

Appendix 4D

Half-year report Half-year ended 31 December 2016

1. Results for announcement to the market

\$A'000

| | | | | |
|---|----|------|----|---------|
| Revenue and other income | Up | 6.5% | to | 107,082 |
| Profit after tax attributable to members | Up | 214% | to | 6,166 |
| Net profit for the period attributable to members | Up | 214% | to | 6,166 |

| Dividends (distributions) | Amount per security | Franked amount per security |
|-------------------------------|---------------------|-----------------------------|
| Interim dividend | 25 ¢ | 25 ¢ |
| Previous corresponding period | 25 ¢ | 25 ¢ |

Record date for determining entitlements to the dividend

31 March 2017

Payment date

18 April 2017

Refer commentary on review of operations in the Interim Financial Report attached.

2. Net tangible assets per security

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Net tangible asset backing per ordinary security | 3.53 | 3.56 |

3. Dividends

Macquarie Telecom's directors today declared a fully franked interim dividend of 25 cents per share payable to shareholders registered on 31 March 2017. The interim dividend paid for the prior corresponding period was 25 cps.

On 12 October 2016, a fully franked final dividend of 25 cents per share, in respect of the financial year ended 30 June 2016, was paid to all shareholders registered on 14 September 2016.

4. Compliance statement

This report, and the interim financial report upon which the report is based, use the same accounting policies. The interim financial report upon which this report is based has been reviewed. A copy of the reviewed interim financial report is attached. The Appendix 4D is also to be read in conjunction with the annual financial report for the year ended 30 June 2016.

Interim Financial Report for the half-year ended 31 December 2016

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Directors' Report

Your directors submit their report on the consolidated entity consisting of Macquarie Telecom Group Limited ("Group") and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below.

| Name | Directorship |
|----------------|----------------------------|
| Peter James | Chairman |
| David Tudehope | Chief Executive |
| Aidan Tudehope | Managing Director, Hosting |
| Anouk Darling | Non-Executive Director |
| Bart Vogel | Non-Executive Director |

Review of Operations

The Group generated a net profit after tax of \$6.2 million for the half-year to 31 December 2016, compared to a net profit after tax of \$2.0 million for the half-year to 31 December 2015.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the half-year was \$19.0 million, representing an increase of \$3.4 million (22%) compared to the corresponding interim period.

Consolidated service revenue increased by 7% to \$106.8 million from \$100.1 million in the corresponding interim period.

The Group's Telecom business contributed revenue of \$71.2 million, an increase of \$1.2 million (2%), and EBITDA of \$9.3 million, in line with the corresponding interim period.

The Group's Hosting business contributed external service revenue of \$35.6 million, an increase of \$5.5 million (18%), and EBITDA of \$9.7 million, an increase of \$3.4 million (55%), compared to the corresponding interim period.

The following tables summarise the revenue and EBITDA performance of the Group's reporting segments.

| Service Revenue <i>(A\$ million)</i> | Half-year ended 31 December 2016 | Half-year ended 31 December 2015 |
|--|---|---|
| Telecom | 71.2 | 70.0 |
| Hosting | 37.8 | 32.5 |
| Eliminate inter-segment revenue | (2.2) | (2.4) |
| Hosting Total | 35.6 | 30.1 |
| Consolidated External Service Revenue | 106.8 | 100.1 |

Directors' Report (cont'd)

| EBITDA <i>(A\$ million)</i> | Half-year ended 31 December 2016 | Half-year ended 31 December 2015 |
|---|---|---|
| Telecom | 9.3 | 9.3 |
| Hosting | 9.7 | 6.3 |
| Total EBITDA | 19.0 | 15.6 |
| <i>Reconciliation of EBITDA to profit before income tax</i> | | |
| Total EBITDA | 19.0 | 15.6 |
| Interest revenue | 0.3 | 0.2 |
| Depreciation and amortisation expense | (10.8) | (12.9) |
| Profit before income tax | 8.5 | 2.9 |

During the 6 months ended 31 December 2016, the Group has continued to see revenue improvement across each business brand, particularly driven by strong customer demand and a clear focus on providing a superior customer experience. The improvement in data centre asset utilisation has driven the growth in profitability.

The Group has generated operating cash flows of \$13.9 million and held cash and cash equivalents of \$24.7 million as at 31 December 2016.

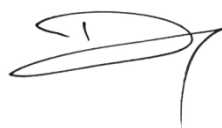
Auditor's Independence Declaration

Refer to page 16 for the independence declaration from our auditors, PricewaterhouseCoopers.

Rounding

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Legislative Instrument 2016/191. The company is an entity to which the Instrument applies.

Signed in accordance with a resolution of the directors.



David Tudehope
Director

Sydney, 27 February 2017

Consolidated Statement of Comprehensive Income For the half-year ended 31 December 2016

| | Notes | Half year ended 31 December 2016 \$'000 | Half year ended 31 December 2015 \$'000 |
|--|-------|--|--|
| Revenue and other income | 3 | 107,082 | 100,553 |
| Expenses | 3 | (98,896) | (97,864) |
| Results from operating activities | | 8,186 | 2,689 |
| Finance income | | 301 | 248 |
| Finance costs | | (9) | (80) |
| Profit before income tax | | 8,478 | 2,857 |
| Income tax (expense) | | (2,312) | (896) |
| Profit after income tax for the half-year attributable to owners of the parent | | 6,166 | 1,961 |
| Other comprehensive income | | | |
| Items that may be reclassified to profit and loss: | | | |
| Exchange differences on translation of foreign operations | | (12) | (15) |
| Total comprehensive income for the half-year attributable to owners of the parent | | 6,154 | 1,946 |
| | | cents | cents |
| Earnings per share attributable to the ordinary equity holders of the company: | | | |
| Basic earnings per share | 6 | 29.4 | 9.4 |
| Diluted earnings per share | 6 | 29.2 | 9.4 |

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

**Consolidated Statement of Financial Position
As at 31 December 2016**

| | 31 December 2016 | 30 June 2016 |
|--------------------------------------|---------------------|-----------------|
| | \$'000 | \$'000 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 24,682 | 36,465 |
| Receivables | 8,050 | 8,386 |
| Accrued income | 6,914 | 5,620 |
| Other | 6,390 | 5,842 |
| TOTAL CURRENT ASSETS | 46,036 | 56,313 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 58,475 | 47,222 |
| Intangibles | 9,554 | 8,167 |
| Deferred tax assets | 5,587 | 5,447 |
| Other | 2,350 | 2,680 |
| TOTAL NON-CURRENT ASSETS | 75,966 | 63,516 |
| TOTAL ASSETS | 122,002 | 119,829 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Payables | 26,102 | 27,096 |
| Current tax liabilities | 2,889 | 1,366 |
| Provisions | 1,478 | 1,442 |
| Other | 2,393 | 2,411 |
| TOTAL CURRENT LIABILITIES | 32,862 | 32,315 |
| NON-CURRENT LIABILITIES | | |
| Provisions | 1,010 | 985 |
| Other | 4,636 | 4,103 |
| TOTAL NON-CURRENT LIABILITIES | 5,646 | 5,088 |
| TOTAL LIABILITIES | 38,508 | 37,403 |
| NET ASSETS | 83,494 | 82,426 |
| EQUITY | | |
| Contributed equity | 42,991 | 42,991 |
| Reserves | 463 | 319 |
| Retained earnings | 40,040 | 39,116 |
| TOTAL EQUITY | 83,494 | 82,426 |

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

Consolidated Statement of Changes in Equity For the half-year ended 31 December 2016

| | Contributed Equity | Reserves | Retained Earnings | Total |
|--|-----------------------|----------|----------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2015 | 42,991 | 169 | 44,346 | 87,506 |
| Total comprehensive income for the period | - | (15) | 1,961 | 1,946 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | - | - | (5,242) | (5,242) |
| Share based payment | - | 34 | - | 34 |
| Total | - | 34 | (5,242) | (5,208) |
| Balance at 31 December 2015 | 42,991 | 188 | 41,065 | 84,244 |
| | | | | |
| | Contributed Equity | Reserves | Retained Earnings | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2016 | 42,991 | 319 | 39,116 | 82,426 |
| Total comprehensive income for the period | - | (12) | 6,166 | 6,154 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | - | - | (5,242) | (5,242) |
| Share based payment | - | 156 | - | 156 |
| Total | - | 156 | (5,242) | (5,086) |
| Balance at 31 December 2016 | 42,991 | 463 | 40,040 | 83,494 |

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

Consolidated Statement of Cash Flows For the half-year ended 31 December 2016

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|---|-------------------------------|-------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | 112,802 | 108,237 |
| Payments to suppliers and employees | (98,543) | (96,076) |
| Interest received | 314 | 200 |
| Interest paid | (9) | (103) |
| Income taxes paid | (930) | - |
| Other receipts | 270 | 67 |
| | 13,904 | 12,325 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES | | |
| Acquisition of non-current assets | (23,482) | (7,533) |
| Proceeds from sale of non-current assets | 3,000 | 40,308 |
| | (20,482) | 32,775 |
| NET CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES | | |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | |
| (Repayment of) borrowings | - | (21,000) |
| Dividends paid on ordinary shares | (5,242) | (5,242) |
| | (5,242) | (26,242) |
| NET CASH FLOWS (USED IN) FINANCING ACTIVITIES | | |
| NET (DECREASE) / INCREASE IN CASH HELD | (11,820) | 18,858 |
| Cash and cash equivalents at the beginning of the half-year | 36,465 | 6,410 |
| Effects of exchange rate changes on cash and cash equivalents | 37 | 81 |
| | 24,682 | 25,349 |
| CASH AND CASH EQUIVALENTS AT END OF THE HALF-YEAR | | |

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

Notes to the consolidated financial statements For the half-year ended 31 December 2016

1. Corporate Information

Macquarie Telecom Group Limited is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the ASX (ASX Code: MAQ).

2. Summary of Significant Accounting Policies

(a) Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim period including the accounting policy for the equity-settled shared based payments which applies to the performance rights issued during the period.

Accounting standards and interpretations which became effective for the first time for the 31 December 2016 half year report did not materially affect the entity's accounting policies or any of the amounts recognised in the financial statements.

(b) Interim Reporting

The half-year financial report does not include all notes of the type normally included within the Annual Financial Report.

Accordingly, the financial report should be read in conjunction with the Annual Financial Report of Macquarie Telecom Group Limited as at 30 June 2016. It is also recommended that the half-year financial report be considered together with any public announcements made by Macquarie Telecom Group Limited during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(c) Significant accounting judgements, estimates and assumptions

In preparing the financial report, the consolidated entity is required to make estimates and assumptions about the carrying values of assets and liabilities. The key estimates and accounting judgements for Macquarie Telecom relate to the determination of the useful lives of non-current assets and the estimation uncertainty associated with determining the recoverable amount of non-current assets. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Recoverable amount of non-current assets

The major sources of estimation uncertainty in assessing the recoverable amount of non-current assets are judgements relating to future sales order growth and pricing and the utilisation of data centre capacity, the Company's ability to manage operating and capital expenditure and the cost of capital. Should the future performance of the Company differ from these estimations the assessment of the recoverable amount of non-current assets would be different and may impact the impairment testing result.

Notes to the consolidated financial statements For the half-year ended 31 December 2016

3. Revenue and expenses

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:

| | Half-year ended 31 December 2016 \$'000 | Half-year ended 31 December 2015 \$'000 |
|--|---|---|
| (i) Revenues and other income | | |
| Revenue from services | 106,812 | 100,144 |
| Net gain from sale of non-current assets | - | 330 |
| Other income | 270 | 79 |
| Total revenue and other income | 107,082 | 100,553 |
| (ii) Expenses | | |
| Operating lease rental | 4,952 | 4,329 |
| Employment costs | 29,984 | 27,439 |
| Carrier costs | 42,031 | 43,250 |
| Net foreign exchanges losses | 47 | 16 |
| Other expenses | 11,040 | 9,945 |
| Depreciation and amortisation | 10,842 | 12,885 |
| Total expenses | 98,896 | 97,864 |

4. Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half-year to 31 December 2016 is 27% (2015: 31%).

5. Dividends

(a) Dividends paid during the reporting period

On 12 October 2016, a fully franked final dividend of 25 cents per share, in respect of the financial year ended 30 June 2016, was paid to all shareholders registered on 14 September 2016.

(b) Dividends not recognised at the end of the reporting period

Since the end of the half-year, the directors declared the payment of a fully franked interim dividend of 25 cents per share. The record date for determining entitlements to the dividend is 31 March 2017. The dividend will be paid on 18 April 2017.

The aggregate amount of the declared dividends expected to be paid on 18 April 2017 out of retained earnings at 31 December 2016, but not recognised as a liability at half-year end, is \$5.2 million (2015: \$5.2 million).

Notes to the consolidated financial statements

For the half-year ended 31 December 2016

6. Earnings per share

Details of basic and diluted EPS are as follows:

| | Half-year ended 31 December 2016 | Half-year ended 31 December 2015 |
|--|---|---|
| | cents | cents |
| Basic earnings per share | 29.4 | 9.4 |
| Diluted earnings per share | 29.2 | 9.4 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 20,967,121 | 20,967,121 |
| Effect of dilutive securities: Share performance rights | 167,507 | - |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 21,134,628 | 20,967,121 |
| | \$000's | \$000's |
| Profit used in calculating basic and diluted earnings per share | 6,166 | 1,961 |

7. Performance rights issue

On 12 August 2016, the company issued 154,000 equity-settled performance rights (2015: 138,000) which have a vesting date of 31 December 2019, to executives and senior managers as part of their long-term incentives. The performance rights are linked to total shareholder return and customer satisfaction. The performance rights were valued using the Monte Carlo Simulation model which considered key assumptions of price volatility and dividend yield. The value of each right in Tranche 1 was \$3.06 and Tranche 2 was \$3.59, equating to a total of \$525,654.

The total value of outstanding performance rights is \$1,242,782 (2015: \$769,942), as measured at their grant date, amortised over approximately three years from the grant date. The total of performance rights amortisation expense for the period was \$171,994 (2015: \$34,315).

Notes to the consolidated financial statements

For the half-year ended 31 December 2016

8. Segment reporting

The consolidated entity operates in two primary operating segments providing services to corporate and government customers. The Telecom segment relates to the provision of voice and mobiles telecommunications services and the provision of services utilising the Macquarie Telecom data network. The Hosting segment relates to the provision of services utilising Macquarie Telecom's data hosting facilities. All activities are principally conducted in Australia.

| | Telecom | | Hosting | | Consolidated | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Revenue | | | | | | |
| External service revenue | 71,181 | 70,022 | 35,631 | 30,122 | 106,812 | 100,144 |
| Inter-segment revenue | - | - | 2,186 | 2,356 | 2,186 | 2,356 |
| Other income | 221 | 8 | 49 | 401 | 270 | 409 |
| Total segment revenue | 71,402 | 70,030 | 37,866 | 32,879 | 109,268 | 102,909 |
| Inter-segment elimination | - | - | (2,186) | (2,356) | (2,186) | (2,356) |
| Total consolidated revenue | 71,402 | 70,030 | 35,680 | 30,523 | 107,082 | 100,553 |
| Results | | | | | | |
| EBITDA | 9,272 | 9,334 | 9,756 | 6,241 | 19,028 | 15,575 |
| Depreciation and amortisation | (3,688) | (3,918) | (7,154) | (8,968) | (10,842) | (12,886) |
| Segment result before interest and tax | 5,584 | 5,416 | 2,602 | (2,727) | 8,186 | 2,689 |
| Acquisition of non-current assets | 7,364 | 2,797 | 16,118 | 3,040 | 23,482 | 5,837 |
| Unallocated acquisitions | | | | | - | 1,696 |
| Total acquisition of non-current assets | | | | | 23,482 | 7,533 |

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that Macquarie Telecom Group Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.



David Tudehope
Director

Sydney, 27 February 2017



Independent auditor's review report to the members of Macquarie Telecom Group Limited

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Telecom Group Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, selected explanatory notes and the directors' declaration for Macquarie Telecom (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Macquarie Telecom Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Macquarie Telecom Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the company for the half-year ended 31 December 2016 included on Macquarie Telecom Group Limited's web site. The company's directors are responsible for the integrity of the Macquarie Telecom Group Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.



PricewaterhouseCoopers



Jason Hayes
Partner

Sydney
27 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Macquarie Telecom Group Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- 1 no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- 2 no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Telecom Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Jason Hayes', written in a cursive style.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
27 February 2017