m2 telecommunications

30 August 2010

Australian Securities Exchange
Company Announcements Office
20 Bridge Street
Sydney NSW 2000

By electronic lodgment

Dear Sir/Madam

Annual Financial Report for period ended 30 June 2010

Please find attached M2 Telecommunications Group Ltd's Annual Financial Report for the period ended 30 June 2010, including:

- Appendix 4E
- 2010 Annual Report

The above documents comprise the information required by Listing Rule 4.3A.

The Annual Report and Notice of Annual General Meeting are expected to be dispatched to shareholders in mid-September.

Yours sincerely

K Dean

Kellie Dean
Company Secretary

IBM Centre, Level 10, 60 City Rd, Southbank VIC 3006 Phone 03 9674 6555 Fax 03 9674 6599 Email info@m2.com.au
M2 Telecommunications Group Ltd (ASX: MTU) | ABN 74 091 575 021
www.m2.com.au

M2 Telecommunications Group Ltd ('M2')
ABN 74 091 575 021
ACN 091 575 021

Appendix 4E

Annual Financial Report

For the period ended 30 June 2010

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 2009 to 30 June 2010

Previous corresponding period: 1 July 2008 to 30 June 2009

2. Results for announcement to the market

Revenue and Net Profit					$'000
2.1	Revenue from ordinary activities	up	100.56%	to	$406,111
2.2	Profit from ordinary activities after tax attributable to members	up	119.03%	to	$16,156
2.3	Net profit for the period attributable to members	up	119.03%	to	$16,156

Dividend Information		Amount per security	Franked amount per security
2.4	Dividends paid and to be paid:		
	2010 interim dividend per share	5.0c	5.0c
	2010 final dividend per share	5.0c	5.0c
2.5	Record date for determination of entitlement to the dividends:		
	2010 interim dividend	22 March 2010	
	2010 final dividend	8 October 2010	

2. Results for announcement to the market - continued

Explanation of Financial Results

The results for the reporting period to June 30 2010 are as follows:

Revenue

Revenue for the full year grew by $203.6 million representing a 100.56% increase compared with the corresponding reporting period. This was due to organic growth in the core business operations, as well as the full year impact of revenue derived from the acquisition of People Telecom Ltd in April 2009 and the revenue gained from the acquisition of the business assets of Commander Communications Limited (Receivers and Managers Appointed)(In Liquidation) in June 2009.

Earnings Before Interest & Tax (EBIT)

EBIT for the period was $26.4 million. This represents an increase of $15.3 million (137.19%) compared with the corresponding reporting period. EBIT as a percentage of revenue for the period to June 30 2010 was 6.5% compared with 5.5% for the previous corresponding period.

Dividends & Dividend Reinvestment Plan

On 24 February 2010, the directors declared an interim dividend of 5.0 cents per ordinary share, fully franked. The total amount of the dividend paid was $5.503 million. The date of record for the interim dividend was 22 March 2010. The date of payment was 14 April 2010.

On 27 August 2010, the directors declared a final dividend on ordinary shares. The total amount of the dividend is $6.077 million, which represents a franked dividend of 5.0 cents per share. The date of record for the dividend is 8 October 2010. The intended date of payment is 29 October 2010. The final dividend has not been provided for in the June 30 2010 financial statements.

In February 2010, the directors introduced a Dividend Reinvestment Plan (‘DRP’), whereby shareholders may elect to reinvest part or all of their dividends in M2 shares. Shares will be offered at a discount of 5% to the adjusted market price, which is the average of the daily volume weighted average market price per share sold on the ASX during the five consecutive trading days commencing on the next trading day after the record date.

The DRP is available for the final dividend, which is payable on 29 October 2010. Election form noting participation must be received by the Company by the record date (8 October 2010).

3. Control changes over entities and details of associates and joint ventures

During the reporting period, M2 did not gain or lose control over any entities, nor were involved in any joint ventures.

4. Additional information

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

M2 Telecommunications Group Ltd
Annual Report 2010

Focus and **Growth**

M2 Telecommunications Group Ltd
Annual Report 2010

m2®

M2 Cover Models - From the top of the 2:
Jacinta Kost, Accounts Payable Manager
Tiffany Stevens, Front Desk Coorinator
Steve Wicks, Sales & Marketing Director
Cora Bernales, Accounts Officer
Theresa Infante, Billing Analyst
Mohammad Kibria, Accounts Payable Officer
Lee Shan Shiu, Assistant Accountant
Thai Truong, Service Desk Analyst
De Nguyen, Service Desk Analyst
Mia Guevarra, Service Desk Analyst
Dhruman Mehta, Treasury Officer
Cecilia Cheng, Accounts Payable Officer
Abdullah Zobaer, Assistant Accountant
Marilyn Wong Kingofong, Management Accountant
Johnson Suriawati, Billing Manager
Virginia Yau, Assistant Accountant
Jun Koo, Assistant Accountant
Bhavesh Desai, Assistant Accountant
Kartik Patel, Accounts Receivable Officer
Milano Reeves, Accounts Officer
Vania Molnar, Accounts Receivable Manager
Vikki Bishop, HR Advisor
Santoso Hendradinata, M2 Software Development Team Leader
Anton Kattan, Software Engineer
John Nguyen, Service Desk Analyst
Achint Kishore, Financial / Management Accountant
Jenessa Burmundo, Service Desk Analyst
Peter McCallum, Provisioning Analyst
Govind Badrinath, Senior Accounts Payable Officer
Robert Amenta, Marketing Assistant
Veronica Piatti, Program Manager (Compliance)
Sean Devota, Risk and Compliance Officer
Robert Cartledge, Collections Officer
Ashley Gibbs, Network Architect
Renee Bowker, Group Marketing Manager
Haydn Corbett, Wholesale Account Manager
Joanna Simonfi, Product Manager – Voice
Jorge Melges, Accounts Payable Officer
Briette Bermingham, Data Product Manager
Rohan Smith, Marketing Executive
Rae Guo, Divisional Accountant
Marj Absolom, Marketing Manager
Claudia Tadros, Sales & Marketing Admin
Debra Mansfield, Corporate Communications Manager
Philip Carter, Database Administrator
Andrew Higham, Product Analyst
Kim Wingerei, Online Manager
Kerrin Keilly, Wholesale Credit Account Manager
Brian El Sheik, Project Manager
Erik Wickstrom, National Sales Manager
Joe Myatt, Principal Engineer
Nour Asmar, Marketing Manager

Photographers:
John Warren, Warren Photography, www.warrenphotography.com.au
Rohan Smith, People Telecom Marketing Executive
Andrew Barnard, M2 Telecom Credit Management Officer

Creative Design:
ADMAD, www.admad.com.au

Adelaide Customer Contact Centre

Contents

Focus and **Growth**

> In the 10 years since its incorporation, M2 has become the largest Network Reseller telco in Australia.

> Through organic growth and selective acquisitions, M2 has delivered eight consecutive years of both revenue and profit growth.

December 1999	October 2004	June 2005	June 2006	June 2006	May 2007	June 2007	October 2007
M2 established	M2 listed on ASX	Recorded NPAT of $1.8m, increase of 39%	Optus appointed M2 as its exclusively endorsed MVNE, and M2 Wholesale was established	Recorded NPAT of $2.18m, increase of 16%	Wholesale Communications Group acquired	Recorded NPAT of $2.41m, increase of 10%	Orion Telecommunications acquired

Con Pouzoulis, *Enterprise Solutions Manager;* ***Claudia Tadros,*** *Sales & Marketing Admin;* ***Joshua Gill,*** *Corporate Account Manager;* ***Vikki Bishop,*** *HR Advisor;* ***Ross Nimon,*** *Operations Team Leader;* ***Tiffany Stevens,*** *Front Desk Coordinator;* ***Niazi Jabeer,*** *ITS Support Manager*

February 2008
Unitel Australia acquired

June 2008
Recorded NPAT of $5.16m, increase of 114%

April 2009
People Telecom acquired

June 2009
Telecoms business assets of Commander acquired

December 2009
M2 celebrated its 10th anniversary

February 2010
11th consecutive dividend declared

February 2010
Dividend Reinvestment Plan introduced

March 2010
M2 added to the S&P/ASX All Ordinaries

April 2010
Optus extends exclusive MVNE endorsement of M2 to 2013

May 2010
Share Placement completed, raising $20m

May 2010
Business assets of Clever Communications acquired

June 2010
Recorded NPAT of $16.16m, increase of 119%

Chairman's **Letter**

Dear Shareholder,

On behalf of the Board of M2 Telecommunications Group Ltd ("M2", "the Company"), I am pleased to present to you our Annual Report, for the period 1 July 2009 to 30 June 2010.

In last year's report I commented on our awareness of the need to remain focused upon those things which would enable us to consolidate our strengthened position and to continue to sustainably expand the business. I am proud to advise that the financial results in this report reflect the achievement of these goals and M2's most successful year to date.

The 2010 financial year was truly significant for M2, with a core focus being the proficient integration of People Telecom and the Commander assets within the M2 Group. The businesses were culturally and operationally integrated, new products and services were introduced, both brands refreshed and nationwide dealer representation increased.

Together with growth in the underlying M2 business, these significant acquisitions have resulted in another year of record results for the Company. Revenues have doubled in comparison to the 2009 financial year, whilst earnings have more than doubled not only from the benefits of consolidation of the acquisitions, but also due to internal concentration on operating expenses and cost of goods.

Achievements in this period have been many. Following is a summary of the key highlights, with further detail in the Managing Director / CEO's report:

> Consolidated revenues increased to $406.11 million from $202.5 million last year, an increase of 101%;

> Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $31.41 million, as compared with $13.33 million in the previous year, representing an EBITDA increase of 136%;

> Net Profit After Tax (NPAT) increased by 119% from the previous year to a new record high of $16.16 million;

> Earnings Per Share (EPS) increased by 66% compared with the previous year, to 14.57c per share;

> Completion of the first Share Placement since listing in 2004, raising $20 million for reduction of the Company's modest debt and funding for complementary and strategic acquisitions;

> Cash flows remained strong and gearing levels remain very low in relation to borrowing covenants;

> Declaration of the 12th consecutive dividend. Fully franked dividends for both the half and full year were at or in excess of 70% of NPAT;

> Expansion of the Group's product suites in both Australia and New Zealand, including the launch of ADSL 2+ in Australian retail and wholesale divisions, and fixed line offerings in New Zealand;

> Successful integration of People Telecom and the Commander assets acquired late in the previous period;

> The acquisition of selected business assets of Clever Communications Australia Ltd, an ASX listed telecommunications provider with a customer base in keeping with M2's target market of small and medium business (SMB);

> Acquisition of assets of Bell Networks Voice & Data Pty Ltd completed after the reporting date in August 2010, also a highly complementary base of SMB customers;

> Addition of Director Michael Simmons to the Board of Directors, reinforcing the business and telecommunications experience at the Board table.

This year's achievements would not have been possible without the dedication, skills and efforts of M2's 426 team members. Once again, I'd like to extend my sincere gratitude to all of the M2 team.

It is with confidence and continued focus that we look to the year ahead, which will be one of our most exciting periods to date. We have sizeable sales channels equipped with an expanded product suite to ensure greater presence amongst Australia's small and medium sized businesses. The strength of our internal team will ensure continued improvements to our service and continued focus on efficient operation.

Finally, to our valued shareholder, I would like to extend a sincere thank you for your support of M2. The past year has been one of significant development and consolidation for the Company and through this we are pleased to have again delivered growth of shareholder return. On behalf of the M2 Board of Directors, I can assure you of our commitment to maintaining sustainable growth at the top and bottom lines.

Yours faithfully,
Craig L Farrow
Chairman

Key Dates

Record Date for Dividend	8 October 2010
Dividend Paid	29 October 2010
Annual General Meeting	29 October 2010
Half Year End	31 December 2010
Half Year Results Released	28 February 2011
Financial Year End	30 June 2011

"The 2010 financial year was truly significant for M2, with a core focus being the proficient integration of People Telecom and the Commander assets within the M2 Group."

Chairman
Craig L Farrow

Managing Director / **CEO's Review**

I am very pleased to present our shareholders with this review of the events of note during the 2009/10 financial year.

As our Chairman has mentioned in the opening letter the 2009/10 financial year was one of the most significant for M2, as it focused on continued organic growth in our core market segments together with the integration and optimisation of the two largest acquisitions we have made to date: People Telecom (acquired April 2009) and the telecoms business assets of Commander Communications (June 2009). We entered the year with cautious optimism, aware of the challenges that lay in the integration and the uncertainty surrounding the global economy, but also buoyed by the opportunity presented by our now more substantial business.

We move into the 2010/11 financial year having delivered marked increases in all key financial metrics including consolidated revenue, earnings, earnings per share and dividends per share. Some further detail on these numbers can be found in the following "numbers that matter" section.

The remainder of this review will bring you up to date on the year that was, the composition of the M2 Group today and the key priorities for the year ahead.

Focused and Growing

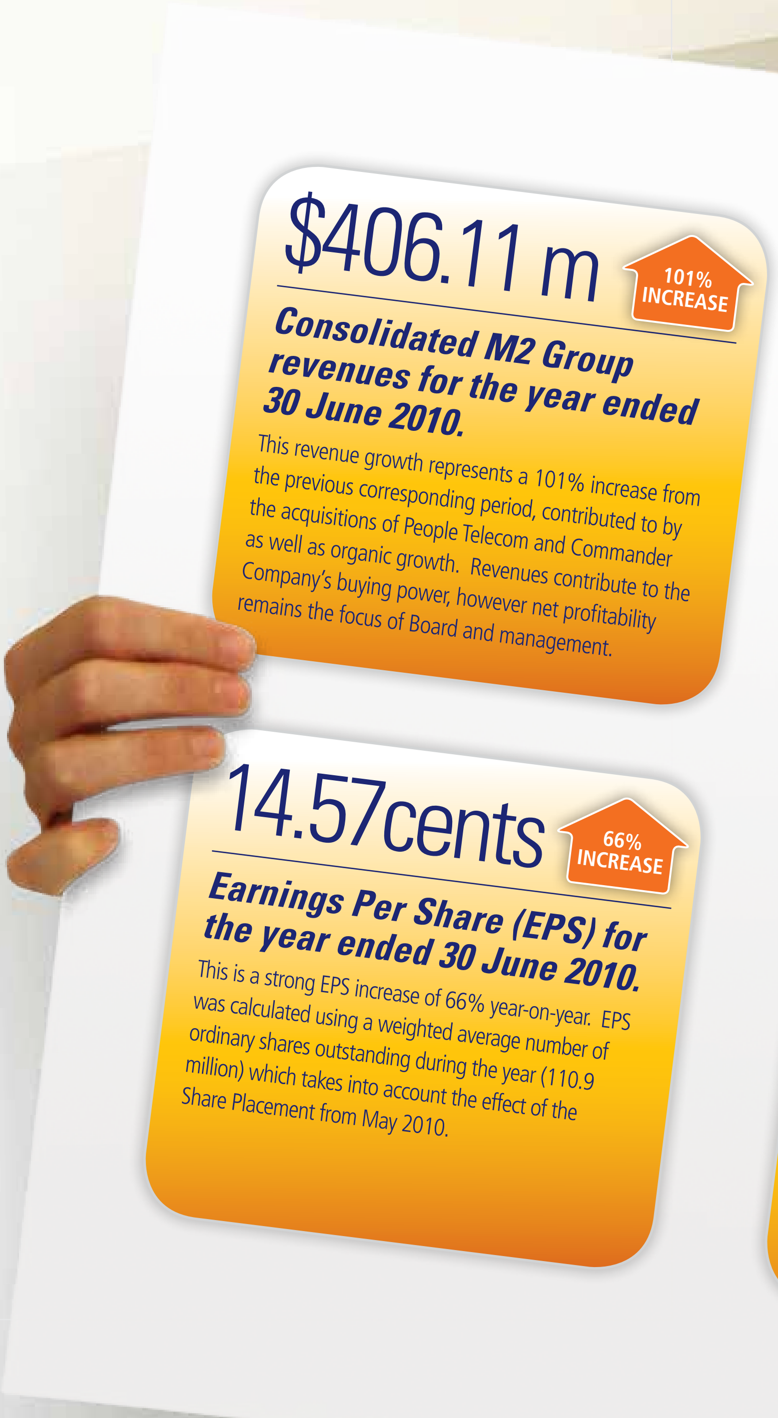
The M2 business has seen significant transformation over the last 12 months in terms of overall scale and breadth of our nationwide sales and service presence. Notwithstanding this marked expansion, M2's core business model and target markets have remained unchanged.

M2 continues to focus on its two core target markets: (1) Small & Medium Businesses (SMBs) and (2) Telecommunications resellers and Internet Service Providers (ISPs), via our M2 Wholesale division.

Our brand strategy remains unchanged from this time last year, comprised of a multi-brand strategy for our retail market activities. Commander and People Telecom are our most actively promoted brands, complemented by Southern Cross Telco, M2 Telecom and Simply Mobiles.

M2's sales and distribution strategy reflects our long-term commitment to expanding and supporting the network of dealers and agents representing our Company. This network has expanded considerably during the last year, with our People Telecom dealer channel delivering the most substantial year-on-year expansion as we have built upon our product suite and improved customer support standards.

In respect of our infrastructure strategy, M2 remains "infrastructure light", utilising the network infrastructure of (principally) the largest telcos in Australia and New Zealand combined with limited company-owned infrastructure, used to deliver our range of data services. This strategy enables the Company to continue to generate strong cash flows without the requirement for heavy capital investment and also provides us with technological flexibility so as to ensure we continue to provide our customers with products and services which are relevant to their requirements. (continued page 7)




The numbers that matter
$31.41 m
136% INCREASE
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year to 30 June 2010.
This is an outstanding increase of 136% year-on-year. The management and Board of M2 have increased attention to the EBITDA line, and with the team, have worked to increase the EBITDA margin to 10%.
$16.16 m
119% INCREASE
Net Profit After Tax (NPAT) for the year to 30 June 2010.
NPAT increased 119% from the previous corresponding period. NPAT is affected by a non-cash abnormal cost item relating primarily to amortisation of customer contracts from acquisitions in the prior period, which reduced NPAT by $2.38 million. When this non-cash cost is removed, the underlying NPAT is $18.54 million.
10 cents
82% INCREASE
Combined interim and final dividend declared for the year to 30 June 2010.
This is an increase of 82% on the combined dividend, year-on-year. The twelfth consecutive dividend declared for the six months to 30 June 2010, is 5 cents.
426
1.5% INCREASE
The number of team members at 30 June 2010.
Our dedicated and hard-working team are at the core of M2 and contribute daily to the Company's success. This is an increase of 1.5% from the 420 team members employed at this time last year.

M2 is in the enviable position of having a business with established competency in its chosen markets, increased scale and market reach, yet the Company still holds a fractional share of its target markets. This modest market share presents the obvious opportunity for considerably more organic growth. Also, our established capabilities in identifying, executing and integrating complementary acquisitions provides scope for non-organic growth, as M2 continues to position itself as a bona-fide consolidator of the second and third tier of the Australian telecommunications industry.

M2's retail business

After beginning as a manufacturer and retailer of digital messaging equipment in 1999, M2 moved on to become a retailer of telecommunications services in 2001, with products and services aimed at the small and medium business (SMB) market. The success of the "Phone & Fly" program under the M2 Telecom brand drove the concentrated move into the provision of telecommunications services, and several years of profitable organic growth followed, as M2 became a provider of fixed line, mobile and data services.

Since commencing as a provider of telco services, the M2 retail division has delivered year-on-year revenue and profit growth, both organically and through targeted acquisitions over more recent years.

Now, the M2 retail business offers a full suite of telecommunications services, including traditional fixed line services, direct connect / multi-line services, third generation (3G) mobile voice, 3G mobile broadband, ADSL (1 to 2+) residential and business-grade broadband, corporate VPN services and remote hosting.

Acquisitions completed in the last 3 years have considerably enlarged M2's retail division. The Commander business, reaching SMBs through exclusive territory-based Dealers across Australia, specialises in providing a complete business telecommunications solution, including equipment sourced from leading international vendors. The People Telecom business, specialising in personalised service on a tailored telecommunications package, reaches SMBs through a large and rapidly expanding dealer network Australia-wide.

Southern Cross Telco cares for our regional and consumer/residential customers and Simply Mobiles is our dedicated on-line "mobile phone shop", providing competitively priced mobile devices and accessories.

M2 Wholesale

The M2 Wholesale business was established in 2006. In the 4 years since its creation it has achieved outstanding growth, both organically and through the acquisitions of Wholesale Communications Group Pty Ltd (in May 2007) and Unitel Australia Pty Ltd (in February 2008).

Through the single M2 Wholesale brand, this business unit offers the full suite of telecommunications services to Internet Service Providers (ISPs) and small and medium sized telecommunications companies. A direct sales model is used for M2 Wholesale, which has supply agreements with approximately 50 per cent of the telecoms service providers and ISPs operating in the Australian market today.

The integration of People Telecom and Commander

Following the large-scale acquisitions of People Telecom in April 2009 and the telecoms business assets of Commander Communications in June 2009, the Board, management and team of M2 dedicated itself to the integration of these assets as a core focus during the 2009/10 year.

Amongst the busy year's many achievements, the following stand out as significant milestones in the integration of People Telecom and the Commander business assets:

> Substantially reducing the underlying cost base of the businesses by taking advantage of various economies of scale benefits

> Transition of the Commander Franchise Agreements into Agent Agreements, with greater incentives to retain existing customers, acquire new customers and to remove various impediments to efficiency and growth

> Reinvigoration of the People Telecom and Commander sales channels, including a considerable bolstering of sales representatives in the field

> Development and launch of new and enhanced products and services for both People Telecom and Commander, including a range of innovative small and medium business targeted voice/mobile/data plans and the introduction of 3G mobiles to the Commander channel, resulting in a marked increase in new sales volumes

> Consolidation of operational team members in Adelaide and Sydney offices, with the creation of specialist "Centres of Excellence"

> A cultural revival of the team, with a Team Benefits Package released across the entire group, including health care benefits, membership entitlements and team-building initiatives

> Implementation of company-wide accounting, payroll and ticketing systems, assisting with cohesion and teamwork across the Group

- Implementation of new customer support, account management and incident resolution structure and processes, resulting in People Telecom and Commander customer retention levels substantially improving in the year since acquisition
- Strengthening of the internal cross-sell / up-sell sales teams, ensuring we maximise engagement with our customers and are proactively offering new products
- The People Telecom and Commander brands have been strengthened through targeted marketing campaigns and brand "refreshes"

The success of the integrations has been pleasing and is testament to the efforts of the entire M2 team who have worked together to jointly improve the business.

Recent acquisitions

M2 announced its intention to complete two relatively small-scale acquisitions in the period to 30 June 2010, with one completing just prior to the end of the period (Clever Communications) and the other (Bell Networks) having been completed in early August 2010.

Both of these acquisitions are to be incorporated into M2's retail operations (under the People Telecom brand), are directly complementary with our core SMB market focus, add further scale to our customer base, were purchased on modest price/earnings multiples and are anticipated to make valuable contributions to our earnings and earnings per share in FY2011 and beyond.

William Coats
Billing and analysis

The following table provides a summary of the key elements of these two acquisitions.

	Clever Communications Australia Ltd (ASX: CVA)	Bell Networks Voice & Data Pty Ltd
Date announced	15th April 2010	15th June 2010
Date of completion	1st May 2010	3rd August 2010
Total consideration	$5m comprised of an upfront and deferred payment	$4.015m (less certain adjustments) comprised of an upfront and deferred payment, with opportunity for bonus payment
Principal Assets acquired	SMB customer contracts	SMB customer contracts
Core business focus	Corresponds with M2's core SMB market focus	Corresponds with M2's core SMB market focus
Revenue (approx, annualised)	$8 million	$13 million
EBITDA (approx, annualised)	$2.3 million	$2 million
EBTIDA purchase multiple	2.2 x	2 x

***Kate Leyvraz**, Team Leader Outbound;*
***Philip Cranley**, Collections Manager; **Paul Mills**, Trainer;*
***Tuan Nguyen**, Team Leader - Customer Service; **Matt Evans**,*
*Workforce Planner; **Maureen Esguerra**, Provisioning Team;*
***Suzi Klask**, Provisioning Team; **Belinda Frey**, Team Leader -*
Customer Service

Our team

The foundation of M2's success is its dedicated and talented team, the least camera-shy of which are pictured within this report and on its cover!

The M2 team numbered 426 people at 30 June 2010, situated in our offices in Melbourne (corporate headquarters), North Sydney, North Ryde, Adelaide, Hobart, Wollongong and Brisbane. Our team is made up of a large number of long-standing team members from the Company's early days, as well as many team members who have joined us through acquisition and who in many instances had been with the acquired company for many years.

Considerable progress was made during the year in terms of the systems and processes which impact our team, including investment in performance management software, human resources and team support systems, together with standardised company-wide policies and procedures.

During the period M2 delivered its most comprehensive Team Benefits Program to date, the ingredients of which are provided to our team in appreciation for their many and varied efforts as well as to enhance the overall experience of each M2 team member. Some examples of the benefits made available to every team member in every M2 office include complimentary breakfasts, fresh fruit, flu shots, gym membership, discounted health insurance, longevity rewards, regular team social events and two days paid leave per year to perform volunteer work for worthy charities etc etc.

We regard ourselves as very fortunate to have been able to retain so many long-serving team members through what has been a major period of change and expansion for the M2 Group. It is without doubt that the talent and energy of our loyal and committed team members is at the heart of the success that the Company has enjoyed over its 10+ year journey. As always, my sincere gratitude is extended to each and every member of our team for making M2 the company that it is today.

Our wider team – national dealer networks

In addition to the fantastic team employed by M2, it is also appropriate to mention the extended M2 family, comprised of the several hundred people who represent our services and support our customers all over the country as dealers and agents of our various products and services.

A point of difference of M2 is its national sales and support strategy, in that we predominantly draw upon a third-party dealers and independent agents to represent our products and services to prospective customers and to provide in-field support to our existing customers.

A high proportion of our dealers and agents around the country represent M2's services exclusively. As such, these businesses and individuals are very much regarded by us as key members of the M2 team. With this fact in mind, during the period we have made considerable investments in training, development and support of our dealer and agent networks, together with the coordination of several conferences around the country where we have brought the dealer networks for our different brands together to exchange ideas, address concerns and build a tighter community amongst this group of entrepreneurs who represent our products and services with passion and diligence all over the country.

On behalf of the M2 Board, management and team, my genuine thanks go to all of our dealers and agents for choosing to be a key part of the M2 Group.

Key supplier alliances

M2 has strong relationships with the leading carriers in Australia and New Zealand, through which we gain access to a comprehensive suite of fixed line, mobile and data services to meet the needs of both our retail and wholesale customers.

In Australia, M2's key supplier alliances are with the wholesale divisions of Telstra and Optus. Accessing services from the country's two largest carriers provides M2 with a balance of commercial competitiveness, and supply of market-leading products and services. As testament to the strength of these relationships, during the period M2 reached new and enhanced long term supply agreements with both Telstra and Optus, including the re-appointment of M2 as the officially endorsed aggregator of Optus wholesale 3G post-paid services through to late 2013.

In New Zealand, M2's key supplier alliances are with Telecom New Zealand, Vodafone and CallPlus, the combination of which provides us with a competitive mix of services to enable us to continue to expand our presently modest market share across the Tasman.

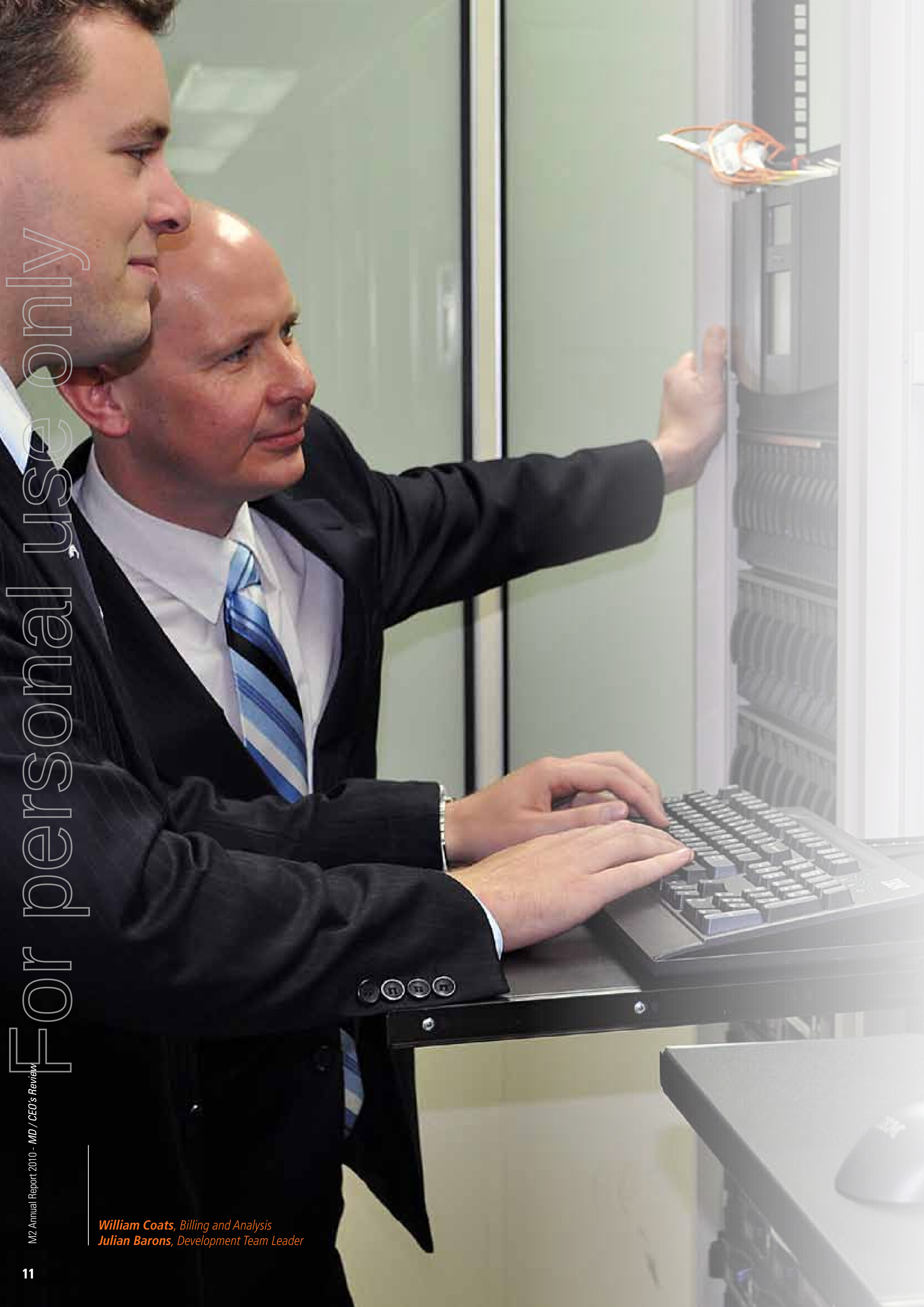
M2 moves into the 2010/11 financial year with the benefit of additional scale and strong supplier alliances providing access to the best available wholesale products and services, thus requiring relatively minimal network infrastructure investment. This enables the Company to focus and invest in the expansion of our customer base and improvement of the systems and technologies used by our team to support our customers.

Focus on process improvement and efficiency

The major growth that the business has experienced over recent years has necessitated a concerted focus on ensuring that we have the internal systems and processes that our team and wider dealer network require to satisfy the needs of our large and growing customer base. To this end, we established a dedicated expert team in late 2009 with the express mandate of assessing business-wide requirements in terms of billing, customer service, reporting (etc) and determining the optimal way forward to enable the business to be equipped and ready for the medium and longer term.

I am pleased to advise that late in the period the Board and Management of M2 made a number of important decisions in terms of systems and internal infrastructure investment and vendor alliances. The positive outcomes of these decisions will begin to flow through the business late in the 2010/11 financial year, delivering tangible efficiencies and scalability benefits to the Company in the years to follow.

***Virginia Yau**; Assistant Accountant*
***Niazi Jabeer**; ITS Support Manager*



***William Coats**, Billing and Analysis*
***Julian Barons**, Development Team Leader*

Dividend Reinvestment Plan

In February 2010, M2 introduced a Dividend Reinvestment Plan (DRP). The DRP was introduced after a period of significant company growth, to allow all shareholders the opportunity to increase their holding at a modest discount to the prevailing share price. For the interim dividend paid in April 2010, a little over 320,000 shares were issued at $1.7915.

Share Placement

Notwithstanding M2's level of debt has been low relative to our earnings, the Board decided in May 2010 to undertake a share placement to raise additional capital to further strengthen the Company's balance sheet, so as ensure that we are well positioned to take advantage of strategic opportunities that may be presented in the near future. The oversubscribed raising of $20 million (less expenses) at a marginal premium to the then share price, places M2 in the enviable position of currently having negligible net debt and introduced an additional group of respected institutional shareholders and sophisticated investors onto the M2 share register.

In conclusion / the year ahead

As we close out on a record 2009/10 year and launch into the continued busy agenda for FY2011, I am pleased to reiterate that once again the business looks to the year ahead with a sense of optimism about our place in the Australian telecommunications landscape and with the expectation of further significant growth in the areas which matter most to our shareholders.

As you are likely to be aware, in July 2011 M2 issued its financial guidance for the 2010/11 financial year, more than a month ahead of our normal timing for forward guidance. The headline numbers, which are shown in the schedule below, highlight the considerably strengthened position of the M2 business following a year of intensive growth and consolidation of recent acquisitions.

Guidance FY11

$m	FY10(a)	FY11(f)	% change*
Revenue	406.11	425 - 445	Up 7%
EBITDA	31.41	41.0 - 42.5	Up 33%
NPAT	16.16	22.0 - 23.5	Up 41%
NPAT (underlying)	18.54	25.2 - 26.7	Up 40%
EPS (cents)	14.57	18.1 - 19.4	Up 29%
EPS (cents, underlying)	16.7	20.7 - 22.0	Up 28%

* from mid-point of range

Inherent with the task of delivering upon our strong earnings growth expectations for FY2011 is the need for our business, in all its many facets, to not only get bigger but to get better in all that we do. To this end, we are committed to the investments required to equip M2 with what it needs to be able to sustainably continue to grow, which includes investing in our talented team, our operating systems and those who represent our various brands, products and services around Australia and New Zealand.

We enter the new financial year as one of Australia's leading challenger telcos, armed with a united team, expanded sales network and an unwaivering focus on building upon our presence the market segments we target.

I personally feel very proud and invigorated to be leading M2 through the next exciting and challenging stage of its development and am most fortunate to have the support of an exceptionally united Board and Executive management team.

Finally, to you, our shareholder, thank you for your continued support of M2. Whilst I am pleased that the Company has continued to deliver positively for shareholders in the 2009/10 year, I can assure you our focus is squarely upon maintaining our strong track-record by delivering on our stated high expectations for the year ahead.

Yours sincerely,

Vaughan Bowen
Managing Director/CEO

Part of the **M2 Group**

COMMANDER
Connecting Business

Trusted brand. Bundled telecom services with equipment for Small and Medium sized Businesses and small corporates.

southern cross TELCO

Regional focus, offering full suite of telecoms to consumers and Small Office / Home Office businesses.

M2 Telecommunications Group Ltd

Our goal is to become the pre-eminent provider of Telecoms services to Australian Small & Medium sized Businesses and telecommunication companies.

simply mobiles

Online mobile handset and mobile access store. Unbundled, unlocked mobile phones sold at competitive prices.

m2telecom®

Value-added brand. Offers innovative fixed-line loyalty programs as well as mobile & data, with a Small and Medium sized Business focus.

people TELECOM

'Challenger' brand, offering personalised service and tailored telecoms for Small and Medium sized Businesses.

m2 wholesale®

Offers wholesale telecommunications services to small and mid-sized telcos and Internet Service Providers.

GreenMobiles™

Our planet is on the line

Online and environmentally-focussed. Offers mobile plans and donates a percentage to the Australian Rainforest Foundation.

Directors' **Report**

In compliance with the provisions of the *Corporations Act 2001*, the directors of M2 Telecommunications Group Ltd ('M2' or 'the Company') submit the following report for the Company and its controlled entities for the financial year ended 30 June 2010.

Directors

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

Craig L Farrow
Chairman
B Ec, Dip FS, CPMgr, SA Fin, FCA, FAICD

Appointed Director 18 February 2000
Appointed Chairman 28 April 2006

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

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

Vaughan G Bowen
Managing Director & Chief Executive Officer
B Com, MAICD

Appointed 14 February 2000

Mr V. Bowen co-founded M2 in late 1999. He was appointed Managing Director/CEO following incorporation, and has successfully steered M2 from a start-up technology enterprise to its current position as a fast growing and profitable national telecommunications company. In over 10 years of leading the Company, Mr Bowen's innovative approach to branding, sales, alliance marketing and his proven ability to successfully execute complementary acquisitions has provided M2 with a considerable competitive advantage and a respected position in the telecommunications industry. He is a member of the Australian Institute of Company Directors and was named as a finalist in the Entrepreneur of the Year Southern Region in 2004 and 2009. Within the last three years, Mr Bowen has held no other listed company directorships.

Max G Bowen
Non Executive Director

Appointed 14 February 2000

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

Dennis N Basheer
Non-Executive Director

Appointed 14 February 2000

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

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

John S Hynd
Non-Executive Director
LLB, MAICD

Appointed 18 February 2000

Mr Hynd is founding partner of Hynd & Co, a commercial law firm in Adelaide. He has over 30 years experience in commercial transactions, corporate advice, corporate governance, insolvency and property development. A fellow of the Australian Taxation Institute, member of the Advisors Group with Family Business Australia and a former member of the Law Council of the Law Society, Mr Hynd's broad business experience provides M2 with valuable assistance with mergers and acquisitions and strategic planning. Within the last three years, Mr Hynd has held no other listed company directorships.

Mr Hynd is 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", and 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. During 2008 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).

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

Company Secretary

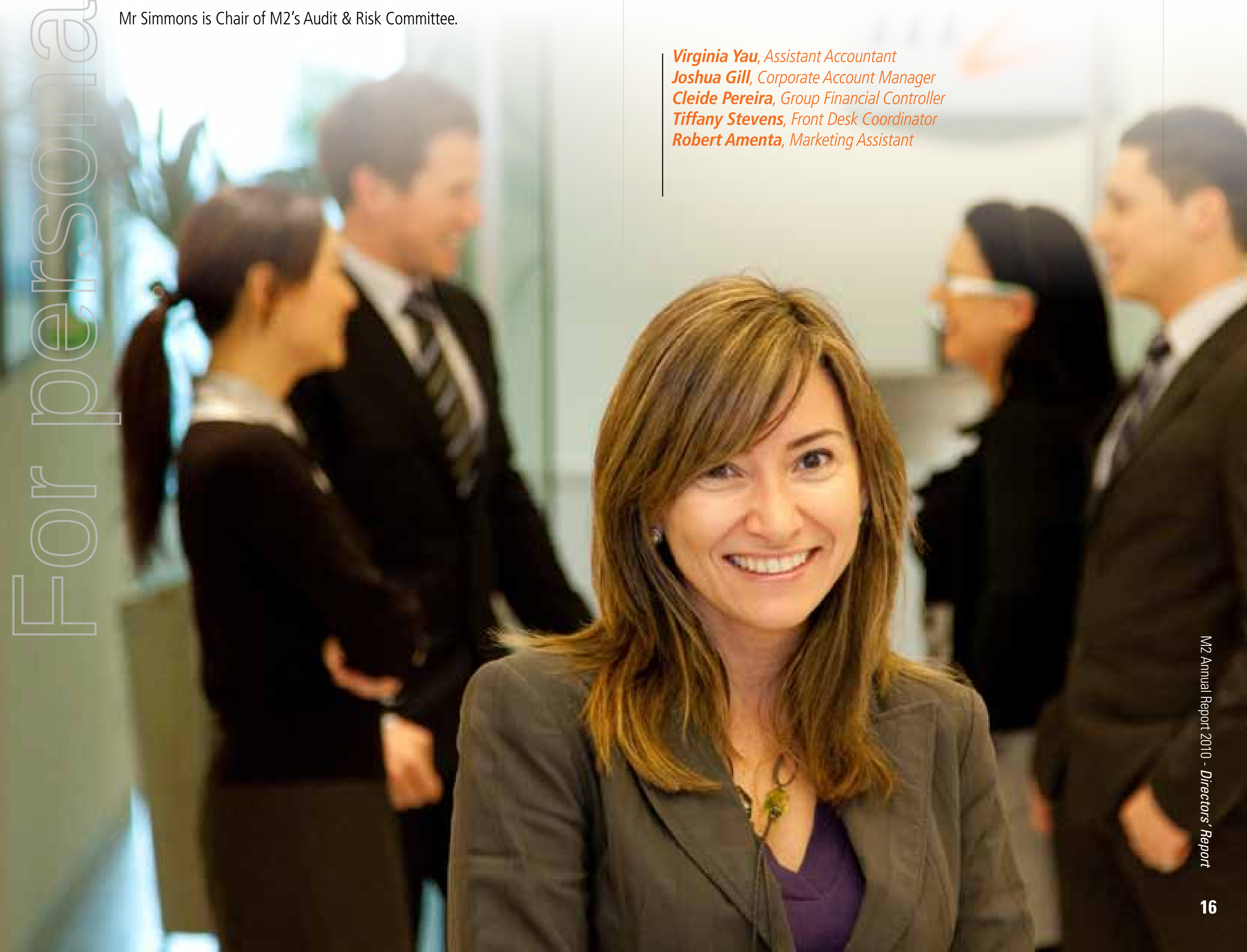
Kellie Dean
BA, LLB, Grad Dip App Corp Gov, ACIS, MAICD

Appointed 30 November 2007

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

Former Audit Partners

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



***Virginia Yau**, Assistant Accountant*
***Joshua Gill**, Corporate Account Manager*
***Cleide Pereira**, Group Financial Controller*
***Tiffany Stevens**, Front Desk Coordinator*
***Robert Amenta**, Marketing Assistant*

Principal Activity

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

Review Of Operations And Results

Please refer to the Chairman's Letter on page 3 and Managing Director/ CEO's Report on page 5 for further details relating to M2's operations and results for the 2009/2010 financial year. This information is to be read in conjunction with the Directors' Report.

Significant Changes In State Of Affairs

In May 2010, M2 issued 11,111,112 ordinary shares as a result of a share placement to institutional shareholders and sophisticated investors. This share placement raised $20 million, with shares issued at $1.80 per share. The funds were used to further strengthen the company's balance sheet, paying down existing bank debt and providing funding for strategic acquisitions.

In May 2010, People Telecommunications Pty Ltd ('People Telecom'), a wholly owned subsidiary of M2, acquired the selected business assets of Clever Communications Australia Ltd ("Clever") for a total cash consideration of $5 million, comprised of an upfront and deferred payment. The principal assets acquired were the small and medium business ("SMB") customer contracts of Clever.

Events After Balance Date

On 3 August 2010, People Telecom completed the acquisition of the business assets of Bell Networks Voice & Data Pty Ltd ("Bell Networks") for a consideration of $4.015 million (less certain adjustments) payable in cash, comprised of an upfront and deferred payment, which is subject to certain conditions relating to the performance of the assets over an agreed period. Bell Networks also has an opportunity to receive additional bonus consideration based on the performance of the business assets in the 12 months post-completion. The principal assets acquired were the SMB customer contracts of Bell Networks.

On 27 August 2010, the directors declared a final dividend on ordinary shares in respect of the 2010 financial year. The total amount of the dividend is $6,076,410, which represents a fully franked dividend of 5 cents per share (on shares issued as at 30 June 2010). This final dividend will be paid to shareholders on 29 October 2010.

Likely Future Developments And Results

The directors expect that the financial performance of the business will remain strong in the 2010-2011 financial year, particularly through the anticipated continued growth in revenue and earnings as a result of organic growth and recent acquisitions.

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.

***Kelvin Prince**, Operations Manager;*
***Krista Pentecost**, Collections Officer;*
***JoAnne Johnstone**, Customer Activations Team;*
***William Coats**, Billing and Analysis*

For personal use only

Dividends

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

	Payment Date	Cents per Share	Franking	Total Dividend Paid/Declared
Dividends Paid:				
Final dividend	30 October 2009	3.00	Fully Franked	$3,308,359
Interim dividend	14 April 2010	5.00	Fully Franked	$5,503,199
TOTAL		**8.00**		**$8,811,558**
Dividend Declared:				
Final dividend	29 October 2010	5.00	Fully Franked	$6,076,410

Indemnities And Insurance

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

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

Directors' Meetings

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

Director	Board Meeting		Audit & Risk Committee		Nomination & Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Craig Farrow	13	12	4	4	3	3
Vaughan Bowen	13	13	-	-	-	-
Max Bowen	13	13	-	-	-	-
Dennis Basheer	13	13	-	-	3	3
Michael Simmons	9	9	3	3	-	-
John Hynd	13	13	4	4	3	3

Directors' Shareholdings And Options

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

Shares held in M2 Telecommunications Group Ltd:

Director	Balance at 30 June 2009	Shares granted as remuneration	On exercise of Options	Net Change	Balance 30 June 2010
Craig Farrow	1,028,000	-	-	(69,478)	958,522
Vaughan Bowen	13,382,666	-	-	(2,452,929)	10,929,737
Max Bowen	32,274	-	-	-	32,274
Dennis Basheer	5,244,906	-	-	(200,000)	5,044,906
John Hynd	2,832,524	-	-	-	2,832,524
Michael Simmons(1)	-	-	-	3,591	3,591
TOTAL	**22,520,370**	**-**	**-**	**(2,718,816)**	**19,801,554**

(1) Appointed 26 November 2009

Options held in M2 Telecommunications Group Ltd:

Currently there are no options held by any directors of M2.

Remuneration **Report**

Remuneration Report (Audited)

In accordance with s.300A of the *Corporations Act 2001* and Regulation 2M.0.03, the following report outlines the remuneration arrangements for key management personnel and relevant group and company executives for the financial year ended 30 June 2010.

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

Board Policy

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

> Provide competitive rewards to attract high calibre personnel;

> Link executive rewards to shareholder value;

> Have a reasonable component of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and

> Establish appropriate, demanding performance hurdles for variable executive remuneration

> Establish clear distinction between non-executive director and other key management personnel remuneration

Nomination and Remuneration Committee

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

Remuneration Structure

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

Non-executive director remuneration

In accordance with the Company's Constitution and ASX Listing Rules, the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined is then divided between the directors as agreed. The current aggregate remuneration is set at $400,000 per year.

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

No proportion of non-executive directors' fees is based upon performance nor are they entitled to retirement or termination benefits

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

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

The remuneration of non-executive directors for the period ending 30 June 2010 is detailed in Table 1 on page 22 of this Report.

Other key management personnel remuneration

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

> reward Executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;

> align the interests of Executives with those of shareholders;

> link rewards with the strategic goals and performance of the Company; and

> ensure total remuneration is competitive by market standards.

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

Executive remuneration consists of the following key elements:

> Fixed Remuneration

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

> Options

The proportion of fixed remuneration and variable remuneration and any issue of options is established for each Executive by the Nomination and Remuneration Committee and approved by the Board.

Fixed Remuneration

The level of fixed remuneration is set each year in accordance with the Board's remuneration policy, the Executive's performance during the past financial year and the external compensation environment. Executives may also receive non-monetary benefits such as the provision of motor vehicles and car parking.

The amount of fixed remuneration paid to Executives during the financial year is detailed in Table 2 on page 23.

Variable Remuneration — Short Term Incentive (STI)

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

Actual STI payments granted to an Executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance. Typical measures include contribution to net profit after tax, customer service, risk management, product management, commercial initiatives, new order intake (NOI), churn completion of specific projects and leadership and team contribution. Such KPIs are chosen as they are representative of the key performance metrics of the business, which drive overall growth and sustainability.

The Company has predetermined benchmarks which must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Executive is nominated by the Chairman and/or the Managing Director/CEO and approved by the Nomination and Remuneration Committee. This performance rating determines the amount, if any, of the STI that is paid to an Executive. This method of assessing performance against KPIs ensures that the STI granted to an Executive is based upon the actual achievement of metrics.

The amount of annual STI available to each Executive is subject to approval of the Nomination and Remuneration Committee and the Board. Payments made are usually delivered as a cash bonus in the following reporting period.

The amount of variable remuneration paid to Executives during the financial year is detailed in Table 2 on page 23.

Under the terms of each Execuitve's STI arrangements, an STI payment is only made upon the Company achieving its pre-determined targets relating to net profit after tax (NPAT), which is linked to earnings per share (EPS). The following table outlines M2's EPS over the five year period from 1 July 2005 to 30 June 2010:

Year	**Cents per share**
2010	14.57
2009	8.76
2008	7.01
2007	4.00
2006	3.70

The Company's performance has remained strong and consistent over the last five reporting periods. Executive STIs , as well as other remuneration arrangements, are reflective of the growth in shareholder return.

Options

In February 2007, M2 introduced an Executive Management Team Share Option Plan ('ESOP'). The purpose of the ESOP was to provide an avenue for the alignment of Executive objectives with those of shareholders, and to provide an additional element to Executive remuneration that was competitive to the external compensation environment. The issue of options under ESOP further allows an opportunity for the Board to reward Executives for their performance in a given period.

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

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

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

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

Options issued under the ESOP may be exercised, once they are vested, at any time within two years from the date on which they vest. Other than continuous service with the Company, there are no performance conditions which must be met prior to the vesting or exercise of options.

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

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

The Company does not have a policy prohibiting or allowing Executives to enter into arrangements to protect the value of any unvested long-term incentive awards (such as Options).

Details of options granted, held and exercised by Executives during the financial year:

Executive	Number of Options granted during FY10	Number of Options vested (not yet exercised)	Number of Options exercised
Vaughan Bowen Managing Director/CEO	-	-	-
Steve Wicks Sales & Marketing Director	250,000	-	-
Darryl Inns Chief Financial Officer	250,000	-	500,000
Terry Doyle Wholesale Director	250,000	123,000	227,000
Geoff Horth Operations Director	250,000	-	-
Matthew Hobbs Chief Information Officer	250,000	50,000	125,000
Michael Speglic Commercial Director	250,000	50,000	-
Kellie Dean Company Secretary & Legal Affairs	250,000	50,000	-
TOTAL	**1,750,000**	**273,000**	**852,000**

Details of options granted to Executives during the financial year include (for each relevant Executive as detailed above):

	Terms and conditions for each grant (First Tranche)							Vested	
30 June 2010	Awarded No.	Award date	Fair value per option at award date ($) (note 23)	Exercise price ($) (note 23)	Expiry date	First exercise date	Last exercise date	No.	%
Darryl Inns	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Steve Wicks	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Terry Doyle	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Geoff Horth	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Michael Speglic	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Matthew Hobbs	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Kellie Dean	75,000	29-Jan-10	0.331	1.75	1-Jan-13	1-Jan-11	1-Jan-13	-	-
Total	525,000							-	

	Terms and conditions for each grant (Second Tranche)							Vested	
30 June 2010	Awarded No.	Award date	Fair value per option at award date ($) (note 23)	Exercise price ($) (note 23)	Expiry date	First exercise date	Last exercise date	No.	%
Darryl Inns	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Steve Wicks	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Terry Doyle	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Geoff Horth	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Michael Speglic	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Matthew Hobbs	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Kellie Dean	75,000	29-Jan-10	0.369	1.85	1-Jan-14	1-Jan-12	1-Jan-14	-	-
Total	525,000							-	

30 June 2010	Awarded No.	Award date	Fair value per option at award date ($) (note 23)	Exercise price ($) (note 23)	Expiry date	First exercise date	Last exercise date	Vested No.	Vested %
	Terms and conditions for each grant (Third Tranche)							Vested	
Darryl Inns	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Steve Wicks	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Terry Doyle	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Geoff Horth	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Michael Speglic	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Matthew Hobbs	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Kellie Dean	100,000	29-Jan-10	0.398	1.95	1-Jan-15	1-Jan-13	1-Jan-15	-	-
Total	700,000							-	

Details of Director and Executive Remuneration

The following tables outline the remuneration received by key management personnel (including directors and those persons having authority and responsibility for planning, directing and controlling the major activities for the Company), for the financial year ended 30 June 2010. A comparison with the financial year ended 30 June 2009 is also included.

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

Table 1: Directors' remuneration for financial year ended 30 June 2010

		Short Term			Post Employment		TOTAL	% Performance Related
		Salary & Fees [1] $	Cash STI $	Non Monetary Benefits $	Superannuation $	Other post employment benefits	$	% [2]
Craig Farrow [4]	2010	168,333	-	-	-	-	168,333	-
Chairman	2009	90,000	-	-	-	-	90,000	-
Max Bowen	2010	45,000	-	-	-	-	45,000	-
Non-Executive Director	2009	25,000	-	-	-	-	25,000	-
Dennis Basheer	2010	45,000	-	-	-	-	45,000	-
Non-Executive Director	2009	25,000	-	-	-	-	25,000	-
John Hynd	2010	48,750	-	-	-	-	48,750	-
Non-Executive Director	2009	30,000	-	-	-	-	30,000	-
Michael Simmons [3]	2010	27,500	-	-	-	-	27,500	-
Non-Executive Director	2009	-	-	-	-	-	-	-
TOTALS	**2010**	**334,583**	-	-	-	**-**	**334,583**	**-**
	2009	**170,000**	-	-	-	**-**	**170,000**	**-**

(1) Includes all amounts paid and accrued to companies related to the director, for director services
(2) Based upon the value of the cash STI
(3) Appointed 26 November 2009
(4) includes an amount of $23,333 for fees relating to services while acting in the capacity as Executive Chairman

Table 2: Executive Remuneration for financial year ended 30 June 2010

		Short Term			Post Employment		Share-based Payment	TOTAL	% Performance Related
		Salary & Fees $	Cash STI $	Non Monetary Benefits $	Super-annuation $	Other post employment benefits	Options [1] $	$	% [2]
Vaughan Bowen Managing Director/CEO	2010 2009	562,179 397,692	100,000 60,000	40,121 8,790	48,774 41,192	- -	- -	751,074 507,674	13.3 11.8
Steve Wicks Sales & Marketing Director	2010 2009	256,833 229,307	40,000 25,000	26,058 12,133	25,000 22,887	- -	22,218 -	370,109 289,327	10.8 8.6
Darryl Inns Chief Financial Officer	2010 2009	255,756 189,654	50,000 25,000	32,002 12,153	25,000 19,319	- -	22,218 -	384,976 246,126	13.0 10.2
Terry Doyle Wholesale Director	2010 2009	232,602 209,423	42,750 15,000	9,576 432	22,365 20,198	- -	22,218 -	329,511 245,053	13.0 6.1
Geoff Horth [4] Operations Director	2010 2009	312,115 47,115	50,000 -	4,674 3,769	26,965 4,759	- -	22,218 -	415,972 55,643	12.0 -
Matthew Hobbs [3] Chief Information Officer	2010 2009	298,310 246,511	15,468 30,000	- -	- -	- -	22,218 7,350	335,996 283,861	4.6 10.6
Michael Speglic Commercial Director	2010 2009	149,077 114,462	- 10,000	867 -	13,397 11,202	- -	22,218 7,350	185,559 143,014	- 7.0
Kellie Dean [5] Company Secretary & Legal Affairs	2010 2009	143,724 -	15,000 -	- -	14,963 -	- -	29,589 [6] -	203,276 -	7.4 -
TOTALS	**2010** **2009**	**2,210,596** **1,434,164**	**313,218** **165,000**	**113,298** **37,277**	**176,464** **119,557**	**-** **-**	**162,897** **14,700**	**2,976,473** **1,770,698**	

(1) The remuneration value ascribed to share options has been calculated in accordance with AASB 2 Share-based Payment, whereby the fair value of options determined at grant date is spread evenly (and recognised as an expense) over the vesting period. There were no alterations to the terms and conditions of options issued as remuneration since their grant date. (2) Based upon the value of the cash STI. (3) Includes amounts paid to a company (in which Matthew Hobbs is a director) for services. (4) Geoff Horth commenced employment on 1 April 2009 (5) Kellie Dean did not meet the definition of 'key management personnel' for the financial year ended 30 June 2009 (6) Includes value ascribed to share options granted during the financial year ended 30 June 2010 (calculated in accordance with note (1) above).

Employment Contracts

The following terms are contained in all employment contracts for the persons disclosed in Table 2:

Duration of contract:	2 years [1], commencing 1 July 2009, renewable for a further 3 month term (rolling) until a new term is agreed or agreement is terminated (1) Matthew Hobbs has executed an employment contract which commenced on 1 July 2010 for a period of one year
Period of notice required to terminate contract:	3 months
Termination payments:	If contract is terminated by the Company prior to the expiry of its term, the Executive is entitled to a payment equal to the amount of remuneration due under the contract (other than for serious misconduct)

Proceedings On Behalf Of The Company

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

Non-Audit Services

During the year, M2's auditors, Ernst & Young, did not provide any non-audit services to the Company.

Auditor's Independence Declaration

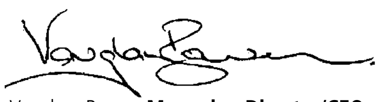
The auditor's independence declaration, made under section 307C of the *Corporations Act 2001* is included on page [x] of this report.

Rounding Off Of Amounts

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

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

On behalf of the directors



Vaughan Bowen **Managing Director/CEO**
Melbourne, 27 August 2010

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

In relation to our audit of the financial report of M2 Telecommunications Group Limited for the financial year ended 30 June 2010, 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

David Shewring
Partner
27 August 2010

Corporate Governance **Statement**

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

M2 continually reviews and refines its corporate governance policies and charters in light of the *Corporate Governance Principles and Recommendations*, as developed by the ASX Corporate Governance Council ('ASX Guidelines' or 'recommendations').

During the financial year ended 30 June 2010, M2 believes it achieved reasonable compliance with the recommendations based on M2's circumstances, its size and activities. Where recommendations have not been implemented, a full explanation is disclosed, based upon the "if not, why not" approach adopted by the Council.

Over the course of the 2010/2011 financial year, M2 will be addressing its corporate governance program in light of the recent changes to the ASX Guidelines, which were adopted by the Council in June 2010, including policies relating to gender diversity and analyst briefings.

This Statement is dated 27 August 2010.

Principle 1: Lay solid foundations for management and oversight

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

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

> approve, monitor and modify the strategic direction of M2;

> ensure the principles of corporate governance are upheld and consistently reviewed;

> monitor the performance of executives;

> ratify the appointment or removal of the Managing Director/CEO and the Company Secretary;

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

> approve and monitor financial results;

> approve decisions concerning acquisitions and capital, including capital restructures and dividend policies of M2; and

> comply with the reporting and other requirements of the law.

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

During the reporting period, Executives' performance was assessed in accordance with the process disclosed within the Directors' Report (for performance during the financial year ended 30 June 2010).

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

Principle 2: Structure the Board to add value

M2's Board comprises six directors: Chairman, Managing Director/CEO and four non-executive directors.

Board Size

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

Skills, Experience & Expertise

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

Term of Office

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

Director Independence

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

In considering whether a director is independent, the Board has regard to the series of relationships affecting independence, as outlined in Box 2.1 in Principle 2, and the interests disclosed by them. Based upon this information, the following table outlines the independent status of each M2 director during the reporting period.

Paul Mills
Trainer

Director	Title	Independent	Reason
Craig Farrow	Chairman	Partial	Independent from management and free of any material[1] business or other relationship. However, from May 2010 to mid August 2010, Mr Farrow acted in the capacity of Executive Chairman, during Vaughan Bowen's long service leave.
Vaughan Bowen	Managing Director/CEO	No	Employed in an executive capacity and a substantial shareholder of the Company
Max Bowen	Non-Executive Director	No	Former substantial shareholder of the Company, and father of Vaughan Bowen
Dennis Basheer	Non-Executive Director	Yes	Independent from management and free of any material[1] business or other relationship
John Hynd	Non-Executive Director	Yes	Independent from management and free of any material[1] business or other relationship
Michael Simmons	Non-Executive Director	Yes	Independent from management and free of any material[1] business or other relationship

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

Chairman

During the financial year, the Chairman of M2, Mr Craig Farrow, is classed as a "partial- independent" director (in accordance with ASX Guidelines). During Vaughan Bowen's long service leave, Mr Farrow was the most appropriate person to oversee the management of the Company and thus acted to act in the capacity as Executive Chairman and in this capacity was paid $23,333. Generally, Mr Farrow is responsible for the leadership of the Board and for the efficient organisation and conduct of the Board's functioning and in all other respects would be classed as 'independent'.

Separate Role of Chair & CEO

In accordance with ASX Guidelines, the role of the Chair and Managing Director/CEO is not exercised by the same individual, with Craig Farrow acting as Chair for the Company, and Vaughan Bowen as Managing Director/CEO. The Chair and CEO have clear lines of responsibility and accountability. However, as noted above, for a short period during the financial year, Mr Farrow acted in the capacity as Executive Chairman, during Vaughan Bowen's long service leave.

Independent Advice & Access to Company Secretary

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

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

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

Nomination and Remuneration Committee

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

During the financial year, the Nomination and Remuneration Committee consisted of three (independent) non-executive directors: Craig Farrow (Chair), John Hynd and Dennis Basheer. Craig Farrow was appointed Chair in July 2009, with John Hynd remaining on the Committee as a member.

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

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

Evaluating Board Performance

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

The Board undertook an evaluation in May 2010, with all directors providing input on the effectiveness of board processes, meetings, board composition and performance and reporting. This took the form of a questionnaire, with directors having an opportunity to discuss and comment on such matters individually with the Chairman.

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

Principle 3: Promote ethical and responsible decision making

Code of Conduct

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

Share Trading

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

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

> between 1 January each year until such time as the half year financial results of the Company are released to ASX; and

> between 1 July of each year until such time as the full year financial results of the Company are released to ASX.

Principle 4: Safeguard integrity in financial reporting

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

Audit & Risk Committee

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

During the reporting year, the Audit & Risk Committee consisted of three non-executive directors, Michael Simmons (Chair), Craig Farrow and John Hynd, with Michael Simmons taking the Chair in March 2010, with John Hynd remaining a member.

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

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

Principle 5: Make timely and balanced disclosure

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

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

Principle 6: Respect the rights of shareholders

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

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

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

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

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

Principle 7: Recognise and manage risk

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

During the financial year, the Board adopted a Risk Management Policy, which documented the Company's commitment to risk management and set out the risk management framework that has been put in place. This framework includes the development and maintenance of a risk register with associated delegation and reporting mechanisms. The Audit & Risk Committee has delegated authority to oversee the risk management framework, providing reporting to the Board on a periodic basis.

Risk management controls are further embedded in M2's management and reporting systems, including, an annual insurance program, business continuity, internal audit, annual budgeting and forecasting, due diligence and strategic planning.

During the reporting period, the Board received relevant reports on the risk register, with further developments and enhancement to take place over the coming financial year.

Following a reporting period, M2's Managing Director and Chief Financial Officer are required to state to the Board, in writing, that:

> the integrity of financial statements is founded on a sound system of risk management and internal compliance and control; and

> M2's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

During the reporting period, the Board received the assurance from the Managing Director and Chief Financial Officer, in respect of the year ended 30 June 2009 and the half-year period ended 31 December 2009.

Principle 8: Remunerate fairly and responsibly

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

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

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

> enable M2 to attract and retain directors (executive and non-executive) and executives who will create sustainable value for shareholders and other stakeholders; and

> fairly and responsibly reward executives and directors, having regard to the performance of M2, the performance of the individual and the external compensation environment.

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

Remunerations arrangements for non-executive directors and executives are distinct, as described within the Remuneration Report. In particular, non-executive directors receive fees for their director services, and they do not receive equity or bonus compensation nor are they are entitled to retirement or termination benefits.

Haydn Corbett
Wholesale Account Manager

Financial **Statements**

Statement Of **Comprehensive Income**

For the year ended 30 June 2010

	Note	CONSOLIDATED 2010 $000	2009 $000
Revenue	6(a)	406,111	202,486
Cost of Sales		(317,000)	(166,223)
Gross profit		89,111	36,263
Other income	6(b)	258	258
Employee benefits expenses	6(c)	(39,338)	(15,782)
Depreciation and amortisation	6(d)	(4,999)	(2,198)
Share based payments	23(a)	(307)	(124)
Other expenses	6(e)	(18,314)	(7,282)
Profit from operations before tax and financing costs		26,411	11,135
Financing costs	6(f)	(2,244)	(718)
Profit before income tax		24,167	10,417
Income tax expense	7(a)	(8,011)	(3,041)
Profit after tax		16,156	7,376
Total comprehensive income for the period		16,156	7,376
Total comprehensive income for the period attributable to:			
- Owners of the parent		16,156	7,376
Earnings per share (cents)			
- basic for profit for the full year	9	14.57	8.76
- diluted for profit for the full year	9	14.18	8.44

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.
Comparative figures have been restated due to the finalisation of provisional amounts from the business combinations in prior year of People Telecommunications Pty Ltd and the business assets of Commander.

Statement of **Financial Position**

as at 30 June 2010

	Note	CONSOLIDATED 2010 $000	2009 $000
ASSETS			
Current Assets			
Cash and cash equivalents	10	15,064	6,690
Trade and other receivables	11	55,752	49,264
Inventories	12	338	1,444
Other current assets	13	7,312	2,495
Total Current Assets		78,466	59,893
Non-Current Assets			
Receivables		62	120
Deferred income tax asset	7(c)	6,747	9,074
Plant and equipment	14	3,720	5,040
Intangible assets and goodwill	15	70,309	67,181
Total Non-Current Assets		80,838	81,415
Total Assets		159,304	141,308
LIABILITIES			
Current Liabilities			
Trade and other payables	16	54,225	55,070
Interest-bearing loans and borrowings	18	5,129	3,147
Deferred consideration	19	3,122	11,596
Income tax payable	7(c)	413	(437)
Provisions	17	3,584	3,440
Total Current Liabilities		66,473	72,816
Non-Current Liabilities			
Interest-bearing loans and borrowings	18	11,445	13,113
Deferred consideration	19	2,980	4,852
Deferred tax liability	7(c)	947	1,496
Provisions	17	470	620
Total Non-Current Liabilities		15,842	20,081
Total Liabilities		82,315	92,897
Net Assets		**76,989**	**48,411**
EQUITY			
Contributed equity	20	62,936	41,331
Reserves		342	714
Retained earnings		13,711	6,366
Total Equity		**76,989**	**48,411**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.
Comparative figures have been restated due to the finalisation of provisional amounts from the business combinations in prior year of People Telecommunications Pty Ltd and the business assets of Commander.

Statement of **Changes in Equity**

For the Year Ended 30 June 2010

		CONSOLIDATED			
	Note	Issued Capital	Retained Earnings	Employee Benefit Reserves	Total Equity
		$000	$000	$000	$000
At 1 July 2008		23,709	3,315	590	27,614
Profit for the period		-	7,376	-	7,376
		23,709	10,691	590	34,990
Share option reserves		475	-	124	599
Shares issued	20	17,147	-	-	17,147
Equity dividends	8	-	(4,325)	-	(4,325)
At 30 June 2009		41,331	6,366	714	48,411
At 1 July 2009		41,331	6,366	714	48,411
Profit for the period		-	16,156	-	16,156
		41,331	22,522	714	64,567
Share option reserves		-	-	307	307
Shares issued	20	22,100	-	(679)	21,421
Transaction costs on share issue	20	(495)	-	-	(495)
Equity dividends	8	-	(8,811)	-	(8,811)
At 30 June 2010		62,936	13,711	342	76,989
Dividends paid per share	8	8.00	5.50		

The above statement of changes in equity should be read in conjunction with the accompanying notes.
Comparative figures have been restated due to the finalisation of provisional amounts from the business combinations in prior year of People Telecommunications Pty Ltd and the business assets of Commander.

Statement of **Cash Flow**
For the year ended 30 June 2010

	Note	CONSOLIDATED 2010 $000	2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		399,134	187,101
Payments to suppliers and employees		(377,962)	(175,504)
Interest received		258	258
Interest paid		(2,244)	(718)
Income tax (paid)/refunded		(5,880)	(2,819)
Net cash flows from operating activities	10	13,306	8,318
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(867)	(930)
Purchase of intangibles		(897)	(637)
Cash outflow from purchase of Clever		(3,750)	-
Cash outflow from purchase of People Telecom		-	(449)
Cash outflow from purchase of Commander		-	(8,030)
Payment of deferred consideration		(11,603)	(625)
Net cash flows used in investing activities		(17,117)	(10,671)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(10,430)	(1,000)
Proceeds from issue of shares		20,376	475
Proceeds from borrowings		10,500	7,000
Dividends paid		(8,261)	(4,325)
Net cash flows from/(used in) financing activities		12,185	2,150
Net (decrease)/increase in cash and cash equivalents		8,374	(203)
Cash and cash equivalents at beginning of period		6,690	6,893
Cash and cash equivalents at end of period	10	15,064	6,690

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

1: Corporate Information

The financial report of M2 Telecommunications Group Ltd ("the Company", "M2", "the Group") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 27 August 2010.

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

2: Summary Of Significant Accounting Policies

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

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

(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.

Changes in accounting policy and disclosures

The accounting policy on commission revenue has changed from upfront recognition to deferral over the life of the related customers' contracts. Management believes that this change provides more reliable and relevant information due to the change in the nature and risk profile of such arrangements. Management has assessed the prior period impact to be immaterial and has not restated the comparative.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

> AASB 3(Revised) *Business Combinations*

> AASB 8 *Operating Segments*

> AASB 101 *Presentation of Financial Statements*

> AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*

> AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

> AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from Annual Improvements Project*

> AASB 2009-4 *Amendments to Australian Accounting Standards arising from Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]*

> AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from Annual Improvements Project [AASB 5, 8, 101, 117, 118, 136 & 139]*

> AASB 2009-7 *Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]*

> *AASB 2009-2 Amendments to Australian Accounting Standards - Improving disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]*

Except for the above, the accounting policies adopted are consistent with those of the previous financial year.

Where the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 5.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

2: Summary of significant accounting policies (continued)

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 2010 are outlined below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: > has primary responsibility for providing the goods or service; > has inventory risk; > has discretion in establishing prices; > bears the credit risk.	1 January 2010	The Group has not fully assessed the impact of the changes yet.	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 - Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal. M2 does not have cash-settled share-based transactions.	1 July 2010
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	1 January 2011	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal.	1 January 2011

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 124	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.	1 January 2011	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal.	1 July 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal.	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal.	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	The Group has not fully assessed the impact of the changes yet but expects the impact on the financial statements to be minimal.	1 July 2010

2: Summary of significant accounting policies (continued)

(c) Basis of consolidation

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

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

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

Investments in subsidiaries held by 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.

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

(d) Business combinations

Subsequent to 1 July 2009

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 acquiree, 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.

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 shall not be remeasured.

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(e) Operating segments

An operating segment is a component of an entity 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 entity), 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.

(f) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of the Group and its Australian subsidiaries is 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 retranslated 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.

(g) 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.

(h) Trade and other 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 continuously 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 difference between the receivable carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Inventories

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

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

(j) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

(k) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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

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

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

2: Summary of significant accounting policies (continued)

Derecognition and disposal

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 profit or loss in the year the asset is derecognised.

(l) Leases

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

Group as a lessee

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

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

Operating lease payments are recognised as an expense in the 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.

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

Non-financial assets other than goodwill and indefinite intangibles are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

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

Impairment exists when the carrying value of an asset or cash generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(n) Goodwill

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

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than 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 outlined in note 15.

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

Impairment losses recognised for goodwill are not subsequently reversed.

(o) Intangible assets

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.

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.

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

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

(p) Trade and other payables

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

(q) Interest-bearing loans and borrowings

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

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

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

Borrowing costs

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

(r) 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. If the effect of the time value of money is material, provisions are determined by discounting using a current pre-tax rate that reflects the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance costs.

Employee leave benefits

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

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

(ii) Long service leave

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

2: Summary of significant accounting policies (continued)

(s) Share-based payment transactions

Equity settled transactions

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

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

> the Employee Share Option Plan (ESOP), which provide benefits to directors, executives and selected employees; and

> the M2 Executive Management Team Share Option Plan and the Employee Share Plan (ESP), which provides benefits to selected employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model (note 23).

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

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

At each subsequent reporting date until vesting, the cumulative charge to the 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; and

(iii) the expired portion of the vesting period.

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

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

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

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

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

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

(t) 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.

(u) Revenue recognition

Rendering of services

Revenue is recognised to the extent the Group has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration received, exclusive of sales taxes.

The Group principally obtains revenue from providing the following telecommunication services: 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, as services are performed. Revenue from services provided, but unbilled, are accrued at end of each period and unearned revenue (revenue billed in advance) for services to be provided in future periods are deferred.

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

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.

Licence Fees

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

Commissions Received

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.

(v) Income tax

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

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

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

> When the deferred liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

> When the taxable temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

> When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

> When the deductible temporary differences is associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

Tax consolidation legislation

M2 Telecommunications Group Ltd and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2004.

The head entity, M2 Telecommunications 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 "separate taxpayer within the group" 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.

Members of the tax consolidated group have not entered into a tax funding agreement. Hence, no compensation is receivable or payable for any deferred tax asset or current tax payable (receivable) assumed by the head entity.

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.

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.

2: Summary of significant accounting policies (continued)

(w) 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.

(x) 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 customer's eligible calls or plan is provided by the business, which then can be redeemed through holidays 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.

3: Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

Risk Exposures and Responses

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate 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 interest rate risk and assessments of market forecasts for interest rate. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

(i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 18.

As at 30 June 2010, the Group has the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	CONSOLIDATED	
	2010 $000	2009 $000
Financial assets		
Cash and cash equivalents	15,064	6,690
Financial liabilities		
Interest-bearing loans and borrowings	(16,574)	(16,260)
Net exposure	**(1,510)**	**(9,570)**

3: Financial Risk Management Objectives and Policies (continued)

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing.

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

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonable possible movements:	Post tax profit higher/(lower)	
	2010	2009
	$000	$000
Consolidated		
+1% (100 basis points)	(15)	(96)
-.5% (50 basis points)	8	48

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is lower in 2010 than in 2009 due to increase in cash and cash equivalents from equity-raising activities in 2010.

Significant assumptions used in the interest rate sensitivity analysis include:

> Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with financial institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.

> The net exposure at reporting date is representative of what the Group is expecting to be exposed to in the next twelve months from reporting date.

(ii) 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.

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

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

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

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

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

3: Financial Risk Management Objectives and Policies (continued)

(iii) Liquidity risk

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

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

The Group minimises liquidity risk by maintaining a significant level of cash and cash equivalents as well as ensuring the Group has access to the use of credit facilities as required. The Group monitors total cash inflows and outflows expected on a monthly basis.

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

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

Consolidated	< 6 months $000	6-12 months $000	1-5 years $000	TOTAL $000
Year ended 30 June 2010				
Liquid financial assets				
Cash and cash equivalents	15,064	-	-	15,064
Trade and other receivables	55,752	-	-	55,752
	70,816	-	-	70,816
Financial Liabilities				
Trade and other payables	(54,225)	-	-	(54,225)
Interest bearing loans and borrowings	(2,629)	(2,500)	(11,445)	(16,574)
	(56,854)	(2,500)	(11,445)	(70,799)
Net inflow/(outflow)	**13,962**	**(2,500)**	**(11,445)**	**17**
Year ended 30 June 2009				
Liquid financial assets				
Cash and cash equivalents	6,690	-	-	6,690
Trade and other receivables	49,264	-	-	49,264
	55,954	-	-	55,954
Financial Liabilities				
Trade and other payables	(55,070)	-	-	(55,070)
Interest bearing loans and borrowings	(2,915)	(232)	(13,113)	(16,260)
	(57,985)	(232)	(13,113)	(71,330)
Net inflow/(outflow)	**(2,031)**	**(232)**	**(13,113)**	**(15,376)**

At 30 June 2010, the Group has available approximately $8.8 million unused credit facilities available for its immediate use.

4: Significant Accounting Judgements, Estimates And Assumptions

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

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.

(i) 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.

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. Deferred tax liabilities arising from temporary differences in investments caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

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

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined 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.

4: Significant Accounting Judgements, Estimates and Assumptions (continued)

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:

Licences fees

The estimated useful life is generally the term of the licence unless there is a presumption of renewal at negligible cost. Using the licence term reflects the period over which the Group will receive economic benefit. For technology specific licences with a presumption of renewal at negligible cost, the estimated useful economic life reflects the Group's expectation of the period over which the Group will continue to receive economic benefit from the licence. The economic lives are periodically reviewed taking into consideration such factors as changes in technology. Historically any changes to economic lives have not been material following these reviews.

Customer bases

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.

Capitalised 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.

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

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

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

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

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:

Inter-entity sales

Inter-entity sales are recognised at cost. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Corporate charges

Corporate charges comprise non-segmental expenses such as corporate office expenses and interest. Corporate charges are allocated to each business segment on proportionate basis linked to segment revenue so as to determine a segment result.

Income tax expenses

Income tax expense is calculated based on the segment operating net profit. Income tax expense includes the effect of deductible temporary differences.

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.

5: Operating Segments (continued)

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2010 and 30 June 2009.

	Retail		Wholesale		Total	
	2010	2009	2010	2009	2010	2009
	$000	$000	$000	$000	$000	$000
Revenue						
Sales to external customers	251,451	112,181	154,660	90,305	406,111	202,486
Inter-segment sales	24,911	-	3,290	321	28,201	321
Total segment revenue	276,362	112,181	157,950	90,626	434,312	202,807
Inter-segment elimination					(28,201)	(321)
Total revenue per the statement of comprehensive income					406,111	202,486

	Retail		Wholesale		Total	
	2010	2009	2010	2009	2010	2009
	$000	$000	$000	$000	$000	$000
Result						
Segment net operating profit after tax	16,992	4,607	2,361	4,602	19,353	9,209
Reconciliation of segment net profit after tax to net profit before tax						
Income tax expense					8,011	3,041
Corporate charges - unallocated					(3,197)	(1,833)
Net profit before tax per the statement of comprehensive income					24,167	10,417

	Retail		Wholesale		Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	$000	$000	$000	$000	$000	$000	$000	$000
Depreciation	1,427	62	100	569	-	-	1,527	631
Amortisation	2,801	754	671	813	-	-	3,472	1,567
Income tax expense	10,805	1,147	683	2,009	(3,477)	(115)	8,011	3,041

Income tax expenses include the effect of deductible temporary differences.

Segment assets and liabilities for the year ending 30 June 2010 and 30 June 2009 are as follows:

	Retail		Wholesale		Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	$000	$000	$000	$000	$000	$000	$000	$000
Segment assets								
Segment operating assets	126,210	100,999	32,744	40,209	350	100	159,304	141,308
Other							-	-
Total assets per the statement of financial position							159,304	141,308
Segment liabilities								
Segment operating liabilities	50,815	63,379	16,024	13,558	15,476	15,960	82,315	92,897
Other							-	-
Total liabilities per the statement of financial position							82,315	92,897

6: Revenue And Expenses

	CONSOLIDATED	
	2010	2009
	$000	$000
(a) Revenue		
Rendering of services	405,220	201,688
License	891	798
	406,111	202,486
(b) Other income		
Interest income	258	258
(c) Employee benefits expense		
Wages and salaries	34,576	13,565
Defined contribution superannuation expense	2,765	1,155
Annual leave provision	1,481	833
Long service leave provision	516	229
	39,338	15,782
(d) Depreciation and amortisation		
Depreciation	1,527	631
Amortisation of patents and licenses	1,093	817
Amortisation of identifiable intangible assets	2,379	750
	4,999	2,198
(e) Other expenses		
Selling and marketing	1,137	492
Business development	1,973	761
Facilities and equipment	7,079	1,205
Corporate	582	626
Professional fees	2,169	730
Bank fees	372	668
Bad debts	4,149	2,427
Other	853	373
	18,314	7,282
(f) Finance Costs		
Finance charges payable under finance leases and hire purchase contracts	99	107
Finance charges payable on bank loan	2,145	611
	2,244	718

7: Income Tax

	CONSOLIDATED 2010 $000	CONSOLIDATED 2009 $000
(a) Income tax expense		
The major components of income tax expense are:		
Statement of comprehensive income		
Current income tax		
Curent income tax charge	5,251	2,428
Adjustments in respect of current income tax of previous years	724	-
Deferred income tax		
Relating to origination and reversal of temporary differences	2,036	613
Income tax expense reported in the statement of comprehensive income	8,011	3,041

(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:

	2010 $000	2009 $000
Accounting profit before income tax	24,167	10,417
At the Group's statutory income tax rate of 30% (2009: 30%)	7,250	3,125
Adjustments in respect of current income tax of previous years	724	-
Non-temporary differences	1,191	85
Share based payments	92	37
Losses carried forward	(1,246)	-
Other	-	(206)
	8,011	3,041

7: Income Tax (continued)

(c) Recognised deferred tax assets and liabilities

	CONSOLIDATED			
	2010	2010	2009	2009
	Current Income Tax	Deferred Income Tax	Current Income Tax	Deferred Income Tax
	$000	$000	$000	$000
Opening balance	437	7,578	117	2,592
Charged to income	(5,975)	(2,036)	(3,324)	(613)
Charged to equity	-	286	-	-
Other payments	5,125	-	3,714	-
Acquisitions	-	-	-	5,599
Other	-	(28)	(70)	-
Closing balance	(413)	5,800	437	7,578
Tax expense in statement of comprehensive income		8,011		3,041
Amounts recognised in the statement of financial position:				
Deferred tax asset		6,747		9,074
Deferred tax liability		(947)		(1,496)
		5,800		7,578

The deferred income tax expense directly charged to equity disclosed above pertains to transaction costs on issue of shares.

	CONSOLIDATED	
	2010	2009
	$000	$000
Deferred income tax at 30 June relates to the following:		
Deferred tax assets		
Property, plant and equipment	205	70
Trade and other receivables	860	1,307
Inventory	-	901
Intangibles	81	285
Trade and other payables	97	1,370
Other provisions	1,221	127
Transaction cost on issue of shares	286	-
Tax losses and temporary differences	3,997	5,014
Gross deferred tax assets	6,747	9,074
Deferred tax liabilities		
Finalisation of acquisition	-	740
Property, plant and equipment	48	296
Other assets	-	1
Intangibles	899	144
Trade and other payables	-	315
Gross deferred tax liabilities	947	1,496

8: Dividends Paid and Proposed

	CONSOLIDATED	
	2010	2009
	$000	$000
(a) Recognised amounts		
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2009: 3.0 cents (2008: 3.0 cents)	3,308	2,367
Interim franked dividend for 2010: 5.0 cents (2009: 2.5 cents)	5,503	1,958
	8,811	4,325
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final franked dividend for 2010: 5.0 cents (2009: 3.0 cents)	6,076	3,254

After the reporting date, the above dividend was declared. This amount has not been recognised as a liability as at 30 June 2010 but will be brought to account during the 2011 financial year.

The final dividend payment disclosed is based on the number of shares on issue as at 30 June 2010 (note 20).

The tax rate at which paid dividends have been franked is 30% (2009: 30%).

Dividends proposed will be franked at the rate of 30% (2009: 30%).

9: Earnings Per Share

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

	CONSOLIDATED	
	2010	2009
	$000	$000
(a) Earnings used in calculating earnings per share		
For basic and diluted earnings per share:		
Net profit from continuing operations attributable to ordinary equity holders of the parent	16,156	7,376

(b) Weighted average number of shares

	2010	2009
	'000	'000
Weighted average number of ordinary shares for basic earnings per share	110,909	84,230
Effect of dilution:		
Share options	3,020	3,139
Weighted average number of ordinary shares adjusted for the effect of dilution	113,929	87,369

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 Key Management Personnel) as described in note 22 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

10: Cash and Cash Equivalents

	CONSOLIDATED	
	2010	2009
	$000	$000
Cash at bank and in hand	13,390	4,712
Short-term deposits	1,674	1,978
	15,064	6,690

(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:

Cash at bank and in hand	13,390	4,712
Short-term deposits	1,674	1,978
	15,064	6,690

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

Included within short-term deposits is an amount of $1.6 million (2009: $1.46 million) which is held in trust for the Phone & Fly travel dollars loyalty program.

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

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

Net profit	16,156	7,376
Adjustments for :		
Depreciation and amortisation	4,999	2,198
Share based payments	307	124
Changes in assets and liabilities		
(Increase)/decrease in trade & and other receivables	(6,977)	(13,900)
(Increase)/decrease in inventories	1,106	(468)
(Increase)/decrease in other assets	(4,232)	(1,059)
(Increase)/decrease in other receivables	58	42
Increase/(decrease) in trade and other payables	(229)	14,170
Increase/(decrease) in provisions	(13)	(387)
Increase/(decrease) in deferred tax liabilities	(549)	(233)
Increase/(decrease) in current income tax payable	353	(390)
(Increase)/decrease in deferred tax assets	2,327	845
Net cash flow from operating activities	13,306	8,318

(c) non-cash financing and investing activities

Issue of shares under ESOP (note 20)	307	124
Dividend reinvestment plan (note 20)	550	-
Purchase of plant and equipment under finance lease (note 14)	244	194

11: Trade and Other Receivables

	CONSOLIDATED	
	2010	2009
	$000	$000
Trade receivables	58,419	51,097
Allowance for impairment loss (a)	(2,667)	(1,833)
	55,752	49,264

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14-60 day terms. An allowance for impairment loss is made when there is objective evidence that a trade receivable is impaired. An impairment loss of $4.1 million (2009: $2.4 million) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Movements in the provision for impairment loss were as follows:

	CONSOLIDATED	
	2010	2009
	$000	$000
At 1 July	1,833	676
Charge for the year	4,149	2,427
Amounts written off	(3,315)	(1,270)
At 30 June	2,667	1,833

Comparative figures have been restated due to the finalisation of provisional amounts from the business combinations in prior year of People Telecommunications Pty Ltd and the business assets of Commander.

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

Ageing analysis of trade receivables

		2010		2009
	Gross	Allowance	Gross	Allowance
Consolidated	$000	$000	$000	$000
Current	41,784	4	44,874	18
31 - 60 days	8,461	6	2,966	55
61 - 90 days	1,781	128	1,025	110
91 days and over	6,393	2,529	2,232	1,650
Closing balance	58,419	2,667	51,097	1,833

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.

Trade receivables that are past due but not considered impaired amounted to $5.5 million (2009: $1.5 million).

The amount past due but considered recoverable, is primarily made up of the following categories: long term payment arrangements with wholesale customers considered good credit rating ($2.0 million); billings in relation to customers which have obligations to a third party, which are offset with a matching liability within M2's balance sheet ($1.0 million); disputes on foot with customers with deemed invalid claims or offset by liabilities within M2's balance sheet ($0.6 million).

(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.

(c) Interest rate risk

Detail regarding interest risk exposure is disclosed in note 3.

12: Inventories

	CONSOLIDATED	
	2010	2009
	$000	$000
Finished goods (at cost)	338	1,444
Total inventories at the lower of cost and net realisable value	338	1,444

Inventory recognised as expense for the year ended 30 June 2010 totalled $6 million (2009: $6.9 million) for the Group. This expense has been included in cost of sales in the Statement of Comprehensive Income.

13: Other Assets

	CONSOLIDATED	
	2010	2009
	$000	$000
Bartercard trade balance	397	394
Prepayments	1,834	871
Security deposit	1,220	1,137
Deferred commission cost	3,792	-
Other	69	93
	7,312	2,495

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.

Deferred commission cost is recognised based on the change in accounting policy discussed in note 2.

14: Plant and Equipment

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

	CONSOLIDATED	
	Plant and equipment $000	Total $000
Year ended 30 June 2010		
At 1 July 2009,		
Net of accumulated depreciation and impairment	5,040	5,040
Additions	1,110	1,110
Disposals and write-offs	(708)	(708)
Depreciation charge for the year	(1,527)	(1,527)
Other	(195)	(195)
At 30 June 2010,		
Net of accumulated depreciation and impairment	3,720	3,720
At 30 June 2010		
Cost or fair value	8,912	8,912
Accumulated depreciation and impairment	(5,192)	(5,192)
Net carrying amount	3,720	3,720
Year ended 30 June 2009		
At 1 July 2008,		
Net of accumulated depreciation and impairment	1,291	1,291
Additions	930	930
Acquisition of subsidiary	3,450	3,450
Depreciation charge for the year	(631)	(631)
At 30 June 2009,		
Net of accumulated depreciation and impairment	5,040	5,040
At 30 June 2009		
Cost or fair value	8,888	8,888
Accumulated depreciation and impairment	(3,848)	(3,848)
Net carrying amount	5,040	5,040

Plant and equipment with carrying amount of $308,000 (2009: $194,000) for the Group are pledged as securities for non-current liabilities as disclosed in note 18.

15: Intangible Assets and Goodwill

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

					CONSOLIDATED
	Trademarks & Licenses	Customer Contracts	Brands	Goodwill	Total
	$000	$000	$000	$000	$000
Year ended 30 June 2010					
At 1 July 2009,					
Net of accumulated amortisation and impairment	835	5,587	1,503	59,256	67,181
Additions					
Software	1,593	-	-	-	1,593
Provisional premium on acquisition - Clever	-	1,298	-	3,709	5,007
Total additions	1,593	1,298	-	3,709	6,600
Adjustments to fair value from provisional accounts	-	-	-	-	-
Amortisation charge for the year	(1,093)	(2,379)	-	-	(3,472)
At 30 June 2010,					
Net of accumulated amortisation and impairment	1,335	4,506	1,503	62,965	70,309
At 30 June 2010					
Cost (gross carrying amount)	4,203	8,338	1,503	62,965	77,009
Accumulated amortisation and impairment	(2,868)	(3,832)	-	-	(6,700)
Net carrying amount	1,335	4,506	1,503	62,965	70,309
Year ended 30 June 2009					
At 1 July 2008,					
Net of accumulated amortisation and impairment	1,015	323	-	31,372	32,710
Additions					
Software	356	-	-	-	356
Customer base	281	-	-	-	281
Provisional premium on acquisition - People Telecom	-	-	-	17,177	17,177
Provisional premium on acquisition - Commander	-	-	-	22,117	22,117
Total additions	637	-	-	39,294	39,931
Adjustments to fair value from provisional accounts (1)	-	6,014	1,503	(11,410)	(3,893)
Amortisation charge for the year	(817)	(750)	-	-	(1,567)
At 30 June 2009,					
Net of accumulated amortisation and impairment	835	5,587	1,503	59,256	67,181
At 30 June 2009					
Cost (gross carrying amount)	3,120	478	-	70,666	74,264
Adjustments to fair value from provisional accounts	-	6,014	1,503	(11,410)	(3,893)
Accumulated amortisation and impairment	(2,285)	(905)	-	-	(3,190)
Net carrying amount	835	5,587	1,503	59,256	67,181

(1) The adjustment to the fair value from provisional accounts relates to:

- An amount adjusted for the forgiveness of deferred consideration for the Unitel Australia Pty Ltd ("Unitel") acquisition, as well as the adjustment of intangible assets relating to customer contracts for Unitel,
- Adjustments due to the finalisation of business combination accounting for People Telecom and Commander acquisitions for the identification of intangible assets relating to customer contracts, brands and other assets.

15: Intangible Assets and Goodwill (continued)

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

(i) Trademarks and licences
This category includes intangible assets including the following:

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

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

(ii)Customer bases
Customer bases acquired in the normal course of business are amortised over the churn profile which is a 2 to 4 year period.

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

(iv) 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.

(v) 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

(i) Description of cash generating units and other relevant information
Goodwill acquired through business combinations has been allocated to and are tested at the level of their respective cash generating units for impairment testing as follows.

> Retail cash generating unit

> Wholesale cash generating unit

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

The pre-tax risk-adjusted discount rate applied to cash flow projections ranged from 13% to 16% (2009: 13% to 15%).

The long-term growth rate used to extrapolate the cash flows of the retail and wholesale sales units beyond the five-year period is 3% and 2.5% respectively. The senior management of both units believes these growth rates are justified based on the acquisitions during the financial year, which resulted in increased customer base.

(ii) Carrying amount of goodwill allocated to each of the cash generating units

	CONSOLIDATED	
	2010	**2009**
	$000	**$000**
Retail cash generating units	47,955	44,246
Wholesale cash generating units	15,010	15,010
Total Goodwill	62,965	59,256

(iii) Key assumptions used in value in use calculations for the cash generating units for 30 June 2010 and 30 June 2009

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 the 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 estimates reflect management's estimate, determined by future investment in sales generation methods and by growth rates achieved within the previous period.

16: Trade and Other Payables

	2010 $000	2009 $000
Trade payables	20,956	24,314
Accrued expenses	18,569	21,640
Withholding tax payable	254	385
Goods and services tax payable	931	1,428
Unearned income	6,243	4,835
Deferred commission revenue	6,040	-
Other payables	1,232	2,468
	54,225	55,070

Deferred commission revenue is recognised based on the change in accounting policy discussed in note 2.

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.

17: Provisions

	CONSOLIDATED	
	2010 $000	2009 $000
Annual leave	2,009	2,119
Long service leave	2,045	1,941
	4,054	4,060

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

17: Provisions (continued)

Movements in provisions during the financial year are set out below:

	CONSOLIDATED	
	Employee benefits	Total
	$000	$000
Year ended 30 June 2010		
At 1 July 2009	4,060	4,060
Arising during the year	1,997	1,997
Utilised	(2,003)	(2,003)
At 30 June 2010	4,054	4,054
Current 2010	3,584	3,584
Non-current 2010	470	470
	4,054	4,054
Current 2009	3,440	3,440
Non-current 2009	620	620
	4,060	4,060

18: Interest Bearing Loans and Borrowings

	CONSOLIDATED	
	2010	2009
	$000	$000
Current		
Obligations under finance leases and hire purchase contracts (note 25)	129	147
Bank loans	5,000	3,000
	5,129	3,147
Non-Current		
Obligations under finance leases and hire purchase contracts (note 25)	195	113
Bank loans	11,250	13,000
	11,445	13,113

(a) Fair values

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

(b) Interest rate and liquidity risk

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

(c) Defaults and breaches

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

(d) Cash pledged

Cash of $1.2 million is pledged as security. The carrying value of financial assets equals the fair value of the pledged security.

19: Deferred Consideration

	CONSOLIDATED 2010 $000	2009 $000
Current		
Obligations under asset sale deed for the purchase of Commander Assets	1,872	11,596
Obligations under asset sale deed for the purchase of Clever Assets	1,250	-
	3,122	11,596
Non-Current		
Obligations under asset sale deed for the purchase of Commander Assets	2,980	4,852
	2,980	4,852

20: Contributed Equity

	CONSOLIDATED 2010 $000	2009 $000
Ordinary shares - issued and fully paid	62,936	41,331
	62,936	41,331

	CONSOLIDATED No.	$000
Movements in ordinary shares on issue		
At 30 June 2008	78,884	23,709
Share issue on 24 April 2009 due to purchase of People Telecom business (note 24)	28,578	17,147
Share issue on 18 June 2009 due to exercise of options (note 23)	1,000	475
Transaction costs	-	-
At 30 June 2009	108,462	41,331
Share issue due to share placement	11,111	20,000
Share issue due to exercise of share options	1,629	1,550
Share issue due to dividend reinvestment plan	320	550
Transaction costs	-	(495)
At 30 June 2010	121,522	62,936

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

Capital management

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 2010, management paid dividends of $8.8 million (2009: $4.3 million).

The Group is not subject to externally imposed capital requirements.

21: Related Party Disclosure

(a) Subsidiaries

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

	Country of	% Equity interest		Investment $000	
Name	**incorporation**	**2010**	**2009**	**2010**	**2009**
M2 Telecommunications Pty Ltd	Australia	100	100	2,955	2,955
M2 NZ Limited	New Zealand	100	100	-	-
M2 Loyalty Programs Pty Ltd	Australia	100	100	-	-
M2 Mobile Services Pty Ltd	Australia	100	100	-	-
M2 Wholesale Pty Ltd	Australia	100	100	-	-
M2 Business Solutions Pty Ltd	Australia	51	51	-	-
Orion Telecommunications Ltd	Australia	100	100	-	-
M2 Wholesale Services Pty Ltd	Australia	100	100	-	-
Wholesale Communications Group Pty Ltd	Australia	100	100	-	-
People Telecom Ltd	Australia	100	100	-	-
M2 Commander Pty Ltd	Australia	100	100	-	-
				2,955	2,955

(b) Ultimate parent

M2 Telecommunications Group Ltd is the ultimate parent entity.

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 22.

(d) Transactions with related parties

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 2010, 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 (2009:$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.

22: Key Management Personnel

(a) Compensation for key management personnel

	CONSOLIDATED	
	2010	**2009**
	$000	**$000**
Short-term employee benefits	2,690	1,806
Post employment benefits	176	120
Share-based payment	163	15
Total compensation	3,029	1,941

22: Key Management Personnel (continued)

(b) Option holdings of key management personnel (consolidated)

30 June 2010	Balance at 1 July 2009	Granted as remuneration	On exercise of options	Net change	Balance at 30 June 2010
Directors					
Craig Farrow	-	-	-	-	-
Vaughan Bowen	-	-	-	-	-
Max Bowen	-	-	-	-	-
Dennis Basheer	-	-	-	-	-
John Hynd	-	-	-	-	-
Michael Simmons	-	-	-	-	-
Executives					
Steve Wicks	-	250,000	-	250,000	250,000
Darryl Inns	500,000	250,000	(500,000)	(250,000)	250,000
Terry Doyle	350,000	250,000	(227,000)	23,000	373,000
Geoff Horth	-	250,000	-	250,000	250,000
Matthew Hobbs	175,000	250,000	(125,000)	125,000	300,000
Michael Speglic	50,000	250,000	-	250,000	300,000
Kellie Dean	50,000	250,000	-	250,000	300,000
Total	1,125,000	1,750,000	(852,000)	898,000	2,023,000

30 June 2009	Balance at 1 July 2008	Granted as remuneration	On exercise of options	Net change	Balance at 30 June 2009
Directors					
Craig Farrow	-	-	-	-	-
Vaughan Bowen	500,000	-	(500,000)	(500,000)	-
Max Bowen	-	-	-	-	-
Dennis Basheer	-	-	-	-	-
John Hynd	-	-	-	-	-
Michael Simmons	-	-	-	-	-
Executives					
Steve Wicks	500,000	-	(500,000)	(500,000)	-
Darryl Inns	500,000	-	-	-	500,000
Terry Doyle	350,000	-	-	-	350,000
Ryan Banting (1)	350,000	-	-	-	350,000
Matthew Hobbs	125,000	50,000	-	50,000	175,000
Michael Speglic	-	50,000	-	50,000	50,000
Kellie Dean	-	50,000	-	50,000	50,000
Total	2,325,000	150,000	(1,000,000)	(850,000)	1,475,000

(1) Ceased employment with the Company on 13 October 2008.

22: Key Management Personnel (continued)

(c) Shareholdings of key management personnel (consolidated)

30 June 2010	Balance at 1 July 2009	Granted as remuneration	On exercise of options	Net change	Balance at 30 June 2010
Directors					
Craig Farrow	1,028,000	-	-	(69,478)	958,522
Vaughan Bowen	13,382,666	-	-	(2,452,929)	10,929,737
Max Bowen	32,274	-	-	-	32,274
Dennis Basheer	5,244,906	-	-	(200,000)	5,044,906
John Hynd	2,832,524	-	-	-	2,832,524
Michael Simmons	-	-	-	3,591	3,591
Executives					
Steve Wicks	3,339,491	-	-	(566,295)	2,773,196
Darryl Inns	139,166	-	500,000	450,167	589,333
Terry Doyle	-	-	227,000	227,000	227,000
Geoff Horth	-	-	-	44,500	44,500
Matthew Hobbs	56,512	-	125,000	(55,512)	1,000
Michael Speglic	-	-	-	-	-
Kellie Dean	-	-	-	-	-
Total	26,055,539	-	852,000	(2,618,956)	23,436,583

30 June 2009	Balance at 1 July 2008	Granted as remuneration	On exercise of options	Net change	Balance at 30 June 2009
Directors					
Craig Farrow	1,028,000	-	-	-	1,028,000
Vaughan Bowen	12,882,666	-	500,000	500,000	13,382,666
Max Bowen	32,274	-	-	-	32,274
Dennis Basheer	5,244,906	-	-	-	5,244,906
John Hynd	2,832,524	-	-	-	2,832,524
Michael Simmons	-	-	-	-	-
Executives					
Steve Wicks	2,839,491	-	500,000	500,000	3,339,491
Darryl Inns	139,166	-	-	-	139,166
Terry Doyle	-	-	-	-	-
Ryan Banting (1)	13,000	-	-	-	13,000
Matthew Hobbs	-	-	56,512	56,512	56,512
Michael Speglic	-	-	-	-	-
Kellie Dean	-	-	-	-	-
Total	25,012,027	-	1,056,512	1,056,512	26,068,539

(1) Ceased employment with the Company on 13 October 2008.

(d) Other transactions and balances 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)	2010	17	2
	2009	17	1
Max Bowen (2)	2010	4	-
	2009	4	-
Dennis Basheer (3)	2010	1	285
	2009	7	406
John Hynd (4)	2010	5	-
	2009	2	-
Executives			
Matthew Hobbs (5)	2010	-	1
	2009	-	-

(1) Payment for services were paid and sale of telecommunications services were provided to Brentnalls SA on commercial terms. Mr Farrow is a partner of the firm Brentnalls SA. Fee paid of $23,333 for position as acting CEO.

(2) Sale of telecommunications services were provided to MGB Holdings Pty Ltd on commercial. Mr Bowen is a director of MGB Holdings Pty Ltd.

(3) Sales commissions were paid and sale of telecommunications services were provided to Dennis N Basheer Nominees on commercial terms. Mr Basheer is a director of Dennis N Basheer Nominees.

(4) Sale of telecommunications services were provided to Hynd & Co Pty Ltd on commercial terms. Mr Hynd is a director of the firm Hynd & Co Pty Ltd.

(5) Services were paid to Devine Media Pty Ltd on commercial terms. Mr. Hobbs is a director of Devine Media Pty Ltd.

23: Share-Based Payment Plans

(a) Recognised share-based payment expenses

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

	CONSOLIDATED	
	2010 $000	2009 $000
Expense arising from equity-settled share-based payment transactions		
- M2 Executive Management Team and Employee Share Option Plan (ESOP)	307	124
Total expense arising from share-based payment transactions	307	124

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010.

(b) Types of share-based payment plans

Employee Share Option (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 (Employee Share Option Plan, "ESOP"). The purpose of the ESOP is 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 Executives and selected employees of M2 are 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 or 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.

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.

Employee share plan (ESP)
In April 2007 M2 introduced the ESP to reward the loyalty of employees. All employees of M2, both full-time and permanent part-time, are eligible to participate in the ESP, in which M2 shares may be offered at the discretion of M2 Management and the M2 Board. The issue of M2 shares under the ESP is further subject to the approval of the M2 shareholders.

A summary of the ESP is as follows:

(i) Under the ESP, eligible employees will be offered M2 shares. The shares issued under the ESP will rank equally with all other M2 shares and application will be made for them to be quoted on the ASX.

(ii) The shares will be offered to eligible employees at the average weighted closing market price of M2 share's sold on the ASX during the five business days immediately before invitations to eligible employees are announced or issued.

(iii) The maximum number of shares that may be offered to an eligible employee in any twelve month period is 20,000 M2 shares.

(iv) Eligible employees may pay for the shares offered out of their own funds or M2 will provide them with an interest-free, limited recourse loan to finance up to the full cost of the shares.

(v) Eligible employees who have paid for the shares offered out of their own funds may deal with them as they wish.

(vi) Eligible employees who take up the offer of the loan do so on the following terms:
   a. The loan is required to be repaid within twenty years after the date of allotment of the shares, or upon the employee ceasing employment with M2;
   b. The loan may be repaid in full or part at any time prior to the repayment date;
   c. All cash dividends will be put towards repayment of the loan;
   d. The employee cannot sell the shares until the loan has been repaid;
   e. If the loan becomes repayable M2 may sell the employee's shares to repay the loan but if the sale proceeds are insufficient to repay the loan then the employee is released from further liability.

(vii) The employee may attend and vote at annual general meetings and other shareholder meetings and is entitled to participate in any bonus or rights issues.

There were no grants of ESP during the financial year 2010 or 2009.

(c) Summaries of options granted under ESOP

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

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	2,925,000	$0.592	2,725,000 [(1)]	$0.502
Granted during the year	1,750,000	$1.860	1,200,000	$0.700
Exercised during the year	(1,655,000)	$0.527	(1,000,000)	$0.475
Outstanding at the end of the year	3,020,000	$1.363	2,925,000	$0.592

(1) During the year, management has reviewed the eligibility criteria for options granted under ESOP and as a result an additional 525,000 options on issue, relating to the prior period, are now eligible for inclusion.

Out of the options exercised during the financial year, 26,500 options were exercised before 30 June 2010 and shares were issued subsequent to the year end. These shares were not included in the movement of shares in note 20.

The outstanding balance as at 30 June 2010 is represented by:

(i) 123,000 options over ordinary shares with an exercise price of $0.475 each, exercisable upon meeting the above conditions and until 23 February 2011.

(ii) 1,147,000 options over ordinary shares with an exercise price of $0.70 each, exercisable upon meeting the above conditions and until 8 May 2012.

(iii) 1,750,000 executive options with exercise price ranging from $1.75 to $1.95, exercisable until dates ranging from 1 January 2011 to 1 January 2015.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 2 years (2009: 1.9 years).

(e) Range of exercise price

The range of exercise prices for all options outstanding at the end of the financial year was $0.475 to $1.95 (2009: $0.70).

(f) Weighted average fair value

The weighted average fair value of options granted during the year was $0.36.

(g) Option pricing model: ESOP

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

The following table lists the inputs to the Binomial Model used for the year ended 30 June 2010:

	ESOP 2010	ESOP 2009
Dividend yield (%)	3.93%	9.09%
Expected volatility (%)	46.62%	62.3%
Risk-free interest rate (%)	5.05%	3.49%
Expected life of option (years)	3 years	3 years
Option exercise price ($)	$1.75, $1.85, $1.95	$0.70
Weighted average share price at measurement date ($)	$1.40	$0.605
Model used	Binomial	Binomial

24: Business Combinations

Clever Communications

In May 2010, People Telecommunications Pty Ltd, a wholly owned subsidiary of M2, acquired the selected business assets of Clever Communications Australia Ltd ("Clever") for a total cash consideration of $5 million, comprised of an upfront and deferred payment. The acquisition of Clever's selected business assets, which includes off-net fixed, mobile and data and virtual private network SMB customer contracts complements the Group's core focus on SMB.

	CONSOLIDATED
	Provisional
Intangible assets	1,298
Provisions	(7)
Fair value of identifiable net assets	1,291
Goodwill arising from acquisition	3,709
	5,000
Cost of the combination:	
Deferred consideration	1,250
Cash paid	3,750
Total cost of the combination	5,000

From the date of acquisition, Clever has contributed $0.2 million to the net profit of the Group.

If the combination had taken place at the beginning of the year, the net profit from the continuing operations of the Group would have been $17.4 million and revenue from continuing operations would have been approximately $414.1 million.

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

Key factors contributing to the $3.7 million goodwill are the synergies existing within the acquired business, and the synergies expected to be achieved as a result of combining with the rest of the Group.

Prior period acquisitions

The finalisation of the purchase price acquisition accounting for People Telecom Pty Ltd and the business assets of Commander were completed in December 2009. Comparative figures have been restated due to the finalisation of the provisional amounts as if the acquisition has been completed at the beginning of the financial year.

People Telecommunications Ltd

On 24 April 2009, the Group acquired 100% of the voting shares of ASX listed company People Telecom Ltd ("People"). The Group provisionally calculated the fair value of identifiable net assets as $2,184,000; however, its fair value as at acquisition date was subsequently determined to be $9,897,000. As a result, the goodwill balance has been adjusted by $7,713,000 to $9,464,000 during the financial year.

People earned a net profit of $4,147,000 during the financial year (2009: $523,000). The subsidiary contributed total revenue of $77,783,000 during the financial year (2009: $15,837,000).

M2 Commander Pty Ltd

On 15 June 2009, the Group acquired the SMB assets and associated intellectual property of Commander Communications Limited (Receivers and Managers Appointed) (In Liquidation) ("Commander"), a company based in Australia specialising in the retail of fixed line, mobile and data products. The Group provisionally calculated the fair value of identifiable net assets as $2,306,000; however, its fair value as at acquisition date was subsequently determined to be $4,210,000. As a result, the goodwill balance has been adjusted by $1,652,000 to $20,464,000 during the financial year.

Commander earned a net profit of $5,163,000 during the financial year (2009: $418,000). The subsidiary contributed total revenue of $118,033,000 during the financial year (2009: $8,550,000).

25: 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 2010 are as follows:

	CONSOLIDATED	
	2010	2009
	$000	$000
Within one year	1,994	3,037
After one year but not more than five years	3,569	5,389
After more than five years	-	539
Total minimum lease payments	5,563	8,965

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 2010 are as follows:

	CONSOLIDATED	
	2010	2009
	$000	$000
Within one year	129	156
After one year but not more than five years	195	117
Total minimum lease payments	324	273
Less amounts representing finance charges	(39)	(24)
Present value of minimum lease payments	285	249

26: Contingencies

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

27: Events After Balance Date

On 3 August 2010, People Telecommunications Pty Ltd, a wholly owned subsidiary of M2, completed the acquisition of the business assets of Bell Networks Voice & Data Pty Ltd ("Bell Networks") for a consideration of $4.015 million (less certain adjustments) payable in cash, comprised of an upfront and deferred payment, which is subject to certain conditions relating to the performance of the assets over an agreed period. Bell Networks also has an opportunity to receive additional bonus consideration based on the performance of business assets in the 12 months post-completion. The principal assets acquired were the SMB customer contracts of Bell Networks.

On 27 August 2010, the directors declared a final dividend on ordinary shares in respect of the 2010 financial year. The total amount of the dividend is $6,076,410, which represents a fully franked dividend of 5 cents per share (on shares issued as at 30 June 2010). This final dividend will be paid to shareholders on 29 October 2010.

28: Parent Entity Information

Information relating to M2 Telecommunications Group Ltd:

	2010 $000	2009 $000
Current assets	171	71
Total assets	73,768	59,489
Current liabilities	4,226	2,960
Total liabilities	15,476	15,960
Issued capital	63,702	41,331
Retained earnings	(5,752)	1,484
Equity Reserves	342	714
Total shareholders' equity	58,292	43,529
Profit or loss of the parent entity	2,333	4,326
Total comprehensive income of the parent entity	2,333	4,326

29: Auditor's Remuneration

The auditor of M2 Telecommunications Group Ltd is Ernst & Young.

	CONSOLIDATED	
	2010	2009
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	249,750	187,000
	249,750	187,000

Directors' **Declaration**

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

1. In the opinion of the directors:

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

      (i) Giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date.

      (ii) Complying with Accounting Standards and Corporations Regulations 2001.

   (b) 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 2010.

On behalf of the directors

Vaughan Bowen

Managing Director/CEO

Melbourne, 27 August 2010

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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

Report on the Financial Report

We have audited the accompanying financial report of M2 Telecommunications Group Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 (b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of M2 Telecommunication Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of M2 Telecommunications Group Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of M2 Telecommunications Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

David Shewring
Partner
Melbourne
27August 2010

ASX Additional **Information**

Additional information required by the Australian Stock Exchange Ltd listing rules and not shown elsewhere in this report is as follows. This information is current as at 23 August 2010.

(a) Distribution of equity holders of securities

(i) Ordinary share capital
121,548,195 fully paid ordinary shares are held by 2,665 shareholders.

(ii) Options
3,020,000 options are held by 43 individual option holders.

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

Range	Fully paid ordinary shares	Number of shareholders
100,001 and Over	93,206,101	104
10,001 to 100,000	21,262,177	735
5,001 to 10,000	4,023,600	512
1,001 to 5,000	2,867,330	969
1 to 1,000	188,987	345
Total	**121,548,195**	**2,665**
	8,469	78
Unmarketable Parcels	7,684	75

(b) Substantial Shareholders

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

Name of substantial shareholder	Name of registered holder(s)	Number of ordinary shares	% Issued capital
Hunter Hall Investment Management Limited	Cogent Nominees Pty Limited	13,184,021	10.85
Vaughan Bowen	Vaughan Bowen <VG Bowen Family> Vaughan Bowen <Bowen Family Super Fund> Vaughan Bowen Vaughan Garfield Bowen and Carolina Nunn <Bowen Family Super Fund>	10,929,737	8.99
National Australia Bank Limited	MLC Investments Limited National Nominees Limited Elly Investments Pty Limited Cogent Nominees Pty Ltd	8,611,314	7.08

(c) Twenty Largest Holders

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

			Fully paid
Ordinary shareholders		**Number**	**Percentage**
COGENT NOMINEES PTY LIMITED		24,174,197	19.89%
MR VAUGHAN BOWEN	V G BOWEN FAMILY	9,678,000	7.96%
NATIONAL NOMINEES LIMITED		5,519,860	4.54%
J P MORGAN NOMINEES AUSTRALIA LIMITED		4,754,999	3.91%
DENNIS N BASHEER SUPERANNUATION PTY LTD	<DENNIS N BASHEER SUPERANNUATION FUND>	4,121,177	3.39%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		2,849,948	2.34%
EMTEL PTY LTD		2,800,000	2.30%
WICKS GROUP PTY LTD	WICKS FAMILY	2,425,000	2.00%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		2,006,289	1.65%
CORNISH GROUP INVESTMENTS PTY LTD	<CORNISH GROUP INVESTMENT A/C>	2,000,000	1.65%
THIRTY FOURTH ZULU PTY LTD	<HAMILTON SUPERFUND A/C>	1,962,878	1.61%
MR MARCELLO BARBARO		1,593,400	1.31%
NASHAR PTY LTD	<RYAN O'HARE NO2 A/C>	1,140,000	0.94%
MR VAUGHAN BOWEN	<BOWEN FAMILY SUPER FUND>	1,138,000	0.94%
REVEN PTY LIMITED	<FAYE HAMILTON-HAMILTON FAMILYA/C>	998,592	0.82%
CONTEMPLATOR PTY LTD	<ARG PENSION FUND A/C>	972,936	0.80%
DENNIS N BASHEER NOMINEES PTY LTD		923,729	0.76%
HYLAND SECURITIES PTY LTD	<THE HYLAND A/C>	920,000	0.76%
MR EDMOND WING KIN CHEUNG & MRS ELIZA SIU LING CHEUNG	<EDMOND & ELIZA S/F A/C>	919,200	0.76%
ANZ NOMINEES LIMITED	<CASH INCOME A/C>	814,193	0.67%
TOTAL		**71,712,398**	**59.00%**
Balance of Register		49,835,797	41.00%
Grand TOTAL		121,548,195	100.00%

Corporate **Directory**

M2 Telecommunications Group Ltd

ACN 091 575 021
ABN 74 091 575 021

M2 is a publicly listed company, limited by shares. It is incorporated and domiciled in Australia.

Registered Office

Level 10, IBM Centre, 60 City Road
Southbank, VIC 3006

Telephone: (03) 9674 6555
Facsimile: (03) 9674 7599
Web: www.m2.com.au

Stock Exchange

Australian Securities Exchange Ltd (ASX)
Issuer Code: MTU

Directors

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

Company Secretary

Kellie Dean

Auditor

Ernst & Young
8 Exhibition Street
Melbourne, VIC 3000

Principal Legal Advisors

Lander & Rogers Lawyers
Level 12, 600 Bourke Street
Melbourne, VIC 3000

Bankers

Bank of Western Australia Ltd (BankWest)
Westpac Banking Corporation Ltd

Share Registry

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

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

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