \$1,781 thousand). Managements target for dividend payments for 2009 and beyond is to keep to board policy of 70% payout of net profit after tax.

## 24: SHARE-BASED PAYMENT PLANS

### (a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Expense arising from equity-settled share-based payment transactions:				
- Executive Share Option Plan (ESOP)	449	-	449	-
- Employee Share Loan Plan (ESLP)	141	-	141	-
Total expense arising from share-based payment transactions	590	-	590	-

The share-based payment plans are described below.

There have been no cancellations or modifications to any of the plans during 2008 and 2007.

### (b) Types of share-based payment plans

#### *Employee Share Option (ESOP)*

On 16 April 2007 M2 announced to its senior executives the introduction of the ESOP to align senior executive objectives with those of shareholders. All senior executives of M2 will be eligible to participate in the ESOP. The issue of options under the ESOP to executive directors is subject to the approval of the M2 shareholders.

A summary of the ESOP is as follows:

- (i) Under the ESOP senior executives may be offered options to acquire M2 Shares. Any shares issued under the ESOP consequent upon exercise of the options will rank equally with all other M2 Shares and application will be made for them to be quoted on the ASX. No application will be made for the options to be quoted on the ASX.
- (ii) Any senior executive (including any M2 Director) is eligible to participate in the ESOP. However any issue of options to an M2 Director (whether executive or non-executive) is subject to the approval of the M2 shareholders.
- (iii) Options issued under the ESOP vest (and may only then be exercised) one or two years (as determined by the M2 Board) after they are offered to the eligible executive.
- (iv) Unless the M2 Board determines otherwise, no fee will be payable on the issue of any option under the ESOP. The exercise price for each option (payable on exercise of the option) will be determined by the board at the time of issue of the option.
- (v) Options issued under the ESOP may be exercised, once they are vested, at any time within two years from the date on which they vest.
- (vi) Options are not generally transferable.
- (vii) Options cease to be exercisable at the end of the exercise period referred to in paragraph (v) above or within a specified time after the cessation of the executive's employment (which time depends on the circumstances of the cessation).
- (viii) An option-holder may not attend and vote at annual general meetings and other shareholder meetings and is not entitled to participate in any rights issues unless the options have been exercised. Any bonus issue will proportionately increase the number of options held by any executive who has been granted options.

### Employee share loan (ESLP)

On 16 April 2007 M2 announced to its employees the introduction of the ESLP to reward the loyalty of employees. All employees of M2, both full-time and permanent part-time, will be eligible to participate in the ESLP. The issue of M2 Shares under the ESLP was approved by the M2 shareholders in the 2007 AGM.

The announcement to M2 employees stated that offers of shares to be made to eligible employees would be at the average weighted closing market price of M2 Shares sold on the ASX during the five business days immediately before the invitations to the eligible employees were announced.

A summary of the ESLP is as follows:

- (i) Under the ESLP, eligible employees will be offered M2 Shares. The shares issued under the ESLP will rank equally with all other M2 Shares and application will be made for them to be quoted on the ASX.
- (ii) The shares will be offered to eligible employees at the average weighted closing market price of M2 Share's sold on the ASX during the five business days immediately before invitations to eligible employees are announced or issued.
- (iii) The maximum number of shares that may be offered to an eligible employee in any twelve month period is 20,000 M2 Shares.
- (iv) Eligible employees may pay for the shares offered out of their own funds or M2 will provide them with an interest-free, limited recourse loan to finance up to the full cost of the shares.
- (v) Eligible employees who have paid for the shares offered out of their own funds may deal with them as they wish.
- (vi) Eligible employees who take up the offer of the loan do so on the following terms:
  - a. The loan is required to be repaid within twenty years after the date of allotment of the shares, or upon the employee ceasing employment with M2;
  - b. The loan may be repaid in full or part at any time prior to the repayment date;
  - c. All cash dividends will be put towards repayment of the loan;
  - d. The employee cannot sell the shares until the loan has been repaid;
  - e. If the loan becomes repayable M2 may sell the employee's shares to repay the loan but if the sale proceeds are insufficient to repay the loan then the employee is released from further liability.
- (vii) The employee may attend and vote at annual general meetings and other shareholder meetings and is entitled to participate in any bonus or rights issues.

### (c) Summaries of options granted under ESOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2008	2008	2007	2007
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	2,200,000	\$0.475	-	-
Granted during the year	-	-	2,200,000	\$0.475
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,200,000	\$0.475	2,200,000	\$0.475



The outstanding balance as at 30 June 2008 is represented by:

- a. 1,100,000 options over ordinary shares with an exercise price of \$0.475 each, exercisable upon meeting the above conditions and until 23 February 2010.
- b. 1,100,000 options over ordinary shares with an exercise price of \$0.475 each, exercisable upon meeting the above conditions and until 23 February 2011.

**(d) Weighted average remaining contractual life**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is 2.9 years (2007:nil).

**(e) Range of exercise price**

The exercise price for all relevant options is \$0.475.

**(f) Weighted average fair value**

The weighted average fair value of options granted during the year was \$0.475.

**(g) Option pricing model: ESOP & ESLP**

The fair value of the equity-settled share options granted under the ESOP is estimated as at the grant date using a Binomial Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the Binomial Model used for the year ended 30 June 2008:

	<b>ESOP</b>	<b>ESLP</b>
Dividend yield (%)	4.8	5.7
Expected volatility (%)	50	50
Risk-free interest rate (%)	6.55	6.11
Expected life of option (years)	1.0	2.0
Option exercise price (\$)	\$0.475	\$0.475
Weighted average share price at measurement date (\$)	\$0.59	\$0.70
Model used	Binomial	Binomial

## 25: BUSINESS COMBINATIONS

### Acquisition of Wholesale Communications Group Pty Ltd group of companies

On 8 May 2007, M2 Wholesale Pty Ltd (a subsidiary of M2 Telecommunications Group Ltd) acquired 100% of the voting shares of Wholesale Communications Group Pty Ltd, company based in Australia specialising in the wholesale of data products.

The total cost of the combination was \$1,525,000 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 807,317 ordinary shares with a fair value of \$0.615 each, based on the quoted price of the shares of M2 Telecommunications Group Ltd at the date of exchange.

At the date of acquisition, M2 Telecommunications Group Ltd was involved in the retail and wholesale reselling of telecommunications services. As a result of the combination, it has complimented the wholesale side of the business.

The fair value of the identifiable assets and liabilities of Wholesale Communications Group Pty Ltd as at the date of acquisition were:

	Recognised on acquisition	CONSOLIDATED Carrying value
Property, plant and equipment	454	454
Cash and cash equivalents	182	182
Trade and other receivables	1,028	1,028
Identifiable Intangibles (Customer contracts)	478	-
Other receivables	49	49
Inventories	23	23
	2,214	1,736
Trade and other payables	3,466	3,466
Other payables	334	334
Interest-bearing loans and borrowings	1,261	1,261
	5,061	5,061
Fair value of identifiable net assets	(2,847)	
Goodwill arising from acquisition	4,372	
	1,525	
Cost of the combination:		
Shares issued, at fair value	497	
Cash paid	932	
Direct costs relating to the acquisition	96	
Total cost of the combination	1,525	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	182	
Cash paid	(1,028)	
Net consolidated cash outflow	846	

From the beginning of the year, Wholesale Communications Group Pty Ltd group of companies has contributed \$705,000 to the net profit of the Group and \$10.0 million to Group revenue.

### Acquisition of Orion Telecommunications group of companies

On 11 October 2007, M2 Telecommunications Pty Ltd (a subsidiary of M2 Telecommunications Group Ltd) acquired 100% of the voting shares of ASX listed company Orion Telecommunications Ltd via a scheme of arrangement. Orion has an operating subsidiary - Southern Cross Telco Ltd (SCT) based in Hobart, Tasmania.

The total cost of the combination was \$22.0 million and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 18,179,530 ordinary shares with a fair value of \$0.83 each, based on the quoted price of the shares of M2 Telecommunications Group Ltd at the date of exchange.

At the date of acquisition, M2 Telecommunications Group Ltd was involved in the retail and wholesale reselling of telecommunications services. As a result of the combination, it has increased the retail side of the business.

The fair value of the identifiable assets and liabilities of Orion Telecommunications Ltd as at the date of acquisition were:

	Recognised on acquisition	CONSOLIDATED Carrying value
Property, plant and equipment	407	407
Cash and cash equivalents	7,894	7,894
Trade and other receivables	1,960	1,960
Other receivables	3,264	3,264
Inventories	62	62
	13,587	13,587
Trade and other payables	2,254	2,254
Other payables	1,465	1,465
Interest-bearing loans and borrowings	-	-
	3,719	3,719
Fair value of identifiable net assets	9,868	
Goodwill arising from acquisition	12,186	
	22,054	
Cost of the combination:		
Shares issued, at fair value	15,089	
Cash paid	6,707	
Direct costs relating to the acquisition	258	
Total cost of the combination	22,054	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	7,894	
Cash paid	(6,965)	
Net consolidated cash inflow	929	

From the date of acquisition, Orion Telecommunications Ltd, and its subsidiary Southern Cross Telco Ltd has contributed \$1.38 million to the net profit of the Group.

If the combination had taken place at the beginning of the year, the profit from continuing operations for the Group would have been an estimated \$1.8 million and estimated revenue from continuing operations would have been \$26.9 million.

### Acquisition of Unitel Australia Pty Ltd

On 22 February 2008, M2 Wholesale Pty Ltd (a subsidiary of M2 Telecommunications Group Ltd) acquired 100% of the voting shares of Unitel Australia Pty Ltd, a company based in Australia specialising in the wholesale of fixed line, mobile and data products.

The total cost of the combination was \$10 million, with up to \$2.5 million performance based consideration to be paid over 36 months.

At the date of acquisition, M2 Telecommunications Group Ltd was involved in the retail and wholesale reselling of telecommunications services. As a result of the combination, it has complimented the wholesale side of the business.

The fair value of the identifiable assets and liabilities of Unitel Australia Pty Ltd as at the date of acquisition were:

	Recognised on acquisition	CONSOLIDATED Carrying value
Property, plant and equipment	-	-
Cash and cash equivalents	-	-
Trade and other receivables	5,933	5,933
Other receivables	41	41
Inventories	-	-
	5,974	5,974
Trade and other payables	-	-
Other payables	54	54
Interest-bearing loans and borrowings	5,920	5,920
	5,974	5,974
Fair value of identifiable net assets	-	-
Goodwill arising from acquisition	12,727	
	12,727	
Cost of the combination:		
Shares issued, at fair value	-	
Cash paid	9,960	
Earn out payment	2,500	
Direct costs relating to the acquisition	267	
Total cost of the combination	12,727	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	-	
Earn out amount	(2,500)	
Net consolidated cash outflow	(10,227)	

From the date of acquisition, Unitel Australia Pty Ltd has contributed \$1.1 million to the net profit of the Group.

If the combination had taken place at the beginning of the year, the profit from continuing operations for the Group would have been \$3.2 million and revenue from continuing operations would have been \$40 million.

The above numbers are provisional due to the independent valuation report not being received yet, and may be adjusted within 12 months if valuation changes the figures.

## 26: COMMITMENTS AND CONTINGENCIES

### Finance leases and hire purchase contracts – Group as lessee

The Group has entered into commercial leases on certain motor vehicles. These leases have a life of 4 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under finance leases and hire purchases contracts as 30 June are as follows:

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Minimum lease payments				
- Within one year	104	134	-	-
- After one year but not more than five years	82	180	-	-
Total minimum lease payments	186	314	-	-
Less amounts representing finance charges	(19)	(42)	-	-
Present value of minimum lease payments	167	272	-	-

### Bank loan contracts

The Group has entered into a Bank loan agreement for funding of Unitel acquisition (note 25). The repayment period is 5 years. The repayment amount for the first year is \$1.0 million and \$2.0 million thereafter, with a balloon payment of \$3.0 million at the end of year 5.

The future loan repayments on the agreement as 30 June are as follows:

Minimum loan repayments				
- Within one year	1,880	-	1,880	-
- After one year but not more than five years	11,127	-	11,127	-
Total minimum loan repayments	13,007	-	13,007	-
Less amounts representing interest charges	(3,007)	-	(3,007)	-
Present value of minimum loan repayments	10,000	-	10,000	-

### Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

- Within one year	1,135	560	-	-
- After one year but not more than five years	-	-	-	-
- Longer than five years	-	-	-	-

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in note 29 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

## Rental commitments

The Group has entered into the following rental commitments at reporting date:

- Commercial leases on rental of premises at the following locations:
  1. Level 10, IBM Centre, 60 City Road, Southbank. This lease has a life of 5 years with renewal option included in the contract;
  2. Level 3, Suite 1, 83-85 Market Street, Wollongong. This lease has a life of 3.5 years with renewal option included in the contract;
  3. Level 2, 175 Collins Street, Hobart. This lease has a life of 3 with renewal option included in the contract.
- Equipment rental with a life of 3 years with renewal option included in the contract.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Minimum lease payments				
- Within one year	617	385	-	-
- After one year but not more than five years	1,226	847	-	-
	1,843	1,233	-	-

## 27: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of M2 Telecommunications Group Ltd and its subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest		Investment \$	
		2008	2007	2008	2007
M2 Telecommunications Pty Ltd	Australia	100	100	2,955	2,955
Protel Communications International Pty Ltd	Australia	100	100	-	-
Protel IP Technologies Pty Ltd	Australia	100	100	-	-
M2 NZ Limited	New Zealand	100	100	-	-
M2 Loyalty Programs Pty Ltd	Australia	100	100	-	-
M2 Mobile Services Pty Ltd	Australia	100	100	-	-
M2 Wholesale Pty Ltd	Australia	100	100	-	-
M2 Business Solutions Pty Ltd	Australia	51	51	-	-
Orion Telecommunications Ltd	Australia	100	-	-	-
Southern Cross Telco Ltd	Australia	100	-	-	-
Unitel Australia Pty Ltd	Australia	100	-	-	-
Wholesale Communications Group Pty Ltd	Australia	100	100	-	-
KBS Internet Pty Ltd	Australia	100	100	-	-
Altura Contact Centre Pty Ltd	Australia	50	50	-	-
				2,955	2,955

M2 Telecommunications Group Ltd is the ultimate parent entity.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

<b>Related parties</b>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>	<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>CONSOLIDATED</b>					
Directors:					
M. Bowen	2008	4	-	-	-
	2007	3	-	-	-
C. Farrow	2008	23	-	2	-
	2007	14	-	2	-
J. Hynd	2008	2	-	-	-
	2007	2	-	-	-
D. Basheer	2008	11	154	1	-
	2007	10	174	1	-

#### *Directors*

M. Bowen: Sales of Telecommunications services were provided MGB Holdings Pty Ltd on commercial terms. M. Bowen is a director of the firm MGB Holdings Pty Ltd.

C. Farrow: Sales of Telecommunications services were provided to Brentnalls SA on commercial terms. C.L. Farrow is a partner of the firm Brentnalls SA.

J. Hynd: Sales of Telecommunications services were provided Hynd & Co Pty Ltd on commercial terms. J.S. Hynd is a director of the firm Hynd & Co Pty Ltd.

D. Basheer: Sales commission were paid and sales of telecommunications services were provided to Dennis N Basheer Nominees on commercial terms. Dennis Basheer is a director of Dennis N Basheer Nominees.

#### *Subsidiaries:*

There were no transactions between the parent and its subsidiaries or between subsidiaries during the financial year (2007:\$nil).

#### *Terms and conditions of transactions with related parties*

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms, unless disclosed otherwise.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

For the year ended 30 June 2008, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2007:\$nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

## 28: AUDITOR'S REMUNERATION

The auditor of M2 Telecommunications Group is Ernst & Young.

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Amounts received or due and receivable by Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	131	47	131	47
- other services in relation to the entity and any other entity in the consolidated group	93	3	93	3

## 29: KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel:

### (i) Directors

V.G. Bowen	Group Managing Director/CEO
C.L. Farrow	Chairman (non-executive)
D.N. Basheer	Director (non-executive)
M.G. Bowen	Director (non-executive)
J.S. Hynd	Director (non-executive)

### (ii) Executives

S. Wicks	General Manager – Retail
T. Doyle	General Manager - Wholesale
D. Inns	Chief Financial Officer
R. Banting	Head of Strategy
K. Dean	Company Secretary & Legal Affairs

The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the Remuneration Report on page 17 in the Directors' Report designated as audited.

### Shareholding of Key Management Personnel (Consolidated)

Shares held in M2 Telecommunications Group Ltd (number)

Name	Balance at 30 June 2007	Shares granted as remuneration	On exercise of Options	Net Change	Balance 30 June 2008
<b>Directors:</b>					
Craig Farrow	1,008,000	-	-	20,000	1,028,000
Vaughan Bowen	12,382,666	-	-	500,000	12,882,666
Max Bowen	4,932,274	-	-	(4,900,000)	32,274
Dennis Basheer	5,244,906	-	-		5,244,906
John Hynd	2,832,524	-	-		2,832,524
<b>Executives:</b>					
Steve Wicks	3,004,491	-	-	(165,000)	2,839,491
Darryl Inns	139,166	-	-	-	139,166
Terry Doyle	-	-	-	-	-
Ryan Banting	13,000	-	-	-	13,000
Kellie Dean	-	-	-	-	-
<b>TOTAL</b>	<b>29,557,027</b>	<b>-</b>	<b>-</b>	<b>(4,545,000)</b>	<b>25,012,027</b>

Shares held in M2 Telecommunications Group Ltd (number) 2007

Name	Balance at 30 June 2006	Shares granted as remuneration	On exercise of Options	Net Change	Balance 30 June 2007
<b>Directors:</b>					
Craig Farrow	1,008,000	-	-	-	1,008,000
Vaughan Bowen	11,382,666	-	-	1,000,000	12,382,666
Max Bowen	5,932,274	-	-	(1,000,000)	4,932,274
Dennis Basheer	5,244,906	-	-		5,244,906
John Hynd	2,832,524	-	-	-	2,832,524
<b>Executives:</b>					
Steve Wicks	2,998,115	-	-	6,376	3,004,491
Darryl Inns	139,166	-	-	-	139,166
Terry Doyle	-	-	-	-	-
Ryan Banting	-	-	-	13,000	13,000
<b>TOTAL</b>	<b>29,537,651</b>	<b>-</b>	<b>-</b>	<b>19,376</b>	<b>29,557,027</b>

### Compensation by Category: Directors and Key Management Personnel

	CONSOLIDATED		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Short-Term	1,344	919	106	92
Post Employment	75	70	-	-
Share based payment	457	-	-	-
	1,906	989	106	92



### 30: CONTINGENCIES

There are no contingent assets or liabilities as at balance sheet date.

### 31. EVENT AFTER BALANCE SHEET DATE

There were no significant events after balance sheet date.

# Directors' Declaration



The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and consolidated entity; and
- (c) the directors have been given the declarations required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read 'Vaughan Bowen'.

Vaughan Bowen

**Group Managing Director/CEO**

Melbourne, 25 August 2008



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8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001  
Tel: +61 3 9288 8000  
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www.ey.com/au

## Independent auditor's report to the members of M2 Telecommunications Group Limited

### *Report on the Financial Report*

We have audited the accompanying financial report of M2 Telecommunications Group Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

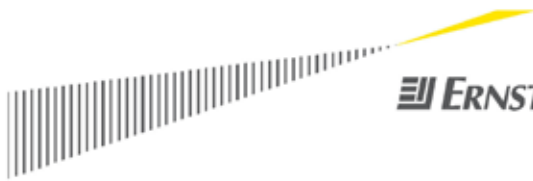
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Liability limited by a scheme approved  
under Professional Standards Legislation



**Auditor's Opinion**

In our opinion:

1. the financial report of M2 Telecommunications Group Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of M2 Telecommunications Group Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion the Remuneration Report of M2 Telecommunications Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

David Shewring  
Partner  
Melbourne  
25 August 2008

# ASX Additional Information

This information is at 15 August 2008.

## Number of Holders of Equity Securities

78,883,745 fully paid ordinary shares are held by 1,659 shareholders.

## Twenty Largest Holders

Names of M2's 20 largest shareholders of ordinary shares and the percentage of capital each holds:

COGENT NOMINEES PTY LIMITED		13,519,504	17.14%
MR VAUGHAN BOWEN	V G BOWEN FAMILY	12,500,000	15.85%
DENNIS N BASHEER SUPERANNUATION PTY LTD	DENNIS N BASHEER SUPER	4,341,177	5.50%
WICKS GROUP PTY LTD	WICKS FAMILY	1,925,000	2.44%
MARCELLO BARBARO		1,924,500	2.44%
HYLAND SECURITIES PTY LTD	<HYLAND A/C>	1,232,524	1.56%
BOND STREET CUSTODIANS LIMITED	<MMC CONCENTRATED FUND A/C>	913,265	1.16%
DENNIS N BASHEER NOMINEES PTY LTD		903,729	1.15%
MR EDMOND WING KIN CHEUNG & MRS ELIZA SIU LING CHEUNG	<EDMOND & ELIZA S/F A/C>	894,200	1.13%
CROFAR PTY LTD	<CROFAR UNIT A/C>	800,000	1.01%
WYATT PTY LTD		800,000	1.01%
WYATT PTY LTD	RICHMOND NO 2	800,000	1.01%
TELOAR PTY LTD	MEAGHER FAMILY	666,666	0.85%
MR STEPHEN WICKS		626,666	0.79%
MR DAVID MARSHALL NESBITT		570,000	0.72%
TREASURE ISLAND HIRE BOAT COMPANY PTY LTD	<STAFF SUPER FUND ACCOUNT>	506,545	0.64%
CITICORP NOMINEES PTY LIMITED		496,685	0.63%
FORBAR CUSTODIANS LIMITED	<FORSYTH BARR LTD-NOMINEE A/C>	489,191	0.63%
MR MARC KAEMPER		390,000	0.55%
MR VICTOR JOHN PLUMMER		387,197	0.49%
MR TROY BOWEN		362,483	0.46%
FIVE TALENTS LIMITED		305,680	0.39%
<b>TOTAL</b>		<b>45,361,012</b>	<b>57.50%</b>
<b>Balance of Register</b>		<b>33,522,733</b>	<b>42.50%</b>
<b>Grand TOTAL</b>		<b>78,883,745</b>	<b>100.00%</b>

### Substantial Shareholders

Names of the Company's substantial shareholders and the number of ordinary securities they hold a relevant interest in, as disclosed in the latest substantial holdings notices provided to the Company:

Name of Substantial Shareholder	Name of Registered Holder(s)	Number of Ordinary Shares	% Issued Capital
	Vaughan Bowen <VG Bowen Family>		
	Vaughan Bowen		
Vaughan Bowen	Vaughan Bowen <Bowen Family Super Fund>	12,882,666	16.33
Hunter Hall Investment Management Limited	Cogent Nominees Pty Limited	9,375,349	11.89

### Distribution of Holders of Equity Securities

Range	Number of Ordinary Shares	Number of Shareholders
1 to 1,000	62,260	94
1,001 to 5,000	1,632,806	505
5,001 to 10,000	2,971,820	367
10,001 to 100,000	19,119,381	613
100,001 and over	55,097,478	80
<b>TOTAL</b>	<b>78,883,745</b>	<b>1,659</b>

### Number of Holders with a Less than a Marketable Parcel

Total shareholders with less than marketable parcel - 58

### Voting Rights – Ordinary Shares

- (1) on a show of hands, every Member present, in person or by proxy, attorney or representative, has one vote; and
- (2) on a poll every Member has:
  - (i) one vote for each fully paid share; and
  - (ii) for each partly paid share held by the Member, a fraction of a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) on the share.

### Restricted Securities

There are no restricted securities on issue.

### On-Market Buy-Back

There is no on-market share buy-back in operation.

# Corporate Directory

## **M2 Telecommunications Group Limited**

ACN 091 575 021

ABN 74 091 575 021

M2 is a publicly listed company, limited by shares.

It is incorporated and domiciled in Australia.

### **Registered Office**

Level 10, IBM Centre, 60 City Road

Southbank, VIC 3006

Telephone: (03) 9674 6555

Facsimile: (03) 9674 6599

Web: [www.m2.com.au](http://www.m2.com.au)

### **Stock Exchange**

Australian Securities Exchange Ltd (ASX)

Issuer Code: MTU

### **Directors**

Craig Farrow	Chairman
Vaughan Bowen	Group Managing Director / CEO
Max Bowen	Non Executive Director
Dennis Basheer	Non Executive Director
John Hynd	Non Executive Director

### **Company Secretary**

Kellie Dean

### **Auditor**

Ernst & Young

8 Exhibition Street

Melbourne, VIC 3000

### **Legal Advisors**

Lander & Rogers Lawyers

Level 12, 600 Bourke Street

Melbourne, VIC 3000

### **Bankers**

Bank of Western Australia Ltd (BankWest)

National Australia Bank Ltd

Westpac Banking Corporation Ltd

### **Share Registry**

Link Market Services Limited

Level 4, 333 Collins Street

Melbourne, VIC 3000

Telephone: 02 8280 7111 or 1300 554 474

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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[www.m2.com.au](http://www.m2.com.au)



**M2 Telecommunications Group Limited** ACN 091 575 021 ABN 74 091 575 021

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