M2 TELECOMMUNICATIONS GROUP LTD

ANNUAL REPORT **2013**

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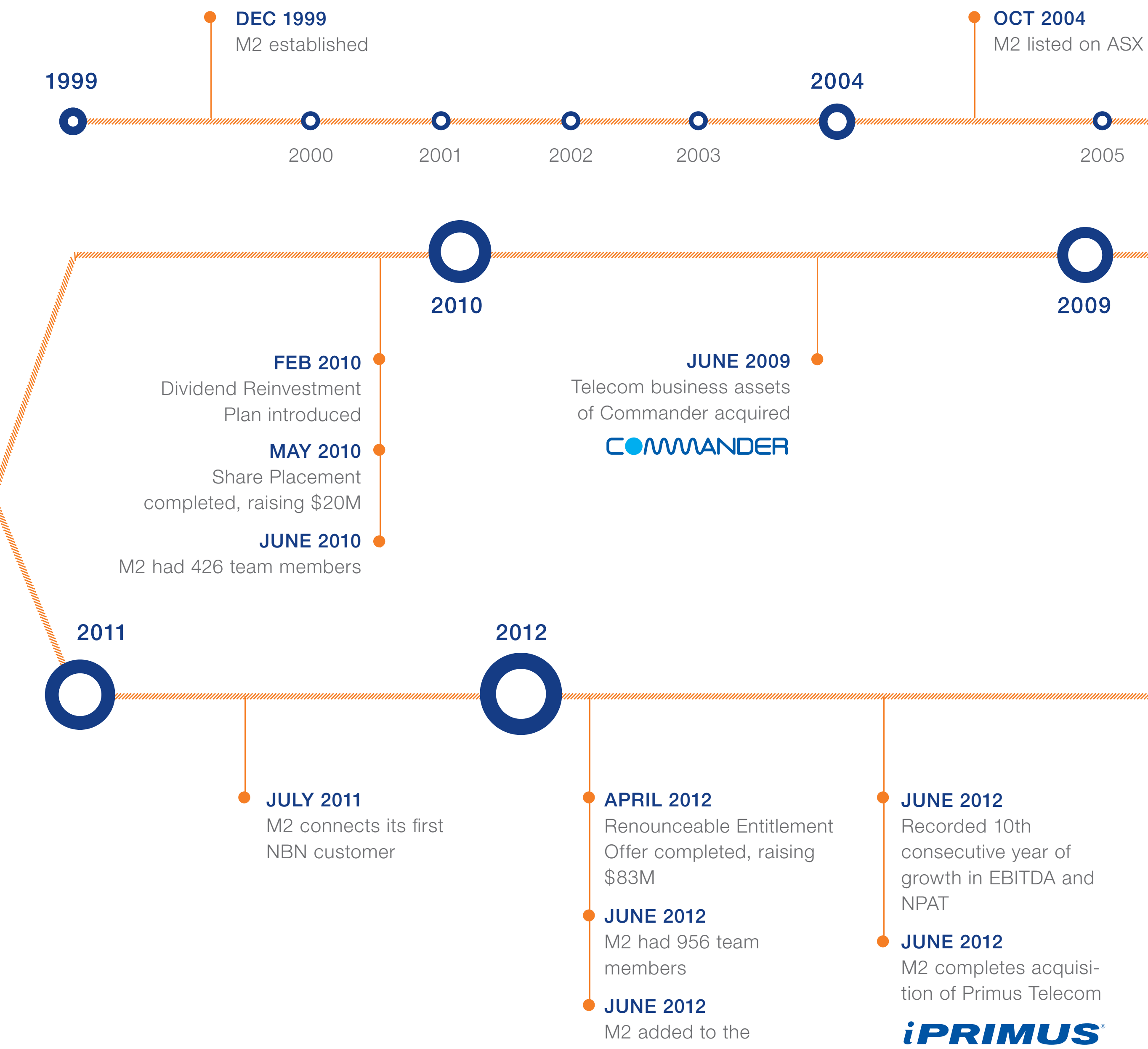
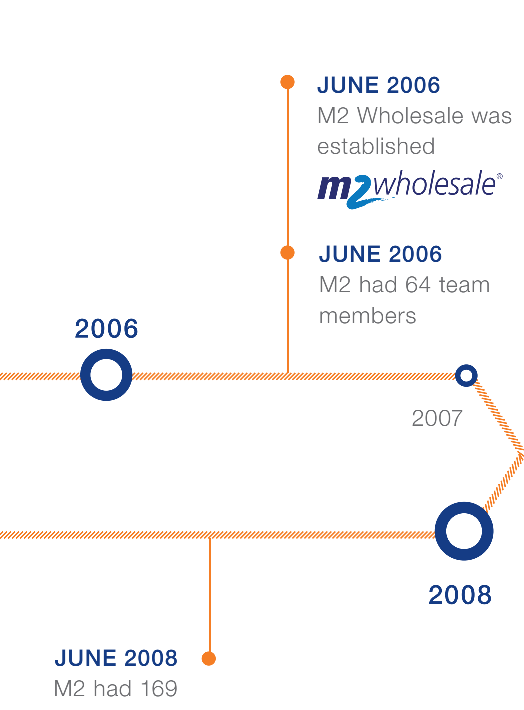
OUR JOURNEY





JUNE 2006
M2 Wholesale was established

JUNE 2006
M2 had 64 team members

JUNE 2008
M2 had 169 team members

2013

MAY 2013
Completed the acquisitions of Dodo Australia Holdings Pty Ltd and Eftel Ltd

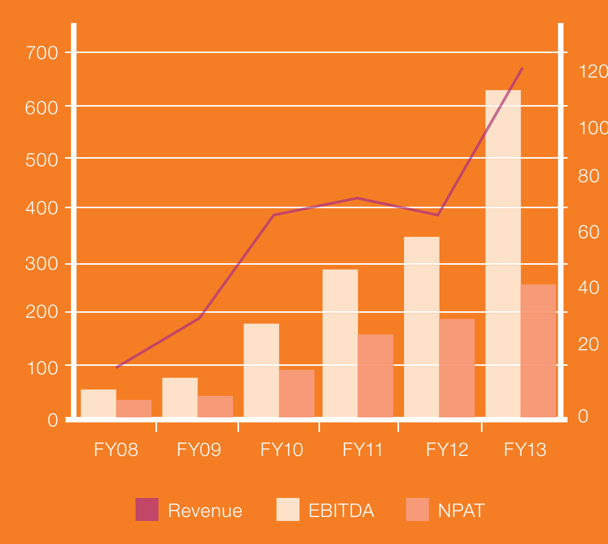
MAY 2013
3000 team members in Australia, New Zealand and the Philippines.

JUNE 2013
Recorded NPAT of $43.8M, increase of 33%

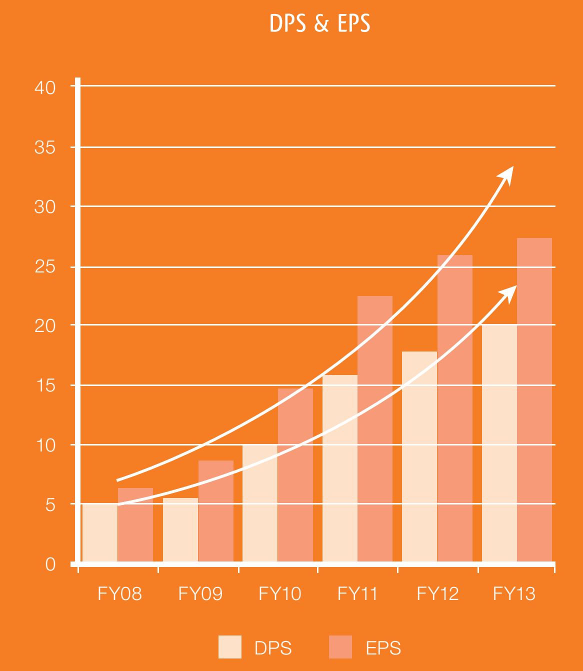
JUNE 2013
Recorded Revenue of $681.0M, an increase of 73%

AUG 2013
18th consecutive dividend declared

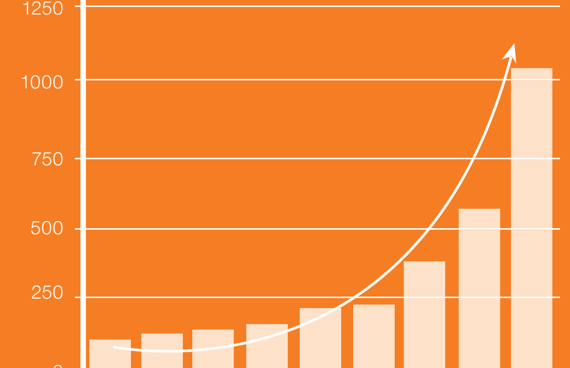
REVENUE, EBITDA & NPAT



DPS & EPS



MARKET CAPITALISATION



CHAIRMAN'S LETTER

On behalf of the Board of M2 Telecommunications Group Ltd ("M2", "the Company"), it is my pleasure to present to you our Annual Report for the period 1 July 2012 to 30 June 2013 ("FY13").

Craig Farrow
Chairman

Dear Shareholder,

I am pleased to report that in a year of significant transformation, when the Company took on greater scale, a next-generation product suite and entered the consumer telecommunications market in earnest, we have delivered to shareholders double-digit growth in both earnings before interest, tax, depreciation and amortisation ("EBITDA") and net profit after tax ("NPAT").

The year saw the Company successfully integrate the acquisition of Primus Telecom Holdings Pty Ltd ("Primus"), taking on and maintaining nationwide infrastructure and fibre in five capital cities. Two new acquisitions were also completed late in the period: Dodo Australia Holdings Pty Ltd ("Dodo") and Eftel Limited ("Eftel"). Led by Executive Director Vaughan Bowen, these acquisitions represent a significant step-change for the M2 Group in terms of its scale and approach to market, fitting logically within our consumer unit, adding a nationally-recognised brand and increasing the Company's presence in the consumer segment.

At the time of writing, the M2 Group has surpassed $1 billion in annualised revenues, from $600 million this time last year. As indicated, this milestone was achieved while maintaining profitability and increasing returns to shareholders. In this same period, our team members expanded from approximately 950 to more than 3,000 in Australia, New Zealand and the Philippines, working on our leading, customer-facing brands of iPrimus, Dodo, M2 Wholesale and Commander.

More details regarding the acquisitions, integration and business strategy are contained within the CEO's Review.

These are amongst other key achievements of another busy and productive year at M2, culminating in the following financial highlights:

- Revenue increased by **73%** to **$681.0 million**
- EBITDA[1] increased by **80%** on the previous corresponding period to **$108.1 million**, increasing the EBITDA margin (EBITDA / Revenue) to **16%**
- NPAT increased by **33%** on the previous corresponding period to **$43.8 million**
- Earnings Per Share ("EPS") rose by **6%** from the previi-

ous year to **27.4 cents**, despite a **12%** increase in ordinary shares on issue

- Operating cash flow has increased by **50%** to **$62.2 million** in 2013
- Declaration and payment of the Company's 17th and 18th dividends, maintaining Board policy at **70%** of NPAT

These outstanding results were accomplished during a period of notable integration activity. As always, our skilled and talented team is at the core of our success and it is only through their dedication and commitment that the year's outstanding results were achieved. Once again, I would like to extend my sincere thanks to every member of our team for their continued diligence and hard work, whether new to the Company through acquisition or long-standing.

Our prospects for the year ahead are very exciting indeed. We embark upon this year with strengthened customer care, invigorated and diversified sales channels and a brand family boosted by the addition of Dodo. Despite challenging market conditions, with increased competition in all segments, I am confident that we will have our best year to date, driven by our passionate and experienced Executive Management Team, led by our CEO, Geoff Horth.

Finally, on behalf of the Board, I would like to thank you, our shareholders for your continued support of the M2 business.

Yours faithfully,

Craig Farrow
Chairman

(1) EBITDA is a non IFRS financial measure which is not audited. EBITDA is calculated using NPAT and adding back the impact of financing cost, income tax, depreciation and amortisation.

KEY DATES

Record Date for Final Dividend

Annual General Meeting Melbourne

Final Dividend Payment

Half Year End

Half Year Results released

Financial Year End

CEO'S REVIEW

I am pleased to present to you this review of a year in which we delivered another record profit, completed the integration of Primus and consolidated our position in the consumer market via our acquisition of Dodo and Eftel.

Geoff Horth
Chief Executive Officer

ANOTHER YEAR OF GROWTH AND DEVELOPMENT

As outlined by the Chairman in his letter to shareholders, the 2013 financial year ("FY13") was one of significant growth and change for M2. This was also a year in which we made significant progress in preparing our business to take advantage of the opportunities presented by the rollout of the NBN.

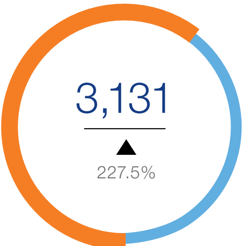
We have reported another record set of financial results across all key metrics for FY13. In line with our guidance, our revenue increased 73% to $681.0 million, our EBITDA increased 80% to $108.1 million and our NPAT increased 33% to $43.8 million. Most importantly the year's activities have allowed us to deliver 6% growth in EPS and 11% growth in DPS to 20 cents.

This strong financial performance is the culmination of a number of strategic and operational objectives achieved throughout the year. In another busy year, we:

- Completed the integration of Primus:
  - o finalising our network optimisation and reducing costs by aggregating backhaul and transit;
  - o restructuring our customer care across Hobart and Melbourne to create centres of excellence for our business and consumer customers; and
  - o improved sales conversion in Primus to grow volume of new services provisioned by 65%.
- Launched the refresh of our Commander brand, taking this well-established and recognised brand to the next generation of business owners and managers.
- Released our Commander NBN, Hosted Phone and Cloud offerings, leveraging the capabilities acquired with Primus.
- Implemented changes to our Commander distribution strategy to:
  - o reduce margin erosion associated with customer re-sign;
  - o improve plan mix of new sales towards higher margin products; and
  - o reduce churn.
- Completed the rollout of 15 new NBN Points of Interconnect ("POIs") allowing us to test various new customer acquisition strategies and ensuring that we are well positioned to offer existing customers a seamless transition to the NBN.
- Launched Phase Two of Ninja, our new Business Support System, enabling all new Commander customers to be provisioned in this next generation platform.

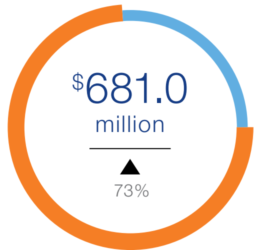
The operational and financial performance of the business in the last year is a credit to our dedicated and hard working team who have managed a "very full dance card" juggling operational priorities and business integration tasks alongside the significant amount of work associated with the acquisitions of Dodo and Eftel.

THE NUMBERS THAT MATTER



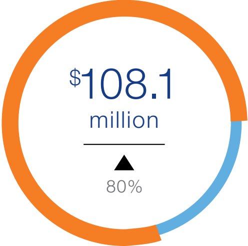
TEAM

A significant increase from last year's 956 team members, our 3,131 team members includes those working on Commander, iPrimus, Dodo and M2 Wholesale. Our team has been bolstered this year by the addition of more than 1,900 team members in the Philippines.



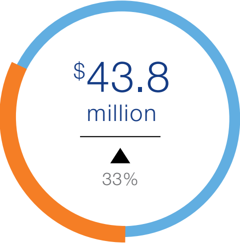
REVENUE

Revenue rose 73% on the previous corresponding period. This was primarily driven by the acquisition of Primus in June 2012 and two months of revenue contribution from the acquisition of Dodo and Eftel.



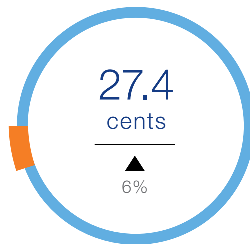
EBITDA

An EBITDA increase of 80% on the previous corresponding period. The growth in EBITDA was driven by the revenue volume combined with synergies flowing from the Primus transaction. EBITDA excluding transaction costs associated with the acquisition of Dodo and Eftel was $1,19.1 million.



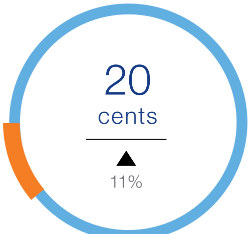
NPAT

An increase of 33% on the previous corresponding period. This result was achieved without contribution from the businesses acquired late in the period (due to the cost of acquisition) and is inclusive of $16.7 million of depreciation and $14.6 million of amortisation associated with customer contracts acquired in the relevant period. Underlying NPAT (excluding amortisation associated with customer contracts) was up 53% to $58.4 million.



EPS

EPS rose 6% to 27.4 cents, underlying EPS increased by 22% to 36.3 cents



DIVIDEND

The 20 cents combined interim and final dividend for FY13 is an increase of 11% on the previous corresponding period. This increase is even more pleasing given the issue of approximately 19.0 million new shares in May 2013 for the acquisitions of Dodo and Eftel. The final dividend is the Company's 18th consecutive dividend.

THE ACQUISITIONS OF DODO AND EFTEL

The acquisitions of Dodo and Eftel were completed on 1 May 2013 and bring both considerable scale and the well-recognised Dodo brand to our consumer division. Both transactions were funded via a new 3-year, $400 million syndicated loan facility plus the issue of approximately 19 million M2 shares.

The acquisitions expand M2's product suite with the addition of energy via Dodo Power and Gas and car, home and contents insurance via Dodo Insurance. Dodo began selling energy in June 2010 and is licensed and actively selling electricity and gas in Victoria and electricity in Queensland and New South Wales.

Energy and insurance provide excellent cross-sell opportunities into our existing customer base, in addition to providing a new channel for customer acquisition.

Pleasingly, we are well progressed in the integration of Dodo and Eftel having:

- secured employment of key management to ensure business continuity, and retain talent and knowledge;
- formed and announced our new organisation structure along with Executive and Senior Management teams;
- developed and communicated new segment and functional plans;

- relocated Dodo and Eftel team members into our Flinders Street head office; and
- united iPrimus and Dodo to form our new Consumer division.

The integration work is not yet finalised; there is still much to do to complete systems and network integration, in line with our schedule. I am pleased to report that through this busy time we have been able to maintain our new customer acquisition trajectory.

AN OVERVIEW OF THE NEW M2 BUSINESS

M2 is an innovative sales, marketing and service company providing a range of communication and utility services to Australian households and small and medium businesses. Some important facts about M2:

- Our **Products and Services** include traditional and next-generation telecommunications as well as energy and insurance
- Our **Team Members** number more than 3,000 across Australia, New Zealand and the Philippines
- The team has **strong service orientation** with a focus on ease of use
- We have a sales and support network of **Commander Centre Dealers**, Australia-wide
- Our **sales and marketing engine** comprises more than 1,000 team members, and
- We bill more than **1.4 million** post-paid services each month

Now incorporating Dodo and Eftel, the M2 business now comprises three divisions: **Consumer, Business** and **Wholesale**.

Consumer

Market	Australian Households		
Size	$28 billion[1]	Share	1%[2]
Brand	dodo	iPRIMUS	
Proposition	**Connect and Save with Dodo** Low-cost telecommunications & utilities provider	**Providing Australian households with high value telecommunications services since 1996**	
Services	Fixed Voice, Data, Mobile, Energy, Insurance		

Business

Market	Small and Medium Business		
Size	$7 billion[1]	Share	5%
Brand	COMMANDER		
Proposition	Your NBN ready business communication specialist		
Services	Fixed Voice, Data, Mobile, Hosted Voice, Cloud		

(1) Goldman Sachs analyst report "M2 Telecommunications Group: A leading challenger in the SMB market", 18 Oct '12
(2)Telecommunications customers only (excluding energy)

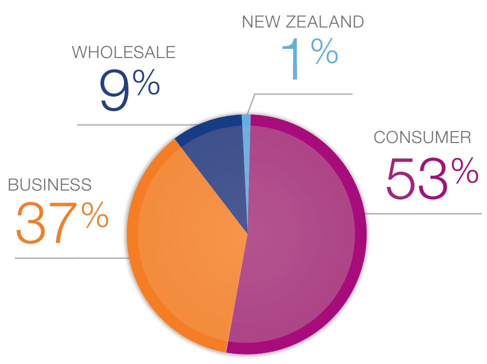
Wholesale

Through our M2 Wholesale division, M2 provides fixed line, mobile and data services to small and medium-sized telecommunications service providers and Internet Service Providers, with a range of value add services to assist partner growth.

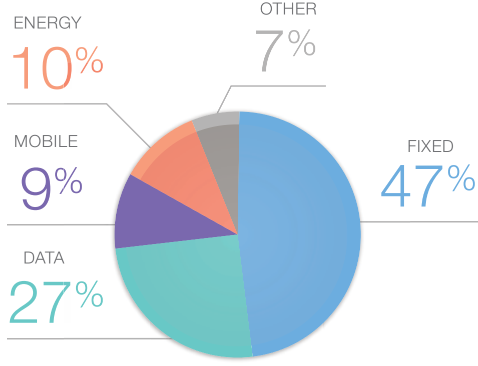
REVENUE AND PRODUCTS

The new M2 has the scale, capability and brand credibility to deliver ongoing profitable organic growth in its core target markets. The charts below provide an indication of the pro forma distribution of revenues by segment and product category.

FY14 PRO-FORMA REVENUE BY SEGMENT



FY14 PRO-FORMA REVENUE BY PRODUCT



NBN

M2 has deployed 23 POIs as at the date of this report and is able to deliver services to customers in each of those POIs. Our strategy for the NBN is to connect in all available POIs at the time when the addressable market in that POI provides us with an acceptable return on investment. We project that by the end of FY14, we will connect to another 27 POIs, bringing us to a total of 50, covering from Cairns, Queensland to Hobart, Tasmania to Geraldton, Western Australia.

iPrimus has been our leading consumer brand for NBN services with Dodo to follow in the first half of FY14. We launched business-grade NBN services to Commander customers in October 2012, aiming to give small businesses in NBN-enabled areas a higher speed, more reliable broadband connection.

While at the time of writing, an election is pending and therefore the final permutation of the NBN is unknown, it is pleasing that both the ALP and Coalition have committed to the rollout of the NBN. Our management team views the advancement of the state of broadband in Australia positively and we feel that we are well positioned to take advantage of this change event with strong sales, marketing and service capability and a reseller DNA.

OUR KEY RISKS

As our Company grows and changes, the risks to the business evolve. Our risk management framework incorporates a risk management policy which sets out our process for assessing and reporting risk and our commitment to ongoing management and mitigation.

Our Products and Supply of Services:

- We are often asked if the decline of fixed line usage is a significant problem for our business. We have only a very small share of the telecommunications market in both the consumer and business segments and our strategy is to continue to grow this market share, adapting our products to best suit customer needs, and working with the NBN on the rollout of their network.
- While we do own and operate a traditional and next generation voice and data network, we recognise that a significant proportion of our services are provided to us by our suppliers. We use different suppliers in different circumstances for particular reasons including cost, efficiency, speed and reliability. We recognise the importance of these suppliers and have strong, long standing relationships, and we are focused on ensuring that our good reputation is maintained.

Our External Environment:

- We operate in competitive industries, across telecommunications, energy and insurance, where price, service standards and value offerings are continually changing. Our market, sales and service strategies remain a core focus to enable us to protect and grow our market share.
- Security of customer data is of increasing relevance as a number of companies experience system and network breaches from external parties or by internal human error. We have programs in place for security management, including the limitation of confidential information and secure access. This program will be intensified in FY14 to minimise the potential threat of disruption to core operations and ensure the security of our customer information.
- Regulation is another key area of risk for the M2 business and has the potential to influence supplier pricing as well as the way in which we conduct our business. To mitigate this risk, we maintain an integrated compliance program and continue a positive and proactive engagement with regulatory and industry bodies.
- A disruption to our business, which may include system failure, service centre disruption or other adverse events could impact our ability to service and bill our customers, and cause financial loss. We are committed to continually improving our disaster recovery and business continuity plans.

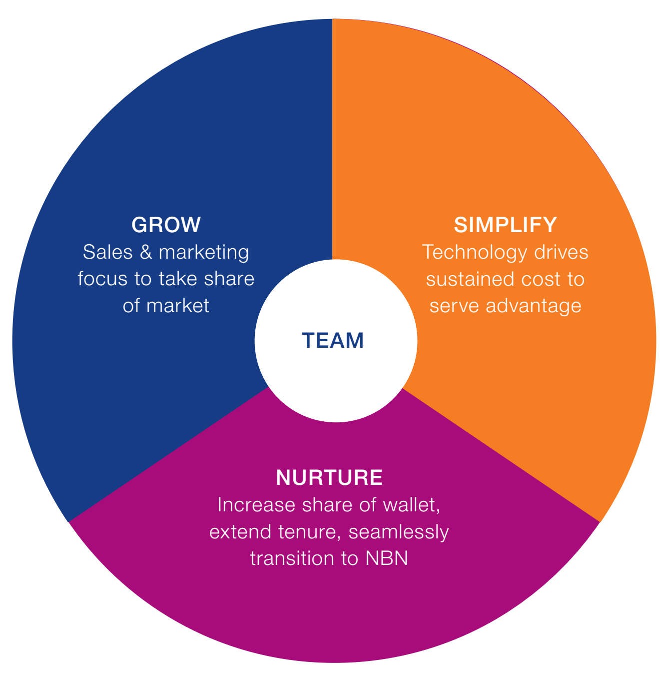
LOOKING FORWARD

On 23 August 2013, we released guidance for FY14:

$M	FY13(a)	FY14 Guidance	%Change (from midpoint)
Revenue	681.0	970 - 1030	▲ Up 47%
EBITDA[1]	108.1	150 - 170	▲ Up 48%
NPAT	43.8	60 - 70	▲ Up 48%
NPAT (underlying[2])	58.4	85 - 95	▲ Up 54%
EPS (cents per share[3])	27.4	34 - 39	▲ Up 33%
EPS (cents per share, underlying[2,3])	36.3	48 - 53	▲ Up 39%
Capex (as % of revenue)	2.9%	2%	▼ Down 31%

(1) EBITDA is calculated using NPAT and adding back the impact of financing costs, income tax, depreciation and amortisation.
(2) Underlying NPAT and EPS figures each include an add-back of a non-cash cost ($14.6 million for FY13 and $26 million for FY14) for amortisation associated with customer contracts acquired in the relevant period. These measures are non IFRS and are not audited.
(3) Calculated using the volume weighted average weighted number of shares

As always, increasing our profitability and returns to shareholders is a focus of our management team and we will be working diligently in the next year to ensure that the predicted 33% EPS accretion is achieved. Whilst delivering significant increases in earnings in FY14 we will also be making strategic investments aligned to our core areas of focus:



1. Grow
We will increase our investment in marketing, explore new distribution opportunities and grow our sales teams to drive organic growth and improve our share of market in our consumer and business segments.

2. Nurture
We will continue to improve our service delivery, and conduct targeted cross sell activities to increase the number of products we provide to each customer and extend customer tenure. Our focus on being “easy to use” will ensure that we are well prepared to transition our customers to the NBN.

3. Simplify
We will reduce the complexity of our multiple internal systems and take advantage of technology to improve experience for our team and customers, and to reduce our cost to serve.

4. Team
Our team is at the core of this strategy. We will be working hard on developing their skills as well as enhancing our team member benefits program, improving their work experience through technology and refining our leadership development program.

The culmination of our targeted acquisition strategy and the hard work of our team means that we are very well positioned to continue M2’s stellar record of year on year growth in earnings for years to come.

I would like to recognise the team for their outstanding contribution over the last 12 months. Opportunity abounds at M2 but to quote Vince Lombardi “the only place success comes before work is in the dictionary”. We have a lot of work ahead but I have no doubt that with our team’s continued energy, passion and commitment that success will follow.

Thanks also to you, our shareholders for your continued support.

Yours faithfully,

Geoff Horth
Chief Executive Officer

DIRECTORS' REPORT

In compliance with the provisions of the Corporations Act 2001 ("Corporations Act"), the directors of M2 Telecommunications Group Ltd submit the following report for the Company and its controlled entities for FY13.

BOARD OF DIRECTORS

Craig Farrow
Chairman

Vaughan Bowen
Executive Director

John Hynd
Non Executive Director

Michael Simmons
Non Executive Director

David Rampa
Non Executive Director

The names and details of the directors of M2 during FY13 and at the date of this report are as follows:

Craig Farrow

Chairman
B Ec, Dip FS, CPMgr, SA Fin, FCA, FAICD

Appointed Director 18 February 2000
Appointed Chairman 28 April 2006

Mr Farrow is Managing 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 addition, Mr Farrow 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 has served as a director of Eftel Ltd (from 16 April 2013 until its delisting) but has held no other listed company directorships.

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

Vaughan Bowen

Executive Director
B Com, MAICD

Appointed 14 February 2000

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 and profitable national telecommunications company. Mr Bowen transitioned from the Managing Director / CEO role into the role of Executive Director in 2011, to continue to lead M2's acquisition strategy.

Mr Bowen is also the founder, principal benefactor and Chairman of Telco Together Foundation, a not-for-profit charitable organisation established in 2011.

A member of the Australian Institute of Company Directors, Mr Bowen was named as a finalist in the Entrepreneur of the Year Southern Region in 2004 and 2009 and in July 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 listed company directorships, other than Eftel Ltd from 16 April 2013 until its delisting.

John 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 30 years experience in commercial transactions, corporate advice, corporate governance, insolvency and property development. Mr Hynd is a fellow of the Australian Taxation Institute and a former member of the Council of the Law Society of South Australia.

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 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 "TPG") since its listing in 2001. He served in executive roles for nearly 26 years within the SPT Group of companies, including as Chief Financial Officer and Chief Executive Officer. Following the acquisition of TPG, 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.

He currently consults to various companies and government bodies in the area of telecommunication strategy and business opportunities.

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 has extensive experience in the telecommunications industry having held senior executive positions with both Telstra and SingTel Optus, where he was the Director of the Wholesale Division. During David's tenure at both Telstra and SingTel Optus he also served to promote and further develop the Australian telecommunications industry as the Deputy Chairman of SPAN (Service Provider Association), the pre-eminent industry body during that period.

Mr Rampa has most recently spent time working in investment banking out of New York, for advisory firm. Aleutian Capital Group. While in the United States of America, Mr Rampa also served the Australian Business Community as President of ANZACC (Australian, New Zealand, and American Chamber of Commerce) Midwest. He currently serves on the Advisory Board of Rock Star Music Inc.

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

Mr Rampa is Chair of the Nomination and Remuneration Committee.

COMPANY SECRETARY

Kellie Dean

BA, LLB, Grad Dip App Corp Gov, FCIS, MAICD

Appointed 30 November 2007

Ms Dean is responsible for all company secretarial and governance matters, as well as legal services for the M2. Prior to her appointment, Ms Dean was Company Secretary for Orion Telecommunications Limited, which was acquired by M2 in October 2007. A fellow of Chartered Secretaries Australia, and Member of the Australian Institute of Company Directors, Ms Dean has experience in the areas of governance, mergers and acquisitions, human resources, compliance and legal matters.

FORMER AUDIT PARTNERS

No directors or officers of M2 have been a partner or director of Ernst & Young ("EY"), 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.

Craig Farrow	515,444
Vaughan Bowen	5,042,420
John Hynd	1,533,000
Michael Simmons	11,988
David Rampa	-
TOTAL	7,102,852

PRINCIPAL ACTIVITY

The principal activity of the consolidated entity during the financial year was the supply of telecommunications services to residential and business customers within the Australian and New Zealand markets.

As a result of the acquisition of Dodo in May 2013, M2 is now a retailer of energy, gas and insurance services to residential customers.

REVIEW OF OPERATIONS AND RESULTS

Please refer to the Chairman's Letter and CEO's Review for M2's operating and financial review for FY13. This information forms part of the Directors' Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 1 May 2013, M2 acquired all the shares in Dodo for a total consideration of $203.9 million, paid in cash and M2 shares.

On 12 April 2013, M2 obtained control of 88.9% of the voting rights in the shares of Eftel via an off market takeover offer for a total consideration of $38.5 million. At the close of the offer on 6 May 2013, M2 sought to compulsory acquire the remaining shares, and 100% of Eftel shares were acquired on 14 June 2013.

M2 issued a total of 19.2 million M2 shares under the Dodo and Eftel transactions, and the cash component of the total consideration was funded via a new 3 year syndicated facility for $400 million.

SIGNIFICANT EVENTS AFTER BALANCE DATE

(a) Investment in Inabox Group Ltd

On 2 July 2013, M2 acquired 1,666,667 shares at the listing price of $1.20 per share, approximately 12% of the issued capitalof Inabox Group Ltd ("Inabox"). Inabox is an established provider of value-added wholesale telecommunications services, operating Australia-wide, with revenue of approximately $45 million per annum.

This acquisition for the total cost of $2.0 million is a strategic investment building on the strong relationship between the two companies and is expected to provide a foundation to explore further commercial opportunities in the future.

(b) Final dividend declared

On 23 August 2013, the directors declared a final dividend on ordinary shares in respect of FY13. The total amount of the dividend is $17.85 million, which represents a fully franked dividend of 10 cents per share. This final dividend is scheduled be paid to shareholders on 25 October 2013.

LIKELY FUTURE DEVELOPMENTS AND RESULTS

The directors expect that the financial performance of the business will remain strong in FY 14 particularly through the expected growth in revenue and earnings as a result of organic growth and the recent acquisitions of Dodo and Eftel. Refer to CEO's Review for further information on M2's strategy for FY14.

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 FY13 and the final dividend declared for payment is as follows:

Dividends

	Payment Date	Cents per share	Franking	Total Dividend Paid/Declared
Dividends Paid				
Final Dividend	26 Oct 2012	9.00	100%	$14,123,876
Interim Dividend	16 Apr 2013	10.00	100%	$15,855,958
TOTAL		19.00		$29,979,834
Dividend Declared				
Final Dividend	25 Oct 2013	10.00	100%	$17,849,882

SHARE OPTIONS

Options granted

In May 2013, M2 granted 500,000 options over unissued shares.

Details of options granted to officers of the Company as part of remuneration, include:

Name	Number of options granted
Geoff Horth (Chief Executive Officer)	250,000
Boris Rozenvasser (Consumer Director)	250,000

Unissued shares under option

As at the date of this report, M2 has 1,971,668 unissued ordinary shares under option, including 500,000 options which were granted in May 2013.

The details of these options are as follows:

No of unissued shares under option	Exercise price of options $	Expiry date of options
305,000	1.84	1 January 2015
166,666	2.99	1 January 2015
499,998 (1)	3.14	1 January 2016
500,004 (1)	3.29	1 January 2017
166,666 (1)	6.19	1 January 2017
166,666 (1)	6.47	1 January 2018
166,668 (1)	6.75	1 January 2019
Total: 1,971,668		

(1) Option is 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 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.

On 23 August 2013, the Directors declared a final dividend of 10 cents per share

Shares issued following exercise of option

M2 has issued 1,188,332 ordinary shares during and since FY13 as a result of the exercise of an option, including 100,000 in July 2013. The details of these exercised options are as follows:

No of share issued	Amount paid for shares	Amount unpaid for shares
125,000	$205,000	Nil
335,000	$582,900	Nil
395,000	$726,800	Nil
333,332	$1,005,828	Nil
Total: 1,188,332	$2,520,528	

INDEMNITIES AND INSURANCE

M2's Constitution provides that, except as may be prohibited by the Corporations Act, every officer and auditor of the Company shall be indemnified against any liability incurred by them in their capacity as an officer or auditor of M2 or a related body corporate.

Directors of M2 are also party to a deed of access and indemnity.

During FY13, 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.

DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of each Board committee held during FY13 and the number of meetings attended by each director is as follows:

Director	Board Meeting		Audit & Risk Committee		Nomination & Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Craig Farrow	18	18	8	8	4	4
Vaughan Bowen	18	18	-	-	-	-
John Hynd	18	18	8	8	4	4
Michael Simmons	18	17	8	8	-	-
David Rampa (1)	13	13	-	-	4	4

(1) Mr Rampa was appointed a director on 20 December 2012

REMUNERATION REPORT

Refer to page 18 of this report for the Remuneration Report, which forms part of the Directors' Report.

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 to M2's external auditor, EY, for non-audit services are set out in the note 34 to the financial statements. In FY13, the services to the Company largely related to the acquisition of Dodo and Eftel.

In accordance with written and signed advice from the Audit & Risk Committee ("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 30 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, 23 August 2013

REMUNERATION REPORT

David Rampa
Chair - Nomination & Remuneration Committee

Dear Shareholder,

I am pleased to present the Remuneration Report for 2013.

M2's growth and success since listing on the ASX in 2004 has presented an array of challenges and opportunities. One of those challenges is the need to appropriately set board and executive remuneration to be competitive, in fitting with M2's circumstances, and acceptable in reference to investor and other stakeholder expectations.

Our report this year focuses on communicating how our remuneration policies have served us during our formative and high growth stages. However, we are also very aware that our remuneration framework has needed to develop as the Company has evolved, with a focus on delivering the earnings growth that has come from M2's acquisition strategy.

To demonstrate this, the Remuneration Report addresses the new policies and structures that will apply from 1 July 2013 ("FY14"), as well as addressing the policies, structure and outcomes that applied in FY13.

Director and executive remuneration has been a key priority for the Board this calendar year following the shareholder voting outcome at M2's annual general meeting in October 2012, which resulted in M2 receiving its "first strike" rule in accordance with legislation introduced in 2011. Our report sets out the Company's response to the concerns raised by investors and other stakeholders, and we are confident that adequate and appropriate action has been taken.

The Nomination and Remuneration Committee ("Committee") engaged the services of an external remuneration consultant to assist with this process. After an extensive independent review of comparable executive remuneration, changes to Executive packages will include of a realignment of base salary but with a key focus on "at risk" components, to ensure there is a direct link between remuneration and performance (Company and individual), and that remuneration is properly aligned with shareholder interests. This includes the development of a new long term incentive plan, which will assist the Board to focus management attention on medium to long term performance outcomes. Its structure is also aligned with market practice.

Members of the Committee engaged with investors and governance advisors during the year. It was apparent that the Chairman's bonus plan was one of the reasons for the reduced support of our 2012 Remuneration Report. This bonus plan was implemented by the Board in 2010, and was put in place to compensate the Chairman for services to M2 during its highly acquisitive growth stage, most particularly following the Commander acquisition. The final payment under the terms of this bonus plan was made in January 2013.

It was also clear that the Remuneration Report vote outcome at last year's AGM was due in part to how we had described our remuneration, most specifically the disclosure of performance measures and outcomes under the Executive short-term incentive plan and the circumstances and vesting periods associated with the long term incentive plan. This report provides further detail in respect of these plans, and the outcomes for FY13.

I trust that the improvements in our reporting, and the changes in remuneration policy from FY14 will receive your support. We welcome your feedback.

Yours sincerely,

David Rampa
Chair - Nomination & Remuneration Committee

INTRODUCTION

This Remuneration Report for FY13, which forms part of the Directors' Report, outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act. The information in this report has been audited.

The key sections of this report include:

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1. REMUNERATION SNAPSHOT

M2 performed strongly in FY13, with an 80% increase in EBITDA and 33% increase in NPAT, delivering 6% increase in EPS and 11% increase in dividends. The M2 share price increased by 79.2% during the year.

Director and executive remuneration outcomes were reflective of M2's performance, with the highlights noted below:

- Director remuneration paid by the Company increased 2.2%, with an average of 34.2% increase across the non executive director fee schedule
- Executive remuneration (short term benefits and superannuation) paid by the Company increased 38.3%
- Executives achieved an average of 86.7% of STI awards for FY13 performance
- 416,666 Executive options vested
- The Company granted 500,000 options
- Chairman share based bonus plan ceased in January 2013 upon expiry of its 3 year term

In addition:

- David Rampa, independent non-executive director, was appointed as Chair of the Nomination and Remuneration Committee
- The Committee engaged the services of an external remuneration consultant to advise on remuneration market data and the development of a new LTI plan.

2. KEY MANAGEMENT PERSONNEL

This report sets out the remuneration details of key management personnel ("KMP"), which include those persons with authority and responsibility for planning, directing and controlling the activities of the Company.

M2 has defined its KMP to include directors (executive and non-executive) ("Director") and those executives who drive and are responsible for the principal business activities of the Company ("Executive").

The KMP for M2 during and since the end of FY13 include:

Directors:

Craig Farrow	Chairman
Vaughan Bowen	Executive Director
John Hynd	Non-executive Director
Michael Simmons	Non-executive Director
David Rampa	Non-executive Director (Appointed 20 December 2012)

Executives:

Geoff Horth	Chief Executive Officer
Darryl Inns	Chief Financial Officer
Scott Carter	Business Director
Tom Mazerski	Chief Customer Officer (Terminated 1 July 2013)
Boris Rozenvasser	Consumer Director (Appointed 1 May 2013)

Except as otherwise noted, the above KMP held their position during and since the end of FY13.

The 2012 Remuneration Report noted Steve Wicks (as Business Director) and Johnathan Eele (as Managing Director/CEO M2 NZ) as relevant Executives. They are not considered Executives for FY13 due to changes in responsibility and relative contribution to overall Company earnings.

3. REMUNERATION GOVERNANCE

3.1 Nomination and Remuneration Committee ("Committee")

The role of the Committee is to assist and advise the Board on matters relating to the appointment and remuneration of directors, Executives and, where appropriate, other employees of M2. It operates under the provisions of a Charter, a copy of which may be found on M2's website.

The chair and membership of the Committee changed during the year. The Committee now consists of three independent non-

executive directors, with David Rampa taking the role of Chair in January 2013 and Craig Farrow and John Hynd remaining as members.

3.2 Remuneration Consultants

Under the provisions of the Committee's Charter, the Committee may engage assistance and advice from external remuneration consultants. To ensure that any recommendations made by remuneration consultants are provided without undue influence by Executives, external remuneration consultants may only deliver their advice direct to members of the Committee.

During FY13, the Committee engaged the services of Guerdon Associates to advise on director and executive remuneration. In particular, they provided market remuneration data and advised on the development of a new LTI plan.

Guerdon Associates did not provide any services to Executives or other M2 management. They also did not make a 'remuneration recommendation' in relation to director and executive remuneration as defined in the Corporations Act.

M2's non-executive director remuneration policy is to provide fair remuneration that is sufficient to attract and retain non-executive directors with the experience, knowledge, skills and judgment to steward the Company's success

3.3 2012 Annual General Meeting ("AGM")

Over 25% of voting shareholders voted against the 2012 remuneration report at the Company's AGM in October 2012. Under the provisions of the Corporations Act, this resulted in M2 recording its "first strike".

In response to the AGM vote and comments received from shareholders, M2 sought to engage with stakeholders and review its director and executive remuneration.

A summary of those comments, and M2's response are outlined below:

Primary reasons for non-support	M2 Response
The Chairman's annual bonus plan (under which he received cash bonuses based on the Company's share price) had the ability to detract from non-executive director independence and impartiality.	Apply a non-executive director fee policy (from FY14) that excludes any cash share-based payments or performance bonuses.
The vesting periods for equity grants under an existing LTI plan were considered too short in reference to general Australian investor expectations.	Introduce a new LTI plan from 1 July 2013, with a minimum three year vesting period.
Insufficient disclosure by the Company of performance conditions attached to STI and LTI awards.	Provision of more detail in relation to STI and LTI performance conditions in the 2013 Remuneration Report.

3.4 Hedging of Remuneration

In accordance with provisions of the Corporations Act, KMP and their closely related parties are prohibited from hedging any element of their remuneration that is unvested (due to time or other conditions) or is vested but subject to restriction on disposal.

4. DIRECTOR REMUNERATION

4.1 Remuneration Policy and Structure

M2's non-executive director remuneration policy is to provide fair remuneration that is sufficient to attract and retain non-executive directors with the experience, knowledge, skills and judgment to steward the Company's success.

Non-executive directors are paid fees for their services to the Company. The current aggregate maximum sum is $850,000, which was approved by shareholders at the 2012 AGM.

Actual fees paid in FY13 totalled $675,000, which includes a bonus paid to the Chairman, as explained in section 4.3.

Non-executive director fees consist of base fees and fees for membership of board committees, which are inclusive of superannuation contributions. The Chairman of M2 receives a fee which is inclusive of board committee fees.

To preserve independence and impartiality, non-executive directors do not receive incentive or performance based remuneration (from

January 2013), nor are they entitled to retirement or termination benefits.

The level of non-executive director fees is reviewed annually against comparable market data.

Non-executive directors receive reimbursement of expenses incurred while carrying out their director duties. The Board also provides $2,000 each financial year for each director to utilise for the purpose of attending training or professional development courses and events. These amounts are not incorporated in the aggregate sum.

4.2 Non-executive Director Fees

The fees for FY13, as compared with FY12, are outlined below. Actual amounts received by non-executive directors are outlined in section 6.2

	FY13	FY12
Chairman	$210,000	$200,000
Non-executive director	$70,000	$47,500
Committee Chair	$10,000	$5,000
Committee Member	$5,000	$2,500

The increase in fees from FY12 to FY13 is reflective of the Company's growth and is modest in comparison to market data of companies of similar size.

4.3 Chairman Remuneration

The Chairman's remuneration consisted of a fixed director fee plus an additional cash settled share based bonus plan under which payments were calculated by reference to M2 share price at the commencement of the 2011, 2012 and 2013 calendar years.

The share based bonus plan was established by the Board in the 2010 financial year to compensate the Chairman for his services to the Company during its rapid growth stage, particularly in respect of the Company's acquisition strategy. This plan was considered to be an effective method for compensating the Chairman in a form that was aligned with the interests of shareholders. Further, it was believed that such arrangements were not unusual for small, higher growth technology companies with small executive teams and limited access to external resources.

The final payment under the share based bonus plan was made in January 2013. No share or performance based remuneration will be paid to the Chairman or other non-executive directors going forward.

4.4 Executive Director Remuneration

The Executive Director receives a mix of fixed and variable remuneration.

His fixed component consists of a cash salary, superannuation and a non-monetary benefit (car parking). The variable component consists of an incentive plan which was put in place in FY13 to reward the Executive Director for his efforts in leading the Primus, and more recently, the Dodo and Eftel transactions.

Identifying and managing merger and acquisition activities is a key mandate for the Executive Director, and the structure of his remuneration is designed to reflect this. The level of the Executive Director's variable remuneration is therefore proportionately higher than for Executives, with the level determined based on the value of transactions and the financial benefit to M2. The financial benefit has been based on the improvement in shareholder earnings resulting from the transactions and the transaction cost savings achieved by the Executive Director.

A summary of the Executive Director's incentive plan is detailed below:

Form of grant	Cash payment
Maximum total grant value	$2 million
Frequency of grant	Annual
Performance period	1 July 2012 to 30 June 2016
Performance measures/ conditions	Payment of the bonus is only made subject to the achievement of earnings improvement objectives (in respect of the acquired businesses). This performance condition is considered to be appropriate as it is a direct measure of the performance of the acquired businesses, and earnings improvement drives increases to shareholder returns.
Termination	Upon termination, the Executive Director shall be entitled to a pro-rata amount up until the end of the relevant financial year, or at the discretion of the Board.
Change of Control	Upon a charge of control, the Executive Director shall be entitled to a pro-rata amount up until the end of the relevant financial year, or at the dicretion of the Board.

For FY13 performance, the Executive Director is entitled to a payment of $300,000, with 100% of the earnings objectives for the Primus transaction being achieved. This bonus will be paid at the end of August 2013.

The Executive Director was also entitled to a bonus on the same terms as the Chairman, as explained in section 4.3. The rationale for providing the bonus to the Executive Director (who at the time was Managing Director/CEO) was to reward performance during M2's rapid growth stage. The final payment was made in January 2013 upon expiry of the plan's three year term.

5. EXECUTIVE REMUNERATION

5.1 Remuneration Policy and Structure

Executive remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration is comprised of cash salary, superannuation and other non-monetary benefits (including motor vehicles, car parking, and in some circumstances relocation expenses, and accommodation and travel allowances for non-resident Executives). The levels are set to attract and retain qualified, skilled and experienced executives and are determined based on comparable market data.

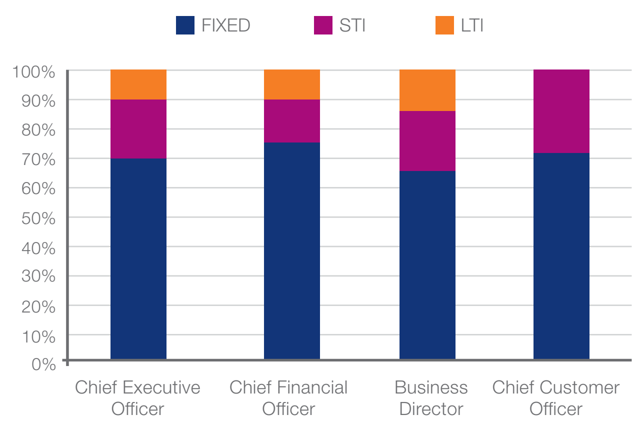
Variable (or 'at risk') remuneration is comprised of a short term incentive ("STI"), and long term incentives ("LTI"). Incentives are set to reward Executives for achievement of financial, operational and strategic objectives, and are designed to align Executive performance with shareholder returns.

From time to time, the Company may also agree to offer other forms of variable remuneration to Executives, which will depend upon the circumstances. In particular, the Consumer Director is currently entitled to a retention payment at the conclusion of 12 months from his commencement date of employment with M2. This bonus is in accordance with the terms of his employment agreement.

5.2 Remuneration Mix

The mix of fixed and variable remuneration varies between Executives, and is determined based on the extent to which they directly influence Company performance.

The mix of remuneration for FY13 is illustrated below:



(1) STI calculated based on the maximum award that may be achieved, payment of which is subject to performance.

(2) LTI calculated based on the grant value (as determined by AASB 2 Share-based Payment)

(3) The mix of remuneration for FY13 for the Consumer Director has not been listed above, as he was only employed from 1 May 2013.

5.3 Short-term Incentive Plan ("STI Plan")

The key features of M2's STI Plan are outlined below.

Form of grant	Cash payment
Frequency of grant	Annual, following a determination of the Company's and Executive's performance for the relevant financial year
Vesting and performance period	12 months
Maximum award	• Each Executive may earn up to a pre-determined fixed amount. The Board may choose to pay more than the maximum available, depending upon the circumstances • The maximum award varies between Executives and is dependent upon role and responsibilities
Minimum gateway	• A pre-determined NPAT objective must be achieved before the full STI awards are available to Executives • If the NPAT objective is not achieved, Executives are only entitled to a maximum of 50% of their STI award
Performance condition and measures	• To achieve a STI award, Executives must meet pre-determined targets, which are expressed as key performance indicators ("KPIs") • The KPIs are set following finalisation of the Company's budget and strategic objectives for the new financial year • Individual KPIs cover both financial and non-financial performance measures, the mix of which varies between the Executives depending upon their role and responsibilities. KPIs include: • Divisional earnings targets • Divisional net growth targets • Management of functional expenses budget • Debtor targets

	• Team engagement scores • Customer service objectives • Earnings improvement objectives • Completion of specific projects or initiatives Each KPI operates independently and is expressed as a percentage of the total available maximum STI. The CEO's STI award is determined according to the overall KPI achievement by the Executive Management Team, recognising that the CEO's primary task is to provide leadership and direction to this Team. The performance measures have been chosen by the Board as they are representative of the Company's performance objectives which will drive shareholder value
Performance Assessment	• Executive performance is assessed following the determination of the Company's annual results for the preceding financial year • Performance assessment takes the form of performance review, whereby the Executive is provided with a 'rating' based on the achievement of their KPIs. This rating is recommended by the CEO and Chairman, reviewed by the Committee and approved by the Board. • This method of assessing Executive performance ensures that a STI award is based upon the actual achievement of objectives.
Termination	Executives who cease employment prior to the end of a financial year are not usually entitled to an STI reward, however this is at the discretion of the CEO and Board.

The STI outcomes for FY13 are detailed in section 6.3 of this report.

The STI plan as outlined above will apply in FY14.

5.4 Long Term Incentive Plans ("LTI Plan")

M2 Executive Management Team Share Option Plan

M2 has operated the M2 Executive Management Team Share Option Plan ("ESOP") since 2006, whereby options for M2 shares are granted to individuals at a pre-determined exercise price. The purpose of the ESOP was to reward Executives for individual and Company performance and provide a further avenue for the alignment of Executive objectives with those of shareholders.

The following table outlines the major features of the ESOP:

Form of grant	Options to buy M2 shares
Grant Frequency	At the discretion of the Board
Vesting period	Options have been granted in 3 equal tranches, vesting 1 to 4 years from date of grant
Performance Conditions	• The options have been 'premium priced options', i.e the exercise price has been higher than the M2 share price at grant date. The exercise price has been set higher for each successive tranche. • For options granted post 2011, options may only be exercised subject to the minimum achievement (60%) of the Executive's STI KPIs in the financial year immediately prior to the relevant vesting date for each tranche. • The Executive must remain in employment with M2 at the vesting date to be able to exercise the options, subject to the terms of the ESOP, and at the Company's discretion.
Termination	• Under the terms of the ESOP, cessation of employment affects the Executives' rights to exercise options. The effect depends on the manner in which the employment was terminated, and is at the Company's discretion.
Change of control	• Under the terms of the ESOP, in a change of control situation, the Company has the discretion to determine the time or event upon which all outstanding options will become exercisable, and the time or event which all outstanding options will lapse.

M2 Long Term Incentive Plan

The Board has introduced a new LTI Plan from 1 July 2013 and all Executives will be invited to participate.

The key driver for the LTI Plan was to provide a variable remuneration component that is competitive, aligned to shareholder returns over a longer period, and also on terms that were acceptable to Australian investors, based on market standards. It has also been structured to appropriately incentivise Executives and promote retention.

Development of the LTI plan is a recognition and reflection of M2's maturity as a listed company in the S&P/ASX200.

The key features of the LTI Plan are outlined below:

Form of grant	• Performance rights that can be settled in M2 shares or cash • Executives are not required to pay for the performance rights
Grant Frequency	Annual
Vesting period	3 years
Performance Period	1 July 2013 to 30 June 2016
Performance measures and weighting	• 50% Relative Total Shareholder Return ("RTSR") • 50% EPS Growth
Performance hurdles	• RTSR growth threshold: Index + 3% • RTSR growth target: Index + 5% • RTSR growth maximum: Index + 7% • EPS Growth in line with market guidance and market consensus (as may be relevant)
Vesting scale	Zero at threshold, 100% at maximum, straight line pro rata between threshold and maximum
Terminating Executives	If a "good leaver", vesting will be on pro-rata basis at the discretion of the Board
Change of control	Pro-rata basis at discretion of the Board

The RTSR test applying to half of the performance rights granted to Executives measures M2's total shareholder return performance (share price growth plus dividends) relative to movements in the S&P/ASX 200 and S&P/ASX 200 Telecommunication Services indices over the three-year performance period, with 50% of the RTSR-tested performance rights (i.e., 25% of the total number of performance rights in the grant) assessed against each index.

The Board believes this RTSR test is an appropriate performance measure because it provides a reward when the Company's share-holder return exceeds investment returns for the market as a whole and/or for peers in its industry.

The EPS Growth test applying to the second half of the performance rights granted to Executives assesses the growth in M2's earnings per share over the three-year performance period.

The Board believes this is an appropriate performance measure as EPS is directly related to shareholder returns and is consistent with the performance objectives set for Executives.

6. REMUNERATION OUTCOMES FOR FY13

This section provides a summary of the key financial results for M2 over the last five financial years, and how those results have been reflected in KMP remuneration for FY13.

Development of the LTI plan is a recognition and reflection of M2's maturity as a listed company in the S&P/ASX200

6.1 M2 Financial Performance

The table below sets out M2's earnings and movements in shareholder wealth over the last five years:

	FY13	FY12	FY11	FY10	FY09
Earnings					
Revenue	$681.0 million	$393.5 million	$426.8 million	$406.1 million	$202.5 million
EBITDA	$108.1 million	$60.1 million	$48.3 million	$31.4 million	$13.3 million
NPAT	$43.8 million	$33.0 million	$27.6 million	$16.6 million	$7.4 million
NPAT Growth	33%	20%	72%	119%	45%
Shareholder Value					
Share price[1]	$5.85	$3.36	$3.28	$1.69	$0.715
EPS	27.4 cents	25.9 cents	22.6 cents	14.6 cents	8.9 cents
EPS Growth	6%	15%	55%	64%	27%
Interim dividend	10 cents	9 cents	7 cents	5 cents	2.5 cents
Final dividend	10 cents	9 cents	9 cents	5 cents	3 cents

(1) As at 30 June in relevant financial year.

6.2 FY13 Remuneration Details

The tables in this section detail the remuneration received by KMP during FY13. This information is disclosed in accordance with the provisions set out in the Corporations Act and the Australian Accounting Standards.

Directors

The fees and remuneration received by non-executive directors in FY13 are set out below, including a comparison with FY12. This table also includes the amounts received by the Executive Director.

		Short-Term				Post Employment	Other Long Term Benefits	Total Remuneration
		Salary & Fees[1]	Cash STI	Performance-Related[2]	Non-monetary benefits	Superannuation	Accrued Long Service Leave	
		$	$	%	$	$	$	$
Craig Farrow Chairman	2013	210,000	255,000	54.8		-		465,000
	2012	206,667	101,250	32.9	-	-	-	307,917
Vaughan Bowen Executive Director	2013	250,000	255,000	44.7	8,184	25,000	32,803	570,987
	2012	365,320	311,750	40.8	34,864	25,000	26,553	763,487
John Hynd Non-executive Director	2013	80,000	-	-	-	-	-	80,000
	2012	55,125		-	-	-	-	55,125
Michael Simmons Non-executive Director	2013	80,000	-	-	-	-	-	80,000
	2012	50,000	-	-	-	-	-	50,000
David Rampa[3] Non-executive Director	2013	40,000	-	-	-	-	-	40,000
	2012	-	-	-	-	-	-	-
TOTALS	2013	660,000	510,000	-	8,184	25,000	32,803	1,235,987
	2012	677,112	413,000	-	34,864	25,000	26,553	1,176,529

(1) Includes all amounts paid and accrued to companies related to the director, for director services
(2) Calculated based upon the value of the cash STI against total remuneration received
(3) Mr Rampa was appointed on 20 December 2012

Executives

The remuneration received by Executives in FY13 is set out below, including a comparison with FY12.

		Short-Term Benefits			Post Employ-ment	Termi-nation Benefits	Other Long Term Benefit	Share based Payments	Total Remu-neration
		Base Salary	Cash STI (1)	Non-monetary Benefits	Super-annuation	Termi-nation Benefits	Accrued Long Service Leave	Value ascribed to Options(2)	
		$	$	$	$	$	$	$	$
Geoff Horth	2013	650,000	85,000	82,479	25,000	-	45,649	117,359	1,005,487
	2012	489,807	89,250	34,896	24,999	-	26,781	76,723	742,456
Darryl Inns	2013	350,000	43,013	22,087	25,000	-	79,461	40,399	559,960
	2012	310,000	33,750	21,456	24,999	-	76,935	43,055	510,195
Scott Carter	2013	370,000	90,000	8,184	25,000	-	12,946	78,388	584,518
	2012	319,999	20,000	-	15,775	-	6,095	31,773	393,642
Tom Mazerski(3)	2013	348,654	-	89,781	25,000	179,044	6,297	-	648,776
	2012	29,166	-	-	2,083	-	464	-	31,713
Boris Rozenvasser (4)	2013	53,333	-	870	4,166	-	48,021	14,249	120,639
	2012	-	-	-	-	-	-	-	-
TOTALS	2013	1,771,987	218,013	203,401	104,166	179,044	192,374	250,395	2,919,380
	2012	1,148,972	143,000	56,352	67,856	-	110,275	151,551	1,678,006

(1) STI paid during FY13 for FY12 performance

(2) The remuneration value ascribed to options (that have been granted prior to and during FY13 to the Executive) has been calculated in accordance with AASB 2 Share-based Payment.

(3) Mr Mazerski was employed from 1 June 2012 to 1 July 2013.

(4) Mr Rozenvasser was appointed on 1 May 2013

6.3 STI Outcomes

Following a review of performance for FY13, the outcomes below were achieved by the Company and each Executive:

Achievement of KPIs

The maximum STI amount for each Executive is only available upon M2 achieving its NPAT objective in the relevant financial year.

This was achieved in FY13, and as such, the maximum STI is available to Executives.

Measure	Objective	Achievement
NPAT	$43 million to $48 million	100%

Incentives are set to reward Executives for achievement of financial, operational and strategic objectives, and are designed to align Executive performance with shareholder returns

The financial and operational performance of each Executive's functional or business unit is set out below:

Business Unit	KPIs	% of STI	% Achieved
Finance	Functional costs to budget	20	20
	Debtor days	20	20
	Cost management & synergy realisation	20	20
	Other - project specific	40	40
	TOTAL	100	100
Business & Corporate	Division earnings	40	40
	Division net sales	20	10
	Other - project specific	40	40
	TOTAL	100	90
Consumer & Customer	Division earnings	30	15
	Division gross sales	10	5
	Other - project specific	60	50
	TOTAL	100	70

STI awards

The table below summarises the percentage of STI that was earned by Executives for FY13 performance and the percentage that was forfeited, in addition to the actual STI which will be paid:

Executive	STI FY13 award %	STI FY13 forfeited %	Actual STI $
Geoff Horth	87.5[1]	12.5	175,000
Darryl Inns	100	0	90,000
Scott Carter	90	10	117,000
Tom Mazerski	70	30	126,000
Boris Rozenvasser	Not eligible[2]	Not eligible	-
Average	86.7		

(1) The CEO's STI award is determined according to the overall KPI achievement of the Executive Management Team which includes the Executives disclosed in this Remuneration Report and other executives.
(2) Executive was appointed late in the financial year, and no STI applied.

Executives achieved an average of 86.7% of STI awards for FY13 performance, reflecting M2's strong financial results

6.4 LTI Outcomes

The table below sets out the options that were granted, held and exercised by Executives under the ESOP and the respective values at time of grant and exercise.

The ESOP is the only LTI plan that applied in FY13.

1. The table below outlines the options that we were granted to Executives (or their nominated holder) during FY13.

	Number Granted	Exercise Price	Vesting Date	Expiry Date	Value of Options ($)
Geoff Horth	250,000	83,333 at $6.19 83,333 at $6.47 83,334 at $6.75	1 January 2015 1 January 2016 1 January 2017	1 January 2017 1 January 2018 1 January 2019	207,083
Boris Rozenvasser	250,000	83,333 at $6.19 83,333 at $6.47 83,334 at $6.75	1 January 2015 1 January 2016 1 January 2017	1 January 2017 1 January 2018 1 January 2019	207,083

The options were granted in FY13 to the CEO and Consumer Director following the completion of the Dodo acquisition and formed part of the negotiations during the sale process. The Board felt that this was the most appropriate method to ensure the smooth integration of this business into the wider M2 Group and to provide an incentive to realise the value from the acquisition. It further promotes teamwork across the Executive team (with other Executives being granted options on similar terms previously) and assists with the retention of key leaders.

2. The table below outlines the options that vested and were exercised by Executives (or their nominated holder) during FY13, including the total held as at the date of this report.

	Number Vested	Exercise Price	Expiry Date	Number Exercised	Amount paid	Value of Options Exercised $	Total amount of Options held as at date of Report
Geoff Horth	200,000	100,000 at $1.84 100,000 at $2.99	1 January 2015 1 January 2015	100,000	$176,500	45,791	625,000
Darryl Inns	133,333	100,000 at $1.84 33,333 at $2.99	1 January 2015 1 January 2015	133,333	$283,665	63,447	66,667
Scott Carter	83,333	$2.99	1 January 2015	83,333	$249,165	35,750	166,667
Tom Mazerski	-	-	-	-	-	-	-
Boris Rozenvasser	-	-	-	-	-	-	250,000
TOTAL	416,666			316,666	$709,330	144,988	1,108,334

6.5 Employment Agreements

The following key terms are contained in employment agreements for the Executive Director, CEO and other Executives:

Duration of Agreement	Executive Director	From 1 July 2013 for no fixed term
	Chief Executive Officer	From 1 July 2012 for no fixed term
	Chief Financial Officer and Business Director	From 1 July 2011 for no fixed term
	Consumer Director	From 1 May 2013 for no fixed term
Period of notice required to terminate agreement (by the relevant KMP):	All	Three months

Termination payments:	Executive Director	Upon termination for convenience by the Company, the Executive Director shall be entitled to an amount equal to what he would be entitled to under relevant legislation.
	Chief Executive Officer	Upon termination for convenience by the Company, the CEO shall be entitled to a sum equal to six months base salary (inclusive of a notice period). Upon termination (for any reason excluding just cause) within 12 months of a change of control event, the CEO shall be entitled to a payment equal to 12 months base salary, inclusive of a notice period.
	Other Executives	Upon termination for convenience by the Company, the Executive shall be entitled to a sum the greater of: (1) six months base salary (inclusive of a notice period); or (2) an amount calculated in accordance with the redundancy provisions of the Fair Work Act or its equivalent.

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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 2013, 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.

Ernst & Young

Don Brumley
Partner
Melbourne
23 August 2013

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CORPORATE GOVERNANCE STATEMENT

M2 is committed to ensuring that it has effective corporate governance structures, consistent with the principles and recommendations set out in the Corporate Governance Principles and Recommendations formulated by the ASX Corporate Governance Council ("ASX Principles").

M2 recognises that an effective corporate governance structure facilitates the creation of organisational value and provides necessary accountabilities and control systems which are appropriate to the organisational risks affecting M2.

M2 considers that in respect of FY13, M2 demonstrated robust corporate governance practices which were appropriate having regard to M2's business, size and diversity. Fundamentally, M2 continued to demonstrate its commitment to the key tenets of good corporate governance practice, namely integrity, transparency, stewardship, accountability and disclosure.

In this Corporate Governance Statement, M2 addresses the ASX Principles in respect of FY13. Where M2 has not conformed to a particular Principle, M2 has adopted "if not, why not" reporting to demonstrate how its practices nevertheless accord with the spirit of the relevant Principle.

This Statement is dated 23 August 2013.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board and Management

Recommendation 1.1

M2 has established a clear delineation between the functions reserved to the Board of M2 and those functions delegated to Executives.

The Board has confirmed its role and responsibilities in a written charter which is published on M2's website. The Board has largely an oversight role and has reserved the following matters for itself:

(a) approve, monitor and modify the strategic direction of M2;

(b) ensure the principles of corporate governance are upheld and consistently reviewed;

(c) monitor the performance of Executives;

(d) ratify the appointment or removal of the Chief Executive Officer and the Company Secretary;

(e) ensure that appropriate risk management systems, internal control and reporting systems are in place and are operating effectively;

(f) approve and monitor financial results;

(g) approve decisions concerning acquisitions and capital, including capital restructures and dividend policies of M2;

(h) approving and monitoring the progress of major capital expenditure and capital management; and

(i) comply with the reporting and other requirements existing at law.

Additionally, the individual accountabilities of each director is specified in the letter of appointment provided to each director upon their appointment to the Board.

The Board has delegated the responsibility of the management of routine matters and 'business as usual' operation to Executives. Executives are accountable to the Chief Executive Officer, who is directly accountable to the Board.

Similarly to the letter of appointment provided to a director upon their appointment to the Board, the contract of employment for Executives includes a formal job description, which describes the duties, rights, responsibilities and key accountabilities of Executives.

Evaluation and Induction

Recommendations 1.2 and 1.3

During FY13, the performance of Executives was reviewed in accordance with the process disclosed within the Remuneration Report. M2 considers that the process in the Remuneration Report is an appropriate measure. Reviews were conducted in early August for FY13 performance.

Further, M2 welcomed two additional members to its executive team following the acquisition of Dodo and Eftel, namely Mr Boris Rozenvasser and Mr John Allerton. Mr Rozenvasser and Mr Allerton participated in one-on-one induction sessions with M2's Chief Executive Officer in order to ensure that they understood M2's financial position, strategies, operations, as well as their individual rights, duties and responsibilities. M2 considers that the induction process better enabled Mr Rozenvasser and Mr Allerton to participate fully and actively in management decision making.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Director Independence

Recommendation 2.1

The Board consists of five (5) directors, of which four (4) are considered to be independent directors. M2 has assessed the business or other relationships of each of the independent directors and is satisfied that the independence of each such director is not compromised.

The details of M2's assessment and reasons (having regard to Box 2.1) is set out in the table below:

Directors	Title	Independent	Reason (Box 2.1)
Craig Farrow John Hynd Michael Simmons David Rampa	Chairman Independent Directors (all)	Yes	• Not a substantial shareholder, or associated directly with a substantial shareholder. • Not employed in an executive capacity by M2 during the previous three years. • Not a principal or an employee of a material professional advisor or consultant. • Not a material supplier to M2, nor an officer of or otherwise associated with a material supplier. • Not party to a material contract with M2 (other than as a director).
Vaughan Bowen	Executive Director	No	Employed in an executive capacity and a former substantial shareholder of the Company.

The directors of the Board are aware of their right to seek independent professional advice at M2's expense if it is considered necessary for the proper exercise of a function.

M2 is conscious of the circumstances in which the independence of a director may be, or may be perceived to be, compromised. If such circumstances occur, M2 intends to make timely and balanced disclosures to the market in that regard.

Chairman and Chief Executive Officer

Recommendation 2.2

The Chairman of the Board is Craig Farrow. For the reasons specified in respect of Recommendation 2.1, M2 considers Mr Farrow to be an independent director.

Recommendation 2.3

The Chairman of the Board is Craig Farrow. The Chief Executive Officer of the Company is Geoff Horth. Mr Horth is not, and has never been, a member of the Board. Mr Farrow has not been the Chief Executive Officer of M2 during the previous three years.

The Chairman and Chief Executive Officer have clear lines of responsibility and accountability which are document in their respective letters of appointment and as otherwise notified to them by the Board from time to time.

Nomination and Remuneration Committee
Recommendation 2.4

The Board has established a Nomination and Remuneration Committee. The composition of the Nomination and Remuneration Committee is set out in the table below:

Director	Title
David Rampa	Chair
Craig Farrow	Independent Director
John Hynd	Independent Director

The majority of the members are independent directors. The Chairman is also independent.

The roles and responsibilities of the Nomination and Remuneration Committee is set out in its formal charter. Those roles and responsibilities (to the extent that it relates to Committee's 'nomination' function) include:

(a) developing and maintaining the Board Selection Policy of M2;

(b) examining the Board selection and appointment practices of M2;

(c) the review of succession plans relating to the Board;

(d) the development of a process for the evaluation of the performance of the Board, the directors and the Committees of the Board; and

(e) reporting to the Board in respect of the matters set out in (a) to (d) above.

The process for recommending the selection, appointment and re-appointment of directors to the Board is transparent and outlined in the Board Selection Policy. The Nomination and Remuneration Committee also consider key factors such as:

(a) **Competencies and Needs:** the relevant skills, experience and qualifications of the candidate assessed in the context of M2's needs for certain skills, experience and qualifications;

(b) **Resources:** the ability of the candidate to devote an appropriate amount of time to the office of director of M2;

(c) **Diversity:** the desire for diversity (including gender diversity) on the Board;

(d) **Cohesion:** the likelihood that the candidate will work constructively with the other directors on the Board;

(e) **Renewal:** whether it is necessary to refresh the Board;

(f) **Independence:** the independence of the candidate;

(g) **Size:** determining an appropriate number of directors so that there are enough directors to facilitate diverse opinion and constructive discussion but not so many as to create a divisive and dysfunctional Board; and

(h) **ASX Principles:** the effect of the selection, appointment or re-appointment of the candidate on M2's ability to conform to the ASX Principles (for example, in respect of recommendations relating to the composition of the Board and its Committees).

The consideration of such factors by the Nominations and Remuneration Committee in FY13 culminated in the recommendation to the Board in favour of the appointment of Mr David Rampa as a director of M2.

The Board recognises the benefit that M2 gains from having a diverse range of individuals and skill sets within its composition. A range of perspectives is imperative to making proper, well considered and balanced decisions that are in the best interests of the Company as a whole.

Board Evaluation
Recommendation 2.5

The process for evaluating the performance of the Board, its Committees and individual directors is established and maintained by the Nomination and Remuneration Committee.

M2 has demonstrated its ongoing commitment to recruiting and retaining high calibre candidates on the Board. The Board is also regularly provided with information it requires to discharge its duties effectively. To achieve this:

(a) reports prepared by Executives are tabled at meetings of the Board for consideration and discussion;

(b) Executives routinely appear as invitees at meetings of the Board in order to update the Board in respect of M2's financial, strategic, operational and risk management position and directors are encouraged to request additional information if they require;

(c) directors are provided with access to the Executives of M2 so assist them in developing and maintaining a sound understanding of M2's business and the industry in which it operates;

(d) individual directors are entitled to seek assistance from M2's Company Secretary, Ms Kellie Dean, when required;

(e) it is M2's policy to circulate notices of meeting, together with briefing documents to be tabled, at least 5 days before the meeting so as to better enable the directors to familiarise themselves with the agenda and briefing documents; and

(f) M2 encourages individual directors to develop additional skills and experiences which will better enable them to discharge their duties as directors of M2. For example, M2's 'Director Education Policy' continues to operate, providing each director an allowance of $2,000 per year to be expended on attending professional development activities relevant to their appointment as a director of M2.

Additionally, M2 understands the importance of inducting new directors. M2 strives to ensure that incoming directors gain an understanding of their individual roles and responsibilities, the roles and responsibilities of Executives, the roles of Committees of the Board and the extent and nature of interactions with other directors, Executives and key stakeholders.

Individual directors benefit from one-on-one sessions with the Chairman of the Board when appropriate. To illustrate M2's commitment to induction, prior to the appointment of Mr David Rampa as a director, Mr Rampa attended several meetings of the Board as invitee to gain an understanding of the expected level and manner of Board interaction, as well as M2's cultures and values.

The terms of the appointment of Ms Dean as Company Secre-

tary is determined by the Board as a whole, in accordance with section 204F of the Corporations Act 2001 (Cth). The terms of the appointment of Ms Dean specify that Ms Dean is accountable to the Board in respect of her performance as Company Secretary of M2.

The skills, experience and expertise relevant to the position of director, held by each individual director is detailed in the Directors' Report.

The materiality threshold against which director's independence is assessed in the context of annual consolidated revenue.

The term of office for each director during FY13 is detailed in the Directors' Report.

Details of the meetings of the Nomination and Remuneration Committee (together with details of attendees) is set out in the Directors' Report.

M2 undertook a performance evaluation of the Board, its Committees and of individual directors in early 2013. The performance evaluation took the form of a board questionnaire.

M2 makes the following information publicly available by publishing it on its website:

1. the charter of the Nomination and Remuneration Committee; and
2. the Board Selection Policy

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct and Share Trading

Recommendation 3

M2 has established policies to demonstrate M2's commitment to ethical and responsible decision making and to consider M2's legal obligations and safeguard the reasonable expectations of M2's shareholders, employees, suppliers, customers and other stakeholders. M2 expects individual directors, Executives and all employees to comply with M2's policies.

The policies include a Code of Conduct, Share Trading Policy, Conflict of Interest Policy, Equal Opportunity Policies and Privacy Policy. The policies are disclosed or otherwise made available to M2's directors, Executives and employees through a combination of forums, such as on M2's websites, on the employee intranet and through the induction process.

Under the provision of M2's Share Trading Policy, KMP are restricted from trading insecurities during certain "black-out" period.

Further, to ensure that M2's Executives and employees are aware of company and individual obligations pursuant to consumer protection laws, M2 has implemented a compliance training program which must be completed by each Executive and employee at least annually.

M2 does not tolerate unethical practices and expects each director, Executive and employee to report unethical practices to M2's Company Secretary.

Kellie Dean
Legal Services Director,
Company Secretary

Diversity

Recommendation 3.2

The Board of M2 recognises the value in fostering employee and board diversity in respect of gender, age, ethnicity and culture.

M2's policy for employee diversity is incorporated in its commitment to maintaining a safe working environment, which is free from unlawful discrimination. That commitment is manifested in M2's Equal Opportunity Policy which is published of M2's employee intranet and its Diversity Policy published on M2's website. Concerns relating to discrimination are treated seriously by M2's human resources department.

In respect of the recognition of diversity on the Board, M2's commentary in respect of Recommendation 2.4 sets out the commitment to diversity on the Board.

Gender Diversity

Recommendation 3.3

The Board of M2 has established measurable objectives for achieving gender diversity. The measurable objectives are as follows.

Objective	Target Date
Board: At least one of the next two director appointments desirably should be female, with the appropriate skills and attributes	When it is appropriate to expand the Board or replace an existing director
Executive Team and Senior Management: To improve or at least maintain current male/female ratio statistics.	Annually

Recommendation 3.4

The table below sets out the number of females engaged or employed by M2 as at the date of this report (in comparison to FY12):

Role	August 2013		August 2012		% Change
	By Number	By Percentage	By Number	By Percentage	
Female Director	0	0%	0	0	0
Female Executives	1	14.3%	2	22.2%	- 7.9%
Female Senior Management	5	27%	11	25%	- 2.7%
Female Team Members	375	32.3%	341	36%	-3.7%

M2 acknowledges the reduced proportion of female participation in the organisation, particularly across its executive and senior management. This is due in part to the diversity of the acquired businesses in May 2013 (Dodo and Eftel), and a recent restructure across the organisation. The Company is once again committed to reviewing its policies and practices to determine if improvements can be made to facilitate increased participation of females.

Recommendation 3.5

The Code of Conduct, Share Trading Policy, Conflict of Interest Policy, Diversity Policy and Privacy Policy are published on M2's website. The Equal Opportunity Policy is made available to employees on the employee intranet.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

M2 is committed to safeguarding the integrity of its financial reporting. To achieve that commitment, M2 must established a structure of review and authorisation to ensure that reports on M2's financial position are presented factually and accurately.

Audit and Risk Committee

Recommendation 4.1

M2 has established an Audit and Risk committee in accordance with Listing Rule 12.7. The principal functions of the Audit and Risk Committee are set out in the commentary in respect of Recommendation 4.3.

Recommendation 4.2

The composition of the Audit and Risk Committee is set out in the table below:

Director	Title
Michael Simmons	Chair
Craig Farrow	Independent Director
John Hynd	Independent Director

M2 considers that the composition of the Audit and Risk Committee is appropriate. The Audit and Risk Committee is unanimously constituted of independent directors in order to preserve integrity in its function.

The members of the Audit and Risk Committee are appropriately qualified to discharge their duties, comprising of two members with relevant accounting qualifications and substantive experience and one member with a legal background. Each member of the Audit and Risk Committee has appropriate financial literacy and a sound understanding of the industry in which M2 operates. The qualifications, experience and skills of the members of the Audit and Risk Committee are set out in the Directors' Report.

Recommendation 4.3

The Audit and Risk Committee operates under a formal charter. The formal charter:

(a) specifies the roles and responsibilities of the Audit and Risk Committee, including its principal functions of:
   - (i) reviewing M2's policies and procedures for compliance with international reporting standards;
   - (ii) reviewing audit plans and accounting policies;
   - (iii) ensuring the integrity of financial reporting; and
   - (iv) overseeing the independence of external auditors;

(b) requires the Audit and Risk Committee to be composed entirely of non-executive directors and at all times with a majority of independent directors;

(c) sets out the structure of the Audit and Risk Committee; and

(d) specifies the procedures for non-committee members to attend meetings of the Audit and Risk Committee.

M2 considers that the Audit and Risk Committee is provided with sufficient resources to adequately perform its function. The Audit and Risk Committee has the right to meet with Executives to ask questions or request explanations. Additionally, the Audit and Risk Committee is entitled to liaise with both internal and external auditors in absence of management.

The Audit and Risk Committee meets routinely in order to perform its role effectively. Details of the meetings of the Audit and Risk Committee (together with details of attendees) is set out in the Directors' Report.

Ms Kellie Dean attends each Audit and Risk Committee and records the minutes of the meeting. The minutes of the meeting of the Audit and Risk Committee are ordinarily tabled at a subsequent meeting of the Board of M2.

The Audit and Risk Committee reports to the Board. The reports prepared by the Audit and Risk Committee include all relevant matters, including, where appropriate:

(a) an assessment of whether external reporting conforms to the expectations of the Audit and Risk Committee and whether it is sufficient for shareholder's needs and legitimate expectations;

(b) an assessment of the support provided to external reporting by Executives;

(c) procedures for the selection and appointment of external auditors and the rotation of audit partners;

(d) any recommendations for the appointment or removal of an external auditor;

(e) an assessment of whether the independence of the external auditor is preserved (particularly where non-audit services have been provided);

(f) an assessment of the performance and independence of M2's internal auditor, including any recommendations for the appointment or dismissal of the internal auditor; and

(g) results of any review of M2's internal controls and risk management systems.

Additionally, the Board of M2 has formulated a Non-Audit Services Policy which, in the interest of maintaining independence and integrity of the external audit function, sets out the procedures that M2 will follow before permitting its external auditors from performing non-audit services.

Recommendation 4.4

The formal charter of the Audit and Risk Committee, together with information relating to the procedure for the selection, appointment and rotation of external auditors is made publicly available on M2's website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

M2 is committed to making timely and balanced disclosures to the market to ensure the integrity of the market. M2 treats its disclosure obligations pursuant to the Listing Rules and the Corporations Act seriously.

Recommendation 5.1: Continuous Disclosure

M2 has established and documented a Continuous Disclosure and Communications Policy.

Accountability for the Continuous Disclosure and Communications Policy resides at all levels of M2. All employees are required to notify the Company Secretary if they become aware of any information which may be required to be disclosed to the market and the Company Secretary has the obligation to bring that information to the attention of the Chief Executive Officer and Chairman of the Board.

M2 has established processes to ensure that announcements to the market are timely, factual, clear and objective and do not omit material information. In order to achieve this, announcements are typically prepared by M2's Corporate Communications Manager in consultation with the Chief Executive Officer and Company Secretary prior to being circulated to each individual director for review. Major announcements are typically considered during meetings of the Board and are revised multiple times to ensure accuracy and balance. During M2's acquisition of Dodo Australia Holdings Pty Ltd and off-market takeover bid for Eftel Limited, significant announcements were drafted by M2's external legal advisors.

In order to enhance clarity in financial reporting, M2 includes commentary on its disclosed financial results. M2 considers that the commentary is sufficient to enable an investor to make an informed decision in respect of M2's financial performance.

Recommendation 5.2

The Continuous Disclosure and Communications Policy is published on M2's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder Communications

Recommendations 6.1 and 6.2

The Continuous Disclosure and Communications Policy has been formulated by M2. A core purpose of the Continuous Disclosure and Communications Policy is to promote effective communications with shareholders and to better facilitate participation at general meetings. The Continuous Disclosure and Communications Policy is published on M2's website.

M2 is conscious of new and emerging technologies which may be utilised to improve the form and manner of communications with shareholders. M2 has continued to utilise electronic communication to improve shareholder engagement. Shareholders are able to request to receive all communications in electronic format (email) and after key events, such as the release of half-year and full-year results, M2 invites shareholders to participate in telephone conferences to understand the results. Additionally, investors presentations are routinely made available to shareholders through release of those presentations to the ASX. M2 considers that this is in the interests of engaging with shareholders who are unable to physically attend presentations and general meetings.

Recently, M2 launched its new investor website. The design of the website is intended to improve the ability of shareholders to access relevant information relating to M2.

Where reasonable and practical, M2 intends to implement webcasting or other forms of communication to allow shareholders an opportunity to participate in significant group briefings.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board of M2 considers that the development of a risk mature culture is integral for the proper identification and management of M2's strategic and operational risks.

Risk Management

Recommendation 7.1

The Board has formulated a Risk Management Policy to document M2's commitment to appropriate risk management and sets out the risk management framework that M2 operates. The risk management framework is based on the Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009) ("AS/NZS 31000").

The adopted risk management framework includes the development and maintenance of a risk register with associated delegation and reporting mechanisms in order to consider all material business risks.

The roles and accountabilities of the Audit and Risk Committee and internal auditor is articulated in the Risk Management Policy.

The Audit & Risk Committee has been delegated authority to oversee the risk management framework and report to the Board on a periodic basis.

Recommendation 7.2

The Board has delegated to Executives the responsibility for designing and implementing processes and procedures to manage M2's risks.

The Board of M2 routinely receive reports on material business risks affecting M2. A Risk Register (in accordance with AS/NZS 31000) is a tool typically utilised by M2 to report to the Board.

M2's systems and controls for identifying and managing risk are reviewed at least annually and also on an ad-hoc basis following key events, such as mergers and acquisitions, technological changes and changes to business operations.

The Board is empowered to make additional inquiries of Executives in respect of M2's risk management practices.

To further assist in the identification of material business risks, M2's internal auditor routinely analyses the effectiveness and appropriateness of M2's systems and controls for identifying and managing risk. For example, M2's internal auditor is responsible for identifying risks for inclusion in the Risk Register and testing the robustness of M2's systems and controls. The internal audit function is independent from Executives and the internal auditor reports directly to the Audit and Risk Committee.

Recommendation 7.3

The Board confirms that prior to making a declaration pursuant to subsection 295(4) of the Corporations Act, the Board received a declaration made by the Chief Executive Officer and Chief Financial Officer pursuant to section 295A of the Corporations Act.

The Board has been assured by the Chief Executive Officer and the Chief Financial Officer that the declaration is based on a sound system of risk management and internal controls and those systems and controls operate effectively in all material respects.

Recommendation 7.4

During FY13, the Board received signed assurance from the Chief Executive Officer and Chief Financial Officer confirming that M2's material business risks are being managed appropriately in accordance with effective systems and controls.

The Risk Management Policy is published on M2's website.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1

The Board has established the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee operates under a formal charter. The formal charter:

(a) specifies the roles and responsibilities of the Nomination and Remuneration Committee, including its principal functions of (in respect of its remuneration function):
  - (i) reviewing, and making recommendations to the Board, in respect of the remuneration, retention and termination of directors and Executives (including superannuation arrangements);
  - (ii) reviewing the remuneration policies and practices of M2 (the remuneration framework); and
  - (iii) making recommendations to the Board in respect of short and long term incentive schemes for Executives;

(b) requires the Nomination and Remuneration Committee to have at least three members, with the majority being independent directors;

(c) sets out the structure of the Nomination and Remuneration Committee; and

(d) specifies the procedures for non-committee members to attend meetings of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee does not make recommendations to the Board in respect of remuneration by gender. M2 does not consider that it is appropriate for the Nomination and Remuneration Committee does not discriminate on the basis of gender in making its recommendations.

M2 considers that the Nomination and Remuneration Committee is provided with sufficient resources to adequately perform its function. The formal charter entrenches the right of the Nomination and Remuneration Committee to consult with the Chief Financial Officer and Group Human Resources Manager, in addition to its right to engage independent advisors in respect of its mandate.

M2 considers that it has designed its remuneration policies and practices with a view to motivating Executives to purse the long-term growth and success of M2. Additionally, M2 considers that a clear relationship between the performance of Executives and remuneration is evident through providing bonuses and incentives based on achieving key performance indicators set by the Board and Chief Executive Officer. Remuneration arrangements for certain Executives are detailed in the Remuneration Report.

An individual is not directly involved in deciding his or her own remuneration.

Recommendation 8.2

The composition of the Nomination and Remuneration Committee is set out in M2's commentary in respect of Recommendation 2.4.

M2 considers that the size and composition of the Nomination and Remuneration Committee is appropriate to enable it to effectively discharge its mandate.

The Nomination and Remuneration Committee does not comprise any person who is an executive director.

Recommendation 8.3

Remunerations arrangements for non-executive directors and executives are distinct, as described within the Remuneration Report. In particular, non-executive directors receive fees for their director services and will not receive equity or bonus compensation. Non-executive directors are not entitled to retirement or termination benefits.

During previous financial years, the Chairman of the Board received share based payments. The relevant scheme expired in January 2013 and has not been renewed. It is not intended to introduce any schemes pursuant to which non-executive directors receive options, bonuses or incentives linked to performance.

Recommendation 8.4

The names of the members of the Nomination and Remuneration Committee is set out in M2's commentary in respect of Recommendation 2.4.

Details of the meetings of the Nomination and Remuneration Committee (together with details of attendees) is set out in the Directors' Report.

The charter of the Nomination and Remuneration Committee is published on M2's website.

CORPORATE SOCIAL RESPONSIBILITY

"To treat each other, our customers, the community and the environment with respect and care."

Five points of focus of M2

- Our Customers
- Our Team
- Our Community
- Our Environment
- Our Suppliers

Our Customers

To be better every day at servicing our customers: businesses, families and individuals.

Our Team

We are committed to the creation of a collaborative, enjoyable workplace with opportunity for advancement for the benefit of the team and the Company. We promote team member health and wellbeing through our extensive Team Member Benefits program.

Our Community

To recognise our broader place in the community, through our own direct action as well as supporting the charitable work of our team.

Our Environment

We remain committed to finding ways to reduce our consumption, waste and impact on the environment.

Our Suppliers

To make responsible purchasing decisions, ensuring our impact on the environment is minimal and positive supplier relationships are maintained.

"We provided one-on-one guidance for the students and as result got an understanding of the unique challenges that face both teachers and students daily... It was an opportunity to learn and experience another side of Australia that I may never have seen."

Matthew Crippa, Voice Engineer

CSR IN PRACTICE

M2 and team members conducted a variety of charitable activities through the year, including:

- Raising over $10,000 for bushfire and flood-affected communities;
- Raising over $6,000 for Guide Dogs;
- Over $45,000 was raised by M2 dealers and wholesale partners at the M2 Partner Conference;
- Local community sponsorships;
- Ongoing support of the Telco Together Foundation; and
- Fully paid volunteer leave.

COMMUNITY VOLUNTEERING

In March 2013, two M2 team members were provided with an the opportunity to spend a week volunteering in the remote Indigenous community of Yeundumu in the Northern Territory, assisting Red Dust Role Models deliver its health promotion program.

The trip was fully funded by M2 and was the product of the relationship between Red Dust Role Models and the Telco Together Foundation.

Matthew Crippa, Voice Engineer, reflected on the experience and said the program "involved spending time with each of the grades of Yuendumu Primary, acting as hands and feet for the teachers. We provided one-on-one guidance for the students and as result got an understanding of the unique challenges that face both teachers and students daily… It was an opportunity to learn and experience another side of Australia that I may never have seen."

M2 is a premium member of the Telco Together Foundation, which was seeded and created by Vaughan Bowen, founding CEO of M2 and current Executive Director. For more on the Telco Together Foundation, visit telcotogether.org

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $000	2012 $000
Revenue	6(a)	**681,039**	**393,468**
Cost of sales		(422,408)	(265,159)
Gross profit		258,631	128,309
Other income	6(b)	2,989	5,047
Employee benefits expense	6(c)	(82,440)	(45,395)
Depreciation and amortisation	6(d)	(31,336)	(10,187)
Share based payments	27(a)	(563)	(425)
Other expenses	6(e)	(70,661)	(27,547)
Financing costs	6(f)	(11,739)	(2,792)
Share of profit of an associate	15(a)	164	-
Profit before income tax		**65,045**	**47,010**
Income tax expense	7(a)	(21,267)	(14,047)
Profit for the year		**43,778**	**32,963**
Profit for the year attributable to:			
• Non-controlling interests		(274)	(66)
• Owners of the Parent		44,052	33,029
		43,778	**32,963**
Earnings per share for profit attributable to the ordinary equity holders of the Parent:			
• Basic earnings per share (cents)	9	27.36	25.84
• Diluted earnings per share (cents)	9	27.02	25.31

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $000	2012 $000
Profit for the year		**43,778**	**32,963**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	24(b)	(3)	(24)
Changes in fair value of cash flow hedges	24(c)	966	-
Movement in investment revaluation reserve	24(d)	329	-
Total other comprehensive income, net of tax		**1,292**	**(24)**
Total comprehensive income for the year, net of tax		**45,070**	**32,939**
Total comprehensive income attributable to:			
• Non-controlling interests		(274)	(66)
• Owners of the Parent		45,344	33,005
		45,070	**32,939**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note	2013 $000	2012 $000
ASSETS			
Current Assets			
Cash and cash equivalents	10	47,995	24,957
Trade receivables	11	94,067	66,325
Inventories	12	4,884	886
Other current assets	13	29,190	14,906
Financial assets	14	733	-
Total Current Assets		**176,869**	**107,074**
Non-Current Assets			
Other receivables		325	4
Plant and equipment	16	58,796	51,108
Intangible assets and goodwill	17	634,467	299,430
Deferred income tax asset	7(c)	12,600	9,151
Other non-current assets	13	4,931	4,545
Investment in an associate	15(a)	4,022	-
Financial assets	14	1,003	-
Total Non-Current Assets		**716,144**	**364,238**
TOTAL ASSETS		**893,013**	**471,312**
LIABILITIES			
Current Liabilities			
Trade and other payables	18	184,464	85,556
Interest-bearing loans and borrowings	20	30,573	22,330
Deferred consideration	21	-	5,400
Income tax payable	7(c)	14,737	13,112
Provisions	19	22,016	7,975
Financial liabilities	14	787	-
Total Current Liabilities		**252,577**	**134,373**
Non-Current Liabilities			
Interest-bearing loans and borrowings	20	294,677	127,923
Deferred tax liability	7(c)	28,881	15,511
Provisions	19	3,729	851
Other non-current liabilities	22	15,960	3,916
Total Non-Current Liabilities		**343,247**	**148,201**
TOTAL LIABILITIES		**595,824**	**282,574**
NET ASSETS		**297,189**	**188,738**
EQUITY			
Contributed equity	23	244,194	150,911
Reserves	24	1,903	535
Retained earnings		51,477	37,403
Parent interests		297,574	188,849
Non-controlling interests		(385)	(111)
TOTAL EQUITY		**297,189**	**188,738**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	Ordinary shares	Retained earnings	Employee equity benefits reserve	Foreign currency translation reserve	Cash flow hedge reserve	Investment revaluation reserve	Owners of the Parent	Non-controlling interests	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2012	**150,911**	**37,403**	**637**	**(102)**	**-**	**-**	**188,849**	**(111)**	**188,738**
Profit for the year	-	44,052	-	-	-	-	44,052	(274)	43,778
Other comprehensive income	-	-	-	(3)	966	329	1,292	-	1,292
Total comprehensive income	-	44,052	-	(3)	966	329	45,344	(274)	45,070
Options exercised	2,814	-	(487)	-	-	-	2,327	-	2,327
Share option reserves	-	-	563	-	-	-	563	-	563
Shares issued	84,099	-	-	-	-	-	84,099	-	84,099
Transaction cost on shares	(43)	-	-	-	-	-	(43)	-	(43)
Dividend paid	-	(23,565)	-	-	-	-	(23,565)	-	(23,565)
Dividend reinvestment plan	6,413	(6,413)	-	-	-	-	-	-	-
At 30 June 2013	**244,194**	**51,477**	**713**	**(105)**	**966**	**329**	**297,574**	**(385)**	**297,189**
At 1 July 2011	**66,761**	**26,725**	**410**	**(78)**	**-**	**-**	**93,818**	**(45)**	**93,773**
Profit for the year	-	33,029	-	-	-	-	33,029	(66)	32,963
Other comprehensive income	-	-	-	(24)	-	-	(24)	-	(24)
Total comprehensive income	-	33,029	-	(24)	-	-	33,005	(66)	32,939
Options exercised	1,036	-	(198)	-	-	-	838	-	838
Share option reserves	-	-	425	-	-	-	425	-	425
Shares issued	83,140	-	-	-	-	-	83,140	-	83,140
Transaction cost on shares	(3,229)	-	-	-	-	-	(3,229)	-	(3,229)
Dividend paid	-	(19,148)	-	-	-	-	(19,148)	-	(19,148)
Dividend reinvestment plan	3,203	(3,203)	-	-	-	-	-	-	-
At 30 June 2012	**150,911**	**37,403**	**637**	**(102)**	**-**	**-**	**188,849**	**(111)**	**188,738**

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

CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 30 JUNE 2013

	Note	2013 $000	2012 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		667,671	400,287
Payments to suppliers and employees		(569,769)	(346,999)
Interest received		809	809
Interest paid		(11,739)	(2,792)
Income tax paid		(24,736)	(9,745)
Net cash flows from operating activities	10(b)	**62,236**	**41,560**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment		(12,326)	(1,604)
Purchase of intangibles		(7,905)	(4,523)
Acquisition payments, net cash acquired	28(c)	(153,834)	(195,212)
Payment for short-term deposits		(8,627)	-
Proceeds from disposal of plant and equipment		-	119
Net cash flows used in investing activities		**(182,692)**	**(201,220)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(142,855)	(9,067)
Proceeds from borrowings		307,630	119,541
Proceeds from issue of shares		2,327	83,978
Transaction costs of issue of shares		(43)	(3,229)
Dividends paid		(23,565)	(19,148)
Net cash flows from financing activities		**143,494**	**172,075**
Net increase in cash and cash equivalents		23,038	12,415
Cash and cash equivalents at beginning of year		24,957	12,542
Cash and cash equivalents at end of year	10(a)	**47,995**	**24,957**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. CORPORATE INFORMATION

The consolidated financial report of M2 Telecommunications Group Ltd. (the "Company", "M2", "the "Group") for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 23 August 2013.

M2 is a for profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

2. SUMMARY OF 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, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

(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.

(c) New and amended standards

The accounting policies adopted are consistent with those of the previous financial year. The Group has adopted the following new and amended Australian Accounting Standard as of 1 July 2012:

- **AASB 2011-9** Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income (AASB 101)

The adoption of this standard did not have a material impact on the financial statements.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2013 is outlined below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.	1 July 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2.	1 July 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2015
AASB 2012-2	Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: • Repeat application of AASB 1 is permitted (AASB 1) • Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013
AASB 2012-9	Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039	AASB 2012-9 amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.	1 January 2013	The Group has not yet fully assessed the impact of the changes but expects the impact on the financial statements to be minimal.	1 July 2013

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of M2 and its subsidiaries as at and for the year ended 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 existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends 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 are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(e)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

(f) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

(g) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of M2 and its Australian subsidiaries are Australian dollars ($). The New Zealand subsidiary's functional currency is New Zealand dollars which is translated to the presentation currency (see below for consolidated reporting).

Transactions and balances

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

Translation of Group Companies' functional currency to presentation currency

The results of the New Zealand subsidiary are translated into Australian dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in the New Zealand subsidiary are taken to the foreign currency translation reserve. If the New Zealand subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position 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 statement of cash flow, 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 statement of financial position.

(i) Trade receivables

Trade receivables, which generally have 14-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost which is the original invoice amount less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Debts more than 90 days are reviewed by management. Financial difficulties of the debtor, default payments and information provided by collection agents are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are accounted for on a first-in, first-out basis. Cost of finished goods comprise of cost of direct materials assigned on the basis of weighted average costs.

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.

(k) Investments and 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 or originated. 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 i.e., 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 year 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 has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement - Loans and receivables

Loans 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. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

(l) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

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

Plant and equipment – over 2 to 10 years
Motor vehicles – over 4 to 8 years, determined by the life of the lease
Leased equipment – over 2 to 5 years, determined by the life of the lease
Switch cables – over 15 years

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

Derecognition

An item of 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 statement of comprehensive income in the year the asset is derecognised.

(m) 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, even if that right is not explicitly specified in an arrangement.

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 Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(n) Impairment of non-financial assets other than goodwill and indefinite intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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 an operating segment determined in accordance with AASB 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

The Group performs its impairment testing annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, using discounted cash flows under the value in use methodology. Further details on the methodology and assumptions used are outline in note 17.

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.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Indefeasible Rights to Use (IRUs) of capacity are intangible assets amortised on a straight line basis over the remaining life of the contracts.

Trademarks, licenses and customer contracts are amortised over the period of expected future sales from the related asset. Software purchased is amortised over a period of between 2 years and 10 years, being the estimated useful life of the asset.

Brands have indefinite useful lives. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Software includes capitalised development costs. Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the develop-

ment and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

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 profit or loss when the asset is derecognised.

Expenditures on advertising and promotional expenses are recognised as a component of marketing expense in the statement of comprehensive income when the Group has either the right to access the goods or has received the services.

(p) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They 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.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly attributable with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(r) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit and loss.

Currently, there are no financial instruments designated as fair value hedges by the Group.

Cash flow hedges

The Group uses interest rate swaps to hedge exposure in changes in variable rate of its floating rate secured loan, as well as forward currency contracts to hedges of its exposure to foreign currency risk in forecast transactions, and a forward commodity contracts for its exposure to volatility in the commodity prices.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement as other operating expenses.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

(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 statement of comprehensive income 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 the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

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

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of reporting date are recognised in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid or payable. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as 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

Equity settled transactions

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

The M2 Executive Management Team Share Option Plan ("ESOP") provides benefits to directors, senior executives and selected 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; further details are given in note 27.

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 statement of comprehensive income 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

(iii) The expired portion of the vesting period.

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

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 (see note 9).

Shares in the Group reacquired on-market and held by the ESOP 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 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:

Rendering of services

The Group principally obtains revenue from providing telecommunication and gas and electricity services. Telecommunication services include the following: fixed wire, mobile, data services and equipment sales. Products and services may be sold separately or in bundled packages.

Revenue for fixed wire, mobile and data services are recognised as revenue when services are performed. Revenue from services provided, but unbilled, are accrued at end of each period and unearned revenue (revenue billed in advance) for services to be provided in future periods is deferred.

Revenue from gas and electricity services supplied is recognised once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. At the end of each reporting period, gas and electricity revenue includes an accrual for energy delivered to customer but not yet billed (unbilled revenue).

Revenue for equipment sales is recognised when the device is delivered to the end customer and the sale is considered complete.

Commission income

Commissions are received as incentives from upstream suppliers for connecting new customers. Revenue from such commissions is deferred and recognised over a period of life in line with the average period related to the customers' contracts.

Interest

Revenue is recognised as interest accruals 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.

(w) Income tax and other taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting 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.
- 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.
- 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 reporting 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 reporting 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 reporting date.

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

M2 and its wholly-owned Australian controlled entities formed a tax consolidated group under Australian taxation law with effect from 1 July 2004 and are therefore taxed as a single entity from that date.

The head entity, M2, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the "stand-alone taxpayer" approach in determining the appropriate amount of current taxes arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

In addition to its own current and deferred tax amounts, M2 also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group via an intercompany account. Details of the tax funding agreement are detailed in note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes

Revenue, 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.
- 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 statement of financial position.

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

(x) 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.
- 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.

(y) Customer loyalty programme

In certain circumstances, for every dollar spent on certain types of phone calls or plans by the customer, up to 15% of the eligible calls or plans can be redeemed for travel booked through M2 Travel. The customer has up to 60 days to redeem their travel dollars upon termination or expiration of their contract, after which the travel dollars are forfeited.

For dollars earned by the customers, the Group defers a portion of the revenue and recognises a liability at fair value to fulfil its obligation to supply the redemption.

When the obligation to supply the travel dollars is fulfilled the deferred revenue is recognised in the profit or loss in the period in which the obligation was fulfilled and the liability is extinguished.

(z) Deferred acquisition cost

Deferred acquisition cost pertains to upfront commissions paid to internal and external sales personnel upon acquiring new service contracts. Upfront commissions paid to internal and external sales personnel are initially recognised at cost in the statement of financial position as Other Assets (note 13) and subsequently amortised over the average term of the customer's contract which is 24 months. The amortisation is included in cost of sales.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal assets and liabilities subject to financial risk comprise receivables, payables, bank loans and overdrafts, finance leases, and cash and short-term deposits.

Risk Exposures and Responses

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 main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign exchange risk and commodity risk), liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. Such methods include monitoring levels of exposure to market risk and assessments of market forecasts for interest rate, foreign exchange and electricity price, and the use of derivative financial instruments. Aging analyses and monitoring of specific credit allowances are undertaken to manage credit risk. 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 setting of limits for credit allowances and future cash flow forecast projections.

(a) Market Risk

(i) 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 20.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing. The Group policy is to maintain 75% of its long term debt at fixed rate using interest rate swaps to hedge exposure to fluctuations in interest rates. The interest rate swap have the economic effect of converting borrowings from floating rates to fixed rates, which are lower than those available if the Group borrowed at fixed rates directly. These interest rate swaps are designated into a hedge relationship and satisfy the requirements for hedge accounting.

At the reporting date, the Group has the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk - exposure

	2013 $000	2012 $000
Financial Assets		
Cash and cash equivalents	47,995	24,957
Other assets	8,857	500
Financial assets	1,003	-
Financial Liabilities		
Interest-bearing loans and borrowings	(89,000)	(77,193)
Financial liabilities	(787)	-
Net exposure	(31,932)	(51,736)

Sensitivity

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

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit before tax would have been affected as follows:

Interest rate risk - sensitivity

Judgement of reasonable possible movements	Impact on pre-tax profit higher / (lower)		Impact on equity higher / (lower)	
	2013 $000	2012 $000	2013 $000	2012 $000
Consolidated				
+1.0% (100 basis points)	(322)	(517)	2	-
-0.5% (50 basis points)	161	259	(1)	-

The movement in profit is due to higher/lower interest costs from variable rate of long term debt, financial assets and cash balances. The movement in equity is due to higher/lower interest costs from variable rate of derivatives which the Group has entered into. The sensitivity is lower in 2013 due to the increase in interest rate swap from 65% of borrowings to 75% of borrowing.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with financial institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- The net exposure at reporting date is representative of the Groups expected exposure to in the next twelve months from balance sheet date.

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to, US dollar, Philippine Peso and the New Zealand dollar.

The Group has transactional currency exposure resulting from purchase of inventory, payment of suppliers and liabilities denominated in a currency that is not the entity's functional currency. These transactions are denominated in United States Dollars (USD) and Philippine Peso (PHP). The Group has a subsidiary operating in New Zealand which exposes the Group to foreign exchange translation risk. The Group considers the New Zealand operations small and does not materially impact the Group financial statements. For this reason,

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

management believe the exposure to New Zealand Dollar currency fluctuations is not material and has not designated derivatives towards the New Zealand dollar exposure.

The Group policy to manage its foreign exchange risk against its functional currency is to hedge 70% to 75% of its risk exposure arising from future commercial transactions using forward contracts for the USD exposure and non-deliverable forward contracts for the PHP exposure transacted with Group Treasury. The Group is currently undergoing a review of its policy to hedge against liabilities denominated in USD and to include forecast transactions for the subsequent 12 months.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

Foreign exchange risk - exposure

	2013			2012		
	USD $000	PHP $000	NZD $000	USD $000	PHP $000	NZD $000
Cash and cash equivalents	-	-	121	-	-	21
Trade and other receivables	-	-	942	-	-	519
Trade and other payables	(770)	(5,318)	(508)			(132)
Interest bearing loans and borrowings	(8,058)	-	-	(10,019)	-	-
Forward exchange contracts						
- buy foreign currency (cash flow hedges)	1,674	-	-	-	-	-
Non deliverable forward contracts						
- buy foreign currency (cash flow hedges)	-	5,000	-	-	-	-
Net exposure	(7,154)	(318)	555	(10,019)	-	408

Sensitivity

At 30 June 2013, if foreign currency moved, as illustrated in the table below, with all other variables held constant, the impact on the Group's profit before tax and equity would have been affected as follows:

Foreign exchange risk - sensitivity

	2013			2012		
	USD $000	PHP $000	NZD $000	USD $000	PHP $000	NZD $000
Consolidated gain/(loss) in pre-tax profit						
+10% (AUD strengthened)	650	29	50	911	-	37
-10% (AUD weakened)	(795)	(1)	(52)	(1,092)	-	(36)
Gain/(loss) in equity (higher/lower)						
+10% (AUD strengthened)	5	5	-	-	-	-
-10% (AUD weakened)	(6)	(6)	-	-	-	-

The main USD exposure in 2013 and 2012 is due to a liability related to the wavelength agreement with Telstra Corporation.

As mentioned above, the Group is undergoing a review to hedge this exposure. Profit is less sensitive to movements in USD in 2013 mainly due to hedges held in the current year for the USD exposure.

(iii) Commodity price risk

The Group is exposed to commodities risk associated with the purchase and/ or sale of electricity. To manage its price risks in respect to electricity, the Group utilises derivative instruments such as electricity futures.

Based on a quarterly forecast of the required electricity supply, the Group hedges the purchase price using future commodity purchase contracts. The forecast is deemed to be highly probable.

The following table details the commodity contracts outstanding as at balance date.

	2013 $000	2012 $000
Current Assets		
Electricity derivatives	618	-

Sensitivity

The following table summarises the impact of a 10 per cent increase/(decrease) of electricity price with all other variables held constant.

	Effect of profit before tax		Effect on equity	
	2013 $000	2012 $000	2013 $000	2012 $000
Consolidated				
10% increase in electricity prices	3	-	594	-
10% decrease in electricity price	(9)	-	(587)	-

Profit before tax for the year would increase/(decrease) as a result of the inherent ineffectiveness in some commodity hedging relationships. Some financial instruments which are valid economic hedges of these commodity price risks which do not qualify for cash flow hedge accounting under AASB 139 requirements.

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. 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 financial assets (as outlined in each applicable note).

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

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.

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 parameters 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 concentration of credit risk within the Group.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

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 cash equivalents as well as ensuring the Group has access to the use of credit facilities as required. The Group monitors total cash inflows and outflows expected on a monthly basis.

The Group has access to the following credit facilities at the end of the reporting year:

	2013 $000	2012 $000
Floating Rate		
Undrawn		
- Expiring within one year (bank overdraft)	-	9,428
- Expiring beyond one year (bank guarantees and credit facility)	68,952	-
Committed		
- Expiring within one year (bank overdraft)	-	-
- Expiring beyond one year (bank guarantees and credit facility)	16,048	15,984
	85,000	25,412

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2013. For the other obligations, the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

In the instance where there are no contractual terms and the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period.

The risks implied from the values shown in the table below, reflect 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 plant and equipment and investments in working capital (e.g., inventories and trade receivables).

Liquid non-derivative assets such as cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	< 6 months $000	6-12 months $000	1-5 years $000	> 5 years $000	TOTAL $000
Year ended 30 June 2013					
Non-derivative financial assets					
Cash and cash equivalents	47,995	-	-	-	47,995
Trade and other receivables	94,067	-	-	-	94,067
Other assets	8,717	90	50	-	8,857
Non-derivative financial Liabilities					
Trade and other payables	(118,724)	-	(3,105)	-	(121,829)
Interest bearing loans and borrowings	(14,259)	(16,403)	(294,588)	-	(325,250)
Total Non-derivatives	17,796	(16,313)	(297,643)	-	(296,160)
Derivatives					
Net gain/(loss) on interest rate swaps	(325)	(463)	1,003	-	215
Net gain/(loss) on non-deliverable forward contracts	58	-	-	-	58
Gross settled (forward exchange contracts)					
- inflow	1,732	-	-	-	1,732
- outflow	(1,674)	-	-	-	(1,674)
Total Derivatives	(209)	(463)	1,003	-	331
Year ended 30 June 2012					
Non-derivative financial assets					
Cash and cash equivalents	24,957	-	-	-	24,957
Trade and other receivables	66,325	-	-	-	66,325
Other assets	-	90	410	-	500
Non-derivative financial Liabilities					
Trade and other payables	(74,290)	-	(636)	-	(74,926)
Interest bearing loans and borrowings	(10,569)	(11,761)	(127,923)	-	(150,253)
Total Non-derivatives	6,423	(11,671)	(128,149)	-	(133,397)
Derivatives					
Net gain/(loss) on interest rate swaps	-	-	-	-	-
Net gain/(loss) on non-deliverable forward contracts	-	-	-	-	-
Gross settled (forward exchange contracts)					
- inflow	-	-	-	-	-
- outflow	-	-	-	-	-
Total Derivatives	-	-	-	-	-

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Fair value measurements

AASB 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and

(c) inputs for the asset or liability that are not based on observable market data unobservable inputs (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012 on a recurring basis:

	Level 1 $000	Level 2 $000	Level 3 $000	TOTAL $000
Year ended 30 June 2013				
Financial assets and liabilities at fair value through profit or loss:				
Derivatives used for hedging	-	949	-	949
	-	949	-	949

	Level 1 $000	Level 2 $000	Level 3 $000	TOTAL $000
Year ended 30 June 2012				
Financial assets and liabilities at fair value through profit or loss:				
Derivatives used for hedging	-	-	-	-
	-	-	-	-

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.

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.

(a) Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next four years.

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

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 statement of financial position. 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.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future carrier costs, commissions 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 statement of financial position 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 statement of comprehensive income.

(b) Significant accounting estimates and assumptions

Impairment of trade and other receivables

Management reviews its trade and other receivables for objective evidence of impairment regularly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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 with the assistance of an external valuer 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.

Estimation of useful lives of plant and equipment

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the consolidated income statement.

The useful lives and residual values of Group assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Furthermore network infrastructure is only depreciated over a period that extends beyond the expiry of the associated licence under which the operator provides telecommunications services if there is a reasonable expectation of renewal or an alternative future use for the asset.

Historically, changes in useful lives and residual values have not resulted in material changes to the Group's depreciation charge.

Estimation of useful lives of intangible assets

The useful life used to amortise intangible assets relates to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The basis for determining the useful life for the most significant categories of intangible assets is as follows:

- Licence fees. The estimated useful life principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge. Historically, charges to the estimated useful lives have not had a significant impact on the Group's results and financial position.
- Software. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of expected benefits over which the Group will receive benefits from the software but not exceeding the licence term. For unique software products controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology. Historically, changes in useful lives have not resulted in material changes to the Group's amortisation charge.
- Indefeasible Rights to Use (IRUs). The useful life is determined by the remaining life of the contracts. The assets will be fully amortised once the contracts expire.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 3 for further discussion.

5. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether Retail or Wholesale. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services

The Group has two operating segments, Retail and Wholesale. The Group's risks and rates of return are affected predominantly by differences in the markets served by these business units.

The Retail business segment offers telecommunications and electricity and gas services. Telecommunication services is targeted particularly to small and medium sized enterprises, as well as Australian households, offering fixed line voice services, including line rental services, mobile voice and data services, 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.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior periods except as detailed below:

Corporate charges

Corporate charges comprise non-segmental expenses incurred by the various business functions that support both Retail and Wholesale operations. Some of these business functions include IT, finance, legal, human resources, facilities and equipment, commercial, and head office.

Except for head office charges, all other corporate charges are allocated to each business segment on proportionate basis linked to segment revenue so as to determine a segment result. Head office charges remain unallocated due to the difficulty in obtaining a reliable measurement of amounts that can be reasonably allocated between Retail and Wholesale.

Income tax expenses

Income tax expense is calculated based on the segment operating net profit using a notional charge of 33% (2012: 30%). No effect is given for taxable or deductible temporary differences.

Unallocated items

It is the Group's policy that if items of revenue and expenses are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Major customers

The Group has no significant clients that individually account for more than 10% of external revenue.

5. OPERATING SEGMENTS (CONTINUED)

The following tables present revenue and profit information for the years ended 30 June 2013 and 30 June 2012.

	Retail		Wholesale		Total	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Revenue						
Sales to external customers	597,943	320,122	83,096	73,346	681,039	393,468
Total revenue per income statement					681,039	393,468

Reconciliation of net profit

	Retail		Wholesale		Total	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Result						
Segment net profit after tax	56,743	34,437	8,288	8,153	65,031	42,590
Reconciliation of segment net profit after tax to net profit before tax						
Income tax expense					21,267	14,047
Head office charges – employee benefits					(4,313)	(4,148)
Head office charges – miscellaneous					(16,940)	(5,479)
Net profit before tax					65,045	47,010

Other segment information

	Retail		Wholesale		Unallocated		Total	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Depreciation	7,608	1,947	527	157	1,323	66	9,458	2,170
Amortisation	16,922	7,998	1,904	19	3,052	-	21,878	8,017
Income tax expense/(benefit)	27,561	12,080	3,606	3,150	(9,900)	(1,116)	21,267	14,114

Segment assets and liabilities as of 30 June 2013 and 30 June 2012 are as follows:

	Retail		Wholesale		Unallocated		Total	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Segment assets	793,094	399,559	58,790	47,138	41,129	24,615	893,013	471,312
Segment liabilities	539,264	255,910	18,048	8,285	38,512	18,379	595,824	282,574
Segment net assets	253,830	143,649	40,742	38,853	2,617	6,236	297,189	188,738

6. REVENUE AND EXPENSES

	2013 $000	2012 $000
(a) Revenue		
Rendering of services	680,230	392,659
Interest income	809	809
	681,039	393,468
(b) Other income		
(Loss) / gain on disposal of plant and equipment	(11)	34
Other	3,000	5,013
	2,989	5,047
(c) Employee benefits expense		
Wages and salaries	71,097	39,308
Defined contribution superannuation expense	5,807	3,080
Annual leave provision	4,901	2,689
Long service leave provision	635	318
	82,440	45,395
(d) Depreciation and amortisation		
Depreciation	9,458	2,170
Amortisation of software	3,837	2,285
Amortisation of customer contracts	14,590	5,114
Amortisation of IRU	3,451	618
	31,336	10,187
(e) Other expenses		
Selling and marketing	6,523	934
Business development	2,950	2,370
Facilities and equipment	11,971	3,808
Corporate	7,319	1,497
Professional fees	9,555	5,215
Bank fees	3,424	1,455
Bad debts	9,061	7,914
Operating lease	12,564	4,210
Other	7,294	144
	70,661	27,547
(f) Financing costs		
Finance charges payable under finance leases and hire purchase contracts	35	129
Finance charges payable on bank loan	11,704	2,663
	11,739	2,792

7. INCOME TAX

(a) Income tax expense

The major components of income tax expense are:

	2013 $000	2012 $000
Consolidated income statement:		
Current income tax		
Current income tax charge	26,524	14,114
Adjustments in respect of current income tax of previous years	(3,432)	(70)
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,825)	3
Income tax expense reported in the consolidated income statement	21,267	14,047

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income 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:

	2013 $000	2012 $000
Accounting profit before income tax	65,045	47,010
At the Group's statutory income tax rate of 30% (2012: 30%)	19,513	14,103
Non-temporary differences	3,065	(35)
Share based payments	169	128
Adjustments in respect of current income tax of previous years	(3,432)	(70)
Temporary difference not previously adjusted	1,551	-
Other	401	(79)
Aggregate income tax expense	21,267	14,047

7. INCOME TAX (CONTINUED)

(c) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

	2013 $000	2012 $000
Deferred tax assets		
Trade receivables	3,728	2,682
Plant and equipment	2,406	268
Intangibles	491	297
Trade and other payables	861	1,881
Unearned income	-	214
Other provisions	3,577	2,647
Leases	532	-
Transaction cost on issue of shares	447	124
Tax losses and temporary differences	558	1,038
Deferred tax assets	12,600	9,151
Deferred tax liabilities		
Trade receivables	-	9
Plant and equipment	11	18
Other assets - deferred acquisition cost	5,494	4,226
Intangibles	23,359	11,134
Trade and other payables	17	-
Leases	-	124
Deferred tax liabilities	28,881	15,511

	2013 $000	2012 $000
Tax expense in consolidated income statement	21,267	14,047
Amounts recognised in the consolidated statement of financial position:		
Deferred tax asset	12,600	9,151
Deferred tax liability	(28,881)	(15,511)
	(16,281)	(6,360)

7. INCOME TAX (CONTINUED)

	2013 Income Tax Payable $000	2013 Deferred Income Tax $000	2012 Income Tax Payable $000	2012 Deferred Income Tax $000
Opening balance	(13,112)	(6,360)	(5,389)	1,770
Charged to income	(26,524)	1,825	(14,044)	(3)
Payments	24,736	-	9,745	-
Acquisitions	-	(11,746)	(3,424)	(8,127)
Prior Year adjustment	163	-	-	-
Closing balance	(14,737)	(16,281)	(13,112)	(6,360)

(d) Tax consolidation

Members of the tax consolidated group and the tax-sharing agreement

M2 and its 100% owned Australian subsidiaries formed a tax consolidated group from 1 July 2004. M2 is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidated Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the stand-alone taxpayer 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. The nature of the tax funding agreement is discussed further below.

In addition to its 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.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable/(payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

8. DIVIDENDS PAID AND PROPOSED

	2013 $000	2012 $000
(a) Recognised amounts		
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2012: 9.0 cents (2011: 9.0 cents)	14,123	11,143
Interim franked dividend for 2013: 10.0 cents (2012: 9.0 cents)	15,855	11,208
	29,978	22,351
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final franked dividend for 2013: 10.0 cents (2012: 9.0 cents)	17,850	14,091

The above dividend was declared after the reporting date. This amount has not been recognised as a liability as at 30 June 2013 but will be brought to account during the 2014 financial year. Refer to note 31(b).

The tax rate at which paid dividends have been franked is 30% (2012: 30%).

Dividends proposed will be franked at the rate of 30% (2012: 30%).

(c) Franking credit balance

The tax rate at which paid dividends have been franked is 30% (2012: 30%).

Dividends proposed will be franked at the rate of 30% (2012: 30%).

	2013 $000	2012 $000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2012: 30%)	15,487	4,067
Franking credits that will arise from the payment of income tax payable after the end of the financial year.	7,716	2,570
Franking debits that will arise from the payment of dividends after the end of the financial year.	(7,650)	(6,039)
	15,553	598

9. EARNINGS PER SHARE

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

	2013	2012
• Basic earnings per share (cents)	27.36	25.84
• Diluted earnings per share (cents)	27.02	25.31

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

	2013 $000	2012 $000
(a) Earnings used in calculating earnings per share		
For basic and diluted earnings per share:		
Net profit attributable to ordinary equity holders of the Parent	44,052	33,029
(b) Weighted average number of shares		
	No ('000)	**No ('000)**
Weighted average number of ordinary shares for basic earnings per share	160,987	127,820
Effect of dilution:		
Share options	2,072	2,660
Weighted average number of ordinary shares adjusted for the effect of dilution	163,059	130,480

There have been no transactions (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(c) Information on the classification of securities

Options granted to employees (including KMP) as described in note 27 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

10. CASH AND CASH EQUIVALENTS

	2013 $000	2012 $000
Cash at bank and in hand	36,845	23,922
Short-term deposits	11,150	1,035
	47,995	24,957

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

There is $0.8 million (2012: $1.0 million) within short-term deposits which is held in a 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 which earns interest at the respective short-term deposit rates.

(a) Reconciliation to statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

	2013 $000	2012 $000
Cash at bank and in hand	36,845	23,922
Short-term deposits	11,150	1,035
	47,995	24,957

(b) Reconciliation of net profit after tax to net cash flows from operations

	2013 $000	2012 $000
Net profit after tax	43,778	32,963
Adjustments for:		
Depreciation and amortisation	31,336	10,187
Share based payments	563	425
Loss / (gain) on disposal of plant and equipment	11	(34)
Loss / (gain) on foreign currency translation	698	(420)
Share in profit of an associate	(164)	-
Other income	(3,000)	(5,013)
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(5,992)	7,596
(Increase)/decrease in inventories	2,114	(20)
(Increase)/decrease in other assets	(5,547)	(2,761)
(Increase)/decrease in other receivables	319	32
Increase/(decrease) in trade and other payables	(274)	(5,307)
Increase/(decrease) in provisions	1,556	(395)
Increase/(decrease) in current income tax payable	(1,339)	4,299
(Increase)/decrease in deferred tax asset	694	820
Increase/(decrease) in deferred tax liability	(2,517)	(812)
Net cash flows from operating activities	62,236	41,560

11. TRADE RECEIVABLES

	2013 $000	2012 $000
Trade receivables	106,505	75,265
Allowance for impairment loss (a)	(12,438)	(8,940)
	94,067	66,325

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14-60 day terms. A provision for impairment loss is made when there is objective evidence that a trade receivable is impaired. An impairment loss of $9.1 million (2012: $7.9 million) has been recognised by the Group in the current year. This amount has been included in the other expense item. No individual amount within the impairment allowance is material.

Movements in the provision for impairment loss were as follows:

	2013 $000	2012 $000
At 1 July	8,940	4,511
Charge for the year	9,061	7,914
Amounts written off	(5,563)	(3,485)
At 30 June	12,438	8,940

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

	2013		2012	
Consolidated	Gross $000	Allowance $000	Gross $000	Allowance $000
Current	77,381	194	52,155	165
31 - 60 days	6,133	272	5,619	298
61 - 90 days	3,042	555	2,729	624
91 days and over	19,949	11,417	14,762	7,853
Closing balance	106,505	12,438	75,265	8,940

Trade receivables that are past due but not considered impaired amounted to $11.0 million (2012: $9.0 million). Each operating unit has been in direct contact with the relevant debtor and is satisfied that the payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

12. INVENTORIES

	2013 $000	2012 $000
Finished goods (at cost)	4,884	886
Total inventories at the lower of cost and net realisable value	4,884	886

Inventory recognised as expense for the year ended 30 June 2013 totalled $10.4 million (2012: $3.5 million) for the Group. This expense has been included in cost of sales in the consolidated income statement.

13. OTHER ASSETS

	2013 $000	2012 $000
Current		
Bartercard trade balance	465	346
Prepayments	5,854	3,153
Security deposit	260	285
Short-term deposit	8,627	-
Deferred acquisition cost	13,814	10,872
Other	170	250
	29,190	14,906
Non-current		
Deferred acquisition cost	4,859	4,236
Other	72	309
	4,931	4,545
Total other assets	34,121	19,451

Bartercard is a program which allows customers to pay a percentage of their bills with barter dollars. Bartercard trade balance refers to those receivables from such customers.

Short-term deposit comprise of security deposits to bank guarantees and security deposits to the Australia Energy Market Operator for Dodo Power and Gas trading accounts.

14. FINANCIAL ASSETS AND LIABILITIES

	2013 $000	2012 $000
Current assets		
Electricity derivatives - cash flow hedges ((a)(iii))	618	-
Forward exchange contracts - cash flow hedges ((a)(ii))	115	-
	733	-
Non-current assets		
Interest rate swaps - cash flow hedges ((a)(i))	1,003	-
	1,003	-
Total assets	1,736	-
Current liabilities		
Interest rate swaps - cash flow hedges ((a)(i))	(787)	-
Total liabilities	(787)	-
Net financial assets and liabilities	949	-

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest,foreign exchange and commodity rates in accordance with the Group's financial risk management policies (refer to note 3).

Trading derivatives are classified as current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

(i) Interest rate swaps – cash flow hedges

On 30 May 2013, the Group entered into two interest swap agreements to protect the syndicated loan facility from exposure to increasing interest rates. A hedge relationship was designated on this date. Under this interest rate swap, the Group is obliged to receive interest at variable rate and to pay interest at fixed rate of 3.0475% per annum. The swaps cover 75% of the floating rate exposure under the facility.

The contracts require settlement of net interest receivable or payable each 90 days. The next settlement is on 20 September 2013.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. There has been no ineffectiveness for the year ended 30 June 2013. No amount has been reclassified from other comprehensive income during the year ended 30 June 2013.

(ii) Forward exchange contracts – cash flow hedges

From 4 June 2013, the Group designated into a forward exchange hedge relationship to buy and sell specified amount of foreign currency denominated in USD and Philippine Peso in the future at stipulated exchange rates. The objective of entering the forward exchange contracts is to protect the Group against unfavourable exchange rate movements for high probable forecasted purchase of inventory and payments for services.

The forward exchange contracts mature in July and August 2013 and have been designated based on forecasted foreign currency denominated purchases. Gains or losses recognised in the cash flow hedge reserve in equity on forward foreign exchange contracts as of 30 June 2013 will be released to the income statement when the underlying anticipated transactions affect the income statement or is included in the carrying value of asset or liabilities acquired.

No amount has been reclassified from other comprehensive income during the year ended 30 June 2013. The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness which requires recognition through profit or loss.

14. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(iii) Electricity derivatives – cash flow hedges

As result of the purchase of Dodo, the Group now is now a licensed electricity retailer exposed to the floating purchase price of electricity. The Group manages this exposure through purchase of electricity future contracts electricity from Australian Energy Market Operator (AEMO). The Group designated into a hedge relationship on 1 May 2013. The hedge relationship is for the next quarter based on existing purchase agreements.

The hedged anticipated electricity purchase and sale transactions are expected to occur continuously for each half hour period throughout the next quarter from the reporting date consistent with the forecast demand from customers over this period. Gains or losses recognised in the cash flow hedge reserve in equity on the forward foreign exchange contracts as of 30 June 2013 will be released to the income statement when the underlying anticipated purchase or sale transactions are recognised in the income statement.

As at 30 June 2013, the fair value of outstanding electricity futures contracts amounted to an asset of $618,000. The ineffectiveness recognised in the income statement for the current year was $42,000. The cumulative effective portion of $660,000 is reflected in the cash flow hedge reserve in the statement of comprehensive income.

(b) Risk exposures and fair value measurements

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

15. INVESTMENT IN AN ASSOCIATE

On 21 December 2012, M2 disposed of 0014 Pty Ltd, a company that owned the Access International business. Access International is a prepaid call card business and its disposal presents an opportunity for M2 to refocus its resources in the direct supply of fixed line, mobile and data services. The sales consideration received is in the form of an equity interest in the purchaser's holding company, Aggregato Global Limited ("Aggregato"), a specialist prepaid call card operator in the telecommunication industry.

(a) Movements in carrying amounts

	2013 $000	2012 $000
Balance at beginning of the year	-	-
Add: cost of original investment	3,529	-
Add: share of associate profit	164	-
Add: share of associate other comprehensive income	329	-
Balance as at end of the year	4,022	-

(b) Summarised financial information of associates

The following table illustrates the summarised financial information of the Group's investment in Aggregato.

	2013 $000	2012 $000
The Group's share of net assets (32% ownership interest)		
Current assets	980	-
Non-current assets	4,997	-
Current liabilities	(1,143)	-
Non-current liabilities	(812)	-
Equity	4,022	-
The Group's share of revenue and profit (32% ownership interest)		
Revenue	3,073	-
Profit	164	-

Aggregato does not have any contingent assets or liabilities as at 30 June 2013.

16. PLANT AND EQUIPMENT

The reconciliation of carrying amounts at beginning and end of the year is as follows:

	2013 $000	2012 $000
Cost		
At 1 July	59,584	9,984
Additions	12,613	1,604
Acquisition through business combinations (note 28)	18,264	48,338
Disposals and write-offs	(494)	(342)
At 30 June	89,967	59,584
Accumulated Depreciation		
At 1 July	8,476	6,563
Depreciation charge for the year	9,458	2,170
Acquisition through business combinations (note 28)	13,433	-
Disposals and write-offs	(196)	(257)
At 30 June	31,171	8,476
Net book value	58,796	51,108

Plant and equipment with carrying amount of $13.2 million (2012: $13.7 million) for the Group are pledged as securities as disclosed in note 20.

17. INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the year

	Software $000	Customer Contracts $000	IRU $000	Brands $000	Goodwill $000	Total $000
Year ended 30 June 2013						
Balance at beginning of the year	14,305	37,111	31,882	21,341	194,791	299,430
Additions	7,930	-	-	-	-	7,930
Acquisitions (provisional) (note 28(a))	3,117	53,004	-	29,165	263,725	349,011
Write-offs	(26)	-	-	-	-	(26)
Amortisation charge for the year	(3,837)	(14,590)	(3,451)	-	-	(21,878)
Balance at end of the year	21,489	75,525	28,431	50,506	458,516	634,467
At 30 June 2013						
Cost (gross carrying amount)	29,584	95,766	32,500	50,506	458,516	666,872
Accumulated amortisation and impairment	(8,095)	(20,241)	(4,069)	-	-	(32,405)
Net carrying amount	21,489	75,525	28,431	50,506	458,516	634,467

	Software $000	Customer Contracts $000	IRU $000	Brands $000	Goodwill $000	Total $000
Year ended 30 June 2012						
Balance at beginning of the year	8,343	6,557	-	1,503	100,212	116,615
Additions	4,523	-	-	-	-	4,523
Acquisitions	3,724	35,668	32,500	19,838	94,579	186,309
Write-offs	-	-	-	-	-	-
Amortisation charge for the year	(2,285)	(5,114)	(618)	-	-	(8,017)
Balance at end of the year	14,305	37,111	31,882	21,341	194,791	299,430
At 30 June 2012						
Cost (gross carrying amount)	18,563	42,762	32,500	21,341	194,791	309,957
Accumulated amortisation and impairment	(4,258)	(5,651)	(618)	-	-	(10,527)
Net carrying amount	14,305	37,111	31,882	21,341	194,791	299,430

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

Software

Software purchased in the normal course of business is amortised over a 2 to 10 year period.

Customer contracts

Customer contracts are acquired through the acquisition of businesses and are amortised over a 2 to 4 year period.

Indefeasible Right to Use (IRUs)

IRUs are acquired through the acquisition of businesses and are amortised over the remaining life of contracts which range from 3 to 13 years.

17. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Brands

Brands are acquired through the acquisition of businesses and have indefinite useful lives. Brands are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

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.

(c) Impairment tests for goodwill and intangibles with indefinite useful lives

Description of cash generating units and other relevant information

Goodwill acquired through business combinations has been allocated to and are tested at the level of their respective cash generating units for impairment testing as follows:

- Retail cash generating unit
- Wholesale cash generating unit

The recoverable amount of the cash generating units has 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, risk-adjusted discount rate applied to cash flow projections is 13% (2012: 12%). The same discount rates are applied to both retail and wholesale segments.

The long-term growth rate used to extrapolate the cash flows of the retail and wholesale sales units beyond the five-year period is 2.5%. The senior management of both units believes the growth rate is justified based on the acquisitions during the financial year, which resulted in increased customer base.

The carrying amount of brands and goodwill are monitored as a collection of CGUs that comprise the retail and wholesale segments as follows.

	2013 $000	2012 $000
Cash generating units		
Retail cash generating units	49,117	21,341
Wholesale cash generating units	1,389	-
Total brands	50,506	21,341

	2013 $000	2012 $000
Cash generating units		
Retail cash generating units	422,717	179,781
Wholesale cash generating units	35,799	15,010
Total goodwill	458,516	194,791

Key assumptions used in value in use calculations for the cash generating units for 30 June 2013 and 30 June 2012.

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:

17. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

- 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 adjusted for the budgeted growth.
- 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 adjusted for budgeted increase.
- 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 and a risk premium.
- 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.

18. TRADE AND OTHER PAYABLES

	2013 $000	2012 $000
Trade payables	67,345	43,668
Accrued expenses	43,580	20,922
Withholding tax payable	624	445
Goods and services tax payable	3,605	1,344
Unearned income	20,772	8,224
Deferred commission revenue	44,968	9,006
Other payables	3,570	1,947
	184,464	85,556

Trade and other payables are non-interest bearing and are normally settled on 30-day terms.

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Information regarding interest rate and liquidity risk exposure is set out in note 3.

19. PROVISIONS

	2013 $000	2012 $000
Current		
Employee benefits	10,251	7,975
Make good provision (a)	3,718	-
Onerous contracts (b)	8,047	-
	22,016	7,975
Non-Current		
Employee benefits	1,262	851
Make good provision (a)	994	-
Onerous contracts (b)	1,473	-
	3,729	851
	25,745	8,826

Movements in each class of provision, except employee benefits are set out below:

	Make good $000	Onerous contracts $000
At 1 July 2012	-	-
Additional provisions recognised	4,712	9,520
At 30 June 2013	4,712	9,520

(a) Make good provision

A make good provision is recognised where there is a clause in the lease agreement, where upon vacating an office premise, the Group is to make good the premises to its original condition. During the 2013 year, a provision for make good has been recognised on the final opening balance sheet of the acquired Primus business in June 2012.

(b) Onerous contracts

A provision for onerous contracts is recognised where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. During the 2013 year, a provision for onerous contracts has been recognised on the provisional opening balance sheet of the acquired Dodo business. Refer to note 28(a) for more details.

Refer to note 2(s) for the relevant accounting policy and a discussion of significant estimations and assumptions applied in the measurement of these provisions.

20. INTEREST-BEARING LOANS AND BORROWINGS

	2013 $000	2012 $000
Current		
Obligations under finance leases and hire purchase contracts (note 29(a))	737	350
Bank loans	27,399	19,483
Other financial liabilities (note 29(b))	2,437	2,497
	30,573	22,330
Non-Current		
Obligations under finance leases and hire purchase contracts (note 29(a))	588	210
Bank loans	280,231	120,379
Other financial liabilities (note 29(b))	13,858	7,334
	294,677	127,923

(a) Fair values

The carrying amounts of the Group's current and non-current interest-bearing loans and borrowings approximate their fair values.

(b) Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in note 3.

(c) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

(d) Assets pledged as security

Bank borrowings are secured by fixed and floating charges over the business assets of the entities within the Group. Business assets include debtors (less than 90 days), inventory and plant and equipment.

Bank borrowings are secured by a general security agreement over the assets of certain entities within the Group.

21. DEFERRED CONSIDERATION

	2013 $000	2012 $000
Current	-	5,400

As of 30 June 2012, the deferred consideration for the acquisition of the Time Telecom assets was $5.4 million subject to specific performance milestones being achieved. On 12 September 2012, the deferred consideration was paid in full.

22. OTHER NON-CURRENT LIABILITIES

	2013 $000	2012 $000
Deferred commission revenue	12,855	2,716
Other payables	3,105	1,200
	15,960	3,916

23. CONTRIBUTED EQUITY

	2013 $000	2012 $000
Ordinary shares - issued and fully paid	244,194	150,911

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	No (000)	No (000)
Movements in ordinary shares on issue		
Balance at beginning of the year	156,572	123,617
Share issue due to exercise of share options (a)	1,088	664
Share issue due to dividend reinvestment plan (b)	1,625	1,036
Share issue for acquisition of subsidiaries (c)	19,035	31,255
Balance at end of the year	178,320	156,572

(a) Share options

Information relating to the M2 Executive Management Team Share Option Plan ("ESOP") including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 27.

(b) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 5% discount to a volumed weighted average price.

(c) Shares issued for acquisition of subsidiaries

The company issued 10.5 million shares for $46.3 million and 8.5 million for $37.8 million as part of the purchase consideration for the Dodo and Eftel acquisitions respectively. Refer to the business combination set out in note 28(a).

Capital management strategy

When managing capital, management's 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 2013, management paid dividends of $30.0 million (2012: $22.4 million).

The Group is not subject to externally imposed capital requirements.

24. RESERVES

	2013 $000	2012 $000
Employee equity benefits reserve (a)	713	637
Foreign currency translation reserve (b)	(105)	(102)
Cash flow hedge reserve (c)	966	-
Investment revaluation reserve (d)	329	-
	1,903	535
Movements:		
(a) Employee equity benefits reserve		
At 1 July	637	410
Options exercised	(487)	(198)
Share option reserve	563	425
At 30 June	**713**	**637**
(b) Foreign currency translation reserve		
At 1 July	(102)	(78)
Net translation during the year	(3)	(24)
At 30 June	**(105)**	**(102)**
(c) Cash flow hedge reserve		
At 1 July	-	-
Movement during the year	966	-
At 30 June	**966**	**-**
(d) Investment revaluation reserve		
At 1 July	-	-
Movement during the year (note 15)	329	-
At 30 June	**329**	**-**

(a) Employee equity benefits reserve

The employee equity benefits reserve arises on the grant of options to executives under the "M2 Executive Management Team Share Option Plan ("ESOP").

(b) Foreign currency translation reserve

The translation reserve comprises exchange differences, net of hedges, arising on translation of the financial statements of foreign operations, as described in note 2(g).

(c) Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised to other comprehensive income, as described in note 2(r). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(d) Investment revaluation reserve

The investment revaluation reserve is used to record net asset revaluation movements recognised in the statement of other comprehensive income.

25. RELATED PARTY DISCLOSURE

(a) Subsidiaries

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

Name	Country of Incorporation	% Equity Interest	
		2013	2012
M2 Telecommunications Pty Ltd	Australia	100	100
- People Telecom Pty Ltd	Australia	100	100
- People Telecommunications Pty Ltd	Australia	100	100
- M2 NZ Ltd	New Zealand	70	68
- Orion Telecommunications Ltd	Australia	100	100
- Southern Cross Telco Pty Ltd	Australia	100	100
- M2 Clear Pty Ltd	Australia	100	100
M2 Loyalty Programs Pty Ltd	Australia	100	100
M2 Wholesale Pty Ltd	Australia	100	100
- M2 Wholesale Services Pty Ltd	Australia	100	100
- Wholesale Communications Group Pty Ltd	Australia	100	100
M2 Commander Pty Ltd	Australia	100	100
Primus Telecom Holdings Pty Ltd	Australia	100	100
- Primus Telecom Pty Ltd	Australia	100	100
- Hotkey Internet Services Pty Ltd	Australia	100	100
- Primus Telecommunications Pty Ltd	Australia	100	100
- Primus Telecommunications (Australia) Pty Ltd	Australia	100	100
- Primus Network (Australia) Pty Ltd	Australia	100	100
Dodo Australia Holdings Pty Ltd	Australia	100	-
- Dodo Group Services Pty Ltd	Australia	100	-
- Pendo Industries Pty Ltd	Australia	100	-
- Dodo Services Pty Ltd	Australia	100	-
- Dodo Insurance Pty Ltd	Australia	100	-
- Secureway Pty Ltd	Australia	100	-
- Dodo Power and Gas Pty Ltd	Australia	100	-
Eftel Ltd	Australia	100	-
- Eftel Retail Pty Ltd	Australia	100	-
- Eftel Radio Pty Ltd	Australia	100	-
- Eftel Rural Pty Ltd	Australia	100	-
- Eftel Tasmania Pty Ltd	Australia	100	-
- Spacenet Holdings Pty Ltd	Australia	100	-
- Q-Net Australia Pty Ltd	Australia	100	-
- ClubTelco Pty Ltd	Australia	100	-
- Eftel Corporate Pty Ltd	Australia	100	-
- Eftel Wholesale Pty Ltd	Australia	100	-
- Engin Pty Ltd	Australia	100	-
- Keypoint Pty Ltd	Australia	100	-
- Visage Telecom Pty Ltd	Australia	100	-

25. RELATED PARTY DISCLOSURE (CONTINUED)

The following subsidiaries acquired through Eftel are in the process of deregistration.

Name	Country of Incorporation	% Equity Interest	
		2013	2012
- Xcomm (WA) Pty Ltd	Australia	100	-
- Network Technology Pty Ltd	Australia	100	-
- Northvoice Communications Pty Ltd	Australia	100	-
- Planet Netcom Pty Ltd	Australia	100	-
- Planet Netcom Radioworx Pty Ltd	Australia	100	-
- Datafast (Melbourne Central) Pty Ltd	Australia	100	-
- Datafast (Sites) Pty Ltd	Australia	100	-
- Datafast Telecommunications Pty Ltd	Australia	100	-
- Vivanet Pty Ltd	Australia	100	-
- M Power Technologies Pty Ltd	Australia	100	-
- Viva.com Pty Ltd	Australia	100	-
- Vivanet Australia Pty Ltd	Australia	100	-
- Business Technologies Pty Ltd	Australia	100	-
- Tower.net Pty Ltd	Australia	100	-
- Southern Star Technologies Pty Ltd	Australia	100	-
- Quality Internet Services Pty Ltd	Australia	100	-

(b) Ultimate parent

M2 is the ultimate parent entity.

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 26.

(d) Transactions with related parties

Refer to note 26(d) for the total amount of transactions that were entered into with related parties for the relevant financial year.

Terms and conditions of transactions with related parties

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

Allowance for impairment loss on trade receivables

For the year ended 30 June 2013, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties as there were minimal indicators to trigger such action (2012:$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.

26. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	2013 $000	2012 $000
Short-term employee benefits	3,372	3,084
Termination benefits	179	-
Post employment benefits	129	117
Other long term benefits	225	-
Share-based payment	250	214
Total compensation	4,155	3,415

The compensation of each member of the Group's 2013 key management personnel for the current and prior year is set out in the Remuneration Report as part of the Director's Report.

Group totals in respect of the year ended 2012 do not necessarily equal the sums of amounts disclosed in this year's Remuneration Report as there were different individuals that comprised key management personnel.

(b) Option holdings of key management personnel

30 June 2013	Balance at 1 July 2012	Granted as remuneration	Options exercised	Net change	Balance at 30 June 2013
Directors					
Craig Farrow	-	-		-	-
Vaughan Bowen	-	-		-	-
John Hynd	-	-		-	-
Michael Simmons	-	-		-	-
David Rampa[1]	-	-		-	-
Executives					
Geoff Horth	475,000	250,000	(100,000)	150,000	625,000
Darryl Inns	200,000	-	(133,333)	(133,333)	66,667
Scott Carter	250,000	-	(83,333)	(83,333)	166,667
Tom Mazerski[2]	-	-	-	-	-
Boris Rozenvasser[3]	-	250,000	-	250,000	250,000
Total	925,000	500,000	(316,666)	183,334	1,108,334

26. KEY MANAGEMENT PERSONNEL (CONTINUED)

30 June 2012	Balance at 1 July 2011	Granted as remuneration	Options exercised	Net change	Balance at 30 June 2012
Directors					
Craig Farrow	-	-		-	-
Vaughan Bowen	-	-		-	-
John Hynd	-	-		-	-
Michael Simmons	-	-		-	-
Executives					
Geoff Horth	250,000	300,000	(75,000)	225,000	475,000
Darryl Inns	175,000	100,000	(75,000)	25,000	200,000
Scott Carter	-	250,000	-	250,000	250,000
Tom Mazerski[2]	-	-	-	-	-
Total	425,000	650,000	(150,000)	500,000	925,000

(1) Mr Rampa was appointed on 20 December 2012
(2) Mr Mazerski ceased employment with the Group on 1 July 2013
(3) Mr Rozenvasser was appointed on 1 May 2013

(c) Shareholdings of key management personnel

30 June 2013	Balance at 1 July 2012	Granted as remuneration	Options exercised	Net change	Balance at 30 June 2013
Directors					
Craig Farrow	603,583	-	-	(88,139)	515,444
Vaughan Bowen	6,042,420	-	-	(1,000,000)	5,042,420
John Hynd	2,553,000	-	-	(1,020,000)	1,533,000
Michael Simmons	11,988	-	-	-	11,988
David Rampa[1]	-	-	-	-	-
Executives					
Geoff Horth	130,625	-	100,000	(75,000)	55,625
Darryl Inns	234,014	-	133,333	58,069	292,083
Scott Carter	-	-	83,333	83,333	83,333
Boris Rozenvasser[2]	-	-	-	-	-
Tom Mazerski[3]	-	-	-	1,085	1,085
Total	9,575,630	-	316,666	(2,040,652)	7,534,978

26. KEY MANAGEMENT PERSONNEL (CONTINUED)

30 June 2012	Balance at 1 July 2011	Granted as remuneration	Options exercised	Net change	Balance at 30 June 2012
Directors					
Craig Farrow	582,780	-	-	20,803	603,583
Vaughan Bowen	8,376,641	-	-	(2,334,221)	6,042,420
John Hynd	2,332,524	-	-	220,476	2,553,000
Michael Simmons	9,591	-	-	2,397	11,988
David Rampa(1)	-	-	-	-	-
Executives					
Geoff Horth	44,500	-	75,000	86,125	130,625
Darryl Inns	282,678	-	75,000	(48,664)	234,014
Scott Carter	-	-	-	-	-
Boris Rozenvasser(2)	-	-	-	-	-
Tom Mazerski(3)	-	-	-	-	-
Total	11,628,714	-	150,000	(2,053,084)	9,575,630

All KMP balances include spouse shareholdings
(1) Mr. Rampa was appointed on 20 December 2012.
(2) Mr. Rozenvasser was appointed on 1 May 2013.
(3) Mr Mazerski ceased employment with the company on 1 July 2013

(d) Purchases from related parties

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

		Sales to related parties $000	Purchases to related parties $000
Directors			
Craig Farrow(1)	2013	13	-
	2012	25	-
Vaughan Bowen(2)	2013	369	50
	2012	-	-
John Hynd(3)	2013	-	-
	2012	4	-
Michael Simmons(4)	2013	-	-
	2012	1	-

(1) Telecommunications services were provided to Brentnalls SA and Petcraky Pty Ltd on commercial terms. Mr Farrow is a director of both companies.
(2) Membership fees was paid to Telco Together Foundation on commercial term. Mr Bowen is the chairman of the Foundation.
Telecommunication services were provided to Aggregato Global Limited and its subsidiaries on commercial terms. Mr Bowen is Director and Chairman of Aggregato since 26 March 2013.
(3) Telecommunications services were provided to Hynd & Co Pty Ltd on commercial terms. Mr Hynd is a director of the firm Hynd & Co Pty Ltd.
(4) Telecommunications services were provided to Luab Pty Ltd on commercial terms. Mr Simmons is a Director of Luab Pty Ltd.

27. 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:

	2013 $000	2012 $000
Expense arising from equity-settled share based payment transactions		
M2 Executive Management Team Share Option Plan (“ESOP”)	563	425
Total expense arising from share based payment transactions	563	425

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2013.

(b) Types of share based payment plans

M2 Executive Management Team Share Option Plan (“ESOP”)

In February 2007, M2 introduced the M2 Executive Management Team Share Option Plan. 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. The issue of options under ESOP further allows an opportunity for the Board to reward Executives for their performance in a given period.

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

Under the ESOP, 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, two and three 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. Other than continuous service conditions with the Company, there are no performance conditions which must be met prior to the vesting or exercise of options.

Options are not generally transferable (and only with board approval) 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.

27. SHARE BASED PAYMENT PLANS (CONTINUED)

(c) Summaries of options granted under ESOP

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

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	2,660,000	$2.489	1,849,000	$1.386
Granted during the year	500,000	$6.47	1,500,000	$3.030
Expired during the year	-	-	(25,000)	$0.700
Exercised during the year	(1,088,332)	$2.147	(664,000)	$1.262
Outstanding at the end of the year	2,071,668	$3.710	2,660,000	$2.489

The outstanding balance as at 30 June 2013 is represented by 2,071,668 executive options with exercise price ranging from $1.84 to $6.75, exercisable dates ranging from 1 January 2015 to 1 January 2019.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 is 3 years (2012: 3 years).

(e) Range of exercise price

The range of exercise prices for all options outstanding at the end of the financial year was $1.84 to $6.75 (2012: $1.64 to $3.29).

(f) Weighted average fair value

The weighted average fair value of options granted during the year was $0.83 (2012: $0.59).

(g) Option pricing model: ESOP

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:

	ESOP 2013	ESOP 2012
Dividend yield (%)	3.19%	5.56%
Expected volatility (%)	27.04%	30.32%
Risk-free interest rate (%)	2.52%	2.62%
Expected life of option (years)	3 years	4 years
Option exercise price ($)	$6.19, $6.47, $6.75	$2.99, $3.14, $3.29
Weighted average share price at measurement date ($)	$6.47	$3.14
Model used	Binomial	Binomial

28. BUSINESS COMBINATIONS

(a) Current year acquisitions

(i) Dodo

On 1 May 2013, M2 completed the acquisition of 100% of Dodo Australia Holdings Pty Ltd and its related subsidiaries ("Dodo"), a telecommunications, utilities and insurance provider for residential and small business customers. The acquisition of Dodo compliments M2's existing consumer division, adding considerable scale and profit, the nationally recognised Dodo brand, demonstrated organic growth capability and refined back-of-house operations.

Dodo was acquired by M2 for a combination of cash and scrip consideration, valued at $203.9 million, on a debt-free and cash-free basis. The acquisition was funded through a new, 3 year, $400 million syndicated loan facility. This loan facility has also been utilised to refinance existing debts.

The fair values of the identifiable assets and liabilities of Dodo as of the date of acquisition are as follows:

	Consolidated Provisional 2013 $000
Cash and cash equivalents	7,004
Trade and other receivables*	23,605
Inventories	5,903
Other assets	974
Plant and equipment	1,815
Customer base	41,647
Brand names	26,388
Software	2,948
Deferred tax asset	493
Trade and other payables	(105,326)
Income tax payable	(4)
Deferred tax liability	(12,494)
Provisions	(10,107)
Fair value of identifiable net assets	(17,154)
Goodwill arising from acquisition	221,089
	203,935
Purchase price:	
Cash consideration	157,688
Scrip consideration	46,247
Total purchase consideration	203,935

*Gross contractual amount for trade and other receivables is $25.6 million, of which $2.0 million is expected to be uncollectible.

Due to the timing of the acquisition, the fair values currently established are provisional and are subject to further review during the next financial year. From the date of acquisition, Dodo has contributed $65.3 million revenue and $5.1 million net profit before tax to the Group. It is considered impractical to estimate what the revenue and profit before tax of the consolidated entity would have been if the acquisition had been effected at 1 July 2012.

28. BUSINESS COMBINATIONS (CONTINUED)

(ii) Eftel

On 12 April 2013, M2 completed 88.85% share acquisition of Eftel Ltd and its related bodies corporate ("Eftel") as part of its off-market takeover offer for all shares in Eftel. Eftel offers similar products as M2, and is expected to generate synergies across the combined group.

Eftel has been acquired by the Group for a purchase consideration of $38.5 million. The shareholders of Eftel were offered to elect either:

- one M2 share for every 12.34 Eftel share; or
- $0.3581 cash for every one Eftel share.

On 14 June 2013, the Group acquired 100% of the shares in Eftel.

The fair values of the identifiable assets and liabilities of Eftel as of the date of acquisition are as follows:

	Consolidated Provisional 2013 $000
Cash and cash equivalents	2,896
Trade and other receivables*	5,977
Inventories	210
Other assets	509
Plant and equipment	2,035
Customer base	11,357
Brand names	2,777
Software	169
Deferred tax asset	3,392
Trade and other payables	(18,615)
Interest-bearing loans and borrowings	(8,997)
Provisions	(1,395)
Deferred tax liabilities	(3,394)
Fair value of identifiable net assets	(3,079)
Goodwill arising from acquisition	41,577
	38,498
Purchase price:	
Cash consideration	646
Scrip consideration	37,852
Total purchase consideration	38,498

*Gross contractual amount for trade and other receivables is $10.4 million, of which $4.4 million is expected to be uncollectible.

Due to the timing of the acquisition, the fair values currently established are provisional and are subject to further review during the next financial year. From the date of acquisition, Eftel has contributed $17.5 million revenue and $1.5 million net profit before tax to the Group. It is considered impractical to estimate what the revenue and profit before tax of the consolidated entity would have been if the acquisition had been effected at 1 July 2012.

The acquisition related costs totalling $11.0 million has been recognised in other expenses in the consolidated income statement for the year ended 30 June 2013.

28. BUSINESS COMBINATIONS (CONTINUED)

(b) Prior year acquisitions

Primus

On 1 June 2012, M2 acquired 100% of Primus Telecom Holdings Pty Ltd ("Primus") and its subsidiaries, for a total consideration of $192.4 million (including $10.6 million of restricted cash). The acquisition was funded through a combination of proceeds of a Renounceable Entitlement Offer, which raised $83.1 million and a senior lending facility.

Due to the timing of the acquisition, the provisional fair value of the identified assets and liabilities of Primus as of the date of acquisition have been reported for the year ended 30 June 2012.

After further assessment, the fair value of the identified assets and liabilities of Primus as of the date of acquisition have been adjusted during the current year. Effects of these adjustments on balance sheet are illustrated in the following table:

	Consolidated Provisional	Consolidated Final
	$000	$000
Cash and cash equivalents	15,212	15,212
Trade and other receivables	25,535	29,493
Inventories	504	504
Other assets	5,792	5,792
Plant and equipment	48,338	49,318
Intangible assets	84,936	84,936
Deferred tax asset	3,574	3,833
Trade and other payables	(38,825)	(37,910)
Interest-bearing loans and borrowings	(10,458)	(10,458)
Income tax payable	(3,424)	(6,384)
Deferred tax liability	(9,658)	(9,658)
Provisions	(5,037)	(9,248)
Fair value of identifiable net assets	116,489	115,430
Goodwill arising from acquisition	75,911	76,970
	192,400	192,400
Purchase price:		
Cash consideration	192,400	192,400
Total purchase consideration	192,400	192,400

(c) Cash flows on acquisition

	2013 $000	2012 $000
Cash paid	(163,734)	(210,424)
Net cash acquired	9,900	15,212
Net cash flows on acquisition	(153,834)	(195,212)

29. COMMITMENTS

(a) Leasing commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on offices and certain plant and equipment. Future minimum lease payments under non-cancellable operating leases as at 30 June are as follows:

	2013 $000	2012 $000
Within one year	8,836	8,682
After one year but not more than five years	34,511	21,031
More than five years	19,500	10,470
Total minimum lease payments	62,847	40,183

Finance lease and hire purchase commitments – Group as lessee

These lease contracts expire within one to four years. Future minimum lease payments under finance lease and hire purchase contracts as at 30 June are as follows:

	2013 $000	2012 $000
Within one year	787	358
After one year but not more than five years	605	228
Total minimum lease payments	1,392	586
Less amounts representing finance charges	(67)	(26)
Present value of minimum lease payments	1,325	560

(b) Other financial liabilities

	2013 $000	2012 $000
Within one year	2,437	2,497
After one year but not more than five years	13,858	7,334
Total minimum lease payments	16,295	9,831

These financial liabilities relate to the Indefeasible Right to Use of capacity (IRU) arising from the Primus acquisition.

(c) Capital commitments

The Group had contractual obligations to purchase plant and equipment, software and other value added services for $0.8 million at 30 June 2013 (2012: $3.8 million).

30. CONTINGENCIES

There are no contingent assets or liabilities as at the date of the statement of financial position.

31. DEFICIENCY IN NET CURRENT POSITION

As at 30 June 2013, the Group has a deficiency of net current assets of $75.7 million (2012: $27.3 million), which relates primarily to liabilities for deferred commission revenue of $45.0 million (2012: $9.0 million) and bank loan of $27.4 million (2012: $19.5 million).

Commission revenue is deferred and will be recognised in the next financial year through the income statement in line with the accounting policy (see note 2(v)) and is a non-cash item. This liability was assumed with the Dodo acquisition. The bank loan was raised to fund acquisitions and will be repaid from operating cash flow in the next financial year.

32. EVENTS AFTER BALANCE SHEET DATE

(a) Investment in Inabox Group Ltd

On 2 July 2013, M2 acquired 1,666,667 shares at the listing price of $1.20 per share, approximately 12% of the issued capital of Inabox Group Ltd ("Inabox"). Inabox is an established provider of value-added wholesale telecommunications services, operating Australia-wide, with revenue of approximately $45 million per annum.

This acquisition for the total cost of $2.0 million is a strategic investment building on the strong relationship between the two companies and is expected to provide a foundation to explore further commercial opportunities in the future.

(b) Dividend declared

On 23 August 2013, the directors declared a final dividend on ordinary shares in respect of the 2013 financial year. The total amount of the dividend is $17,849,882, which represents a fully franked dividend of 10 cents per share (on shares issued as at the date of this report). This final dividend will be paid to shareholders on 25 October 2013.

33. PARENT ENTITY INFORMATION

The parent entity is M2.

	2013 $000	2012 $000
Current assets	279,550	11,751
Total assets	587,736	319,706
Current liabilities	49,832	32,186
Total liabilities	336,780	162,218
Issued capital	244,194	150,911
Retained earnings	6,049	5,940
Equity reserves	713	637
Total shareholders' equity	250,956	157,488
Profit and total comprehensive income of the parent entity	30,087	23,207

The parent entity has no commitments or contingencies as of reporting date.

34. AUDITOR'S REMUNERATION

The auditor of M2 is Ernst & Young.

	2013 $	2012 $
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 within the consolidated group	409,940	455,500
• Other services in relation to the entity and any other entities in the consolidated group:		
- Due diligence and other assurance services	501,774	489,061
- Revenue assurance services	86,000	-
	997,714	944,561

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of M2 Telecommunications Group Ltd:

1. In the opinion of the directors:

   (a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      (i) Giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date

      (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001

   (b) The financial statements and notes comply with International Financial Reporting Standards as disclosed in note 2(b)

   (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2013.

On behalf of the directors,

Craig Farrow

Chairman
Melbourne, 23 August 2013

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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 consolidated statement of financial position as at 30 June 2013, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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.

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Independence

In conducting our audit we have complied with 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.

Opinion

In our opinion:

a. 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 consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 18 to 29 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of M2 Telecommunications Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Don Brumley
Partner
Melbourne
23 August 2013

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ASX ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules and not shown elsewhere in this report is as follows. This information is current as at 23 August 2013.

(a) Distribution of equity holders of securities

(i) Ordinary share capital

178,496,822 fully paid ordinary shares are held by 10,860 shareholders.

(ii) Options

1,971,668 options are held by 12 individual option holders.

The numbers of shareholders, by size of holding, in each class are:

Range	Securities	No of Holders
100,001 and over	124,868,723	105
10,001 to 100,000	29,009,600	1,221
5,001 to 10,000	10,142,567	1,367
1,001 to 5,000	12,773,461	4,795
1 to 1,000	1,702,471	3,372
Total	178,496,822	10,860
Unmarketable parcels	7,272	404

(b) Substantial holders

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 holders	Number of ordinary shares	% issued capital
Larry Kestelman and his associates	Cannes Management Pty Ltd ATF Kestelman Family Trust No 2 Cannes Holdings Pty Ltd ATF Kestelman Family Trust Club Telco Australia Pty Ltd Dodo Australia Pty Ltd as custodian of the Dodo Internet Partnership	12,605,038	7.08
National Australia Bank Limited	MLC Investments Limited NAB Invest Managed Investments Limited MLC Wealth Management Ltd National Australia Bank Limited National Australia Bank Limited Antares Capital Partners Limited	9,000,172	5.044

(c) Twenty Largest Shareholders

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

Rank	Name	A/C Designation	Number of Shares	%
1	J P Morgan Nominees Australia Limited		21,409,073	12.00%
2	HSBC Custody Nominees (Australia) Limited		15,405,500	8.63%
3	National Nominees Limited		12,405,441	6.95%
4	UBS Wealth Management Australia Nominees Pty Ltd		8,730,451	4.89%
5	Cannes Holdings Pty Ltd	KESTELMAN FAMILY	7,013,336	3.93%
6	BNP Paribas Nominees Pty Ltd Acf Pengana	<DRP A/C>	5,921,994	3.32%
7	Mr Vaughan Bowen	V G BOWEN FAMILY	3,773,750	2.11%
8	Rindeco Pty Ltd	SLEPOY FAMILY	3,454,330	1.94%
9	Cannes Management Pty Ltd	<KESTELMAN FAMILY NO.2 A/C>	2,977,713	1.67%
10	Citicorp Nominees Pty Limited		2,660,720	1.49%
11	Clubtelco Australia Pty Ltd		2,445,894	1.37%
12	BNP Paribas Noms Pty Ltd	<DRP>	2,428,766	1.36%
13	Dennis N Basheer Superannuation Pty Ltd	<DENNIS N BASHEER S/F A/C>	2,142,013	1.20%
14	RBC Investor Services Australia Nominees Pty Limited	<BKCUST A/C>	2,117,260	1.19%
15	Thirty Fourth Zulu Pty Ltd	<HAMILTON SUPERFUND A/C>	2,053,490	1.15%
16	AMP Life Limited		1,619,256	0.91%
17	J P Morgan Nominees Australia Limited	<CASH INCOME A/C>	1,572,475	0.88%
18	MIS Investments Pty Ltd	<THE SLEPOY FAMILY NO 3 A/C>	1,466,635	0.82%
19	Citicorp Nominees Pty Limited	<COLONIAL FIRST STATE INV A/C>	1,328,249	0.74%
20	Mr Vaughan Garfield Bowen & Mrs Carolina Nunn	<BOWEN FAMILY SUPER FUND A/C>	1,185,338	0.66%
	TOTAL		102,111,684	57.2%
	Balance of Register		76,387,138	42.8%
	Grand TOTAL		178,498,822	100.00%

VOTING RIGHTS – ORDINARY SHARES

By virtue of the Company's Constitution, outlined in clause 10, voting rights for ordinary shares are:

(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

Under the terms of a Restriction Deed dated 16 March 2013 (disclosed to ASX on 3 May 2013), Larry Kestelman and his Controlled entities are restricted from dealing in their Consideration Shares for period of 12 months from 1 May 2013. The Consideration Shares amount to 15,891,273 M2 shares.

ON-MARKET BUY-BACK

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

CORPORATE DIRECTORY

M2 TELECOMMUNICATIONS GROUP LTD

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

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www.m2.com.au

STOCK EXCHANGE

Australian Securities Exchange Ltd (ASX)
Issuer code: MTU

DIRECTORS

Craig Farrow	Chairman
Vaughan Bowen	Executive Director
John Hynd	Non Executive Director
Michael Simmons	Non Executive Director
David Rampa	Non Executive Director

COMPANY SECRETARY

Kellie Dean

CHIEF EXECUTIVE OFFICER

Geoff Horth

CHIEF FINANCIAL OFFICER

Darryl Inns

AUDITOR

Ernst & Young
8 Exhibition Street
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