

DIRECTORS' REPORT

In compliance with the provisions of the Corporations Act 2001 ('Corporations Act'), the directors of M2 Group Ltd ('M2' or 'the Company') submit the following report for the Company and its controlled entities for the financial year ended 30 June 2015 ('FY15').



DIRECTORS

The names and details of the directors of M2 during FY15 and at the date of this report are as follows:

CRAIG FARROW

CHAIRMAN

B EC, DIP FS, CPMGR, SA FIN, FCAANZ, FAICD

APPOINTED DIRECTOR 18 FEBRUARY 2000

APPOINTED CHAIRMAN 28 APRIL 2006

Mr Farrow is Chairman/Partner of Brentnalls SA, Chartered Accountants and former National Chairman of the Brentnalls National Affiliation of Accounting Firms. He is Chairman of AIRR Holdings Limited and Tonkin Consulting Engineers and in 2012 was President of the Institute of Chartered Accountants in Australia.

In 2013, Mr Farrow was Executive Chair of the CAANZ amalgamation project for ICAA and NZICA. In addition, he is a director and Board adviser to several private consulting and trading enterprises across the agribusiness, software and manufacturing sectors. 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 3 years, Mr Farrow served as a director of Eftel Ltd (from 16 April 2013 until 14 June 2013), but held no other listed company directorships.

Mr Farrow has served as a Director since February 2000. Mr Farrow is also a member of M2's Nomination and Remuneration and Audit & Risk Committees.

VAUGHAN BOWEN

EXECUTIVE DIRECTOR

BCOM, MAICD

APPOINTED MANAGING DIRECTOR / CEO 14 FEBRUARY 2000

APPOINTED EXECUTIVE DIRECTOR 28 OCTOBER 2011

Mr Bowen co-founded M2 in late 1999. In his nearly 12 years as Managing Director / CEO, he successfully steered M2 from a start-up technology enterprise to become a fast-growing, profitable, ASX listed, national telecommunications company. With a proven ability to successfully execute and integrate acquisitions, Mr Bowen was appointed Executive Director in October 2011, with a core focus on mergers and acquisitions ('M&A'). In addition to his M&A mandate, Mr Bowen maintains a close, highly effective engagement with the M2 CEO and Executive Leadership team. Mr Bowen is Chairman of Aggregato Global Ltd (of which M2 is a substantial shareholder) and is Chairman of the Telco Together Foundation, a charitable foundation he created and seeded in 2011. Mr Bowen is a member of the Australian Institute of Company Directors, was named as a finalist in the Entrepreneur of the Year in 2004 and 2009 and in 2012 he received the ACOMMS Communications Ambassador award for outstanding contributions to the Australian telecommunications industry.

Within the last three years, Mr Bowen has held no other listed company directorships.

JOHN HYND

NON EXECUTIVE DIRECTOR

LLB, MAICD

APPOINTED 18 FEBRUARY 2000

Mr Hynd was a founding partner of Hynd & Co, a commercial law firm in Adelaide from which he is retired. Since then he has operated as Hynd & Co Consultants consulting to businesses. He has over 35 years experience in commercial transactions, corporate advice, corporate governance, insolvency and property development. He is a member of the Australian Institute of Company Directors. A former member of the Council of the Law Society of South Australia, Mr Hynd's broad business experience provides M2 with valuable assistance with legal perspectives and strategic planning.

Within the last three years, Mr Hynd has held no other listed company directorships.

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

MICHAEL SIMMONS

NON EXECUTIVE DIRECTOR

BCOM, FCPA, ACIS

APPOINTED 26 NOVEMBER 2009

Mr Simmons brings to the Board considerable experience in the telecommunications sector, having previously held the position of Chief Executive Officer of ASX-listed SP Telemedia Limited ('SPT Group', now known as TPG Telecom Limited) since its listing in 2001. Prior to listing, the SPT Group was a wholly owned subsidiary of the Washington H. Soul Pattinson Limited controlled NBN Television Group. He served in executive roles for nearly 26 years within the SPT/NBN Group of Companies, including as Chief Financial Officer and Chief Executive Officer. Following the acquisition of TPG Telecom Pty Ltd, Mr Simmons left the SPT Group to become the Managing Director of TERRiA, a telecommunications consortium of infrastructure-based telecommunications carriers, formed to bid for the contract to build the National Broadband Network (NBN).

Within the last three years, Mr Simmons has held no other listed company directorships.

Mr Simmons is Chair of M2's Audit & Risk Committee.

DAVID RAMPA

NON EXECUTIVE DIRECTOR

B BUS, FAICD

APPOINTED 20 DECEMBER 2012

Mr Rampa held senior executive positions at both Telstra and Singtel Optus, prior to working in Investment Banking in New York. In addition to his directorship with M2, Mr Rampa is a non-executive director of Inabox Ltd and chairman of the advisory board at Aviation Logistics Pty Ltd, a ground and air patient transfer operation; he is also a Senior Consultant at TMT Partners, a Sydney based corporate advisory firm specialising in the Technology, Media, and Telecommunications sector. Previously Mr Rampa has also served as Deputy Chairman of the Telecommunications Service Provider Association, and in the United States of America, the President of ANZACC (Australian, New Zealand, and American Chamber of Commerce) Midwest.

Within the last three years, Mr Rampa has held no other listed company directorships.

Mr Rampa is Chair of the Nomination and Remuneration Committee.

RHODA PHILLIPPO

NON EXECUTIVE DIRECTOR

MSC, MINSTD

APPOINTED 2 MARCH 2015

Mrs Phillippo is a globally experienced executive with more than 30 years' experience in the telecommunications and IT sectors, including senior management positions in commercial, engineering and operations with British Telecom PLC; as CEO of Optimisation New Zealand, a software development business; and as General Manager of Telecom/Gen-i's (now Spark) enterprise Trans-Tasman business. Mrs Phillippo's experience in the energy industry includes a role as Transition Director with Shell in New Zealand (now Z Energy) for H.R.L. Morrison & Co and recently as Managing Director of Infratil Energy Australia (Lumo Energy), leading the successful sale of the business in September 2014.

Most recently Mrs Phillippo was Chief Operating Officer at HRL Morrison & Co and holds non-executive director roles on the boards of Vix Investments, Vix Technology, Spatial IQ and is Chair of Snapper Services Limited, a wholly owned subsidiary of Infratil.

Within the last three years, Mrs Phillippo has held no other listed company directorships.

COMPANY SECRETARY**ASHE-LEE JEGATHESAN**

GENERAL COUNSEL & COMPANY SECRETARY

LLB (HONS), MAICD

APPOINTED 30 MAY 2014

Ms Jegathesan leads M2's Legal, Risk Management and Regulatory and Compliance teams. Ms Jegathesan brings to M2 more than 20 years' experience as a practicing lawyer, both in private practice with leading law firms, and in-house in the IT and Telecommunications sector with global companies such as Nortel Networks, 3D Networks, and most recently, Melbourne IT Ltd, where she held the position of General Counsel and Company Secretary.

Ms Jegathesan was the recipient of the Lawyers Weekly 2012 Women in Law ACLA In-House Award. She is a member of the Law Institute of Victoria, the Australian Corporate Lawyers Association and the Australian Institute of Company Directors. Ms Jegathesan holds an honours degree in Law from the Australian National University.

FORMER AUDIT PARTNERS

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

DIRECTORS' SHAREHOLDINGS

The following table sets out the details of each director's relevant interest in M2 shares as at the date of this report. There are no options held by any directors of M2.

Director	Holding at 30 June 2015
Craig Farrow	405,000
Vaughan Bowen	5,042,420
John Hynd	1,433,000
Michael Simmons	11,988
David Rampa	3,500
Rhoda Phillippo	-

PRINCIPAL ACTIVITY

The principal activity of the consolidated entity during the financial year was the supply of utilities (telecommunications services, electricity and gas) to residential and business customers within the Australian market. M2 is also a reseller of insurance services to residential customers within Australia and telecommunications services to residential and business customers in New Zealand.

REVIEW OF OPERATIONS AND RESULTS

Please refer to the Chairman's Letter, CEO's Review and the Operating and Financial Review (titled 'Business Insights') for further details relating to M2's operations and results for FY15. This information is to be read in conjunction with the Directors' Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Directors are pleased to present a year of organic growth, business optimisation and record financial results. In the second half of the year, M2 acquired the Callplus Group, New Zealand's third largest telecommunications service provider, a transaction which completed on 30 June 2015. M2 also increased its shareholding in Aggregato Ltd from 32.8% to 61.2%, and as a result, now holds a controlling interest in Aggregato Ltd.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 21 August 2015, the directors declared a final dividend on ordinary shares in respect of FY15. The total amount of the dividend is \$31.2 million, which represents a fully franked dividend of 17 cents per share (calculated from shares on issue at 30 June 2015). This final dividend is scheduled to be paid to shareholders on or around 29 October 2015.

LIKELY FUTURE DEVELOPMENTS AND RESULTS

The directors expect that the financial performance of the business will remain strong in the financial year ending 30 June 2016 ('FY16'), with confidence in the operational, marketing and sales strength demonstrated in FY15. The directors have released guidance for FY16, with revenue expected to increase by 24-26%, NPAT by 30-35% and capex of ~2.5%.

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.

DIVIDENDS

Details of dividends paid during FY15 and the final dividend declared for payment is as follows:

	Payment Date	Cents per share	Franking	Total Dividend Paid/Declared ⁽¹⁾
Dividends paid				
Final Dividend	30 Oct 14	14.5	100%	\$26,241,373
Interim Dividend	16 Apr 15	15.0	100%	\$27,355,759
Total		29.5		\$53,597,132
Dividend declared	29 Oct 15	17.0	100%	\$31,174,786

(1) Represents the gross dividend entitlement of all shareholders

SHARE OPTIONS

OPTIONS GRANTED

No options were granted during FY15.

UNISSUED SHARES UNDER OPTION

As at the date of this report, M2 has 633,334 unissued ordinary shares under option. The details of these options are as follows:

Number of unissued shares under option	Exercise price of option (\$)	Expiry Date of Options
216,667	3.29	1 Jan 2017
83,333	6.19	1 Jan 2017
166,666	6.47	1 Jan 2018
166,668	6.75	1 Jan 2019
Total: 633,334		

Options are only available to exercise subject to the achievement of key performance indicators by the relevant holder in the preceding financial year.

RIGHTS TO PARTICIPATE IN SHARE ISSUES

Under the terms of the legacy M2 Executive Management Team Share Option Plan, option holders have a right to participate in share issues.

In the event of a bonus issue of shares, option holders will receive a bonus issue of options, such that the proportion which the number of options held by holder bears to the number of shares on issue is the same both prior to and following the bonus issue of Shares. If there is a pro rata share issue (except a bonus issue) to the holders of shares in the Company before the exercise of options, the exercise price applicable to each then outstanding option will be reduced according to a specified formula, which is consistent with the ASX Listing Rules.

SHARES ISSUED FOLLOWING EXERCISE OF OPTIONS

M2 has issued 1,033,334 ordinary shares during FY15 as a result of the exercise of options. The details of these exercised options are as follows:

Number of shares issued	Amount paid for shares	Amount unpaid for shares
200,000	\$368,000	-
166,666	\$498,331	-
299,999	\$941,997	-
200,002	\$658,007	-
166,667	\$790,000	-
Total: 1,033,334	\$3,256,335	

INDEMNITIES AND INSURANCE

M2's Constitution provides that to the extent permitted by law and except as may be prohibited by the Corporations Act, each director and secretary of M2 (and its subsidiaries) is indemnified against any

liability (other than for legal costs where the indemnity is limited to reasonable legal costs) incurred by that person in the performance of their role.

The directors and secretary of M2, as well as the CEO, COO and CFO, are also party to a deed of access and indemnity.

During FY15, 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. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

AUDITOR INDEMNITY

To the extent permitted by law, the Company has agreed to indemnify its auditors, EY, as part of the terms of its audit engagement agreement against claims by third parties arising from or in relation to the audit (for an unspecified amount) unless this claim results from the auditor's negligence, wrongful or wilful acts or omissions. No payment has been made to indemnify EY during or since the financial year.

DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of each Board committee held during FY15 and the number of meetings attended by each director is as follows:

Directors	Board Meeting		Audit & Risk Committee		Nomination & Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Craig Farrow	20	19	7	7	6	6
Vaughan Bowen	20	20	-	-	-	-
John Hynd	20	19	7	5	6	6
Michael Simmons	20	20	7	7	-	-
David Rampa	20	20	-	-	6	6
Rhoda Phillippo	10	10	-	-	-	-

*Rhoda Phillippo was appointed 2 March 2015

REMUNERATION REPORT

Refer to page 24 of this report for the Remuneration Report, which forms part of the directors' report.

CORPORATE GOVERNANCE STATEMENT

Our full Corporate Governance Statement and ASX Appendix 4G detailing our compliance with the third edition of the ASX Corporate Governance Principles and Recommendations is available on our website via <http://m2.com.au/investor-centre/corporate-governance/>

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.

NON-AUDIT SERVICES

Details of amounts paid in FY15 to M2's external auditor, EY, for non-audit services are set out in the note 33 to the financial statements. The services to the Company largely related to the due diligence exercise conducted in relation to the acquisition of the Callplus Group in New Zealand and to the assessment of the business continuation disruption risk, as part of the Company's business continuity program.

In accordance with written and signed advice from the Audit & Risk Committee, pursuant to a resolution of this Committee, the directors are satisfied that the provision of non-audit services by EY is compatible with the general standards of independence for auditors imposed by the Corporations Act. The reasons being:

- the provision of non-audit services by EY was considered by the directors prior to the commencement of the engagement, and it was determined that it would not impact the independence or integrity of the external auditor; and
- the nature of the services provided do not undermine the general principles relating to external auditor independence, including reviewing and auditing the auditor's own work, acting in a management or decision making capacity for M2 or as an advocate, or jointly sharing in economic risk and rewards.

Further, the services provided are consistent with the provisions of M2's Non-Audit Services Policy.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 35 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.

This directors' report is signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act.

On behalf of the directors



CRAIG FARROW
CHAIRMAN

Melbourne, 21 August 2015

