M2 GROUP LTD ("M2")
ABN 74 091 575 021 | **ACN** 091 575 021

APPENDIX 4E

ANNUAL FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2015

This information is provided to ASX under ASX Listing Rule 4.3A. The report is based on accounts which have been audited. The audit report is included within the Annual Report.

1. DETAILS OF THE REPORTING PERIOD

Current period : 1 July 2014 to 30 June 2015 ("FY15")
Previous corresponding period : 1 July 2013 to 30 June 2014 ("FY14")

2. RESULT FOR ANNOUNCEMENT TO THE MARKET

Revenue and Net Profit		$000
2.1 Revenue from ordinary activities	up 9% to	$1,115,689
2.2 Profit from ordinary activities after tax attributable to members	up 10% to	$73,689
2.3 Net profit for the period attributable to members	up 10% to	$73,689

Dividend Information	Amount per security	Franked amount per security
2.4 Dividends paid and to be paid:		
FY15 interim dividend per share	15.0 cents	15.0 cents
FY15 final dividend per share	17.0 cents	17.0 cents
2.5 Record date for determination of entitlement to the final dividend:		
FY15 interim dividend		26 March 2015
FY15 final dividend		7 October 2015

The Dividend Reinvestment Plan ("DRP") will operate for the FY15 final dividend. Shares will be issued at a 2.5% discount to the volume weighted average price of shares sold on the ASX in the 5 days following the record date. Election notices for the DRP must be received by no later than 8 October 2015.

2.6 EXPLANATION OF RESULTS

Revenue for FY15 increased 9% to $1.12 billion, which was above the expected guidance range. This increase is driven by organic growth through the period as well as one month contribution from the acquisition of CallPlus in June 2015.

Net profit after tax ("NPAT") increased 10% to $73.7 million, a result driven by the Company's organic growth and continual focus on internal business improvements and the realisation of synergies from earlier acquisitions.

Please refer to the management sections of the attached Annual Report for further review and analysis of M2's operations and performance for FY15.

3. ADDITIONAL INFORMATION

Additional Appendix 4E disclosure requirements can be found in the attached Annual Report.

TELCO WITH POWER

M2 GROUP LTD

ANNUAL REPORT 2015

M2 AT A GLANCE

ACQUISITION

ACQUISITION AND INTEGRATION CREDENTIALS REFINED IN OVER 20 ACQUISITIONS IN 10 YEARS.

SHAREHOLDER RETURNS

262% 5 YEAR TSR TO 30 JUNE 2015
32 CENTS FY15 DPS.

CONSUMER DISTRIBUTION

DODO CONNECT KIOSKS AND INSIDE SALES.

MARKET

HOUSEHOLDS AND BUSINESSES.

BUSINESS DISTRIBUTION

COMMANDER DEALERS AND CENTRES.

MULTIPLE PATHS TO MARKET

BRAND STRENGTH

NATIONALLY RECOGNISED BRANDS IN AUSTRALIA AND NEW ZEALAND

PRODUCTS

STANDARD PRODUCTS. UNIQUE COMBINATIONS.

M2 TEAM

3300+ MEMBERS

OWN IT. WIN IT.

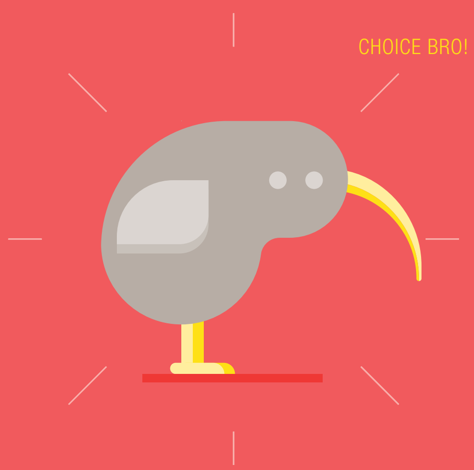
CONTENTS

KEY HIGHLIGHTS

DECLARED A RECORD DIVIDEND OF 17¢ TO SHAREHOLDERS

RHODA PHILLIPPO
APPOINTED AS A NON-EXECUTIVE DIRECTOR

LAUNCHED M2UNI
FOR ONLINE TEAM TRAINING



COMPLETED THE ACQUISITION OF CALL PLUS GROUP

ACHIEVED AN
ENERGY USAGE REDUCTION OF 2%
IN AUSTRALIA

CELEBRATED 364 TEAM MEMBERS

REACHING AN ANNIVERSARY OF MORE THAN 5 OR 10 YEARS WITH M2

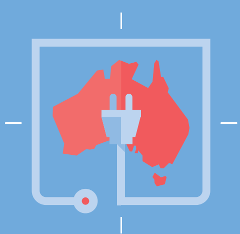
98,000

SERVICES ACTIVATED

NET GROWTH OF 98,000 SERVICES

OPENED 48 DODO CONNECT KIOSKS

THIS YEAR ACROSS VIC, NSW, QLD AND SA



NOW CONNECTED TO 52 NBN POINTS OF INTERCONNECT

LAUNCHED THE

M2 GREEN TEAM

CHAIRMAN'S LETTER

Fellow Shareholder,

WELCOME TO M2 GROUP LTD'S ANNUAL REPORT 2015

I am pleased to present to you a year in which M2 achieved outstanding organic growth, effected the acquisition of a challenger telco similar to ours, and delivered an excellent financial performance resulting in another record dividend.

OUTSTANDING RETURNS TO SHAREHOLDERS

The 2015 financial year was another year of industry consolidation, fierce competition, regulatory development and evolution. Throughout, our excellent team remained focussed on our goals of growing organically and delivering returns to our shareholders.

The growth delivered by our team and our channel partners has resulted in revenues of $1.12 billion, an increase of 9% on the previous corresponding period.

Our earnings before interest, tax, depreciation and amortisation ('EBITDA'[1]) rose 6% to $170.5 million and our net profit after tax ('NPAT') rose 10% to $73.7 million. Underlying NPAT[2], excluding transaction costs, reached more than $100 million, an increase of 17%. This is an outstanding result by our team, with all of our results meeting the guidance issued to market on 25 August 2014.

This has allowed us to declare a final dividend of 17 cents per share, fully franked, totalling 32 cents for the full year. This payment, based on a full year payment of 70% of reported NPAT, still enables continued reinvestment into the business to drive future growth while continually paying down bank debt. We are pleased to have annually delivered growing returns to shareholders. Over the last five years to 30 June 2015, M2 has delivered a total shareholder return ('TSR') of more than 260%.

(1) Earnings before interest, tax, depreciation and amortisation ('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.
2) Underlying NPAT includes an add-back of a non-cash cost of $17.7 million for amortisation ($18.3 million in the previous corresponding period, tax affected) associated with customer contracts acquired in the relevant period (in accordance with Australian Accounting Standards) as well as an add-back of transaction costs for CallPlus Group of $8.8 million

GROWTH

The 2015 financial year is one in which we demonstrated our commitment to grow organically as well as through acquisition, as our team delivered growth of almost 100,000 services in operation and completed the acquisition of the CallPlus group of companies and 2Talk (collectively, 'CallPlus'). CallPlus is the third largest telecommunications provider in New Zealand and is a complementary and highly performing business. The foundation of the transaction was the work of Vaughan Bowen, our founder and Executive Director dedicated to seeking and delivering on M&A opportunities that are accretive to shareholder value.

Looking forward, we have a strong platform from which to grow in the 2016 fiscal year. We have an expanded retail presence through our Dodo Connect Kiosks, as the result of investments made in the 2015 fiscal year, diversified and strengthened channels in our business segment; and well-recognised brands through which to reach our customers.

TEAM

In March 2015, we increased the depth of skill and experience at the board table through the appointment of Rhoda Phillippo as a non-executive director. Rhoda adds three decades of global experience in telecommunications and IT. Her contributions and perspective are highly complementary to and valued by the board. I look forward to Rhoda's formal election by you, our shareholders, at the next annual general meeting, as required by our constitution.

The year's performance has been superbly driven by our passionate CEO, Geoff Horth, and our hard working Executive Team, supported by our team in Australia, New Zealand and the Philippines - each and every one of whom has made a contribution. I'd like to welcome our newest Kiwi team members to M2 and thank all of our 3300 dedicated and talented team members for another fantastic year.

In October 2014 we celebrated 10 years as a publicly listed company. From our market capitalisation at listing of $14 million, we have grown to approximately $2 billion market capitalisation at the time of writing. We are very proud of our achievements along the way, and our track record of delivering outstanding returns to shareholders.

We look forward to continuing to deliver on this track record in the coming year.

Yours faithfully,

CRAIG FARROW
CHAIRMAN

KEY DATES

07 OCT 2015
Record date for final FY15 dividend

08 OCT 2015
DRP election date

09-15 OCT 2015
DRP pricing period

29 OCT 2015
Annual General Meeting
FY15 Final Dividend Payment

31 DEC 2015
Half-year end

22 FEB 2016
Interim results announcement

30 JUNE 2016
Financial year end

CEO REVIEW

Dear Valued Shareholder,
I am pleased to bring you the results of another excellent year at M2, with both organic and acquired growth in services and record results across all key metrics.

DELIVERING ON OUR STRATEGY

In last year's Annual Report, I noted our goal to deliver on continued organic growth, record profits and increased returns to shareholders and I am pleased to advise that we have delivered in all of these areas.

In FY15, we achieved net growth of 98,000 services in operation in fixed voice, mobile, broadband and energy. This growth was largely driven through the distribution platform we have developed and refined over the last two years, the strength of our brands and our continued investments in our marketing programs, the increased focus on our internal sales teams and the diversification of our channels to market, including the significant expansion of our Dodo Connect Kiosks. The growth in our sales and marketing engines has been underpinned by the great work of our teams in developing innovative new products and offers and exploring new verticals.

This growth, in combination with our internal focus on efficiency and improvement, has resulted in revenue of $1.12 billion, up 9%; EBITDA of $170.5 million, up 6%; and reported NPAT of $73.7 million, up 10%. NPAT underlying (excluding transaction costs and adding back the non-cash impact of customer contract amortisation) exceeded $100 million in the period, a significant milestone and evidence of the successful implementation of our strategy by our excellent team.

These outstanding results have enabled our Board to declare a final dividend of 17 cents, fully franked, an increase of 17% on the FY14 final dividend. This brings our total FY15 dividend to 32 cents, an increase of 23% on the previous corresponding period.

THE ACQUISITION OF CALLPLUS

These results have been achieved with some distractions to business as usual activity, such as the acquisition of the CallPlus group of companies. We are pleased to have cemented our position in the New Zealand market with the acquisition of this outstanding challenger telco. The CallPlus business is highly complementary to our existing business and delivers us the scale, brands and capability to be a real force in the New Zealand market.

The acquisition was completed on 30 June and the integration is now well progressed under the leadership of Mark Callander, our Chief Executive New Zealand. Mark and his high quality leadership team have worked well with the Australian integration team and we achieved some significant milestones since completion including:

- A comprehensive review and restructure of the NZ business to develop dedicated segment go- to- market teams and supporting functions, mirroring our organisation in Australia
- Establishment of a cross-Tasman network to enable our team to share files and work together quickly and securely
- Existing and new debt refinanced into new flexible multi year facilities
- Launch of a number of new initiatives in NZ including adoption of our Parental Leave Policy, providing both primary and secondary carers a period of paid leave

As disclosed in our announcement to the ASX, CallPlus is expected to add NZ$45 million to M2 EBITDA in FY16. We have hedged these earnings with a rolling horizon of 12 months to ensure risk associated with foreign income is minimised.

M&A

M&A has been an important element of our strategy, delivering significant shareholder value and providing us with both scale and capability to compete in our large and fast paced categories. The telecommunications sector has been in the process of consolidation for many years, and we have been an active participant with more than 20 acquisitions since 2005, led by our founding CEO and Executive Director Vaughan Bowen. We have considered a great many more possible opportunities over that time and have been disciplined in ensuring that there is strong strategic logic associated with the deals we do and that valuations are at an appropriate level to deliver real shareholder value.

Our commitment to shareholders is to maintain this focus in our M&A activity to ensure that we continue to add shareholder value through this strategy. We see opportunities for further M&A activity in our business but will continue to be disciplined in our approach and to ensure that we have a strong underlying organically growing business to deliver sustained shareholder returns.

EXPANDING OUR RETAIL FOOTPRINT

From December 2014 to February 2015, we expanded our Dodo Connect Kiosks into Queensland, New South Wales and South Australia, successfully establishing more than 40 new locations from our base of 20; closing the year with 68 total locations. This involved an enormous amount of work including recruitment of approximately 200 new team members. Since their establishment, we have progressively built upon the skills of these team members to steadily increase the results delivered by each Kiosk. Over the course of the next year, our focus in Kiosks will be to continue to refine the operating model. Kiosks are an important part of our consumer plans and add another unique dimension to our distribution strategy. In order to best take advantage of the opportunity they present, we have begun a franchise program through which we aim to appoint sales-focussed entrepreneurs to operate the kiosks as their own small business. As at 24 August 2015, we have 11 franchised locations. We will continue to promote this opportunity in the coming year to further improve the performance of this important new path to market.

OUR PRIORITIES

In our 15th year as a company, we delivered on our key strategic objectives, resulting in growth and increased shareholder returns. Our focus is largely unchanged for the year ahead, and is structured around four strategic pillars:

DISTRIBUTION

- Capitalise on the opportunity presented by the rollout of the NBN in Australia and the UFB in New Zealand
- Leverage our product offerings to build new paths to market and optimise existing channels

DIVERSIFICATION

- Build on the product and channel advantage we achieve by having a diversified portfolio of services available to our channels
- Explore new product categories that complement existing capability

SIMPLIFICATION

- Focus on easy to buy & easy to use products
- Invest in core technology platforms and our digital engagement strategy

SATISFACTION

- Make it easy for our customers, on their terms
- Be a great place to work

Our over-arching objective is to own the challenger space in our markets in Australia and across the Tasman in New Zealand. This will be achieved through continued disruptive go-to-market thinking, and our ongoing focus on delivering great service to our customers.

The culmination of all our efforts and our relentless focus on our strategy is an expected increase in revenues of between 24% to 26% and increase in net profit after tax of 30% to 35% in FY16.

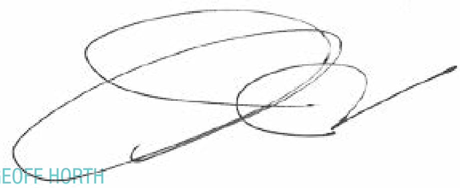
TEAM

At the centre of all of this activity is our team. In FY15, we continued to expand upon the prior year's initiatives to make M2 a great place to work. Our first full-scale Sustainability Report, associated with this Annual Report, reflects upon the activities conducted and the pleasing outcome of increased team engagement in the past year.

The year also saw Scott Carter promoted to the newly created position of Chief Operating Officer. Scott was previously the head of our Business and Wholesale segments. Scott's appointment to this important new role is testament to his outstanding contribution to M2 since joining us in 2011. We have already started to see the benefits of bringing our Consumer and Business teams together, sharing knowledge and leveraging skills across sales, marketing and operations, and I am excited about the opportunities that will arise under Scott's excellent leadership.

I'd like to thank our Team for another outstanding year. It is a delight to work with such a passionate and hard working group of people. I look forward to doing it all again in the year ahead.

Finally, my thanks go to you, our shareholders for your continued support. I look forward to another year of growth and delivering another record set of results to you next year.



GEOFF HORTH
CHIEF EXECUTIVE OFFICER

STACEY WARREN

SAMI SAMI

WING WONG

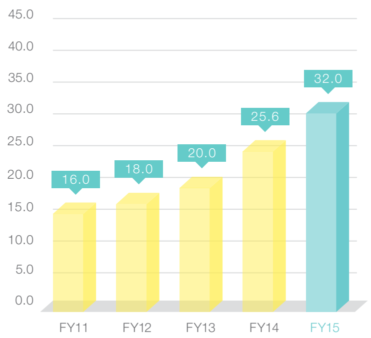
SANGRAM SINGH

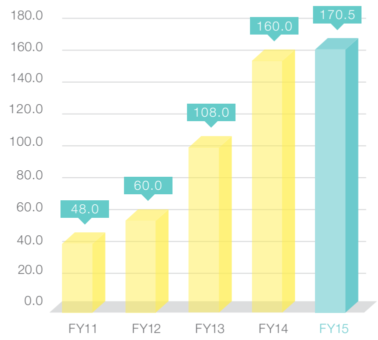
GRACE HALICKI

THE NUMBERS THAT MATTER

REVENUE
$1.12 BILLION

FY15 REVENUE INCREASED 9% ON THE PREVIOUS CORRESPONDING PERIOD (PCP) TO $1.12 BILLION, AS A RESULT OF ORGANIC GROWTH AND WITH ONE MONTH'S CONTRIBUTION FROM THE ACQUISITION OF THE CALLPLUS GROUP.



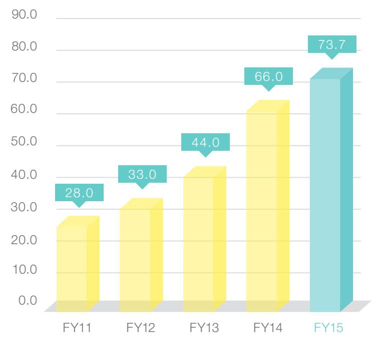


EBITDA
$170.5 MILLION

EBITDA INCREASED 6% ON THE PCP TO $170.5 MILLION, THIS GROWTH WAS ACHIEVED IN SPITE OF $10.2 MILLION OF ONE OFF TRANSACTION COSTS RELATED TO THE CALLPLUS GROUP ACQUISITION.

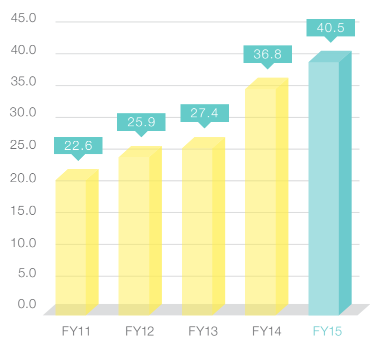
NPAT
$73.7 MILLION

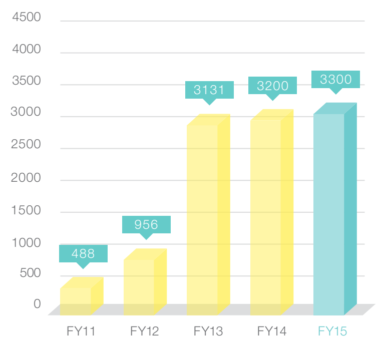
NPAT ROSE 10% TO $73.7 MILLION IN FY15, WITH UNDERLYING NPAT (EXCLUDING TRANSACTION COSTS) UP 8% TO $100.2 MILLION.   A SIGNIFICANT MILESTONE, AND A CREDIT TO THE DEDICATED AND HARD WORKING TEAM AT M2.



EPS
40.5¢

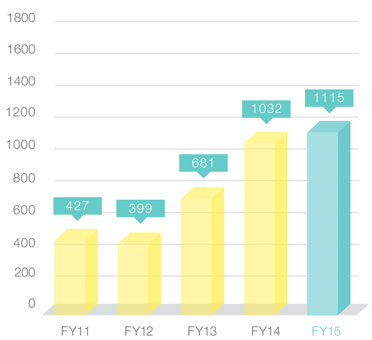
EPS IS VIEWED AS AN IMPORTANT MEASURE WITHIN OUR BUSINESS AND AT 40.5 CENTS FOR FY15 IT WAS UP 9% ON THE PCP. M2 LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE A LITTLE OVER 10 YEARS AGO AND HAS ACHIEVED TOTAL EPS GROWTH OF 4666% TO 30 JUNE 2015.





TEAM MEMBERS
3300

AT 30 JUNE 2015, WE HAD 3300 TEAM MEMBERS IN AUSTRALIA, NEW ZEALAND AND THE PHILIPPINES. THIS YEAR, WE WERE PLEASED TO WELCOME THE PASSIONATE AND DEDICATED CALLPLUS TEAM MEMBERS. TEAM NUMBERS HAVE OTHERWISE BEEN SLIGHTLY REDUCED BY RESTRUCTURING ACTIVITIES AS A RESULT OF ACQUISITION.



DIVIDEND
32 ¢

THE 32 CENT COMBINED INTERIM AND FINAL DIVIDEND IS AN INCREASE OF 23% ON FY14.   ANOTHER STRONG DIVIDEND REPRESENTING APPROXIMATELY 70% OF FY15 NPAT (EXCLUDING ONE OFF TRANSACTION COSTS) AND CONSISTENT WITH M2 BOARD DIVIDEND POLICY.

CFO COMMENTARY

RESULTS OVERVIEW

Revenue was up 9% to $1.12 billion, driven by organic growth through the period as well as one month contribution from the acquisition of CallPlus in June 2015. EBITDA continued to grow to $170.5 million, an increase of 6%.

NPAT increased 10% to $73.7 million, whilst earnings per share ('EPS') increased 9% to 40.5 cents. Transaction costs in the period, from the CallPlus acquisition, were $10.2 million ($8.8 million NPAT effect). Excluding the transaction costs NPAT has increased by 23% to $82.5 million. Efficiencies have been a further focus in the period, lowering the Selling, General and Administrative expense (less transaction costs) to 19.5% of revenue, down from 20.7% in the previous period.

CASH FLOW

Strong cash collections underpinned a good cash position at the end of the period. Cash flow from operating activities increased by 42% to $122 million. Free cash flows increased by 46% to $93 million, from controlled capital expenditure in the year, at 2.6% of revenue.

BALANCE SHEET

Our balance sheet remains strong, with net assets increasing by $30.0 million for the year. Total net debt has increased by $232.8 million, to $486.9 million, post the June 2015 re-financing of debt for the purchase of CallPlus.

DEBT MANAGEMENT

Our Board and Management remain committed to the reduction of debt. The net leverage ratio (net debt divided by EBITDA) was 2.28x at 30 June 2015, and is expected to reduce in FY16 as a result of the combination of growth in group earnings and our surplus cash generation reducing net debt.

EQUITY MANAGEMENT

Over the year, shares on issue increased by 2.9 million to 183.4 million shares at 30 June 2015. The increase was mainly due to the issue of shares under the dividend reinvestment plan ('DRP') and the exercise of options under our legacy LTI option plan.

DIVIDEND POLICY

Our dividend policy has remained at 70% of reported net profit after tax since listing. The declared amount reflects the Company's current and projected cash position, and available franking credits. Consistent with this policy, the directors have declared a fully-franked, final dividend of 17 cents per share, bringing the full year dividend to 32 cents per share, an increase of 23% on last year. Given the preference by many shareholders to receive dividends in the form of shares, the directors have decided to continue the operation of the DRP. For this final dividend, a 2.5% discount applies to a volume weighted average price within the pricing period of 9 to 15 October 2015.

RISK MANAGEMENT

We maintain and adhere to clearly defined policies covering areas such as liquidity risk, market risk (including foreign exchange, interest rate and commodity price risk) and credit risk. The main sources of foreign exchange risk in FY15 involve the purchase of contact centre services from the Philippines in Philippine Peso (PHP), as well as equipment acquired in US dollars (USD). We use interest rate swaps to manage interest rate risk with fixed rate swaps covering 65% of our gross debt. The commodity price risk is associated with the purchase of electricity and gas. The Company has entered into derivatives and swaps for a 12 month forward period, covering a projected customer load, in accordance with our wholesale energy risk management policy.

INTERNAL CONTROL AND ASSURANCE

We maintain an internal audit function with a Company-wide mandate that is fully independent of the business operations to monitor and provide assurance to the Board's Audit Committee, and ultimately the Board, as to effectiveness of risk management and internal control systems.

DARRYL INNS
CHIEF FINANCIAL OFFICER

NICK JENSEN

COSTA MIHAIL

NIAZI JABEER

SHARON MAGUIRE

SEAN DEVOTA

ATHINA MIKKELSEN

Jesse Oey, Michael Farhner, Tony Keriakous, Grace Halicki, Marichelle Pascual, Ashima Makkar

BUSINESS INSIGHTS

This information is supplementary to the Financial Statements and should be read in conjunction with the CEO Review, CFO Commentary, Directors' Report, Financial Statements and the Notes to the Financial Statements.

OUR STRATEGY

We have two primary objectives at M2: to deliver outstanding shareholder returns and to be a great place to work. We believe that achieving our goal to be a great place to work is a critical success factor; an engaged and motivated team constantly striving to improve the business performance will invariably give us the best chance of delivering outstanding returns to shareholders.

The strategies to deliver on our objectives are multi-faceted and centered on taking advantage of opportunities in the market, leveraging our brand strength and sales expertise and constantly striving to exceed the expectations of our customers.

AUSTRALIA

Within the Australian business we operate in three market segments:

1. CONSUMER

	dodo	iPRIMUS
BRANDS	ONE CALL - CONNECT & SAVE WITH DODO	IPRIMUS HAS YOU COVERED
PROPOSITION	Dodo's strategy is to be the one-stop telecommunications and utilities provider, providing great value to Australian households on a range of products and services including telecommunications, electricity, gas and insurance.	Primus started life as one of Australia's first broadband challengers, providing value offerings to families around Australia through its own backbone network as well as fibre assets in 5 capital cities.
MARKET	Individuals and Families	Individuals and Families

SERVICES	FIXED VOICE	NBN	DATA	MOBILE	ENERGY	INSURANCE
	d i	d i	d i	d i	d	d

d = Dodo   i = iPrimus

Our priorities within the Consumer segment are to:

- Take the proven Dodo brand proposition and extend it into other product and service categories, in order to:
  - Increase average revenue per user
  - Improve customer retention
  - Further enhance brand recognition and trust
- Refine the Dodo Connect Kiosk model in order to maximise the effectiveness of recently deployed locations; and continue to promote the Kiosk Franchise Program
- Activate the next phase of our NBN 'take share' plan
- Simplify our products, systems and processes and invest in our digital engagement strategy - reducing costs and improving customer experience.

2. BUSINESS

BRANDS	COMMANDER DEMAND A COMMANDER	engin IT'S TIME WE MADE A CONNECTION
PROPOSITION	Commander's brand promise is to provide simple communication and energy solutions to save businesses time and money while taking them into 'smart', next-generation technology. As small business specialists equipped with NBN-ready Commander phones and competitive NBN offers, Commander Dealers around Australia are well-placed to become the 'NBN Experts' ready to support businesses in their transition to the NBN.	Engin provides micro and SOHO businesses with a full suite of products to future-proof their communication, from competitive broadband and phone bundles to ePBX and SIP Trunking solutions.
MARKET	Small Business	Micro / SOHO Business

SERVICES	FIXED VOICE	NBN	DATA	MOBILE	HOSTED VOICE	CLOUD	ENERGY
	c e	c	c e	c e	c e	c e	c

c = Commander e = Engin

Our priorities within the Business segment are to:

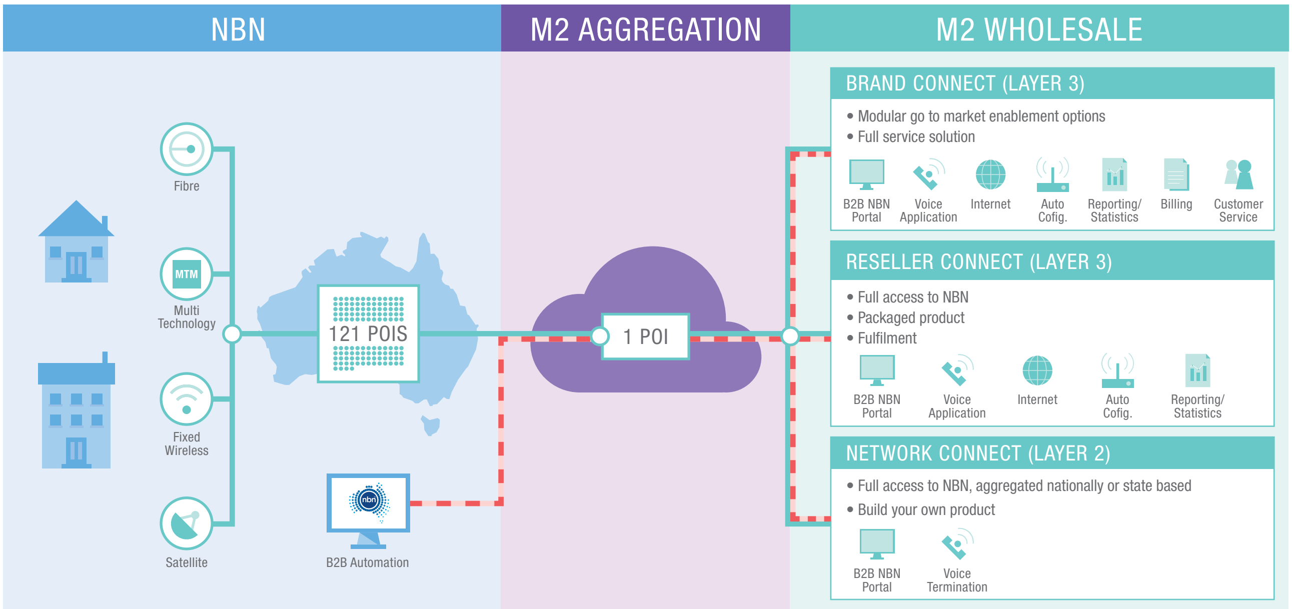
- Continue to expand our Commander channel program and position the brand as the Small Business NBN Experts
- Promote our simple communication and energy solutions to save businesses time and money:
  - The unique Commander Telco + Energy bundle, through which business customers save 20% on their monthly telco spend and 20% off their electricity usage rates when they have both products with Commander
  - The NBN-Ready Commander Phone, providing small businesses with a fully featured enterprise grade communication solution without the significant upfront capital investment
- Activate the next phase of our NBN 'take share' plan
- Simplify our products, systems and processes and invest in our digital engagement strategy - reducing costs and improving customer experience.

3. WHOLESALE

Our wholesale business is going through a significant period of change, moving from a reseller of legacy voice and broadband services into a next generation IP carrier. This change opens up significant new growth opportunities, allowing us to:

- Target a broader range of Telco Service providers
- Extend the reach of our offers to partner with IT System integrators and
- Provide turn key solutions enabling new market entrants:

We have the capability and aspiration to become the NBN Wholesale supplier of choice.



NEW ZEALAND

We have recently significantly expanded our business in New Zealand through the acquisition of the CallPlus Group. Our New Zealand business operates in the same segments, with similar brand strategies and a strong cultural alignment to our business in Australia.

As in Australia, the New Zealand business operates in three key segments

1. CONSUMER

BRANDS	slingshot	orcon	flip
PROPOSITION	Slingshot is our mainstream challenger brand for consumers in New Zealand, with its highly recognised brand that is the country's 'consumer champion'. Slingshot was awarded winner of the Quality Service Award voted by Reader's Digest in 2015 and has twice been awarded 'Most Satisfied Customers' by Canstar Blue.	Orcon is our premium consumer brand, providing super-fast fibre services to high-demand, tech-savvy consumers. Orcon is dedicated to leading the market with new products such as fibre, home security and automation.	Flip is the online-only, contract free brand in New Zealand, with all support and sign-up conducted online, aimed at the cost-conscious and low-maintenance end of the consumer market.
MARKET	Individuals and Families	Individuals and Families	Individuals and Families

SERVICES			
FIXED VOICE	UFB	DATA	MOBILE

Our immediate priorities for this segment are:

- Positioning all brands for growth, the challenger way
- Disrupting the market through innovative services and pricing
- Expanding the brands into new market segments and channels
- Ongoing investment in digital engagement to deliver the best service

2. BUSINESS

	CallPlus GET CLEVER	2talk
BRANDS	CallPlus GET CLEVER	2talk
PROPOSITION	CallPlus is New Zealand's leading challenger in the SMB market and has been the pioneer of VoIP and IP solutions in the market. The CallPlus business is focused on using smart technology to reduce costs for small and medium sized businesses around New Zealand.	2Talk provides SOHO and small business with innovative VoIP, Cloud, Cloud PBX and SIP trunking services, offering a prepaid and no-contract model.
MARKET	Small to Medium Business	Small Business

SERVICES: FIXED VOICE | UFB | DATA | MOBILE | HOSTED VOICE | CLOUD

Our immediate priorities for this segment are:

- Leverage our network investment and nationwide scale to meet all expectations of the New Zealand business market
- Develop IP data and voice solutions to be the leading challenger business brand in the New Zealand market.
- Leverage the investment in UFB to deliver world class services to businesses regardless of size
- Build new channels to market and develop a strong digital presence to build awareness

3. WHOLESALE

Our wholesale business in New Zealand leverages the same network investment and technologies that our business segment takes to market. Primarily targeting retail service providers and IT system integrators, CallPlus Wholesale offers a full suite of traditional and next generation communication solutions.

FY15 OPERATIONAL HIGHLIGHTS

The many of operational achievements in FY15 include:

- 6% net growth in services in operation with 98,000 post paid services added in the period across fixed voice, broadband and energy
- The acquisition of New Zealand's third largest ISP and leading challenger, CallPlus Group, delivering:
  - a large, profitable and organically growing business that serves the same markets in NZ that M2 currently targets in Australia
  - a portfolio of more than 430,000 post-paid fixed voice, broadband and mobile services
  - a proven and like-minded management team that is experienced in operating the leading challenger business in the NZ telecom market
  - a nationally recognised portfolio of consumer and business brands which are well positioned to grow share in the transition to Ultra-Fast Broadband
  - Estimated NZ$45 million in EBITDA in FY16
- Expansion of our Dodo Connect Kiosks into NSW, QLD and SA with the accelerated rollout to 48 new locations to build upon the tested and proven retail model
- Launch of the Dodo Connect Kiosk franchise model:
  - 11 locations franchised at the date of this report
  - Providing an opportunity for entrepreneurial and skilled sales people to become owner-operators backed by the strength of the Dodo brand and diversity of our product suite
- Entered the NSW Gas market, taking the Dodo Electricity and Gas bundle to that state for the first time
- Launched Dodo TV with Fetch with a $0 per month 'Fetch Lite' plan as well as an Entertainment Plus package with more than 35 premium channels and a set-top box that enables recording and playback of free-to-air TV
- Launched the Dodo Phone Anywhere App, enabling Dodo customers of any product to make low-cost, IP voice calls from anywhere around the world, billable to their Dodo account
- Launched Commander Electricity to all sales channels in February 2015 following its soft launch in March 2014, surpassing 3,000 services in operation by 30 June 2015

- Launched Phase 2 of the Commander Phone product, Commander Key, a hosted phone product for businesses with 4-10 employees, an Australian first
- Launched the M2 Wholesale Cloud Communications Platform, encompassing NBN plus IP and hosted voice, transforming M2 Wholesale from a Value Added Reseller to a Next Generation IP Carrier
- Connected to 21 new NBN Points of Interconnect, now connected to 52 POI's with the potential to target more than 1 million premises

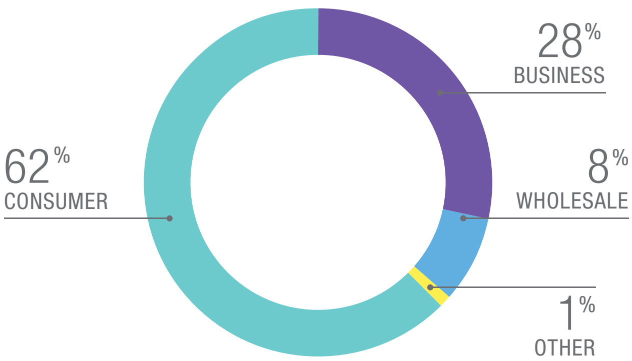
FY16 GROWTH

We enter FY16 in a strong position for growth with diversified sales channels including our expanded retail Kiosk footprint, strong brands and our continued investments in our marketing programs. Guidance for FY16 is as follows:

REVENUE	NPAT	CAPEX
24-26% GROWTH	30-35% GROWTH	~2.5% OF REVENUE

REVENUE AND PRODUCTS (AUS)

At 30 June 2015, the pro-forma company revenues by segment were as follows:



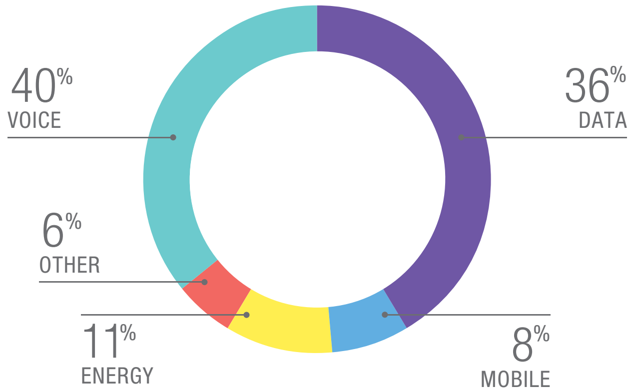
Our Consumer segment is the largest and fastest-growing portion of the M2 business again in FY15. Our Consumer segment growth in Australia comprised 32,000 fixed voice services, 48,000 broadband services and 23,000 energy services. This took our total segment services to more than 1.14 million services and increased segment revenue by 16% to $672 million.

Our Business segment in Australia, through a combination of the efforts detailed above, grew by 6,000 fixed voice services, 4,000 broadband services and 2,000 energy services, bringing total business segment services in operation to 363,000 and segment revenue to $346 million.

The Wholesale segment experienced a decline of 9,000 services in FY15, giving a full year result of $98 million. This segment is forecast to return to growth in FY16, following the implementation of a next-generation wholesale strategy including NBN.

The 'Other' revenue category is included for the purpose of clarity. This category includes equipment sales, commission revenues and interest.

FY15 revenues by product are as follows:



Bundling rates remained strong in both consumer and business segments, with 93% of new broadband sales bundled with voice.

Broadband and Energy were the strongest growth products throughout the year, growing 17% and 66% respectively. Broadband is an important product and a point of focus for targeted growth for M2 as roll out of the NBN progresses around Australia.

Energy is a fast-growing, profitable and strategically important product for M2, underpinning the Dodo Connect Kiosk expansion and enabling the Commander Telco + Energy discount bundle, an offer which is unique in Australia.

The CallPlus acquisition was completed on 30 June 2015, therefore is not analysed for the purposes of this review.

NBN

M2 is an active NBN participant having now connected our network into 52 NBN Points of Interconnect (POIs).

We are selling NBN products under our iPrimus, Dodo and Commander brands. FY16 will see us move into the next phase of our NBN 'take share' strategy. To date, we have been active in NBN but have not commenced mainstream marketing to accelerate our share of this market due to:

- A need to secure long term backhaul arrangements to allow us to connect reliably and on appropriate terms to all 121 NBN POI's
- The issues associated with customer experience in provisioning of new services in the early stages of the NBN rollout, and
- The limited penetration of NBN relative to the size of the traditional DSL market.

Having secured long term backhaul arrangements, experiencing improvements in delivery of NBN services and as NBN now passes more than one million dwellings we are set to commence mainstream marketing activities to grow our share of this market.

OUR TEAM

M2 is proud to have an experienced and talented team. More than 3,300 M2 team members are located across Australia, New Zealand and the Philippines.

In Australia and New Zealand:

- The average age of team members is 36 years
- The average length of service (tenure) of our current team is 6.4 years

LEADERSHIP

Detailed profiles on our Executive Team members can be found on our website at www.m2.com.au/investor-centre/board-of-directors-executive-team/.

On 1 July 2015 Scott Carter was appointed to the newly created role of Chief Operating Officer. Formerly the Business Director, the new role harnesses Scott's experience and expertise to continue to grow the Consumer and Business segments and return Wholesale to growth. Scott now has responsibility for driving our go-to-market activities across all of our Australian brands.

In 2014, a formal Leadership Development Program was launched for all leaders in the company. M2 is committed to investing in and further developing a strategic leadership culture, in which our team's skills are fostered and developed, and in which highly capable and empowered leaders act like owners and make a difference.

HEALTH AND SAFETY

Ensuring the safety and wellbeing of our team is paramount. Whether working in our retail kiosks, our corporate offices, our warehouses, or in transit in cars and planes, our focus is on keeping our team out of harms way. Our Health and Safety Committees have implemented numerous measures to continually improve our safety focus, and M2's policies assist in ensuring the right structures are in place to guide and advise our teams.

BEING A TEAM MEMBER

M2's culture starts with the foundation that there are no employees: everyone is a 'team member'. It is a language that is used consistently throughout the company, reflecting our team spirit, as well as the importance we place on showing respect for each other.

Being a part of the M2 team brings both challenge and reward. Team members are recognised and rewarded in many ways including receiving length of service and achievement awards. The M2's Benefits Program is highly valued by our team and focuses on healthy living and balance. Benefits include breakfast every day, fully paid gym memberships, fresh fruit, discounts on products and services, Purchased Leave, an Employee Share Plan, and a wide range of discounts on everything from cars, to holidays.

With an average length of service of 6.4 years, our teams are highly skilled and committed to the M2 journey. Our team members tell us that it's a fun and rewarding culture, that they love what they do, and that they're here to make a difference.

RISKS

Our ongoing management of risk includes regular assessment, reporting and internal audit. In FY15 a dedicated Group Risk Manager was appointed to oversee this. Following is a summary of the key strategic and operational risks faced by the business in the short to medium term.

SECURITY

Security of customer data is of increasing relevance as a number of companies experience system and network breaches from external parties or internal human error. In FY15 we appointed a Security Manager dedicated to overseeing and improving the programs we have in place for security management and business readiness, including the protection and management of confidential information and appropriate business contingency plans.

ENERGY

As a retailer of electricity, M2 purchases electricity via the Australian Energy Market Operator (AEMO) at the prevailing price. This is a competitive market and prices fluctuate with demand. M2 mitigates price volatility through the purchase of Over The Counter derivatives and Futures. The Company's hedging strategy is set by the Board of Directors with a 12 month horizon, it is reviewed regularly and monitored by a dedicated sub-committee of the Audit & Risk Committee.

FOREIGN EXCHANGE

Our main areas of foreign exchange risk include the purchase of contact centre services from the Philippines in Philippine Peso, equipment supplied in US dollars and New Zealand business, acquired on 30 June 2015. We have hedging in place to manage risk of foreign exchange rates for our New Zealand business. As with energy, the Company's hedging strategy is set by the Board of Directors with a 12 month horizon and is reviewed regularly and monitored by the Audit & Risk Committee.

SUPPLY

While we do own and operate a traditional voice network and fibre rings in five capital cities, we recognise that a significant portion of our services are on the networks of our suppliers. In every circumstance, we use the fastest and most reliable networks available to deliver services to our customers and maintain good relationships with our suppliers.

REGULATION

Regulation is another area of risk for the M2 business and the industry as a whole and has the potential to influence supplier pricing as well as the way in which sales are conducted. We remain committed to regulatory compliance and to engaging with the regulators and other industry bodies.

DIRECTORS' REPORT

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

DIRECTORS

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

CRAIG FARROW

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

APPOINTED DIRECTOR 18 FEBRUARY 2000
APPOINTED CHAIRMAN 28 APRIL 2006

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

In 2013, Mr Farrow was Executive Chair of the CAANZ amalgamation project for ICAA and NZICA. In addition, he is a director and Board adviser to several private consulting and trading enterprises across the agribusiness, software and manufacturing sectors. Formerly Chairman of the Institute of Chartered Accountant's Public Practice Advisory Committee, Mr Farrow is also highly awarded, including being a Fellow of the Governor's Leadership Foundation and receiving the Institute of Chartered Accountants 1999 National President's Award for services to the Institute and the profession. Within the last 3 years, Mr Farrow served as a director of Eftel Ltd (from 16 April 2013 until 14 June 2013), but held no other listed company directorships.

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

VAUGHAN BOWEN

EXECUTIVE DIRECTOR
BCOM, MAICD

APPOINTED MANAGING DIRECTOR / CEO 14 FEBRUARY 2000
APPOINTED EXECUTIVE DIRECTOR 28 OCTOBER 2011

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

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

JOHN HYND

NON EXECUTIVE DIRECTOR
LLB, MAICD

APPOINTED 18 FEBRUARY 2000

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

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

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

MICHAEL SIMMONS

NON EXECUTIVE DIRECTOR
BCOM, FCPA, ACIS

APPOINTED 26 NOVEMBER 2009

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

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

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

DAVID RAMPA

NON EXECUTIVE DIRECTOR
B BUS, FAICD

APPOINTED 20 DECEMBER 2012

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

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

Mr Rampa is Chair of the Nomination and Remuneration Committee.

RHODA PHILLIPPO

NON EXECUTIVE DIRECTOR
MSC, MINSTD

APPOINTED 2 MARCH 2015

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

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

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

COMPANY SECRETARY

ASHE-LEE JEGATHESAN

GENERAL COUNSEL & COMPANY SECRETARY
LLB (HONS), MAICD

APPOINTED 30 MAY 2014

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

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

FORMER AUDIT PARTNERS

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

DIRECTORS' SHAREHOLDINGS

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

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

PRINCIPAL ACTIVITY

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

REVIEW OF OPERATIONS AND RESULTS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

LIKELY FUTURE DEVELOPMENTS AND RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

DIVIDENDS

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

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

(1) Represents the gross dividend entitlement of all shareholders

SHARE OPTIONS

OPTIONS GRANTED

No options were granted during FY15.

UNISSUED SHARES UNDER OPTION

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

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

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

RIGHTS TO PARTICIPATE IN SHARE ISSUES

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

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

SHARES ISSUED FOLLOWING EXERCISE OF OPTIONS

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

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

INDEMNITIES AND INSURANCE

M2's Constitution provides that to the extent permitted by law and except as may be prohibited by the Corporations Act, each director and secretary of M2 (and its subsidiaries) is indemnified against any liability (other than for legal costs where the indemnity is limited to reasonable legal costs) incurred by that person in the performance of their role.

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

During FY15, M2 paid a premium in respect of a contract insuring the directors and officers of the Company and any related body corporate against any liability that may arise from the carrying out of their duties and responsibilities to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

AUDITOR INDEMNITY

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

DIRECTORS' MEETINGS

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

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

*Rhoda Phillippo was appointed 2 March 2015

REMUNERATION REPORT

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

CORPORATE GOVERNANCE STATEMENT

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

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

- the provision of non-audit services by EY was considered by the directors prior to the commencement of the engagement, and it was determined that it would not impact the independence or integrity of the external auditor; and

- the nature of the services provided do not undermine the general principles relating to external auditor independence, including reviewing and auditing the auditor's own work, acting in a management or decision making capacity for M2 or as an advocate, or jointly sharing in economic risk and rewards.

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING OFF OF AMOUNTS

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

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

On behalf of the directors

CRAIG FARROW
CHAIRMAN
Melbourne, 21 August 2015

REMUNERATION REPORT

Dear Shareholder,

I am pleased to present M2's remuneration report for 2015 for which we seek your support.

The Nomination and Remuneration Committee ("Committee") is responsible for ensuring that appropriate remuneration principles and structures are established to underpin the company's performance-driven culture. Key principles are to ensure that the remuneration framework is transparent, competitive, and reasonable, with the understanding that it must successfully attract and retain high calibre executives.

The Committee has designed M2's remuneration structure to include a key focus on "at risk" compensation ensuring that there is a direct link between remuneration and performance (Company and individual), and that remuneration is properly aligned with shareholder interests. We regularly review our policies with the aim of ensuring alignment between Executive remuneration and company performance.

Significant progress was made in FY15 to further improve M2's KPI setting, Performance Review, and Salary Review processes, to ensure a high standard of consistency, and a continual focus on meritocracy and performance overall. Through continuous improvement efforts M2's culture has continued to strengthen, with notable improvements in team member satisfaction during the year.

Creating and maintaining an appropriate remuneration structure will assist M2 in creating sustainable shareholder value. I trust that the company's remuneration strategy will receive your support.

We welcome your feedback.

Yours sincerely,

DAVID RAMPA
CHAIR - NOMINATION & REMUNERATION COMMITTEE

INTRODUCTION

This remuneration report for FY15, 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:

1. REMUNERATION SNAPSHOT

M2 performed strongly in FY15, with a 6% increase in EBITDA and a 10% increase in NPAT, delivering a 9% increase in EPS, and 23% increase in full year dividends. Remuneration outcomes were reflective of M2's performance.

Significant remuneration outcomes explained further in this report include:

- Total fixed remuneration for Executive KMP increased by 5.8% from FY14 to FY15 whilst total remuneration packages overall increased by 4.9%
- Executive KMP achieved an average of 85.7% of STI awards for FY14 performance, paid in FY15, and 88.2% for FY15 (to be paid in FY16)
- 383,334 options from our legacy option plan and held by Executive KMP vested in FY15
- The Company granted 121,417 performance rights to Executive KMP under the new Long Term Incentive Plan (LTI)
- Non-executive director remuneration increased by 3.1%

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 '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 KMP').

The KMP for M2 during and since the end of FY15 include:

DIRECTORS:

Craig Farrow	Chairman
Vaughan Bowen	Executive Director
John Hynd	Non-executive Director
Michael Simmons	Non-executive Director
David Rampa	Non-executive Director
Rhoda Phillippo	Non-executive Director

EXECUTIVES:

Geoff Horth	Chief Executive Officer
Darryl Inns	Chief Financial Officer
Scott Carter	Chief Operating Officer
Boris Rozenvasser	Consumer Director

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 Committee consists of three independent non-executive directors; David Rampa (Chair since January 2013), Craig Farrow and John Hynd.

3.2 REMUNERATION CONSULTANTS

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

During FY15, the Committee engaged the services of Aon Hewitt to benchmark executive and board remuneration, and sought the advice of Guerdon Associates in respect of general trends in remuneration and reward models in so far as mix of pay, forms of incentive, and reporting. Aon Hewitt and Guerdon Associates did not make 'remuneration recommendations' in relation to executive remuneration as defined in the Corporations Act. Neither Aon Hewitt nor Guerdon Associates provided any services to Executives or other M2 management.

3.3 2014 ANNUAL GENERAL MEETING ('AGM')

At the Company's AGM in October 2014, 98.74% of votes received were in favour of adopting the 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. Non-executive director fees consist of base fees and fees for membership on Board Committees, all of which are inclusive of superannuation contributions. The Chairman of M2 receives an overall fee that is inclusive of Board Committee fees and superannuation contributions.

Actual fees paid to non-executive directors in FY15 totalled $582,500. The total fees paid are 7.87% more than the prior year, due to an additional non-executive director who joined the Board part way through the year, and increases to Chairman and Non-executive director 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, and in late FY15 was the subject of a specific external benchmarking exercise conducted by Aon Hewitt.

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 included in the aggregate fee pool.

4.2 NON-EXECUTIVE DIRECTOR FEES

The fees for FY15, as compared with FY14, are outlined below. Actual amounts received by non-executive directors are provided in section 6.2.

	FY15	FY14	% Increase
Chairman	$247,500	$240,000	3.1%
Non-executive Director	$82,500	$80,000	3.1%
Committee Chair	$20,000	$20,000	0%
Committee member	$10,000	$10,000	0%

4.3 EXECUTIVE DIRECTOR REMUNERATION

The Executive Director receives a mix of fixed a nd v ariable remuneration.

The fixed component consists of a cash salary, superannuation and a non-monetary benefit (car parking). Given that it was considered that the Executive Director's shareholdings in the company ensures alignment with shareholder interests, variable remuneration payments are made in cash.

Identifying and managing mergers and acquisitions is a key mandate for the Executive Director's role, with the structure of his remuneration reflective of this.

The variable component consists of an incentive plan that was put in place in FY13 to reward the Executive Director for M&A transaction outcomes. The incentive plan reflects the results the acquisition delivers over a three year period, and is payable in installments, dependent upon hurdles and performance criteria that are determined by the Board. The maximum amount is determined on a deal by deal basis dependent upon the following criteria:

- The size of the acquisition
- Cost savings associated with acquisition funding and transaction costs
- Potential cost savings achieved post acquisition
- Potential improvement in shareholder earnings
- Potential shareholder value accretion

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

Form of grant	Cash
Performance period	3 year period from 1 July in the year of the grant to 30 June at the end of the period
Maximum grant value over performance period (3 years)	$2 million
Frequency of grant	The total amount determined in July 2012, which is payable in instalments over the performance period.
Performance measures/ conditions	Payment of the incentive is only made if earnings improvement objectives (in respect of the acquired Primus and Dodo/ Eftel businesses) are achieved. FY 2015 hurdles were the achievement of targeted profit from the acquisitions. 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, subject to satisfying the performance condition.
Change of Control	Upon a change of control, the Executive Director shall be entitled to a pro-rata amount, subject to satisfying the performance condition.
Discretion	The board (excluding the executive director) retains discretion to vary incentive payments from this policy. However, full disclosure will be made in the event that discretion has been applied.

For FY15, the Executive Director is entitled to receive an incentive payment of $700,000 if 100% of the earnings objectives for the Primus and Dodo/Eftel transactions were achieved. This is to be paid in two instalments.

In FY15, the Executive Director received the following payments:

- $150,000 in October, 2014 (this amounts reflects the final instalment for the FY14 targets)
- $350,000 in March, 2015 (this amount reflects the first instalment for the FY15 targets)

The Executive Director will be entitled to receive a second installment for the FY15 incentive, which will be an amount of up to $350,000 for the FY15 targets, depending on the Board's consideration of performance against the pre-determined goals for the Primus, Dodo and Eftel transactions, as recommended by the Nomination and Remuneration Committee, and approved by the full Board. This second installment will be paid in October 2015 (and reflected in the FY16 remuneration report).

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 and car parking). 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 a long term incentive (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. Furthermore, LTI incentives are set over three years to align with M2's business planning horizon.

From time to time, the Company may also agree to offer other forms of incentive remuneration where the circumstances require this.

The Nomination & Remuneration Committee continuously monitors the remuneration structure to ensure it remains effective in retaining and focussing the team that has to date been very successful in building shareholder value.

During the year the Committee engaged Aon Hewitt to conduct a benchmarking exercise across the Executive team. This exercise focused on role, and M2 business comparators. This provided insight to, and tangible data on relevant remuneration levels and mixes of total remuneration across fixed, STI and LTI. This is the second such formal exercise the Committee has undertaken and will be repeated every two years.

5.2 REMUNERATION MIX

The CEO's variable remuneration is structured broadly on the principle of 45% maximum STI and 45% maximum LTI calculated on fixed remuneration. Variable remuneration for Executive KMP (other than the CEO) is broadly structured on the principle of 30% maximum STI and 30% maximum LTI calculated on fixed remuneration. The mix of fixed and variable remuneration varies between Executive KMP, and is determined based on the extent to which they are in a position to directly influence Company performance.

M2 remuneration philosophy is to allocate a material part of executive remuneration to be derived from an "at risk" element in the form of STI and LTI. Given that M2 executive fixed remuneration is below the median in most instances, when compared to ASX peers, M2 seeks to pay STI in cash to better approximate market levels of cash payment in the remuneration mix.

5.3 FIXED REMUNERATION

The review by the Nomination & Remuneration Committee resulted in the FY15 fixed remuneration for the CEO being increased by 3.7%, for the CFO by 1.3%, for the Business Director by 9.0%, and for the Consumer Director by 15.7%. These adjustments were necessary to improve fixed remuneration relativity to the market median, and reduce the risk of voluntary executive turnover due to pay considerations.

MELISSA FITZPATRICK
HR DIRECTOR

5.4 SHORT TERM INCENTIVE PLAN ('STI PLAN')

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

Form of grant	Cash payment
Grant timing	Following a determination of the Company and Executive performance after audited results for the relevant financial year
Frequency of grant	Annual
Vesting and performance period	12 months
Maximum award	• Each Executive may earn up to a pre-determined maximum amount. The Board may choose to pay more than the maximum, depending upon the circumstances. • The maximum award varies between Executives and is dependent upon role and responsibilities
Profit gateway for maximum STI	• A pre-determined NPAT objective must be achieved before the full STI awards are paid to Executives. • If the NPAT objective is not achieved, Executives are only entitled to a maximum of 50% of their STI award. • M2 must meet market guidance for the STI plan payment to be considered
Performance condition and measures	• The STI award paid depends on the extent to which Executives 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 are set within four key areas being: • Financial Performance • Customer Satisfaction • Business Improvement • Leadership, Values & Behaviours • Each KPI operates independently and is expressed as a percentage of the total available maximum STI • The CEO's STI award is in part determined according to the overall KPI achievement of the Executives, recognising that the CEO's primary task is to provide leadership and direction to the Executives to maximise their performance. KPIs have been chosen by the Board as they are representative of the Company's strategy elements that drive shareholder value.
Performance Assessment	• Executive performance is assessed following the determination of Company annual results for the preceding financial year • Performance assessment takes the form of a traditional performance review, whereby the Executive is provided with a 'rating' based on the achievement of their objectives. This rating is determined by the CEO and Chairman, considered by the Nomination & Remuneration Committee and approved by the Board. • This traditional method of assessing Executive performance ensures that an 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 award, however payment may be made at the discretion of the CEO and Board.

The STI outcomes for FY15 are detailed in section 6.3 of this report.

Overall, executives achieved an average of 88.6% for performance during FY15 based on performance against KPIs. This was a strong performance and in line with M2's business results and success over that period.

The STI plan as outlined above will apply in FY16.

5.5 LONG TERM INCENTIVE PLANS ('LTI PLAN')

The Board introduced the LTI Plan from 1 July 2013, as outlined in our 2013 Annual Report. The first grant of performance rights under the LTI Plan was made in September 2013. The LTI plan continues to operate, with a second grant of performance rights made to executives in 2014, and a third to be made in 2015.

The key driver for the LTI Plan was to provide a variable remuneration component that was 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. As stated previously, three years was selected as the LTI performance period to align with M2 Group's business planning cycle.

The key features of the LTI Plan are outlined below:

Form of grant	• Performance rights that can be settled in M2 shares or cash at the Board's discretion • Executives are not required to pay for the performance rights
Grant timing	September
Frequency of grant	Annual
Vesting date	Upon expiry of the Performance Period
Performance period	3 year period from 1 July in the year of grant to 30 June at the end of the period
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 with a defined threshold and maximum performance requirement (full disclosure in the year of vesting in accordance with the company's policy not to provide EPS guidance)
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	Vesting on 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 Telecommunications 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. We adopt these benchmarks, as we believe it appropriate that Executive reward is aligned to shareholder outcomes relative to sector peers and the ASX200 overall performance.

The Board believes this RTSR test is an appropriate performance measure because it provides a reward when the Company's shareholder 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. Full disclosure of the performance requirements will be provided in the year of vesting in accordance with company policy not to provide EPS guidance.

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 FY14

This section provides a summary of the key financial results for M2 over the last five financial years, and also how those results have been reflected in KMP remuneration for FY15.

6.1 M2 FINANCIAL PERFORMANCE

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

	FY15	FY14	FY13	FY12	FY11
Revenue	$1,115.7 million	$1024.4 million	$681.0 million	$393.5 million	$426.8 million
EBITDA	$170.5	$160.1 million	$108.1 million	$60.1 million	$48.3 million
NPAT	$73.7 million	$67.1 million	$43.8 million	$33.0 million	$27.6 million
NPAT Growth	10%	53%	33%	20%	72%
Share price	$10.70	$5.78	$6.02	$3.36	$3.28
EPS	40.5 cents	37.4 cents	27.4 cents	25.9 cents	22.6 cents
EPS Growth	9%	36%	6%	15%	56%
Interim dividend	15.0 cents	11.5 cents	10 cents	9 cents	7 cents
Final dividend	17.0 cents	14.5 cents	10 cents	9 cents	9 cents

6.2 FY15 REMUNERATION DETAILS

The tables in this section detail the remuneration received by KMP during FY15. This information is disclosed in accordance with the Corporations Act and the Australian Accounting Standards.

DIRECTORS

The fees and remuneration received by non-executive directors in FY15 are set out below, including a comparison with FY14. This table also includes the amounts received by the Executive Director.

	Year	Salary & Fees $	Cash STI[(1), (2)] $	Performance related[(3)] %	Non-monetary benefits $	Post Employment Benefit [(2)] Superannuation $	Other long term benefits Accrued Long Service Leave[(2)] $	Total Remuneration $
Craig Farrow	2015	247,500	-	-	-	-	-	247,500
Chairman	2014	240,000	-	-	-	-	-	240,000
Vaughan Bowen	2015	250,000	500,000	59.9	8,820	30,000	45,304	834,124
Executive Director	2014	250,000	800,000	71.3	8,165	25,000	39,054	1,122,219
John Hynd	2015	102,500	-	-	-	-	-	102,500
Non-executive Director	2014	100,000	-	-	-	-	-	100,000
Michael Simmons	2015	102,500	-	-	-	-	-	102,500
Non-executive Director	2014	100,000	-	-	-	-	-	100,000
David Rampa	2015	102,500	-	-	-	-	-	102,500
Non-executive Director	2014	100,000	-	-	-	-	-	100,000
Rhoda Phillippo[(4)]	2015	27,500	-	-	-	-	-	27,500
Non-executive Director	2014	0	-	-	-	-	-	0
Total	2015	832,500	500,000	-	8,820	30,000	45,304	1,416,624
	2014	790,000	800,000	-	8,165	25,000	39,054	1,662,219

(1) Calculated based upon the value of the cash STI against total remuneration received
(2) No additional short term, long term or post-employment benefits were provided other than those set out above
(3) From 1 July 2014, no share or performance based remuneration is payable to any non-executive director
(4) Rhoda Phillippo was appointed in March 2015

The remuneration received by Executives in FY15 is set out below, including a comparison with FY14.

EXECUTIVES

	Year		Short-Term		Post Employment Benefit	Other long term benefits	Share based payment	Total Remuneration
		Base Salary	STI[(1), (2)]	Non-monetary benefits	Super-annuation	Accrued Long Service Leave	Value ascribed to options & performace rights[(3)]	
		$	$	$	$	$	$	$
Geoff Horth	2015	800,000	198,000	33,116	30,000	82,554	175,724	1,319,394
CEO	2014	775,000	175,000	32,461	25,000	67,345	171,659	1,246,465
Darryl Inns	2015	400,000	80,000	17,820	30,000	16,964	48,678	593,462
CFO	2014	400,000	90,000	17,165	25,000	6,964	33,863	572,992
Scott Carter	2015	435,000	165,500	28,820	30,000	29,196	53,489	742,005
Chief Operating Officer	2014	400,000	117,000	28,165	25,000	21,499	51,996	643,660
Boris Rozenvasser	2015	370,000	105,600	8,820	30,000	67,870	110,889	693,179
Consumer Director	2014	320,000	100,000	8,165	25,000	53,354	107,269	548,294
Totals	2015	2,005,000	549,100	88,576	120,000	196,584	388,780	3,348,040
	2014	1,895,000	482,000	85,956	100,000	149,162	364,787	3,076,904

(1) STI paid during FY15 for FY14 performance
(2) STI paid for Mr Rozenvasser in 2014 was a retention bonus agreed on the acquisition of Dodo.
(3) Calculation is the amortisation expense for options and performance rights

PERFORMANCE RIGHTS HOLDINGS OF KEY MANAGEMENT PERSONNEL

30 June 2015	Balance at 1 July 2014	Granted as remuneration	Rights exercised	Rights Forfeited / Expired	Balance at 30 June 2015
Directors					
Craig Farrow	-	-	-	-	-
Vaughan Bowen	-	-	-	-	-
John Hynd	-	-	-	-	-
Michael Simmons	-	-	-	-	-
David Rampa	-	-	-	-	-
Rhoda Phillippo	-	-	-	-	-
Executives					
Geoff Horth	50,645	50,591	-	-	101,236
Darryl Inns	22,099	23,609	-	-	45,708
Scott Carter	22,099	23,609	-	-	45,708
Boris Rozenvasser	22,099	23,609	-	-	45,708
Total	**116,942**	**121,418**	**-**	**-**	**238,360**

OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

30 June 2015	Balance at 1 July 2014	Granted as remuneration	Options exercised	Options Forfeited / Expired	Balance at 30 June 2015
Directors					
Craig Farrow	-	-	-	-	-
Vaughan Bowen	-	-	-	-	-
John Hynd	-	-	-	-	-
Michael Simmons	-	-	-	-	-
David Rampa	-	-	-	-	-
Rhoda Phillippo	-	-	-	-	-
Executives					
Geoff Horth	550,000	-	(200,000)	-	350,000
Darryl Inns	33,334	-	(33,334)	-	-
Scott Carter	166,667	-	(166,667)	-	-
Boris Rozenvasser	250,000	-	(83,333)	-	166,667
Total	**1,000,001**	**-**	**(483,334)**	**-**	**516,667**

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

30 June 2015	Balance at 1 July 2014	Granted as remuneration	On exercise of options	Net change	Balance at 30 June 2015
Directors					
Craig Farrow	485,444	-	-	(80,444)	405,000
Vaughan Bowen	5,542,420	-	-	(500,000)	5,042,420
John Hynd	1,533,000	-	-	(100,000)	1,433,000
Michael Simmons	11,988	-	-	-	11,988
David Rampa	350,000	-	-	(346,500)	3,500
Rhoda Phillippo	-	-	-	-	-
Executives					
Geoff Horth	70,625	-	200,000	100,000	170,625
Darryl Inns	241,666	-	33,334	(13,332)	228,334
Scott Carter	83,333	-	166,667	96,667	180,000
Boris Rozenvasser	-	-	-	83,333	83,333
Total	**7,971,976**	**-**	**400,001**	**(760,276)**	**7,558,200**

6.3 STI OUTCOMES

Key Performance Indicators are set at the commencement of each Financial Year, and are objective and measurable. A robust KPI setting and review process is in place, which aligns team member's contribution to business plan objectives.

Following a review of performance for FY15, the below outcomes were achieved by the Company, and each Executive KMP:

ACHIEVEMENT OF KPIS

As stated in section 5.4, M2 must meet market guidance for the STI Plan payment to be considered. Once that is reached, M2 must achieve its NPAT objective in order for full STI awards to be available to be paid to executives. Otherwise executives will only be entitled to earn up to 50% of their individual STI award, depending upon achievement of their individual KPIs.

Guidance was set with regard to ongoing operations, and should not take into account any transaction costs related to any M&A opportunities that arise. This is considered appropriate also for STI payments, as M&A transactions are assessed and undertaken on the basis of their medium and longer-term impacts, rather than short-term considerations.

In FY15, M2 performance met both market guidance and its NPAT objective. As such, the maximum STI was available to Executives.

The table below illustrates the growth in NPAT in FY15, adjusted by costs associated with acquiring the CallPlus group of companies.

Measure	NPAT [8] ($M)	% growth on pcp
Guidance	$77.2M to $80.5M	15-20%
Reported	73.7	10%
Add back-one off transaction costs	8.8	
Reported, ex transaction costs	82.5	23%

The performance of Executives against Key Performance Indicators is set out below:

Executive	KPI	% of STI	% Achieved
Darryl Inns	Financial Results	40	35
	Customer Satisfaction	10	7
	Business Improvement	30	28
	Leadership, Values & Behaviours	20	17
	Total	**100**	**87**
Scott Carter	Financial Results	45	40
	Customer Satisfaction	10	8
	Business Improvement	25	25
	Leadership, Values & Behaviours	20	19
	Total	**100**	**92**
Boris Rozenvasser	Financial Results	45	35
	Customer Satisfaction	10	10
	Business Improvement	25	23
	Leadership, Values & Behaviours	20	17
	Total	**100**	**85**

CEO KPIS
GEOFF HORTH

KPI	% of KPI	KPI Achieved
Financial Results Inclusive of development of the Annual Operating Plan, the 5 year strategy, and achievement of Executive team KPI's (paid on the basis of average achievement across the executive team)	50	47
Customer Satisfaction	10	6
Business Improvement	20	17
Leadership, Values & Behaviours	20	19
Total	**100%**	**89%**

The above measures were chosen for the CEO's KPIs as they represent goals across the four key areas of performance focussed on by M2. Significant importance is placed on the delivery of financial results and therefore weighted at 50% of overall performance to ensure shareholder return. The remaining 50% is split across three areas of competencies that underpin the achievement of financial results, these being Customer Satisfaction, Business Improvement, and Leadership, Values and Behaviours.

KPIs are based on the aggressive Business Plan that is developed by the CEO and Executive team, and signed off by the Board, and the subsequent achievement of these hurdles. The CEO is awarded a part of his STI at the average Executive Team KPI achievement.

The CEO's KPIs are cascaded throughout the company, and captured within an online goal setting and performance management system. M2's KPIs are aligned across the four core focus areas of Financial Results, Customer Satisfaction, Business Improvement, and Leadership, Values and Behaviours. Risk identification and management is a subset of Business Improvement, and is a measure included in the CEO's and all Executive KMP's KPIs.

STI AWARDS

The table below summarises the percentage that was earned by Executives for FY15 performance and the percentage that was forfeited, in addition to the actual STI which will be paid:

Executive	STI FY15 Award %	STI FY15 Forfeited %	Actual STI to be paid $
Geoff Horth	89	11	267,000
Darryl Inns	87	13	104,400
Scott Carter	92	8	138,000
Boris Rozenvasser	85	15	110,500
Average	**88.25**	**11.75**	

LTI PLAN

The table below sets out a summary of the performance rights that were granted to Executives during FY15, including the vesting dates. Details of the performance hurdles for vesting are set out in item 5.5 above.

Executive	Number of Performance Rights granted FY 15	Performance Period	Vesting Date	Number of Performance Rights in total held as at 30 June 2015
Geoff Horth	50,590	1 July 2014 to 30 June 2017	1 July 2017	101,235
Darryl Inns	23,609	1 July 2014 to 30 June 2017	1 July 2017	45,708
Scott Carter	23,609	1 July 2014 to 30 June 2017	1 July 2017	45,708
Boris Rozenvasser	23,609	1 July 2014 to 30 June 2017	1 July 2017	45,708

No performance rights vested in FY15, and therefore no performance rights were either forfeited or exercised in FY15. No directors (executive or non-executives) hold any performance rights.

6.4 PRIOR YEAR LEGACY EXECUTIVE MANAGEMENT TEAM SHARE OPTION PLAN IN OPERATION

M2 operated an Executive Management Team Share Option Plan ('ESOP') between 2006 and 2012, whereby options for M2 shares were 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.

No options have been granted under this plan since May 2013.

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 periods	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

LEGACY SHARE OPTION PLAN OUTCOMES

The table below sets out a summary of the options that were held, vested and exercised by Executive KMP during FY15, including those which have not yet vested at the date of this report. No options were granted in FY15.

Executive	Total Options under ESOP held as at 30 June 2015	Exercise Price(s) range	Expiry Date range	Number of options vested FY15	Number of Options Exercised FY15	Amount Paid	Value of options exercised[1] $
Granted Dec 2011							
Geoff Horth	100,000	$3.29	01/01/2017	100,000	200,000	$613,000	$1,786,000
Darryl Inns	-	-	-	33,334	33,334	$109,669	$333,673
Scott Carter	-	-	-	83,334	166,667	$535,834	$1,760,837
Granted May 2013							
Geoff Horth	250,000	$6.19-$6.75	1/01/2017 to 1/01/2019	83,333	-	-	-
Boris Rozenvasser	166,667	$6.19-$6.75	1/01/2017 to 1/01/2019	83,333	83,333	$515,831	$829,997

(1) Calculated using the closing price at the date of exercise

No directors (executive or non-executive) hold any options in M2 shares.

6.5 EMPLOYMENT AGREEMENTS

In the first half of FY15, the Board oversaw the update of all employment agreements for its Executive Team, including for its Chief Executive Officer. Each such employment agreement deals with the term, remuneration, termination, confidentiality, non-compete and non-solicitation rights and obligations of each member of the Executive Team. The updated terms of employment for M2's Chief Executive Officer was disclosed to the ASX on 8 September 2014.

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

Duration of agreement:	All	No fixed term
Period of notice required to terminate agreement (by the relevant KMP):	All	Six months
Potential Termination benefits (as approved by the Shareholders at the 2014 AGM):	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 as per relevant legislation
	Chief Executive Officer	Upon termination by the Company for convenience, or by the CEO within 60 days of a fundamental change in the contract occurring, the CEO shall be entitled to 12 months fixed remuneration (inclusive of a notice period not exceeding 3 months)
	Other Executives	Upon termination for convenience by the Company, the Executive shall be entitled to six months base salary (inclusive of notice period)
	LTI and STI	Depending on the circumstances surrounding the termination of employment of the Executive, the Board may, at its discretion, determine that the Executive will be entitled to payment of an amount of his or her STI, or that the Executive is entitled to have a portion of his or her LTI not lapse or be vested, in accordance with the principles outlined in Explanatory Notes to the Notice of Meeting for the 2014 AGM

7. RELATED PARTY TRANSACTIONS

The following table summarises the total amount of transactions that were entered during 2015.

Directors	Related party transactions
Craig Farrow	Telecommunications services totalling $7,000 were provided to Brentnalls SA. Mr Farrow is a director of Brentnalls SA.
John Hynd	Telecommunications services totalling $1,000 were provided to Hynd & Co Pty Ltd. Mr Hynd is a director of the firm Hynd & Co Pty Ltd.
Michael Simmons	Telecommunications services totalling $2,000 were provided to Luab Pty Ltd. Mr Simmons is a director of Luab Pty Ltd. Telecommunications and Insurances services were also provided for Michael Simmons's personal use.

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Auditor's Independence Declaration to the Directors of M2 Group Ltd

In relation to our audit of the financial report of M2 Group Ltd for the financial year ended 30 June 2015, 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
21 August 2015

Paul Gower
Partner

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $000	2014 $000
Revenue	**6(a)**	**1,115,689**	**1,024,381**
Cost of sales		(717,954)	(651,904)
Gross profit		**397,735**	**372,477**
Other income	6(b)	(18)	(19)
Employee benefits expense	6(c)	(80,509)	(90,488)
Depreciation and amortisation	6(d)	(48,989)	(46,425)
Share based payments	26(a)	(396)	(631)
Other expenses	6(e)	(147,479)	(122,021)
Financing costs	6(f)	(14,095)	(19,034)
Share of profit of an associate	15(a)	1,132	782
Profit before income tax		**107,381**	**94,641**
Income tax expense	7(a)	(33,720)	(27,579)
Profit for the year		**73,661**	**67,062**
Profit for the year attributable to:			
• Non-controlling interests		(28)	99
• Owners of the Parent		73,689	66,963
		73,661	**67,062**
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
• Basic earnings per share (cents)	9	40.54	37.34
• Diluted earnings per share (cents)	9	40.39	37.00

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes set out on page 46 to 96

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $000	2014 $000
Profit for the year		**73,661**	**67,062**
Other comprehensive income items			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	23	(2,512)	4
Changes in fair value of cash flow hedges	23	2,314	(2,744)
Movement in investment revaluation reserve	23	317	(1,795)
Total other comprehensive income, net of tax		**119**	**(4,535)**
Total comprehensive income for the year, net of tax		**73,780**	**62,527**
Total comprehensive income attributable to:			
• Non-controlling interests		(28)	99
• Owners of the Parent		73,808	62,428
		73,780	**62,527**

The above consolidated statement of other comprehensive income should be read in conjunction with the accompanying notes set out on page 46 to 96.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note	2015 $000	2014 $000
ASSETS			
Current Assets			
Cash and cash equivalents	10	84,723	40,969
Trade receivables	11	123,585	97,652
Inventories	12	7,920	5,388
Other current assets	13	38,489	26,178
Financial assets	14	2,220	-
Total Current Assets		**256,937**	**170,187**
Non-Current Assets			
Plant and equipment	16	80,590	60,969
Intangible assets and goodwill	17	912,437	599,814
Deferred income tax asset	7(c)	17,673	16,032
Other non-current assets	13	6,564	4,155
Investment in associates	15	-	4,044
Financial assets	14	1,703	2,178
Total Non-Current Assets		**1,018,967**	**687,197**
TOTAL ASSETS		**1,275,904**	**857,379**
LIABILITIES			
Current Liabilities			
Trade and other payables	18	269,369	184,657
Interest-bearing loans and borrowings	20	16,494	30,848
Income tax payable	7(c)	19,988	3,726
Provisions	19	11,955	10,044
Financial liabilities	14	1,897	2,564
Total Current Liabilities		**319,703**	**231,839**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note	2015 $000	2014 $000
Non-Current Liabilities			
Interest-bearing loans and borrowings	20	555,163	264,638
Deferred tax liability	7(c)	34,284	22,912
Provisions	19	4,315	5,161
Other non-current liabilities	21	4,105	3,999
Financial liabilities	14	76	535
Total Non-Current Liabilities		**597,943**	**297,245**
TOTAL LIABILITIES		**917,646**	**529,084**
NET ASSETS		**358,258**	**328,295**
EQUITY			
Contributed equity	22	275,270	255,092
Reserves	23	(2,343)	(2,068)
Retained earnings		93,501	75,557
Parent interests		**366,428**	**328.581**
Non-controlling interests		**(8,170)**	**(286)**
TOTAL EQUITY		**358,258**	**328,295**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes set out on page 46 to 96.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Ordinary shares $000	Retained earnings $000	Reserves $000	Owners of the Parent $000	Non-controlling interest $000	Total $000
At 1 July 2014	255,092	79,948	(2,068)	332,972	(286)	332,686
Adjustment on correction of error		(4,391)		(4,391)		(4,391)
At 1 Jul 2014 (Restated)*	255,092	75,557	(2,068)	328,581	(286)	328,295
Profit for the period	-	73,689	-	73,689	(28)	73,661
Other comprehensive income	-	-	119	119	-	119
Total comprehensive income	**-**	**73,689**	**119**	**73,808**	**(28)**	**73,780**
Options exercised	4,203	-	(790)	3,413	-	3,413
Share option reserves	-	-	475	475	-	475
Shares issued	937	-	-	937	-	937
Share rights reserve	-	-	(79)	(79)	-	(79)
Transaction cost on shares	-	-	-	-	-	-
Dividends paid	-	(39,296)	-	(39,296)	-	(39,296)
Dividend reinvestment plan	14,298	(14,298)	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	(8,170)	(8,170)
Acquisition of non-controlling interests	740	(2,151)	-	(1,411)	314	(1,097)
At 30 June 2015	**275,270**	**93,501**	**(2,343)**	**366,428**	**(8,170)**	**358,258**
At 1 July 2013	244,194	51,477	1,903	297,574	(385)	297,189
Profit for the period	-	66,963	-	66,963	99	67,062
Other comprehensive income	-	-	(4,535)	(4,535)	-	(4,535)
Total comprehensive income	-	66,963	(4,535)	62,428	99	62,527
Options exercised	915	-	(67)	848	-	848
Share option reserves	-	-	353	353	-	353
Shares issued	346	-	-	346	-	346
Share rights reserve	-	-	278	278	-	278
Transaction cost on shares	-	-	-	-	-	-
Dividends paid	-	(28,855)	-	(28,855)	-	(28,855)
Dividend reinvestment plan	9,637	(9,637)	-	-	-	-
At 30 June 2014	**255,092**	**79,948**	**(2,068)**	**332,972**	**(286)**	**332,686**

*Certain amounts here do not correspond to the 2014 financial statements and reflect adjustments, refer to Note 15

The above consolidated statement of changes in equity should be read in conjuction with the accompanying notes set out on page 46 to 96.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $000	2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,206,944	1,095,699
Payments to suppliers and employees		(1,054,346)	(965,707)
Interest received		1,272	1,481
Interest paid		(13,085)	(18,798)
Income tax paid		(18,854)	(27,031)
Net cash flows from operating activities	10(b)	**121,931**	**85,644**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment		(17,905)	(13,493)
Purchase of intangibles		(10,283)	(10,367)
Acquisition payments, net cash acquired		(237,882)	(34)
Payment for financial assets		-	(7,500)
Proceeds from disposal of plant and equipment		36	118
Net cash flows used in investing activities		**(266,034)**	**(31,276)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(308,646)	(33,387)
Proceeds from borrowings		532,821	-
Loan to subsidiaries / associates		72	-
Proceeds from issue of shares		3,413	848
Transaction costs of issue of shares		-	-
Dividends paid		(39,296)	(28,855)
Net cash flows from/ (used in) financing activities		**188,364**	**(61,394)**
Net increase in cash and cash equivalents		44,261	(7,026)
Net Foreign Exchange difference		(507)	-
Cash and cash equivalents at beginning of period		40,969	47,995
Cash and cash equivalents at end of year	10(a)	**84,723**	**40,969**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes set out on page 46 to 96.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. CORPORATE INFORMATION

The consolidated financial report of M2 Group Ltd. (the 'Company', 'M2', 'the 'Group') for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 21 August 2015.

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 except for derivative financial instruments and available-for-sale (AFS) investments which have been measured at fair value.

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

Certain comparative figures have been reclassified to conform to 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 Group has adopted the following amended Australian Accounting Standards and AASB Interpretations as of 1 July 2014:

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities
- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
- AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle - AASB 2014-1 Part A Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle
- AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle - Annual Improvements to IFRSs 2011–2013 Cycle

The adoption of these standards did not have a material impact on the financial statements.

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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 annual period ended 30 June 2015 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 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. CLASSIFICATION AND MEASUREMENT AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. **Financial assets** 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. FINANCIAL LIABILITIES Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. 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 AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.	1 January 2018 (Note A)	The Group has not yet fully assessed the impact of the changes.	1 July 2018

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
		IMPAIRMENT The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. HEDGE ACCOUNTING Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. 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, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after **1 January 2015.**			
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to	**AASB 116 Property Plant and Equipment** and **AASB 138 Intangible Assets** both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	The Group has not yet fully assessed the impact of the changes.	1 July 2016

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

	Revenue from Contracts with Customers	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 15	Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Currently, AASB 15 is effective for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. (Note A) AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2017	The Group has not yet fully assessed the impact of the changes.	1 July 2017
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	AASB 2014-9 amends AASB 127 Separate Financial Statements, and consequentially amends AASB 1 First-time Adoption of Australian Accounting Standards and AASB 128 Investments in Associates and Joint Ventures, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127. AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	The Group has not yet fully assessed the impact of the changes.	1 July 2016

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	The subjects of the principal amendments to the Standards are set out below: AASB 5 Non-current Assets Held for Sale and Discontinued Operations: • Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. AASB 7 Financial Instruments: Disclosures: • Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. • Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. AASB 119 Employee Benefits: • Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. AASB 134 Interim Financial Reporting: • Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.	1 January 2016	The Group has not yet fully assessed the impact of the changes.	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	The Group has not yet fully assessed the impact of the changes.	1 July 2016

Note A: The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for M2 Group will move from 1 July 2017 to 1 July 2018.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(D) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group comprise of the financial statements of M2 and all its subsidiaries ('the Group') where it is determined that there is a capacity to control. Control is defined when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, 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 the Group 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) INVESTMENT IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

(G) 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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(H) FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

Both the functional and presentation currency of the Group 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.

(I) 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.

(J) 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.

(K) 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.

(L) 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 period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets 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. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

(M) 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

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 5 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.

(N) 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.

(O) 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.

(P) 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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 development 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.

(Q) 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.

(R) 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).

(S) 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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

(T) 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 the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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 high quality corporate bond rates with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(U) SHARE-BASED PAYMENT TRANSACTIONS

EQUITY SETTLED TRANSACTIONS

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

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

- the Employee Share Option Plan (ESOP), which provides benefits to directors, senior executives and selected employees
- Long Term Incentive Plan ('LTI'), which provides performance rights to Executives

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 26.

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 ESLP are classified and disclosed as reserved shares and deducted from equity.

(V) 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.

(W) 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 rendered. 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 bundled offers is recognised when two or more activities or deliverables are sold under one single arrangement. The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. A delivered item is considered separate unit of accounting where it has value to the customer on a stand-alone basis and the fair value any undelivered items cannot be terminated by the customer without incurring penalties if the delivered item was returned.

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 the customer but not yet billed (unbilled revenue)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

(X) 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

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

The head entity, M2 Group Ltd, 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 the Group 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

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

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

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

(Y) 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.

(Z) 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.

(AA) 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 include cash and short-term deposits, trade and other receivables, trade and other payables, bank loans finance leases and an investment in a listed company.

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 prices, and the use of derivative financial instruments to mitigate the volatility on the financial performance of the Group. Derivative financial instruments are entered into for hedging purposes and no speculative activity is undertaken. Aging analyses and monitoring of specific credit limits are undertaken to manage credit risk. Liquidity risk is monitored through the development of rolling cash flow forecasts and maintaining access to a prudent level of committed funding facilities.

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 credit limits and cash flow forecasts.

(A) MARKET RISK

Market risk is the risk that the fair value of future cash flows for the Groups financial instruments will vary due to changes in market prices.

(I) INTEREST RATE RISK

The Group's interest rate exposure relates primarily to short term cash and long-term loans, that both have floating interest rates. The amount of short term cash and deposits and outstanding loans at 30 June 2015 is disclosed in notes 10 and 20 respectively.

The Group reviews its interest rate exposure by reference to potential renewals of existing positions and alternative financing. The Group policy is to maintain a fixed ratio up to 3 years forward between 50% to 75% and 25% to 50% fixed in years 4 and 5 using Board approved derivative products such as interest rate swaps whereby the Group agrees to exchange at defined periods the net difference between fixed and floating interest rates based on an agreed notional principal amount. . The interest rate swaps 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.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

Interest Rate Risk-exposure

	Note	2015 $000	2014 $000
Financial assets			
Cash and cash equivalents		84,723	40,969
Other assets		833	416
Financial Assets		2,220	-
Financial liabilities			
Interest-bearing loans and borrowings		(217,750)	(71,250)
Financial liabilities		(1,897)	(1,030)
Net exposure		**(131,871)**	**(30,895)**

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

At 30 June 2015, if interest rates had varied, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

Interest rate risk- sensitivity

	Impact on post-tax profit higher/(lower)		Impact on equity higher/(lower)	
	2015 $000	2014 $000	2015 $000	2014 $000
Consolidated				
+1% (100 basis points)	(1,322)	(299)	3	(10)
-.5% (50 basis points)	661	149	(2)	5

The movements in profit are due to higher/lower interest costs from floating interest rate on long term loans, financial assets and cash balances. The movements in equity are due to higher/lower interest costs from variable rate of derivatives the Group has entered into which affects the cash flow equity reserve.

(II) FOREIGN EXCHANGE RISK

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to, the United States dollar (USD) and Philippine peso (PHP).

The Group has transactional currency exposure resulting from purchase of inventory, payment of suppliers and liabilities denominated in a currency other than the entity's functional currency. These transactions are denominated in USD and PHP.

The Group has a subsidiary operating in New Zealand and acquired the CallPlus and 2Talk group of companies at balance date which exposes the Group to foreign exchange translation risk. This translation exposure has not been hedged.

The Groups policy to manage its foreign exchange rate risk against its functional currency is to hedge firm commitments and highly probable forecast transactions over varying time horizons using forward exchange contracts for the USD exposure and non-deliverable forward contracts for the PHP exposure. These hedges are undertaken centrally by Group Treasury.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

Foreign exchange risk-exposure

	2015 USD $000	2015 PHP 000	2014 USD $000	2014 PHP 000
Trade and other payables	(389)	(143,372)	(1,054)	(134,426)
Interest bearing loans and borrowings	(2,730)	-	(5,214)	-
Net exposure with P&L Impact	**(3,119)**	**(143,372)**	**(6,268)**	**(134,426)**
Forward exchange contracts				
- buy foreign currency (cashflow hedges)	5,340	-	7,200	-
Non deliverable forward contracts				
- buy foreign currency (cashflow hedges)	-	2,250,000	-	1,416,000
Net exposure with Equity Impact	**5,340**	**2,250,000**	**7,200**	**1,416,000**

Sensitivity

At 30 June 2015, if foreign currency exchange rates varied, as illustrated in the table below, with all other variables held constant, the impact on the Group's profit before tax and equity, expressed in Australian dollars, would have been affected as follows:

Foreign exchange risk- sensitivity

	2015 USD $000	2015 PHP 000	2014 USD $000	2014 PHP 000
Impact in post-tax profit higher/(lower)				
+10% (AUD strengthened)	369	376	605	297
-10% (AUD weakened)	(451)	(460)	(739)	(363)
Impact in equity higher/(lower)				
+10% (AUD strengthened)	661	6,489	(457)	(2,155)
-10% (AUD weakened)	(808)	(7,931)	587	2,634

(III) COMMODITY PRICE RISK

The Group is exposed to commodity price risk associated with the purchase and/ or sale of electricity and to a lesser extent gas. To manage the price risks associated with electricity, the Group enters into derivative instruments such as options and swaps. To manage gas price risk, the Group has a supply agreement which has the commercial effect of limiting the price paid from the national pool on a certain amount of gas.

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 a highly probable transaction.

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

	2015 $000	2014 $000
Current Assets / (Liability)		
Electricity derivatives	483	(598)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Sensitivity

The following table summarises the impact of a 5 percent increase/decrease in the electricity price with all other variables held constant.

Commodity price risk- sensitivity

	Effect on profit before tax		Effect on equity	
Consolidated	2015 $000	2014 $000	2015 $000	2014 $000
5% increase in electricity prices	31	211	1,142	957
5% decrease in electricity price	(31)	(211)	(1,142)	(957)

Profit before tax for the year would increase/decrease as a result of the inherent ineffectiveness in some commodity hedging relationships and 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.

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

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

There are no significant concentrations of credit risk within the Group.

(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 committed funding 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 period:

	2015 $000	2014 $000
Floating rate		
Undrawn		
- Expiring within one year (bank overdraft)	-	-
- Expiring beyond year (bank guarantees and credit facility)	98,718	67,508
Committed		
- Expiring within one year (bank overdraft)	-	-
- Expiring beyond year (bank guarantees and credit facility)	16,282	17,492
	115,000	85,000

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractual obligations for derivatives, loan repayments and interest resulting from recognised financial liabilities as of 30 June 2015. The timing of the liabilities cash flows 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 liquidity 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 short-term cash payments.

	<6 months $000	6-12 months 000	1-5 years $000	>5 years $000	Total $000
Year ended 30 June 2015					
Non-derivative financial assets					
Cash and cash equivalents	84,723	-	-	-	84,723
Trade and other receivables	123,585	-	-	-	123,585
Non-derivative financial Liabilities					
Trade and other payables	(190,061)	-	(3,906)	-	(193,967)
Interest bearing loans and borrowings	(8,247)	(8,247)	(555,163)	-	(571,657)
Total Non-derivatives	**(10,000)**	**(8,247)**	**(559,069)**	**-**	**(557,316)**
Derivative liabilities					
Net settled (interest rate swaps)	(947)	(951)	(75)	-	(1,973)
Net settled (non-deliverable forward contracts)	(632)	(698)	(24)	-	(1,354)
Gross settled (forward exchange contracts)					
• inflow	2,487	4,232	-	-	6,719
• outflow	(2,513)	(4,614)	-	-	(7,127)
Total Derivatives	**(1,605)**	**(2,031)**	**(99)**	**-**	**(3,735)**
Year ended 30 June 2014					
Non-derivative financial assets					
Cash and cash equivalents	40,969	-	-	-	40,969
Trade and other receivables	92,323	5,329	-	-	97,652
Loan receivable	72	74	15	-	161
Non-derivative financial Liabilities					
Trade and other payables	(136,470)	-	(3,727)	-	(140,197)
Interest bearing loans and borrowings	(15,000)	(15,000)	(263,237)	-	(293,237)
Total Non-derivatives	**(18,106)**	**(9,597)**	**(266,949)**	**-**	**(294,652)**

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	<6 months $000	6-12 months 000	1-5 years $000	>5 years $000	Total $000
Derivative liabilities					
Net settled (interest rate swaps)	(349)	(382)	(300)	-	(1,031)
Net settled (non-deliverable forward contracts)	(526)	(500)	-	-	(1,076)
Gross settled (forward exchange contracts)					
• inflow	-	4,036	4,232	-	8,268
• outflow	-	(4,195)	(4,467)	-	(8,662)
Total Derivatives	**(875)**	**(1,091)**	**(535)**	**-**	**(2,501)**

(D) FAIR VALUE MEASUREMENTS

AASB 13 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 2014 and 30 June 2015 on a recurring basis:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Year ended 30 June 2015				
Available-for-sale financial assets				
Quoted securities	1,667	-	-	1,667
Derivative Assets				
Electricity derivatives	-	483	-	483
Forward exchange contracts	-	1,773	-	1,773
Interest rate swaps	-	-	-	-
	1,667	**2,256**	**-**	**3,923**
Derivative Liabilities				
Electricity derivatives	-	-	-	-
Forward exchange contracts	-	-	-	-
Interest rate swaps	-	(1,973)	-	(1,973)
	-	**(1,973)**	**-**	**(1,973)**
	1,667	**283**	**-**	**1,950**

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Year ended 30 June 2014				
Available-for-sale financial assets				
Quoted securities	2,178	-	-	2,178
Derivative Assets				
Electricity derivatives	-	-	-	-
Forward exchange contracts	-	-	-	-
Interest rate swaps	-	-	-	-
	2,178	**-**	**-**	**2,178**
Derivative Liabilities				
Electricity derivatives	-	(598)	-	(598)
Forward exchange contracts	-	(1,470)	-	(1,470)
Interest rate swaps	-	(1,031)	-	(1,031)
	-	**(3,099)**	**-**	**(3,099)**
	2,178	**(3,099)**	**-**	**(921)**

Valuation techniques used to determine fair value
Available for sale financial assets uses observable values such as publically available equity prices at the end of the reporting period in the valuation and is classified as in the hierarchy as level 1. The fair value of derivative financial instruments that are not traded on an active market is determined by using valuation methodologies and assumptions that are based on market conditions existing at the valuation date. These are classified in a hierarchy as level 2. These include:

- The use of forward electricity price curve derived from various inputs such as electricity futures market is used in calculating electricity derivatives.
- The interest rate yield curve and applying the net present value to future cash flows are techniques used in valuing interest rate swaps.
- The fair value of forward exchange contracts as determined by using forward exchange market rates in valuing forward exchange contracts.

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.

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

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.

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, changes 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 ('IRU').** The useful life is determined by the remaining life of the contracts. The assets will be fully amortised once the contracts expire.

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

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.

UNBILLED REVENUE

Unbilled revenue for gas and electricity is estimated at the end of the reporting period. Customers are billed on a periodic and regular basis. Management estimates customer consumption between the last invoice date and the end of the reporting period. This is based on preliminary usage obtained from external regulators at an estimated bill rate. Various assumptions and financial models are used to determine the estimated unbilled rate.

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 Consumer, Business 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 operating segments as 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 three operating segments, Consumer, Business and Wholesale. The Group's risks and rates of return are affected predominantly by differences in the markets served by these business units.

The Consumer segment offers telecommunication services, targeted at the residential market, offering fixed line voice services data services as well as mobile services. In addition to this, the Consumer segment offers energy services to residential customers, offering both electricity and gas services and financial services such as car, home and contents insurance products.

The Business segment offers packaged telecommunications services and energy targeted particularly to the small business market offering fixed line voice services, terrestrial broadband internet services, mobile voice & data and electricity bundles.

The Wholesale segment offers the full suite of fixed line voice services, including line rental services, mobile voice and data services, terrestrial broadband internet services and mobile telephones 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 Consumer, Business and Wholesale operations. Some of these business functions include IT, finance, 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 Consumer, Business and Wholesale.

INCOME TAX EXPENSES

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2014: 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 customers 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 2015 and 30 June 2014.

	Consumer		Business		Wholesale		Total	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
Revenue								
Sales to external customers	672,114	579,827	345,586	345,591	97,989	98,963	1,115,689	1,024,381
Total revenue per consolidated income statement							**1,115,689**	**1,024,381**

	Consumer		Business		Wholesale		Total	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
Result								
Segment net operating profit after tax	**46,936**	**42,643**	**40,619**	**37,360**	**9,774**	**8,582**	**97,329**	**88,585**
Reconciliation of segment net profit after tax to net profit before tax								
Income tax expense - current and deferred							33,720	27,579
Head office charges - interest expense							(10,571)	(14,276)
Head office charges - employee benefits							(4,321)	(4,516)
Head office charges - miscellaneous							(8,776)	(2,731)
Net profit before tax per the statement of comprehensive income							**107,381**	**94,641**

	Consumer		Business		Wholesale		Unallocated		Total	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
Depreciation & Amortisation	19,897	23,177	16,714	13,732	4,960	4,874	7,418	4,642	48,989	46,425
Income tax expense	19,773	18,275	17,311	16,011	4,150	3,678	(7,514)	(10,385)	33,720	27,579

6. REVENUE & EXPENSES

	2015 $000	2014 $000
(a) Revenue		
Rendering of services	1,114,433	1,022,826
Interest income	1,256	1,555
	1,115,689	**1,024,381**
(b) Other income		
(Loss) / gain on disposal of plant and equipment	(18)	(19)
	(18)	**(19)**
(c) Employee benefits expense		
Wages and salaries	68,419	76,596
Defined contribution superannuation expense	5,887	6,471
Annual leave provision	5,344	7,391
Long service leave provision	859	30
	80,509	**90,488**
(d) Depreciation and amortisation		
Depreciation	15,104	12,424
Amortisation of software	4,779	3,965
Amortisation of customer contracts	25,346	26,276
Amortisation of IRU	3,760	3,760
	48,989	**46,425**
(e) Other expenses		
Selling and marketing	26,782	23,027
Business development	4,668	4,962
Facilities and equipment	18,930	17,006
Corporate	985	1,045
Professional fees	11,040	8,459
Bank fees	8,528	4,916
Bad debts	12,672	10,055
Operating lease	12,012	10,837
Outsourcing costs	47,823	39,549
Other	4,039	2,165
	147,479	**122,021**

6. REVENUE & EXPENSES (CONTINUED)

	2015 $000	2014 $000
(f) Financing costs		
Finance charges payable under finance leases and hire purchase contracts	1,552	1,584
Finance charges payable on bank loans	12,543	16,802
Finance charges payable on other loans	-	648
	14,095	**19,034**

7. INCOME TAX

(A) INCOME TAX EXPENSE

The major components of income tax expense are:

	2015 $000	2014 $000
Consolidated income statement:		
Current income tax		
Current income tax charge	35,975	20,606
Adjustments in respect of current income tax of previous years	(2,308)	(3,919)
	33,667	**16,687**
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,930)	10,892
Adjustments in respect of current income tax of previous years	1,983	-
	53	**10,892**
Income tax expense reported in the consolidated income statement	33,720	27,579

(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:

	2015 $000	2014 $000
Accounting profit before income tax	**107,381**	**94,641**
At the Group's statutory income tax rate of 30% (2015: 30%)	32,214	28,392
Non-temporary differences	1,418	572
Share based payments	119	189
Adjustments in respect of current income tax of previous years	(2,308)	(3,919)
Difference due to New Zealand tax rate @28%	(31)	-
Temporary differences not previously adjusted	1,983	2,345
Other	325	-
Aggregate income tax expense	33,720	27,579

7. INCOME TAX (CONTINUED)

(C) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred income tax at 30 June relates to the following:

	2015 $000	2014 $000
Deferred tax assets		
Trade receivables	5,059	5,622
Plant and equipment	2,428	1,463
Intangibles	183	263
Trade and other payables	791	50
Other provisions	8,907	7,210
Cash flow hedge	-	762
Transaction cost on issue of shares	135	272
Tax losses and temporary differences	170	390
Gross deferred tax assets	**17,673**	**16,032**
Deferred tax liabilities		
Cash flow hedge	230	-
Plant and equipment	1,334	-
Other assets - deferred acquisition cost	10,258	6,953
Intangibles	22,225	15,959
Trade and other payables	237	-
Gross deferred tax liabilities	**34,284**	**22,912**

	2015 $000	2014 $000
Tax expense in consolidated income statement	33,720	27,579
Amounts recognised in the consolidated statement of financial position:		
Deferred tax asset	17,673	16,032
Deferred tax liability	(34,284)	(22,912)
	(16,611)	**(6,880)**

7. INCOME TAX (CONTINUED)

	2015 Current Income Tax $000	2015 Deferred Income Tax $000	2014 Current Income Tax $000	2014 Deferred Income Tax $000
Opening balance	(3,726)	(6,880)	(14,737)	(16,281)
Charged to income	(35,975)	1,930	(20,606)	(10,892)
Payments	18,854	-	27,031	-
Adjustment related to hedge	-	(992)	-	-
Acquisitions	(1,530)	(9,083)	-	20,106
Prior Year adjustment	2,308	(1,983)	4,586	187
Exchange difference	81	397	-	-
Closing balance	**(19,988)**	**(16,611)**	**(3,726)**	**(6,880)**

(D) TAX CONSOLIDATION

MEMBERS OF THE TAX CONSOLIDATED GROUP AND THE TAX-SHARING AGREEMENT

M2 Group Ltd and its 100% owned Australian subsidiaries formed a tax consolidated group with effect from 1 July 2004. M2 Group Ltd 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

	2015 $000	2014 $000
(A) RECOGNISED AMOUNTS		
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2014: 14.5 cents (2013: 10.0 cents)	26,241	17,850
Interim franked dividend for 2015: 15.0 cents (2014: 11.5 cents)	27,356	20,642
	53,597	**38,492**
(B) UNRECOGNISED AMOUNTS		
Dividends on ordinary shares:		
Final franked dividend for 2015: 17.0 cents (2014: 14.5 cents)	31,175	26,171

After the reporting date, the above dividend was declared. This amount has not been recognised as a liability as at 30 June 2015 but will be brought to account during the 2016 financial year. Refer to Note 31

(C) FRANKING CREDIT BALANCE

The tax rate at which paid dividends have been franked is 30% (2014: 30%).
Dividends proposed will be franked at the rate of 30% (2014: 30%).

	2015 $000	2014 $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% (2014: 30%)	23,388	27,449
Franking credits that will arise from the payment of income tax payable as at the end of the financial year.	1,741	5,777
Franking debits that will arise from the payment of dividends as at the end of the financial year.	(13,361)	(11,216)
	11,768	**22,010**

9. EARNINGS PER SHARE

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

	2015 $000	2014 $000
Basic earnings per share (cents)	40.54	37.34
Diluted earnings per share (cents)	40.39	37.00

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

	2015 $000	2014 $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	73,689	66,963
(B) WEIGHTED AVERAGE NUMBER OF SHARES		
	No '000	No '000
Weighted average number of ordinary shares for basic earnings per share	181,791	179,325
Effect of dilution:		
Share options	633	1,667
Weighted average number of ordinary shares adjusted for the effect of dilution	**182,424**	**180,992**

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 25 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 EQUIVALENT

	2015 $000	2014 $000
Cash at bank and in hand	84,023	40,269
Short-term deposits	700	700
	84,723	**40,969**

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

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

10. CASH AND CASH EQUIVALENT (CONTINUED)

(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:

	2015 $000	2014 $000
Cash at bank and on hand	84,023	40,269
Short-term deposits	700	700
	84,723	**40,969**

(B) RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

	2015 $000	2014 $000
Net profit after tax	73,661	67,062
Adjustments for :		
Depreciation and amortisation	48,989	46,425
Share based payments	396	631
Loss / (gain) on disposal of plant and equipment	18	19
Loss/ (gain) on foreign currency translation	42	269
Share in profit of an associate	(1,132)	(782)
Other revenue	28	-
Financing activities costs	4,061	-
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(4,975)	(10,500)
(Increase)/decrease in inventories	(1,890)	(504)
(Increase)/decrease in other assets	(11,672)	(4,201)
(Increase)/decrease in other receivables	18	8,493
Increase/(decrease) in trade and other payables	(1,322)	(11,868)
Increase/(decrease) in provisions	(149)	(9,857)
Increase/(decrease) in current income tax payable	14,813	(11,011)
(Increase)/decrease in deferred tax asset	3,803	17,437
Increase/(decrease) in deferred tax liability	(2,758)	(5,969)
Net cash flow from operating activities	**121,931**	**85,644**

11. TRADE RECEIVABLES

	2015 $000	2014 $000
Trade receivables	141,072	116,392
Allowance for impairment loss (a)	(17,487)	(18,740)
	123,585	**97,652**

(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 $12.7 million (2014: $10.1 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:

	2015 $000	2014 $000
At 1 July	18,740	12,438
Charge for the year	12,672	10,055
Acquisition through business combinations	6,858	4,393
Amounts written off	(20,783)	(8,146)
At 30 June	**17,487**	**18,740**

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

Consolidated	2015 Gross $000	2014 Gross $000	2015 Allowance $000	2014 Allowance $000
Current	91,690	73,573	775	273
31 - 60 days	7,036	8,867	684	541
61 - 90 days	5,854	2,601	933	821
91 days and over	36,492	31,351	15,095	17,105
Closing balance	**141,072**	**116,392**	**17,487**	**18,740**

Trade receivables that are past due but not considered impaired amounted to $26.3 million (2014: $16.0 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

	2015 $000	2014 $000
Finished goods (at cost)	7,920	5,388
Total inventories at the lower of cost and net realisable value	**7,920**	**5,388**

Inventory recognised as expense for the year ended 30 June 2015 totalled $32.6 million (2014: $28.8 million) for the Group. This expense has been included in cost of sales in the Statement of Comprehensive Income.

13. OTHER ASSETS

	2015 $000	2014 $000
CURRENT ASSETS		
Bartercard trade balance	736	633
Prepayments	8,399	5,671
Security deposit	308	140
Short-term deposit	833	253
Deferred acquisition cost	28,073	19,397
Other	140	84
Total current other assets	**38,489**	**26,178**
NON-CURRENT ASSETS		
Deferred acquisition cost	6,103	3,660
Other	461	495
Total non-current other assets	**6,564**	**4,155**
Total other assets	**45,053**	**30,333**

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 the Australia Energy Market Operator for Dodo and Gas trading accounts.

14. FINANCIAL ASSETS AND LIABILITIES

	2015 $000	2014 $000
Current		
Interest rate swaps - cash flow hedges ((a)(i))	(1,897)	(731)
Forward exchange contracts- cash flow hedges ((a)(ii))	1,737	(1,235)
Electricity derivatives- cash flow hedges ((a)(iii))	483	(598)
	323	**(2,564)**
Non-current		
Interest rate swaps - cash flow hedges ((a)(i))	(76)	(300)
Forward exchange contracts- cash flow hedges ((a)(ii))	36	(235)
Investments - Available for Sale	1,667	2,178
	1,627	**1,643**

(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).

Derivative financial instruments are classified as current asset or liability unless the remaining maturity of the hedged item is more than 12 month

(I) INTEREST RATE SWAPS – CASH FLOW HEDGES

The Group currently holds six 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 between 2.3275% and 3.0475% per annum.

The contracts require settlement of net interest receivable or payable each 90 days. The next settlement is on the 21 September 2015.

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. In the year ended 30 June 2015 a loss of $0.8 million has been reclassified from other comprehensive income into interest expense. There has been no ineffectiveness for the year ended 30 June 2015.

(II) FORWARD EXCHANGE CONTRACTS – CASH FLOW HEDGES

The Group have designated into 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 within the next financial year 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 2015 will be released to the income statement when the underlying anticipated transactions affect the income statement or included in the carrying value of asset or liabilities acquired. In the year ended 30 June 2015 a gain of $4.9 million has been reclassified from other comprehensive income to inventory and outsourcing costs. 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.

During the year, the Group entered into foreign exchange hedging in the amount of NZD$250 million for the CallPlus acquisition. This transaction was settled prior to year-end.

14. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(III) ELECTRICITY DERIVATIVES – CASH FLOW HEDGES

The Group manages this exposure of floating purchase price of electricity through purchase of electricity future contracts electricity from AEMO (Australian Energy Market Operator). 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 2015 will be released to the income statement when the underlying anticipated purchase or sale transactions are recognised in the income statement.

In the year ended 30 June 2015 a gain of $0.2 million has been reclassified from other comprehensive income to cost of sales. There has been no ineffectiveness for the year ended 30 June 2015.

(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

The following table illustrates the summarised financial information of the Group's investment in Aggregato Global Pty Ltd ('Aggregato').

The net asset position for Aggregato as at 30 June 2014 has been restated in the current period. Aggregato's net assets disclosed in 2014 was $25.7 million, actual recorded is $12.3 million. This resulted in a $4.4m difference in the Group's share of the carrying amount of investment. This difference is due to interim financial results presented to the Group as at 30 June 2014. The difference in M2's share of investment of $4.4 million has been adjusted in retained earnings.

On 30 June 2015, M2 increased its interest in Aggregato, through a participation in a pro-rata rights issue, in which it invested $4.9 million. This increased M2's ownership interest from 32.8% to 61.2%. Please refer to Note 27 Business Combination for further information.

	2015 $000	2014 $000
Current assets	-	13,720
Non current assets	-	46,112
Current liabilities	-	(34,516)
Non current liabilities	-	(13,002)
Equity	**-**	**12,314**
Group's share in %	-	32.8%
Carrying amount of investment	**-**	**4,044**

The Group's share profit is $1.1 million in 2015.

Aggregato Global Pty Ltd does not have any contingent assets or liabilities as at 30 June 2015.

16. PLANT AND EQUIPMENT

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

	2015 $000	2014 $000
COST		
At 1 July	100,584	89,967
Additions	17,907	14,715
Acquisition through business combinations	17,451	-
Disposals and write-offs	(1,963)	(4,098)
Exchange difference	(4,258)	-
At 30 June	**129,721**	**100,584**
ACCUMULATED DEPRECIATION		
At 1 July	39,616	31,171
Depreciation charge for the year	15,104	12,424
Disposals and write-offs	(1,910)	(3,980)
Exchange difference	(3,679)	-
At 30 June	**49,131**	**39,615**
NET BOOK VALUE	**80,590**	**60,969**

Plant and equipment with carrying amount of $1.1 million (2014: $1.8 million) for the Group are held under finance lease.

17. INTANGIBLE ASSETS AND GOODWILL

(A) RECONCILIATION OF CARRYING AMOUNTS AT THE BEGINNING AND END OF THE PERIOD

	Software $000	Customer Contracts $000	IRU $000	Brands $000	Goodwill $000	Total $000
Year ended 30 June 2015						
Balance at the beginng of the year	25,962	51,182	24,671	50,506	447,493	599,814
Additions	9,916	-	37,241	-	-	47,157
Acquisitions	6,718	44,507	-	27,786	223,581	302,592
Write-offs	-	-	-	-	-	-
Amortisation charge for the year	(4,779)	(25,346)	(3,759)	-	-	(33,884)
Exchange differences	(43)	(1,902)	-	(1,297)	-	(3,240)
Balance at the end of the year	**37,774**	**68,441**	**58,153**	**76,995**	**671,074**	**912,437**
At 30 June 2015						
Cost (gross carrying amount)	72,586	127,248	69,741	76,995	671,074	1,017,645
Accumulated amortisation and impairment	(34,812)	(58,807)	(11,588)	-	-	(105,207)
Balance at the end of the year	**37,774**	**68,441**	**58,153**	**76,995**	**671,074**	**912,437**

	Software $000	Customer Contracts $000	IRU $000	Brands $000	Goodwill $000	Total $000
Year ended 30 June 2014						
Balance at the beginning of the year	21,489	75,525	28,431	50,506	458,516	634,467
Additions	8,447	1,924	-	-	232	10,603
Acquisitions	-	-	-	-	(11,255)	(11,255)
Write-offs	(9)	9	-	-	-	-
Amortisation charge for the year	(3,965)	(26,276)	(3,760)	-	-	(34,001)
Balance at the end of the year	**25,962**	**51,182**	**24,671**	**50,506**	**447,493**	**599,814**
At 30 June 2014						
Cost (gross carrying amount)	37,113	91,083	32,500	50,506	447,493	658,695
Accumulated amortisation and impairment	(11,151)	(39,901)	(7,829)	-	-	(58,881)
Balance at the end of the year	**25,962**	**51,182**	**24,671**	**50,506**	**447,493**	**599,814**

(B) DESCRIPTION OF THE GROUP'S INTANGIBLE ASSETS AND GOODWILL

SOFTWARE

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

CUSTOMER CONTRACTS

Customer contracts are acquired through the acquisition of businesses and are amortised over a remaining life 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 2 to 15 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:

- Consumer cash generating unit
- Business 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 10.1% (2014: 10.8%). The same discount rates are applied all cash generating units.

The long-term growth rate used to extrapolate the cash flows of the consumer, business and wholesale sales units beyond the five-year period is 2.5%. The senior management of the units believes the growth rate is justified based on the synergies created from 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 of the consumer, business and wholesale segments as follows.

	2015 $000	2014 $000
Cash generating units		
Business cash generating unit	14,737	9,438
Consumer cash generating unit	58,155	39,084
Wholesale cash generating unit	4,103	1,984
Total brands	**76,995**	**50,506**

	2015 $000	2014 $000
Cash generating units		
Business cash generating unit	186,058	141,343
Consumer cash generating unit	444,422	283,443
Wholesale cash generating unit	40,594	22,707
Total Goodwill	**671,074**	**447,493**

Key assumptions used in value in use calculations for the cash generating units for 30 June 2015 and 30 June 2014.

17. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year 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

	2015 $000	2014 $000
Trade payables	96,580	62,293
Accrued expenses	69,835	43,359
Withholding tax payable	728	743
Goods and services tax payable	7,501	5,270
Unearned income	38,201	19,780
Deferred commission revenue	23,397	27,626
Other payables	33,127	25,586
	269,369	**184,657**

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

	2015 $000	2014 $000
Current		
Employee benefits	11,419	8,807
Make good provision (a)	174	216
Onerous contracts (b)	362	1,021
	11,955	**10,044**
Non-Current		
Employee benefits	910	952
Make good provision (a)	3,405	3,847
Onerous contracts (b)	-	362
	4,315	**5,161**
	16,270	**15,205**

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

	Make good $000	Onerous Contract $000
At 1 July 2014	4,063	1,383
Additional provisions recognised	132	-
Reversal of provisions made	(139)	(245)
Utilised amount	(477)	(776)
At 30 June 2015	**3,579**	**362**

(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.

(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.

20. INTEREST BEARING LOANS AND BORROWINGS

	2015 $000	2014 $000
Current		
Obligations under finance leases and hire purchase contracts (note 28(a))	600	812
Bank loans	5,700	27,399
Other financial liabilities (note 28(b))	10,194	2,637
	16,494	**30,848**
Non-Current		
Obligations under finance leases and hire purchase contracts (note 28(a))	107	665
Bank loans	524,455	252,832
Subordinated loan	-	8,237
Other financial liabilities (note 28(b))	30,601	2,904
	555,163	**264,638**

(A) FAIR VALUES

The carrying amounts of the Group's current and non-current borrowings are carried at amortised cost and 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.

21. OTHER NON-CURRENT LIABILITIES

	2015 $000	2014 $000
Deferred commission revenue	201	272
Other payables	3,904	3,727
	4,105	**3,999**

22. CONTRIBUTED EQUITY

	2015 $000	2014 $000
Ordinary shares - issued and fully paid	275,270	255,092
	No. ('000)	No. ('000)
Movements in ordinary shares on issue		
Balance at beginning of the year	180,491	178,320
Share issue due to exercise of share options (a)	1,033	405
Share issue due to dividend reinvestment plan (b)	1,694	1,688
Share issue for acquisition of subsidiaries (c)	163	78
Balance at end of the year	**183,381**	**180,491**

(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 26.

(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 2.5% discount to the market price.

(C) SHARES ISSUED FOR ACQUISITION OF SUBSIDIARIES

The company issued 90,902 shares for $937,200 as consideration to CallPlus shareholders and 71,765 shares for $739,897 as part of the purchase consideration for M2 NZ Pty Ltd.

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 2015, management declared dividends of $53.6 million (2014: $38.5 million).

The Group is not subject to externally imposed capital requirements.

23. RESERVES

	2015 $000	2014 $000
Employee equity benefits reserve (a)	883	1,277
Foreign currency translation reserve (b)	(2,613)	(101)
Cash flow hedge reserve (c)	536	(1,778)
Investment revaluation reserve (d)	(1,149)	(1,466)
	(2,343)	**(2,068)**
Movements:		
a) Employee equity benefits reserve		
At 1 July	1,277	713
Options exercised	(790)	(67)
Share option reserve (note 26(a))	182	353
Share rights reserve (note 26(a))	214	278
At 30 June	**883**	**1,277**
b) Foreign currency translation reserve		
At 1 July	(101)	(105)
Net translation during the year	(2,512)	4
At 30 June	**(2,613)**	**(101)**
c) Cash flow hedge reserve		
At 1 July	(1,778)	966
Net gain/(loss) on revaluation	6,743	(6,779)
Transfer to net profit	(4,199)	3,273
Deferred tax (note 7(c))	(230)	762
At 30 June	**536**	**(1,778)**
d) Investment revaluation reserve		
At 1 July	(1,466)	329
Net gain/(loss) on revaluation	317	(1,795)
At 30 June	**(1,149)**	**(1,466)**

A) EMPLOYEE EQUITY BENEFITS RESERVE

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

B) FOREIGN CURRENCY TRANSLATION RESERVE

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

23. RESERVES (CONTINUED)

C) CASH FLOW HEDGE RESERVE

The hedging 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(S). 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 revaluations that are recognised in other comprehensive income.

24. RELATED PARTY DISCLOSURE

(A) SUBSIDIARIES

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

Name	Country of Incorporation	% Equity Interest	
		2015	2014
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	100	70
• 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 Network (Australia) 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
Dodo Australia Holdings Pty Ltd	**Australia**	**100**	**100**
• Dodo Group Services Pty Ltd	Australia	100	100
• Pendo Industries Pty Ltd	Australia	100	100
• Dodo Services Pty Ltd	Australia	100	100
• Dodo Insurance Pty Ltd	Australia	100	100
• Secureway Pty Ltd	Australia	100	100

24. RELATED PARTY DISCLOSURE (CONTINUED)

Name	Country of Incorporation	% Equity Interest	
		2015	2014
• M2 Energy Pty Ltd (previously named Dodo Power and Gas Pty Ltd)	Australia	100	100
• No Worries Online Pty Ltd	Australia	100	100
Eftel Ltd	**Australia**	**100**	**100**
• Eftel Wholesale Pty Ltd	Australia	100	100
• Visage Telecom Pty Ltd	Australia	100	100
• Keypoint Pty Ltd	Australia	100	100
• ClubTelco Pty Ltd	Australia	100	100
• Eftel Corporate Pty Ltd	Australia	100	100
• Engin Pty Ltd	Australia	100	100
• Datafast Telecommunications Pty Ltd	Australia	100	100
• Eftel Retail Pty Ltd	Australia	100	100
- Eftel Radio Pty Ltd	Australia	100	100
- Eftel Tasmania Pty Ltd	Australia	100	100
- Spacenet Holdings Pty Ltd	Australia	100	100
- Eftel Rural Pty Ltd	Australia	100	100
- Q-Net Australia Pty Ltd	Australia	100	100
Acquired through Eftel:			
• Business Technologies Pty Ltd	Australia	100	100
M2 Group NZ Limited	**New Zealand**	**100**	**-**
• CallPlus Australia Holdings Limited	New Zealand	100	-
- CallPlus Services Australia Limited	New Zealand	100	-
• CallPlus Holdings Limited	New Zealand	100	-
- CallPlus Assets Limited	New Zealand	100	-
- Slingshot Communications Limited	New Zealand	100	-
- Flip Services Limited	New Zealand	100	-
- CallPlus Services Limited	New Zealand	100	-
o CallPlus Trustee Limited	New Zealand	100	-
o Orcon Limited	New Zealand	100	-
• CallPlus Limited	New Zealand	100	-
• Blue Reach Limited	New Zealand	100	-
• 2Talk Limited	New Zealand	100	-

24. RELATED PARTY DISCLOSURE (CONTINUED)

Name	Country of Incorporation	% Equity Interest	
		2015	2014
M2 Group Franchising Pty Ltd	Australia	100	-
2Talk Pty Ltd	Australia	100	-
Aggregato Global Ltd	Australia	62	33

(B) ULTIMATE PARENT

M2 Group Ltd is the ultimate parent entity.

(C) KEY MANAGEMENT PERSONNEL (KMP)

Details relating to KMP, including remuneration paid, are included in note 25.

(D) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR 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 from Related Parties $000
Directors			
Craig Farrow (1)	2015	7	-
	2014	17	-
Vaughan Bowen (2)	2015	838	1,104
	2014	1,297	742
John Hynd (3)	2015	1	-
	2014	1	-
Michael Simmons (4)	2015	2	-
	2014	2	-

(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 were paid to Telco Together Foundation on commercial term. Mr Bowen is the chairman of the Foundation.
Telecommunication services were provided between M2 Group Ltd and Aggregato Global Limited and its subsidiaries on commercial terms. Mr Bowen is the Non-Executive Chairman of Aggregato Global Ltd, receiving a fee of $25,000pa for that position, and holds 15.21% of the shares of that company.
(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.
Telecommunications and Insurances services were also provided for Michael Simmon personal use.

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 2015, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties as there were very little indicators to trigger such action (2014:$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.

25. KEY MANAGEMENT PERSONNEL

COMPENSATION FOR KEY MANAGEMENT PERSONNEL

	2015 $000	2014 $000
Short-term employee benefits	3,984	4,061
Termination benefits	-	-
Post-employment benefits	150	125
Other long term benefits	242	188
Share-based payment	389	365
Total compensation	**4,765**	**4,739**

The compensation of each member of the Group's 2015 key management personnel for the current and prior year is set out in the Remuneration Report as part of the Director's Report.

26. 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:

	2015 $000	2014 $000
Expense arising from equity-settled share-based payment transactions		
- M2 Executive Management Team Share Option (ESOP)	182	353
- M2 Long Term Incentive Plan (LTI)	214	278
Total expense arising from share-based payment transactions	**396**	**631**

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2015.

(B) TYPES OF SHARE-BASED PAYMENT PLANS

(I) M2 EXECUTIVE MANAGEMENT TEAM SHARE OPTION PLAN (ESOP)

In February 2007, M2 introduced the M2 Executive Management Team Share Option Plan, and later in May 2009 this was extended to selected employees. The purpose of the ESOP was to provide an avenue for the alignment of Executive and employee objectives with those of shareholders, and to provide an additional element to Executive and employee 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 and employees for their performance in a given period.

All senior Executives and selected employees 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 and selected employees 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 or employee.

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.

26. SHARE BASED PAYMENT PLANS (CONTINUED)

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 or employee'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 or employee who has been granted options.

(II) LONG TERM INCENTIVE (LTI) PLAN

The M2 Board has introduced a LTI Plan from 1 July 2013 and all Executives have been invited to participate. The key driver of the LTI Plan is to provide a variable remuneration component that was competitive, aligned to shareholder returns over a longer period, and on terms that were acceptable to Australian investors, based on market standards. It has also been structured to appropriately incentivise Executives and promote retention.

The grant of the LTI is in the form of performance rights that can be settled in M2 shares or cash with a performance period of 1 July 2013 to 30 June 2016. As the rights vest upon satisfaction of certain performance conditions, the exercise price of the rights has been set at $0.00.

Other key features of the LTI Plan including performances measures and hurdles are outlined in the Remuneration Report.

(C) SUMMARIES OF MOVEMENTS AND OTHER INFORMATION

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options and performance rights:

	Options (ESOP)		Performance Rights (LTI)	
	Number	WAEP	Number	WAEP
Outstanding as at 30 June 2013	**2,071,668**	**$ 3.810**	**-**	**-**
Granted	-	-	167,586	$ 0.00
Expired	-	-	-	-
Forfeited	-	-	(13,812)	-
Exercised	(404,999)	$ 2.692	-	-
Outstanding as at 30 June 2014	**1,666,669**	**$ 4.013**	**153,774**	**$ 0.00**
Granted	-	-	188,869	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Exercised	(1,033,334)	$ 3.151	-	-
Outstanding as at 30 June 2015	**633,335**	**$5.419**	**342,643**	**$ 0.00**

The outstanding balance of share options (ESOP) as at 30 June 2015 is represented by 633,335 executive options with exercise price ranging from $3.29 to $6.75, exercisable dates ranging from 01/01/2015 to 01/01/2019.
The outstanding balance of performance rights (LTI) as at 30 June 2015 is represented by 342,643 share rights.

(D) WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015 is 3 years (2014: 3 years).

(E) RANGE OF EXERCISE PRICE

The range of exercise prices for all options outstanding at the end of the financial year was $3.29 to $6.75 (2014: $1.84 to $6.75).

The exercise price for the performance rights under the LTI is $0.00.

26. SHARE BASED PAYMENT PLANS (CONTINUED)

(F) WEIGHTED AVERAGE FAIR VALUE

No options granted were in the 2015 financial year.

The weighted average fair value of the performance rights granted in the 2015 financial year is $3.11 (2014: $2.96).

(G) OPTION PRICING MODEL

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

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

	2015 (1)	2014 (2)
Dividend yield (%)	3.69%	3.36%
Expected volatility (%)	28.02%	31.54%
Risk-free interest rate (%)	2.72%	2.82%
Expected life of option (years)	3 years	3 years
Option exercise price ($)	$0.00	$0.00
Weighted average share price at measurement date ($)	$5.82	$5.66
Model used	Binomial	Binomial

(1) These inputs were used for the performance rights under the LTI granted in the 2015 financial year.
(2) These inputs were used for the performance rights under the LTI granted in the 2014 financial year.

27. BUSINESS COMBINATIONS

(A) CURRENT YEAR ACQUISITIONS

CALLPLUS GROUP AND 2TALK

On 1 June 2015, M2 Group Ltd acquired 100% of CallPlus Group and a related entity, 2Talk Ltd (collectively referred to as 'CallPlus'). CallPlus is New Zealand's third largest provider of broadband an fixed voice services.

The acquisition of CallPlus will expand M2's existing NZ business to become the third largest ISP and leading challenger in the NZ telecom market.

The acquisition was completed on the 30 June 2015 for a combination of cash and scrip consideration, valued at $253 million, on a debt-free and cash-free basis. The acquisition was funded and existing debt was refinanced through a new fully underwritten $685m multi-year syndicated loan facility.

27. BUSINESS COMBINATIONS (CONTINUED)

The fair values of the identifiable assets and liabilities of CallPlus as of the date of acquisition were:

	Consolidated Final $000
Cash and cash equivalents	9,890
Trade and other receivables*	16,980
Inventories	524
Other assets	4,858
Plant and equipment	15,675
Customer base	44,507
Brand names	27,786
Intangible assets	6,005
Deferred tax asset/ (liability)	(8,502)
Trade and other payables	(61,777)
Income tax payable	(1,530)
Provisions	(1,466)
Fair value of identifiable net assets	**52,950**
Goodwill arising from acquisition	**200,174**
	253,124
Purchase Price:	
Cash consideraton	252,199
Scrip consideration	925
Total purchase consideration	**253,124**

* Gross contractual amount for trade and other receivables is $23.6 million, of which $6.6 million is expected to be uncollectible.

The goodwill of $200.2 million comprises the value of expected synergies arising from the acquisition.

From the date of acquisition, Call Plus has contributed $26.8 million revenue and $1.5 million net profit before tax. If the acquisition had occurred on 1 July 2014, Call Plus would have contributed $236.7 million revenue and $11.3 million profit before tax.

(B) AGGREGATO

On 30 June 2015, M2 increased its interest in Aggregato through participation in a pro-rata rights issue, in which it invested $4.9 million. This increased M2's ownership interest from 32.8% to 61.2%.

Aggregato is a specialist provider of prepaid international telecommunications services, with a large retail distribution network across Australia, New Zealand and the United States of America.

27. BUSINESS COMBINATIONS (CONTINUED)

The fair values of the identifiable assets and liabilities of Aggregato as of the date of acquisition were:

	Consolidated Provisional $000
Cash and cash equivalents	3,736
Trade and other receivables*	1,850
Inventories	145
Other assets	398
Plant and equipment	1,776
Intangible assets	712
Deferred tax asset / (liability)	(581)
Trade and other payables	(16,206)
Interest bearing loans and liabilities	(12,200)
Provisions	(686)
Fair value of identifiable net assets	**(21,056)**
Non-controlling interest	8,170
Goodwill	23,406
Fair value of existing ownership	(5,645)
Purchase consideration transferred	**4,875**
Purchase Price:	
Cash consideration	4,875
Scrip consideration	-
Total purchase consideration	**4,875**

* Gross contractual amount for trade and other receivable is $2.0 million, of which $0.2 million is expected to be uncollectible.

Due to timing of the acquisition, the fair values currently established are provisional and are subject to further review during the next financial year. 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 2014.

27. BUSINESS COMBINATIONS (CONTINUED)

(C) M2 NZ LTD

On 30 June 2015, M2 acquired an additional 30% interest in the voting shares of M2 NZ Ltd, increasing its ownership interest to 100%. The purchase was a funded for in a combination of cash, bartercard and scrip consideration, valued at $1.8 million.

	$000
Purchase price:	
Cash paid	858
Script	740
Bartercard	239
Total purchase consideration	**1,837**
Cash consideration paid to non-controlling shareholders	1,837
Carrying value of the additional interest acquired	313
Difference recognised in retained earnings	**2,151**

(D) PURCHASE CONSIDERATION- CASH OUTFLOW

	2015 $000	2014 $000
Net cash (inflow)/ outflow on acquisitions		
Cash paid	(251,508)	-
Less: cash and cash equivalent balances acquired	13,626	-
Net cash flows on acquisition	**(237,882)**	**-**

Acquisition- related costs of $3.5 million have been included in operating cash flows in the statement of cash flows.

28. 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:

	2015 $000	2014 $000
Within one year	12,450	8,495
After one year but not more than five years	39,618	31,721
More than five years	12,632	14,715
Total minimum lease payments	**64,700**	**54,931**

28. COMMITMENTS (CONTINUED)

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:

	2015 $000	2014 $000
Within one year	631	879
After one year but not more than five years	118	665
Total minimum lease payments	**749**	**1,544**
Less amounts representing finance charges	**(42)**	**(67)**
Present value of minimum lease payments	707	1,477

(B) OTHER FINANCIAL LIABILITIES

	2015 $000	2014 $000
Within one year	10,194	2,637
After one year but not more than five years	30,601	2,904
Total other financial liabilities	**40,795**	**5,541**

These other financial liabilities relate to the Indefeasible Right to Use of capacity (IRU) arising from the existing contracts purchased in the Primus acquisition as well as recent contract entered into with Telstra for NBN Backhaul solution.

(C) CAPITAL COMMITMENTS

The Group had contractual obligations to purchase plant and equipment, software and other value added services for $3.0 million at 30 June 2015 (2014: $2.4 million) principally relating to soft switches and gateways.

29. CONTINGENCIES

There are no contingent assets or liabilities as at Statement of Financial Position date.

30. DEFICIENCY IN NET CURRENT POSITION

As at 30 June 2015, the Group has a deficiency of net current assets of $62.8 million (2014:$61.7 million) which relates primarily to liabilities for deferred commission revenue of $23.4 million ($2014: $27.6 million) and Indefeasible Rights to Use (IRUs) liability of $10.2 million (2014: $2.6 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 (w)) and is a non-cash item.

31. EVENTS AFTER BALANCE DATE

On 21 August 2015, the directors declared a final dividend on ordinary shares in respect of the 2015 financial year. The total amount of the dividend is $31.2 million which represents a fully franked dividend of 17 cents per share (on shares issued as at 30 June 2015). This final dividend will be paid to shareholders on and around 29 October 2015.

32. PARENT ENTITY INFORMATION

The parent entity is M2.

	2015 $000	2014 $000
Current assets	64,664	265,026
Total assets	851,984	574,731
Current liabilities	15,739	32,886
Total liabilities	**547,458**	**290,049**
Issued capital	274,333	255,091
Retained earnings	30,831	30,144
Equity reserves	(638)	(553)
Total shareholders' equity	**304,526**	**284,682**
Profit or (loss) and total comprehensive income of the parent entity	**55,334**	**62,587**

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

33. AUDITOR'S REMUNERATION

The auditor of M2 Group Ltd is Ernst & Young.

	2015 $	2014 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity within the consolidated group	728,000	531,696
• Other services in relation to the entity and any other entity in the consolidated group		
- Due diligence and other assurance services	650,000	28,325
	1,378,000	**560,021**

DIRECTOR'S DECLARATION

In accordance with a resolution of the directors of M2 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 2015 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 2015.

On behalf of the directors,

CRAIG FARROW
CHAIRMAN
MELBOURNE, 21 AUGUST 2015

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Independent Auditor's Report to the members of M2 Group Ltd

Report on the financial report

We have audited the accompanying financial report of M2 Group Ltd, which comprises the consolidated statement of financial position as at 30 June 2015, the 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 2b, 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.

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.

Building a better working world

Opinion

In our opinion:

a. the financial report of M2 Group Ltd 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 2015 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 2b.

Report on the remuneration report

We have audited the Remuneration Report included in pages 24 to 36 of the directors' report for the year ended 30 June 2015. 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 Group Ltd for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Don Brumley
Partner
Melbourne
21 August 2015

Paul Gower
Partner

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchance Ltd listing rules and now shown elsewhere in this report is as follows. This information is current as at 19 August 2015.

(A) DISTRIBUTION OF EQUITY HOLDERS OF SECURITIES

(I) ORDINARY SHARE CAPITAL

633,335 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	130,250,406	92
10,001 to 100,000	23,901,349	1,000
5,001 to 10,000	9,967,457	1,359
1,001 to 5,000	15,985,509	6,410
1 to 1,000	3,276,374	7,222
Total	**183,381,095**	**16,083**
Unmarketable Parcels	5,902	500

(B) SUBSTANTIAL HOLDERS

M2 has no substantial holders at 19 August 2015.

(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	19 Aug 2015	%IC
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		30,179,276	16.46
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		27,732,499	15.12
3	NATIONAL NOMINEES LIMITED		19,641,868	10.71
4	CITICORP NOMINEES PTY LIMITED		7,819,683	4.26
5	BNP PARIBAS NOMS PTY LTD	<DRP>	6,181,422	3.37
6	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		5,860,174	3.20
7	MR VAUGHAN BOWEN	V G BOWEN FAMILY	3,773,750	2.06
8	THIRTY FOURTH ZULU PTY LTD	HAMILTON SUPERANNUATION NO 3	2,038,133	1.11
9	DENNIS N BASHEER SUPERANNUATION PTY LTD	<DENNIS N BASHEER S/F A/C>	1,453,295	0.79
10	MR VAUGHAN GARFIELD BOWEN & MRS CAROLINA NUNN	<BOWEN FAMILY SUPER FUND A/C>	1,185,338	0.65
11	AMP LIFE LIMITED		1,166,647	0.64
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	<NT-COMNWLTH SUPER CORP A/C>	1,080,826	0.59
13	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	959,320	0.52
14	HYLAND SECURITIES PTY LTD	<THE HYLAND A/C>	920,000	0.50
15	REVEN PTY LIMITED	<FAYE HAMILTON-HAMILTON FAMILYA/C>	890,389	0.49
16	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	854,572	0.47
17	MIS INVESTMENTS PTY LTD	<THE SLEPOY FAMILY NO 3 A/C>	800,000	0.44
18	WYATT PTY LTD	<THE RICHMOND A/C>	750,000	0.41
19	MR EDMOND WING KIN CHEUNG & MRS ELIZA SIU LING CHEUNG	<EDMOND & ELIZA S/F A/C>	659,291	0.36
20	WICKS GROUP PTY LTD	<WICKS FAMILY A/C>	653,334	0.36
Total			**114,599,817**	**62.49**
Balance of register			**68,781,278**	**37.51**
Grand total			**183,381,095**	**100.00**

CORPORATE DIRECTORY

M2 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

Level 10, 452 Flinders Street
Melbourne VIC 3000
Telephone: 03 9923 3000
Facsimile: 03 9674 6599
Web: 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
Rhoda Phillippo	Non Executive Director

COMPANY SECRETARY

Ashe-lee Jegathesan

CHIEF EXECUTIVE OFFICER

Geoff Horth

CHIEF FINANCIAL OFFICER

Darryl Inns

AUDITOR

EY
8 Exhibition Street
Melbourne, VIC 3000

SHARE REGISTRY

Link Market Services Limited
Level 4, 333 Collins Street
Melbourne, VIC 3000

Telephone: 02 8280 7111 or 1300 554 474
www.linkmarketservices.com.au

SUSTAINABILITY REPORT 2015

M2 GROUP LTD

CONTENTS

REPORT PROFILE

This report has been prepared internally, and has been reviewed by senior executives of M2 and by the members of the Board of Directors.

It is anticipated that in the future an external organisation will be engaged to provide assurance in respect of this report.

SIGNIFICANT BUSINESS CHANGES

In the period, M2 completed the acquisition of CallPlus Group and 2Talk Limited (collectively referred to as 'CallPlus'), giving M2 the ranking of 3rd largest broadband provider in New Zealand, by revenues/customer base. At the time of the announcement, it was disclosed that M2 forecast Call Plus to contribute to in excess of $250 million in revenue and $45 million in EBITDA in FY16. As the transaction completed on 30 June 2015, the CallPlus business has not been analysed for the purposes of this report.

This is our first Annual Sustainability Report. It reviews our performance from 1 July 2014 to 30 June 2015 (FY15).

This report is developed in accordance with the Global Reporting Initiative (GRI) G4 Framework at a core level. We are reporting on the aspects material to M2, demonstrating our support for the goals of the GRI.

Feedback on this report may be sent to investor@m2.com.au.

CHAIR AND CEO LETTER

Sustainability has always been a focus of the M2 Team, from when it was a small company of less than 100 people and appointed its first 'Environmental Ambassador' to more recently, when HR Director Melissa Fitzpatrick was appointed with multiple goals including talent identification, leadership development and Corporate Social Responsibility. The Board, Executive Management and Team of M2 recognise the importance of sustainability in the lives of people around the world.

In its 15 years as a company, M2 has grown and evolved quickly, both organically and through its 20+ acquisitions. Acquisitions have regularly changed the structure and scope of the Company, making sustainability reporting difficult. We are pleased to report in accordance with the GRI G4 Framework to enable thorough and consistent sustainability reporting going forward.

Our activities in FY15 were centred around our philosophy of 'Get Involved. Give Back. Make a Difference'. We entered the year with the intent of working with our Team to increase their sustainable activity for the betterment of the community and their own sense of wellbeing and fulfilment.

In FY14, we committed to the establishment of a Green Team and this commitment was delivered upon in FY15. The Green Team comprises volunteer team members from M2, who work together to reduce the Company's impact on the environment and enact change within and beyond our office walls.

M2 has been a proud supporter of the Telco Together Foundation ('TTF', telcotogether.org) since it was seeded in 2011 by our founding CEO and now Executive Director, Vaughan Bowen. The TTF unites the major Australian telcos under one charitable umbrella in support of a number of Australian communities in need, with a focus on homelessness, mental health, social inclusion and indigenous health.

Our achievements in the year, particularly within our own team and our approach to procurement, were pleasing. We move forward with the intent of improving on this foundation, both internally and externally. Our key priorities and achievements are summarised in the following two pages and detailed throughout this report.

We hope that this report gives you insight into our business and our approach to sustainability. We welcome your feedback.

CRAIG FARROW
CHAIRMAN

GEOFF HORTH
CEO

KEY FINANCIAL HIGHLIGHTS

$1.12
BILLION
REVENUE

$170.5
MILLION
EBITDA

$73.7
MILLION
NPAT

$100.2
MILLION
NPAT UNDERLYING
EXCLUDING TRANSACTION COSTS

40.5¢
PER SHARE
EPS

17¢
PER SHARE
FINALY FY15 DIVIDEND

$484.7
MILLION
NET DEBT
AT 30 JUNE 2015

$2
BILLION
MARKET CAPITALISATION
AT 30 JUNE 2015

Key Financial Highlights of FY15.

PRIORITIES AND ACHIEVEMENTS

Impact Areas	Goals	Achievements	FY16
Team	Be a great place to work Launch formal Leadership Development Program	Team member engagement increased by 5% Team Survey results showed greater than 10% increase in satisfaction in: career progression opportunities, team spirit, and M2 being viewed as a great place to work Purchased leave program introduced Formal Leadership Development Program launched, involving managers across all sites in Australia	Increase Team Member engagement by 5% Continue our formal Leadership Development Program and extend to more leaders in the business Launch internal career development program Continue to use online tools to further the training and improve the knowledge of our Team
Diversity	Promote and support diversity within the Company Promote equal opportunity, respect and fairness	Appointment of our first female to our Board of Directors An improvement of 1% in the number of female team members	Continue to promote diversity and the advancement of women within the Company. Continue mentoring of women at all levels in the business
Community	Promote team member activity and volunteering within the Community Support and promote Payroll Giving Support local communities in our major areas of operation	23 number of Volunteer days used in FY15 Payroll giving was introduced to our Team in December 2014. A number of Community activities were undertaken in FY15. For more detail, please refer to page 9.	Continue to promote the use of Team Member Volunteering Days. Involve the Company and Team in a minimum of 6 national Community activities in FY16.
Environment	Monitor our use of resources and find opportunities for improvement Maximise recycling Help Team Members to reduce their waste at work and at home Support and promote national activities	Electricity use was reduced by 2% in FY15 when compared with FY14. 111kgs of used printer cartridges were recycled by our team. 80 kgs of mobile handsets were recycled through the Mobile Muster program. Team members promoted and participated in a number of environmental activities including Earth Hour, National Volunteer Week and Clean Up Australia Day. For more detail, please refer to page 12.	Continue to monitor electricity use and seek opportunities to reduce electricity demand. Continue to recycle as many materials as possible whilst reducing their use. Develop a sustainable procurement policy.

TEAM

A GREAT PLACE TO WORK

OUR CULTURE, VALUES AND PRINCIPLES

Our approach to team and our culture starts with the foundation that there are no employees: everyone is a ‘team member’. Our goal for our team, which was formalised in 2014, has been centred on creating an innovative and inspiring workplace that is a great place to work.

We believe that achieving our goal to be a great place to work is a critical success factor; an engaged and motivated team constantly striving to improve business performance and deliver the best to our customers will invariably give us the best chance of delivering on our business objectives.

We have focussed on several core strategies to help us achieve being a great place to work, which include providing:

- stimulating work, which is both challenging and rewarding
- modern workspaces that promote collaboration and wellness
- the opportunity to effect change in the workplace through ownership of, or input into, processes and procedures
- professional and leadership development
- a comprehensive Team Benefits Program
- a salary sacrifice share plan to enable team members to share in the profits that they help to generate

In FY15, we engaged with a group of team members to redevelop our Company purpose and values, which were then launched to the broader team. Our values are:

- Do the right thing
- Be responsive, put yourself in the customer’s shoes
- Respect each other
- Ambition for the business

In addition, team members are governed by our Code of Conduct, encompassing ethical behaviour, legal obligations and responsibilities as a growing business. This Code is available on our website via http://m2.com.au/Code_of_Conduct. More details on this, our ethics and governance can be found on page 15.

TRAINING

In 2014, a formal Leadership Development Program was launched for all leaders in the company. M2 is committed to investing in and further developing a strategic leadership culture, in which our team’s skills are fostered and developed. During the year we launched M2 University, and online learning platform designed to deliver a range of e-learning courses which are available to all employees.

As part of this commitment, performance reviews, including an element of personal development, are conducted for 99% of team members, and audited.

In FY15, we did not measure training hours by gender or employment category.

TEAM MEMBER BENEFITS

Part time and full time employees receive the same benefits (pro-rata where relevant). Temporary employees, on a fixed term contract or casual, receive all statutory benefits, plus a range of team benefits such as discounted handsets, complimentary breakfast and fruit, and access to discount programs. They do not receive some benefits such as gym memberships or entry to M2’s salary sacrifice program including M2’s share plan.

TEAM HEALTH & SAFETY

As part of our Team Benefits Program, our team members have access to fully paid gym memberships, fresh fruit and breakfast daily. To further support team health and reduce risks associated with a sedentary lifestyle, we have installed 'standing' desks in our Sydney office to allow team members the flexibility to stand or sit during their day. Our aim is to install these desks in any new office fitout in the future.

We are committed to the establishment of a safe place of work, safe working practices and procedures and the provision of safe plant and equipment.

Our tactics for team safety include:

1. Providing information, training and supervision for all team members to ensure understanding of health and safety practices and procedures, including the provision of names of persons to whom a team member may take an enquiry or complaint in relation to health and safety,
2. Provide adequate facilities to protect the welfare of all team members,
3. Provide and maintain safe equipment and systems of work and maintain the workplace in a safe and healthy condition,
4. Employ or engage people with the necessary qualifications or expertise to advise on health and safety issues affecting team members, and
5. Maintain information and records relating to the health and safety of team members.

We have an established Health and Safety Committee with representatives from our team, covering all sites around Australia. Per the above, regular training is conducted with these representatives.

We do not currently measure injury or absenteeism by gender or age group.

DIVERSITY

Diversity at M2 is valued and encouraged. We recognise the benefit gained from having a diverse range of individuals involved in our organisation and business activities. We acknowledge that a range of perspectives is imperative to making good, balanced decisions that are in the interests of our Company as a whole. A diverse workplace promotes M2 as an 'employer of choice', which in turn attracts key talent at all levels. We are committed to providing an environment in which our entire team is treated fairly and with respect, with equal opportunity and access to available opportunities.

In respect of gender diversity, female participation in the workplace adds value and as such, we are committed to implementing and supporting initiatives and processes to help facilitate equal gender participation and opportunity within M2.

In FY15, we appointed our first female director, Rhoda Phillippo, and made an improvement to the gender balance in our broader team. We are committed to continuing to improve the gender balance in M2.

Role		30 June 2015		30 June 2014	%Change (FY14 to FY15)
	Numbers of Females	(% of total)	Number of Females	(% of total)	
Board	1	16.6	0	0	16.6
Executive Leadership	2	25	2	25	0
Team Other Team Members (excluding overseas)	297	30.65	242	29.3	1.35%

REMUNERATION

Full detail on M2's remuneration policy is contained within the Remuneration Report in our Annual Report. In summary, M2's policy for Executive remuneration is to set remuneration at levels sufficient to attract and retain qualified, skilled and experienced executives, compared with available market data. Long Term Incentives for Executives and Senior Leaders is designed to align performance with shareholder returns and are set over three years to align with our business planning.

TEAM PROFILE

We are proud to have 3300 hard working and passionate team members in Australia, New Zealand and the Philippines. As detailed in the 'Numbers That Matter' section of our Annual Report, this number has increased by 100 since 30 June 2014, as a result of structural changes within the business and the addition of the CallPlus team on 30 June 2015.

A SNAPSHOT OF OUR TEAM PROFILE AT 30 JUNE 2015.

Total number of employees by employment contract and gender.

Contract Type	Male	Female
Permanent Full-time	585	221
Permanent Part-time	12	15
Contractor	7	4
Casual	73	59
TOTAL	**677**	**299**

Total number of permanent employees by employment type and gender.

Employment Type	Male	Female
Permanent Full-time	585	221
Permanent Part-time	12	15
TOTAL	**597**	**236**

Total workforce by employees and supervised workers and by gender.

	Male	Female
Employees	677	299
Managers	158	45
Supervised Workers	519	254

Total workforce by region and gender.

Region	Male	Female
Australia	672	297
New Zealand	5	2

Our team in the Philippines is contracted through a third-party provider.
13.7% of our team are covered by collective bargaining agreements.

KEY CUSTOMER HIGHLIGHTS

REVIEWED AND UPDATED OUR INVOICES
FOR IPRIMUS, CLUB TELCO AND EFTEL, IMPOROVING THE WORDING AND FORMAT TO MAKE THEM EASIER TO READ AND UNDERSTAND

UPDATED OUR DODO AND IPRIMUS WEBSITES
TO MAKE IT MORE RESPONSIVE AND USER FRIENDLY

IMPLEMENTED A PROCESS TO AUTOMATICALLY CONFIRM WITH A CUSTOMER THAT THEIR **PAYMENT HAS BEEN RECEIVED**

REVIEWED THE TEXT OF ALL SMS MESSAGES

ENABLED NEW CUSTOMER STATUS UPDATES
TO ALLOW NEW CUSTOMERS TO CHECK THE PROGRESS OF THEIR APPLICATION VIA IVR AND ACCOUNT MANAGEMENT

CUSTOMERS INCREASED THEIR USE OF OUR "CHAT" CUSTOMER SERVICE TOOL BY 130%

SURVEYED 840,000 CUSTOMERS

USED OUR DATA TO BETTER PREDICT CUSTOMER BEHAVIOUR
IN ORDER TO REVIEW OUR IVR AND ENSURE A CALLER REACHES THEIR PREFERRED TEAM MORE QUICKLY AND EASILY

ACHIEVED A CUSTOMER SATISFACTION SCORE OF 4.6 OUT OF 5

We are in the business of making the customer happy. The customer is our focal point. Everything we do is centred around the customer and everything we do is tested against how it will impact our customers.

Given that we are all customers it should be a very simple task. All we need to do is listen to ourselves and embrace our co-pilot culture. The challenge is to keep up with the changes. Customers are changing, their habits are changing and we must always be one step ahead. My personal motto is - question it, make it better.

SANDRA MILJIC
GROUP GENERAL MANAGER – OPERATIONS

COMMUNITY

Our approach to Community is to **Get Involved, Give Back and Make a Difference**.

ALL TEAM MEMBERS CAN ACCESS UP TO 2 PAID VOLUNTEERING DAYS ANNUALY
TO TAKE PART IN COMMUNITY OR CHARITABLE ACTIVITIES

The M2 business and the M2 Team support a number of charities. M2's preferred lead charity is the Telco Together Foundation. The Telco Together Foundation ('TTF') unites Australian IT&T companies for the purpose of fundraising for a number of key charities that support communities in need, focussing on mental health, homelessness, refugees and indigenous communities. All leading Australian telecommunications companies are members of the TTF.

We supply the TTF with office space and supplies and pay a yearly membership fee of $50,000. In addition, we support TTF fundraising in a number of ways, including taking them to our annual channel partner conference to host a fundraising event, and through our Workplace Giving Program.

WORKPLACE GIVING IN FY15 RAISED MORE THAN $38,000

A number of other charities are supported on a casual basis throughout the year.

In FY15, our Team raised funds and participated in:

- the Melbourne Marathon, supporting the Cerebral Palsy Education Centre
- the Sydney to the Gong bike race, supporting MS: Multiple Sclerosis
- The Tough Mudder endurance race, supporting Soldier On
- Movember, supporting Men's Health
- Pancake Day, supporting Uniting Care
- Pink Ribbon Day, supporting the Cancer Council
- Christmas Giving Trees to collect gifts for disadvantaged and ill children
- Cash collections for animal shelters

SMALL CHANGE BIG CHANGE
Helping Australians in Need

In June 2015 we and the TTF launched a pilot program of the very first of its kind in Australia – on-bill donations.

Through the Small Change Big Change program, on-bill donations provide an opportunity for our customers to donate a small monthly amount of $1, $2, or $5 to the TTF, which is included on their M2 invoice. The amount remains fully tax deductible (over $2) and 100% of the donation goes to the TTF to support their partner charities. The program has been launched on an opt-in basis to a select group of Commander customers in the first instance.

This pioneering idea came from our Executive Director, Vaughan Bowen (founding CEO of M2 and founder and Chairman of the TTF) and has been made a reality through the work of the TTF team in combination with our marketing and customer operations teams. We hope that this will be a success in driving increased giving from individuals and businesses around Australia. As the program name indicates, small change to these individuals and businesses could drive big change for the programs supported by the TTF.

We are delighted that out of all of the supporters of the TTF, M2 was chosen to deliver the pilot program.

IN JUNE 2015 WE AND THE TTF LAUNCHED A PILOT PROGRAM OF THE VERY FIRST OF ITS KIND IN AUSTRALIA – ON-BILL DONATIONS.

KILIMANJARO

In an adventure-seeking fundraising effort, members of our team joined the TTF in 2013 and 2015 to climb Mt Kilimanjaro, the tallest freestanding mountain in the world and one of the highest volcanoes.

Matthew Proctor, M2 General Manager – Data Centre and Cloud, has completed the climb twice, with fundraising support from the M2 team.

'Climbing Mount Kilimanjaro (the world's largest freestanding mountain) to support the Telco Together Foundation and its charity partners was the most difficult endeavour I've undertaken, but by the far the most rewarding. Representing M2's commitment to supporting Australians in need via the Telco Together Foundation makes such an adventure worth the effort – so much so that we did it twice!' – Matthew Proctor

RONALD MCDONALD TREEHOUSE

In August 2014, we opened the Dodo Treehouse at the Ronald McDonald House Parkville, creating an interactive games room equipped with Dodo internet, gaming consoles, comfy cushions and toys. Ronald McDonald House, Parkville, is dedicated to providing a 'home away from home' for families with a seriously ill child undergoing specialist paediatric medical care at the Royal Children's Hospital, Melbourne. The Dodo Treehouse was opened with the intent of providing guests with a place to relax, play, have fun and be distracted from the distress of suffering from a serious illness.

The Dodo Treehouse was officially opened with a day of festivities for Ronald McDonald House guests, including a sausage sizzle, face painting, balloon twisting and a reptile show.

VOLUNTEERING

We believe in the importance of giving back to the community and value the sense of connection and fulfilment in doing so. Each M2 Team Member is given 2 paid Volunteering Days every year and has the opportunity to take these up through the TTF or as sourced independently.

In FY15, our 806 full-time team members gave 23 days back to the community.

We support our team members in the Army Reserves by granting two weeks of Defence Leave each year for Reserve service in addition to their annual leave. 'Top up' pay is provided, making up the difference between the Reserve pay and the team member's usual base salary during those two weeks of leave.

Team members are encouraged to donate blood on a regular basis. During the year M2 organised bus transfers for team members to volunteer to give blood in various locations.

GIVING BACK IN MANILA

We have a significant number of team members in Manila as the largest base of our customer service and inside sales teams. We are in the process of selecting our preferred charity partner in the Philippines. While this selection process has been taking place, we and our team have conducted a range of community support activities.

MANILA BOYS TOWN COMPLEX

In November 2014, team members from our support and marketing operations took some early Christmas cheer to the Manila Boys Town Complex. Located near some of our Manila operations, the complex provides basic needs such as food, shelter, clothing and education to homeless, underprivileged youth and aged residents. Our team members took some children's entertainers to the complex and delivered a gift bag to each of the children.

THE SHOEBOX PROJECT

Our team created The Shoebox Project, an initiative to help support the education of underprivileged children in Manila. In June 2015, our teams filled shoeboxes with school supplies and hygiene products, which were handed out to disadvantaged children at a school close to our operations.

SUPPORTING FAMILIES

We recognise the importance of family in the happiness and wellbeing of our team members, and support for family being essential in our goal of being a great place to work. In FY15, we supported 13 families in returning to work following the birth of a child. Other ways that we support families includes:

- Our Purchased Leave program, allowing team members to purchase up to two additional weeks of annual leave per year
- The option to take Long Service Leave at half pay to double the leave time
- Additional Paid Parental Leave on top of the government's paid Parental Leave scheme. M2 provides:
  - An additional seven weeks of paid leave for the Primary Carer
  - An additional two weeks of paid leave for the Secondary Carer
- Flexible working hours or arrangements, where possible
- An Employee Assistance Program that provides professional counselling on demand to team members
- A New Baby Pack for pregnant team members, including important information, relevant paperwork and a gift for the baby

ENVIRONMENT

The M2 team has always had an interest in sustainability. In FY15, through the work of our newly-established Green Team, our focus has been on:

- Sustainability: monitoring how we use resources and assessing opportunities for improvement
- Maximising recycling and reducing waste – considering best practice
- Helping our team members to minimise their impact both at home and work
- A 2015 Green Calendar of Events promoting green initiatives such as National Recycling week, Sustainable Transport to Work Day, World Environment Day, Earth Hour and Clean Up Australia Day

OUR IMPACT

In Australia, M2 operates a fibre network in five capital cities, has infrastructure to connect broadband in 296 exchanges and a national voice network interconnected with all major carriers. We are connected to 52 NBN points of interconnect (POIs) across the country and our focus on network will be to continue to connect to the NBN as it is built. As such, the environmental impact of our network is minimal.

M2 subsidiary M2 Energy Pty Ltd is licensed to sell electricity and gas in Victoria, New South Wales, South Australia, Queensland and the ACT. We purchase energy from the grid – via the Australian Energy Market Operator. We do not own or lease any electricity generation assets.

Though our Dodo and Commander brands, we offer customers the opportunity to purchase 10% or 100% green energy. M2 Energy (via our Dodo Power & Gas brand) is an accredited GreenPower supplier, and provides 10% and 100% GreenPower options to its customers, supporting clean and renewable sources of electricity such as solar biogas, biomass, hydro, and wind generation.

When a customer chooses 10% or 100% Dodo GreenPower, that percentage of their electricity consumption is abated with Accredited Renewable Energy Certificates created from renewable electricity that has already been supplied into the electricity grid. This electricity replaces the same amount of energy that would otherwise have been sourced from fossil fuels such as coal.

M2 Energy also participates in the Commonwealth's Renewable Energy Target, New South Wales Energy Saving Scheme and the Victorian Energy Efficiency Target.

ELECTRICITY CONSUMPTION

M2 reduced its total electricity consumption across all Australian sites by 2% in FY15 when compared with FY14. This is the result of:

- decreasing the number of sites in operation
- improving energy efficiency of equipment in data centres
- improving energy efficiency of cooling in data centres

Calculating our energy intensity using our total internal electricity consumption divided by the number of full time employees, M2's energy intensity ratio was 3.2.

In FY14, this ratio was 3.6.

IMPROVING TECHNOLOGY

In March 2015, we undertook the replacement of our cooling units at our data centre in Bridge St, Sydney. The project upgraded the cooling technology with an ozone-friendly refrigerant, which also reduced noise emissions, removed the requirement of oil for lubrication and decreased electricity use.

The air conditioning equipment supplier contracted for the job, Innovative Air Solutions, recycled all redundant equipment including the refrigerant, in accordance with authority requirements.

The operation to replace the cooling unit took place over a 15 hour period. A short video on the project is available via: M2.com.au/chiller

No fines or non-monetary sanctions for non-compliance with environmental laws and regulations, have been received by M2.

OUR MOST SIGNIFICANT MATERIAL USE TO BE REPORTED IS PAPER.

IN FY15, M2 USED 7,483KG OF PAPER, REGRETTABLY AN INCREASE OF 2,500KG ON THE PREVIOUS CORRESPONDING PERIOD. THE PERCENTAGE OF PAPER USAGE WHICH WAS RECYCLED INCREASED FROM 49% TO 78%

WE HAVE GENERAL, MIXED RECYCLABLES AND ORGANIC WASTE BINS IN OUR SYDNEY AND MELBOURNE OFFICES

OUR INTENTION IN THE COMING YEAR IS TO INVESTIGATE THEIR IMPLEMENTATION IN OUR HOBART, PERTH AND BRISBANE OFFICES. IN OUR WAREHOUSE SPACE, WE RECYCLE AS MUCH CARDBOARD AND PLASTIC AS POSSIBLE

WE COLLECTED 80KG OF DISCARDED MOBILE PHONE HANDSETS, BATTERIES AND CHARGERS

THESE WERE PREVENTED FROM GOING INTO WASTE AND SENT TO MOBILE MUSTER TO EXTRACT AND RECYCLE IMPORTANT MATERIALS

WE RECYCLED 110KG OF PRINTER CARTRIDGES IN FY15

WE PARTICIPATE IN ELECTRONIC PRODUCT STEWARDSHIP

THROUGH WHICH WE, AS MANUFACTURERS, SHARE IN THE RESPONSIBILITY OF RECYCLING USED ELECTRONIC EQUIPMENT SUCH AS TELEVISIONS AND COMPUTERS. WE HAVE EXECUTED AN AGREEMENT TO BECOME A MEMBER OF THE ELECTRONICS PRODUCT STEWARDSHIP AUSTRALASIA NTCRS CO-REGULATORY ARRANGEMENT

OUR POLICY ON TRAVEL

IS TO ALWAYS USE VIDEO CONFERENCING, SCREEN SHARE AND CONFERENCE CALLS TO MINIMISE THE TRAVEL UNDERTAKEN BY OUR TEAM. EVERY YEAR, WE HOLD “NO FLY JANUARY”, IN WHICH TIME OUR TEAM MEMBERS ARE ASKED NOT TO FLY AT ALL

IN FY15, WE SOLD 488,000KG OF ELECTRONIC PRODUCTS, AN INCREASE OF 31% ON FY14

THROUGH OUR PENDO BRAND, WE SUPPLY ELECTRONIC EQUIPMENT INCLUDING TELEVISIONS, MOBILE PHONE HANDSETS AND COMPUTER TABLETS TO RETAIL CUSTOMERS AS WELL AS WHOLESALE CUSTOMERS SUCH AS TARGET AND OFFICEWORKS. THIS IS OFFSET THROUGH ELECTRONIC PRODUCT STEWARDSHIP

ETHICS, INTEGRITY AND GOVERNANCE

M2 is committed to a sound corporate governance framework. We believe in transparency, accountability and integrity for the benefit of our shareholders, team members, customers and all other interested stakeholders.

Our corporate governance policies and charters are reviewed at least annually in reference to the Corporate Governance Principles and Recommendations, as developed by the ASX Corporate Governance Council.

OUR BOARD

The Board of Directors of M2 consists of 6 members, details of whom are set out on page 19 of the Annual Report, and in the Corporate Governance Statement which is accessible at http://m2.com.au/investor-centre/corporate-governance/ .

There are 2 sub-committees of the Board: the Audit & Risk Committee and the Nomination & Remuneration Committee. Again, details of these committees are set out in the Corporate Governance Statement. A sub-committee of the Audit & Risk Committee, the Wholesale Energy Risk Management Committee, has also been established specifically to oversee risk management for the energy business.

The composition of our Board of Directors is as follows:

Director	Appointment Date	Anniversary (FY15)	Committees
INDEPENDENT NON-EXECUTIVE			
Craig Farrow (Chair)	18 February 2000	15 years	Audit & Risk Nomination & Remuneration
John Hynd	18 February 2000	15 years	Nomination & Remuneration
Michael Simmons	26 November 2009	5 years	Audit & Risk (Chair)
David Rampa	21 December 2012	2 years	Nomination & Remuneration (Chair)
Rhoda Phillippo	2 March 2015	N/A	Audit & Risk
EXECUTIVE			
Vaughan Bowen			

Detailed biographies of each director are included on page 18 of the Annual Report.

BEING RESPONSIBLE

We have a Conflict of Interest policy that is available at http://m2.com.au/Conflict_of_Interest. In addition, our Code of Conduct, available at http://m2.com.au/Code_of_Conduct also sets out the principles and guidelines by which our team members are expected to conduct its business and manage any potential and existing conflicts of interest.

Our Conflict of Interest policy requires each director and KMP to disclose to the Board any substantial or material interest which he or she holds which may either currently or at some time in the future, constitute a conflict of interest for him or her. Additionally, Board members and KMP are required to disclose to the Board any potential conflict of interest which arises. If the Board, after due consideration, determines that a conflict of interest exists, the director or KMP is excluded from participating in any decisions relating to that matter, and generally, excluded also from any material discussions in relation to that matter.

Related party transactions are disclosed in the financial report, on page 36. M2 Directors and Executives who hold positions as directors in companies in which M2 has an interest (excluding wholly owned subsidiaries of M2) are listed in that section of the report.

REVIEWING AND MANAGING RISK

In FY15, a dedicated Group Risk Manager was appointed to oversee our risk management function, in accordance with our Risk Management Policy and framework, a summary of which is accessible at http://m2.com.au/Risk_Mgmt_Policy/.

The Audit & Risk Committee is tasked with reviewing and reporting to the Board on major strategic risks across the group. This, includes, as a minimum all Critical rated risks, risk treatment plan for those risks and management's assessment of residual risk (i.e. after risk mitigation activities), as well as the sufficiency and outcome of audits undertaken to test the adequacy of and compliance with prescribed policies.

The Audit & Risk Committee reviews the risk register at its meetings, and, at least once a quarter, receives the Group Risk Manager's report on any new material business and operational risks which arise and the steps taken to manage that risk.

Risks identified are categorised into Critical, High, Medium and Low categories, by consensus with stakeholders on the likelihood and impact of its occurrence, after taking into account current mitigating controls which have been implemented. Audit & Risk Committee and Board approval is required to accept the remaining residual risk, after taking into account the comprehensive risk management plan and control activities which are developed to manage that risk.

Although our Risk Management Policy requires the Audit & Risk Committee to review specifically all risks with a residual rating of Critical, in FY15, this was extended to include all risks with a High rating as well, as there were no risks identified with a residual rating of Critical.

The risks which fell into this category for M2 were the risk of a cyberattack, a major disruption to our internal IT systems, services and applications and privacy or data breaches. Detailed risk management plans incorporating both existing control activities as well as further planned activities, have been developed and executed to ensure that the risks of these events occurring are managed at an acceptable level.

BEHAVING ETHICALLY

Our Code of Conduct sets out the guidelines and principles on ethical and lawful behaviour that are expected of all of our Team Members.

The Code refers any Team Member who has concerns or questions to their direct manager, any member of the Executive Team, the Human Resources team or members of the internal Legal & Compliance Team.

In addition, we make available an external confidential Employee Assistance service, through which Team Members are encouraged to access to seek advice or counsel on any matters that concern them.

Our Board is committed to upholding the highest standards of ethical business practice and corporate governance. We embrace fully transparent reporting of unethical or unlawful conduct by empowering all directors, officers, and employees, as well as contractors and suppliers to raise concerns without fear of adverse personal repercussions.

Where a Team Member becomes aware of any unethical or unlawful behaviour, and matters related to organisational integrity, Team Members are required to report those matters to the Company Secretary, or alternatively in certain circumstances, to the Chief Executive Officer and/or the Chairman of the Board. Such a report may be made anonymously, and will be treated as confidential to the extent possible.

Any issue raised under the policy will be investigated either internally or externally, as appropriate, and addressed.

To date, there have been no issues raised under our Whistleblower Policy.

FURTHER DETAIL ON OUR PERFORMANCE

ANTI-CORRUPTION

100% of our operations have been assessed for risks related to corruption. No significant risks were identified. There were no confirmed or alleged incidents of corruption identified or reported.

COMPLIANCE

At M2, we have worked to develop a compliance culture. In FY15, to best enable interactive compliance training across all sites, we introduced "M2 Uni", an online training platform. All team members have been engaged in compliance training through this portal.

In FY15 our Dodo business received a formal warning from the Australian Communications and Media Authority in respect of a few isolated instances where M2's direct debit charging protocols had not been adhered to as a result of human error. This followed an industry wide review undertaken by the Authority. A review of our processes reflected that the processes in place were sound.

MARKETING COMMUNICATIONS

M2 adopts rigorous review processes to ensure that the marketing campaigns undertaken by its business units comply with all relevant laws and codes, including both the Competition and Consumer Act and the Telecommunications Code of Practice. In FY15, M2 has not been found to have breached any regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship.

CUSTOMER PRIVACY

There have been no instances in which it has been found by an Authority that M2 has either lost customer data or breached a customer's privacy.

SUPPLY CHAIN

JOHN ALLERTON COMMERCIAL DIRECTOR

Our suppliers include a range of national to multinational organisations, across different regions and different businesses. Where possible, we source supplies locally for each location and hold local account management relationships, although this is balanced against ensuring we are able to obtain those supplies as economically as possible (as part of our commitment to delivering returns to shareholders). We also preferentially purchase environmentally conscious supplies, including recycled paper, in all our offices

In addition to our own network, we use Australia and New Zealand's largest carriers to provide fixed voice, mobile and broadband services to customers: Telstra and Optus. Our electricity for supply to customers is sourced from the Australian Electricity Market Operator (http://www.aemo.com.au).

We appointed a procurement manager in FY15 to manage the procurement practices of the Company. This includes conducting regular reviews of suppliers to ensure that we are securing appropriate commercial terms for all our purchasers, and monitoring the performance of our suppliers to ensure that they continue to meet the standards and guidelines of our corporate policies.

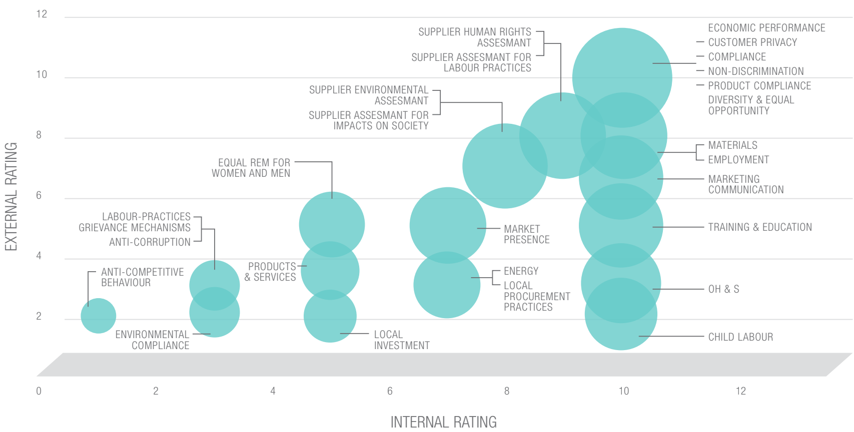
We are pleased to report that of the suppliers evaluated in FY15, 90% of them met M2's environmental, labour and impact on society criteria. The remaining 10% are working towards acquiring the required information.

STAKEHOLDER ENGAGEMENT

Our Stakeholder groups

- Team members
- Shareholders: Both institutional and retail
- Suppliers
- Customers
- Media
- Governing bodies

MATERIAL ASPECTS



HOW WE ENGAGE WITH STAKEHOLDERS

We engage with stakeholders regularly and in a variety of ways throughout the year.

INVESTORS

M2 Investor Relations aims to ensure all shareholders receive information in an equal and timely manner and encourages an open dialogue with investors through a variety of forums. The M2 Investor Relations programme facilitates two way dialogue, both in person at our Annual General Meeting and electronically, through our dedicated email address (investor@m2.com.au) and our Twitter account (@M2GroupLtd).

TEAM

Our Team is engaged in a variety of ways throughout the year. We have both formal and anonymous feedback channels through which team members can raise concerns or ask questions, including our annual team survey. We communicate regularly with our team through a variety of electronic media and face to face at regular business update briefings.

Sections of the M2 Team were engaged specifically as part of the process of preparing this report.

CUSTOMERS

In FY15, we contacted 1,000 business customers to participate in a detailed survey, with questions including satisfaction and customer experience. We value this direct feedback from our customers and will continue to draw upon the data to improve upon our products and service delivery.

In our consumer segment, we conducted surveys on net promoter score, and general customer satisfaction. In the period, more than 840,000 responses were received and our customer satisfaction rating was 4.6 out of 5.

GOVERNING BODIES

We meet regularly and engage with industry regulators.

SUPPLIERS

We value our supplier relationships and meet regularly with our major suppliers.

MEDIA

We regularly engage with and make ourselves available to print, online, radio and television media representatives. We have an active social media presence under all brands, including Corporate.

WWW.M2.COM.AU