Appendix 4D

Half-year report
Half-year ended 31 December 2017

1. Results for announcement to the market

				$A'000
Revenue and other income	Up	7%	to	114,924
Profit after tax attributable to members	Up	30%	to	7,993
Net profit for the period attributable to members	Up	30%	to	7,993

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	29 March 2018
Payment date	24 April 2018

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

2. Net tangible assets per security

	31 December 2017	31 December 2016
Net tangible asset backing per ordinary security	3.60	3.53

3. Dividends

Macquarie Telecom's directors today declared a fully franked interim dividend of 25 cents per share payable to shareholders registered on 29 March 2018. The interim dividend paid for the prior corresponding period was 25 cents per share.

On 18 October 2017, a fully franked final dividend of 25 cents per share, in respect of the financial year ended 30 June 2017, was paid to all shareholders registered on 29 September 2017.

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 2017.

Interim Financial Report for the half-year ended 31 December 2017

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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 2017.

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 Group
Anouk Darling	Non-Executive Director
Bart Vogel	Non-Executive Director

Review of Operations

The Group generated a net profit after tax of $8.0 million for the half-year to 31 December 2017, compared to a net profit after tax of $6.2 million for the half-year to 31 December 2016.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the half-year was $22.5 million, representing an increase of $3.5 million (18%) compared to the corresponding interim period.

Consolidated service revenue increased by 8% to $114.9 million from $106.8 million in the corresponding interim period.

The Group's Telecom business contributed service revenue of $71.1 million, a decrease of $0.1 million, and EBITDA of $9.1 million, a decrease of $0.2 million, compared to the corresponding interim period.

The Group's Hosting business contributed external service revenue of $43.8 million, an increase of $8.2 million (23%), and EBITDA of $13.4 million, an increase of $3.7 million (38%), compared to the corresponding interim period.

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

Service Revenue *(A$ million)*	**Half-year ended 31 December 2017**	**Half-year ended 31 December 2016**
Telecom	71.1	71.2
Hosting	46.0	37.8
Intersegment revenue	(2.2)	(2.2)
Hosting Total	43.8	35.6
Consolidated External Service Revenue	**114.9**	**106.8**

Directors' Report (cont'd)

EBITDA *(A$ million)*	**Half-year ended 31 December 2017**	**Half-year ended 31 December 2016**
Telecom	9.1	9.3
Hosting	13.4	9.7
Total EBITDA	**22.5**	**19.0**
Reconciliation of EBITDA to profit before income tax		
Total EBITDA	**22.5**	**19.0**
Interest revenue	0.2	0.3
Depreciation and amortisation expense	(11.0)	(10.8)
Profit before income tax	**11.7**	**8.5**

Conversion of EBITDA to operating cash flows remains strong, generating total operating cash flows of $14.6 million during the half-year, including the payment of Income Tax ($6.5 million), compared to $13.9 million in the corresponding period.

Cash and cash equivalents were $21.3 million as at 31 December 2017, a decrease of $10.4 million during the half-year predominantly due to the payment of Income Tax and dividends with operating cash flows offsetting business as usual capital investment.

Auditor's Independence Declaration

Refer to page 18 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 2018

Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2017

	Notes	Half year ended 31 December 2017 $'000	Half year ended 31 December 2016 $'000
Revenue and other income	3	114,924	107,082
Expenses	3	(103,486)	(98,896)
Results from operating activities		11,438	8,186
Finance income		273	301
Finance costs		(5)	(9)
Profit before income tax		11,706	8,478
Income tax expense		(3,713)	(2,312)
Profit after income tax for the half-year attributable to owners of the parent		7,993	6,166
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(1)	(12)
Total comprehensive income for the half-year attributable to owners of the parent		7,992	6,154
		cents	cents
Earnings per share attributable to the ordinary equity holders of the company:			
Basic earnings per share	6	38.1	29.4
Diluted earnings per share	6	37.5	29.2

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 2017

	31 December 2017 $'000	30 June 2017 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	21,314	31,766
Receivables	7,876	7,095
Accrued income	7,089	6,654
Other	7,505	6,301
TOTAL CURRENT ASSETS	43,784	51,816
NON-CURRENT ASSETS		
Property, plant and equipment	67,628	60,089
Intangibles	13,767	12,558
Deferred tax assets	5,466	6,021
Other	2,948	2,742
TOTAL NON-CURRENT ASSETS	89,809	81,410
TOTAL ASSETS	133,593	133,226
LIABILITIES		
CURRENT LIABILITIES		
Payables	30,164	28,663
Current tax liabilities	2,697	6,014
Provisions	1,728	1,546
Other	2,941	3,074
TOTAL CURRENT LIABILITIES	37,530	39,297
NON-CURRENT LIABILITIES		
Provisions	1,114	1,097
Other	5,613	6,401
TOTAL NON-CURRENT LIABILITIES	6,727	7,498
TOTAL LIABILITIES	44,257	46,795
NET ASSETS	89,336	86,431
EQUITY		
Contributed equity	42,991	42,991
Reserves	748	594
Retained earnings	45,597	42,846
TOTAL EQUITY	89,336	86,431

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 2017

	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

	Contributed Equity	Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2017	42,991	594	42,846	86,431
Total comprehensive income for the period	-	(1)	7,993	7,992
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(5,242)	(5,242)
Share based payment	-	155	-	155
Total	-	155	(5,242)	(5,087)
Balance at 31 December 2017	42,991	748	45,597	89,336

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 2017

	31 December 2017 $'000	31 December 2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	124,676	112,802
Payments to suppliers and employees	(103,917)	(98,543)
Interest received	306	314
Interest paid	(5)	(9)
Income tax paid	(6,474)	(930)
Other receipts	63	270
NET CASH FLOWS FROM OPERATING ACTIVITIES	14,649	13,904
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of non-current assets		
Property, Plant & Equipment	(15,580)	(19,184)
Intangible Assets	(4,249)	(4,298)
Proceeds from sale of non-current assets	-	3,000
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(19,829)	(20,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on ordinary shares	(5,242)	(5,242)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(5,242)	(5,242)
NET DECREASE IN CASH HELD	(10,422)	(11,820)
Cash and cash equivalents at the beginning of the half-year	31,766	36,465
Effects of exchange rate changes on cash and cash equivalents	(30)	37
CASH AND CASH EQUIVALENTS AT END OF THE HALF-YEAR	21,314	24,682

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 2017

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 2017 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.

(b) New accounting standards, amendments and interpretations

Accounting standards and interpretations which became effective for the first time for the 31 December 2017 half year report did not materially affect the entity's accounting policies or any of the amounts recognised in the financial statements.

Certain new accounting standards and amendments have been published that are not mandatory for 31 December 2017 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and amendments are set out below:

i) AASB 15 *Revenue from Contracts with Customers*

- The Group has established a project team, which has initially focused on the larger revenue streams within each individual business unit and has undertaken a range of activities to identify those streams that have the highest potential risk of impact and/or will require a greater level of work effort to assess and/or quantify the financial impact of AASB 15. AASB 15's increased focuses on contracts with customers will require a greater understanding of customer contracts at a level of detail not previously required.

- Going forward, further work will be undertaken by management to review a representative sample of contracts, to gain a more detailed understanding of the contractual arrangements with customers in order to analyse the impact of the new standard by assessing these contracts in light of the requirements of AASB 15, which will include comparison to the Group's current accounting policies and practices, and identifying potential differences and potential changes to systems. The outcome of these assessments will determine the impact of the changes for both business and financial reporting.

- The standard will be applied for the first time for the Group for the year ended 30 June 2019 and the Group is still in the process of assessing which transition method it will adopt. This decision will depend in part upon the completion of, and impact arising from, the evaluation of our revenue arrangements.

Notes to the consolidated financial statements
For the half-year ended 31 December 2017

2. Summary of Significant Accounting Policies (cont.)

ii) AASB 16 *Leases*

- The Group has established a project team, which has focused on the identification of the provisions of the standard which will most impact the Group.

- Going forward, this impact analysis will continue as well as a detailed review of contracts and financial reporting impacts and related changes to systems. The outcome of these assessments will determine the impact of the changes.

- The Group is considering the available options for transition. The standard will be applied for the first time for the Group for the year ended 30 June 2020.

(c) 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 2017. 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 2017 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(d) 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 Group's ability to manage operating and capital expenditure and the cost of capital. Should the future performance of the Group 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 2017

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 2017 $'000	Half-year ended 31 December 2016 $'000
(i) Revenues and other income		
Revenue from services	114,861	106,812
Other income	63	270
Total revenue and other income	**114,924**	**107,082**
(ii) Expenses		
Operating lease rental	5,207	4,952
Employment costs	30,638	29,984
Carrier costs	43,040	42,031
Net foreign exchanges losses	76	47
Other expenses	13,487	11,040
Depreciation and amortisation	11,038	10,842
Total expenses	**103,486**	**98,896**

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 2017 is 31.7% (2016: 27.3%).

5. Dividends

(a) Dividends paid during the reporting period

On 18 October 2017, a fully franked final dividend of 25 cents per share, in respect of the financial year ended 30 June 2017, was paid to all shareholders registered on 29 September 2017.

(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 29 March 2018. The dividend will be paid on 24 April 2018.

The aggregate amount of the declared dividends to be paid on 24 April 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at half-year end, is $5.3 million (2016: $5.2 million).

Notes to the consolidated financial statements
For the half-year ended 31 December 2017

6. Earnings per share

Details of basic and diluted EPS are as follows:

	Half-year ended 31 December 2017	Half-year ended 31 December 2016
	cents	cents
Basic earnings per share	38.1	29.4
Diluted earnings per share	37.5	29.2
	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	369,975	167,507
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	21,337,096	21,134,628
	$000's	$000's
Profit used in calculating basic and diluted earnings per share	7,993	6,166

Notes to the consolidated financial statements
For the half-year ended 31 December 2017

7. Share performance rights

On 21 December 2017, the company granted 192,000 equity and cash settled share performance rights (2016: 174,000) which have a vesting date of 31 December 2020, to executives and senior managers as part of their long-term incentives. The share performance rights are linked to absolute Total Shareholder Return (TSR) and the customer satisfaction based Net Promoter Score (NPS). The share performance rights were valued using the Monte Carlo Simulation model which considered key assumptions of price volatility and dividend yield, as follows:

Tranche	1	2
Vesting conditions	Absolute TSR	Absolute TSR and NPS
Performance period	1-Jul-2017 to 30-Jun-2019	1-Jul-2017 to 30-Jun-2020
Share price at grant date	$15.24	$15.24
Exercise price	Nil	Nil
Expected life	3.0 years	3.0 years
Volatility	28%	28%
Risk free interest rate	1.90%	2.08%
Dividend yield	3.4%	3.4%
Fair value	$5.39	$5.94

The number of vesting share performance rights is as follows:

	Half-year ended 31 December 2017	**Half-year ended 31 December 2016**
At 1 July	366,000	246,000
Granted	192,000	174,000
Forfeited	-	(36,000)
Exercised	-	-
At 31 December	558,000	384,000
Equity settled	*478,000*	*344,000*
Cash settled	*80,000*	*40,000*
Exercisable	96,000	-
Equity settled	*96,000*	-
Cash settled	-	-

The maximum available number of vesting share performance rights is as follows:

At 31 December	744,002	512,002
Equity settled	*637,336*	*458,669*
Cash settled	*106,666*	*53,333*
Exercisable	128,000	-
Equity settled	*128,000*	-
Cash settled	-	-

The total fair value of vesting share performance rights is $2,292,482 (2016: $1,242,782) and the share based payment expense for the period was $179,939 (2016: $171,994).

On 11 January 2018, a total of 128,000 share performance rights, representing the maximum number exercisable pursuant to the Group's FY15 Long Term Incentive Plan, and which vested on 31 December 2017, were exercised and converted to an equivalent number of ordinary shares.

Notes to the consolidated financial statements
For the half-year ended 31 December 2017

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 Group's data network. The Hosting segment relates to the provision of services utilising the Group's data centre facilities. All activities are principally conducted in Australia.

	Telecom		Hosting		Consolidated	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revenue						
External service revenue	71,053	71,181	43,808	35,631	114,861	106,812
Intersegment revenue	-	-	2,232	2,186	2,232	2,186
Other income	-	221	63	49	63	270
Total segment revenue and other income	71,053	71,402	46,103	37,866	117,156	109,268
Intersegment revenue elimination	-	-	(2,232)	(2,186)	(2,232)	(2,186)
Total consolidated revenue and other income	71,053	71,402	43,871	35,680	114,924	107,082
Results						
EBITDA	9,094	9,272	13,382	9,756	22,476	19,028
Depreciation and amortisation	(4,154)	(3,688)	(6,884)	(7,154)	(11,038)	(10,842)
Segment result before interest and tax	4,940	5,584	6,498	2,602	11,438	8,186
Acquisition of non-current assets	6,321	7,364	13,508	16,118	19,829	23,482

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 14 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 2017 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 2018

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

Report on the Half-Year 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 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other 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 half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year 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 2017 and its performance for the half-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*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year 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 2017 and of its performance for the half-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 2017 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

PricewaterhouseCoopers

Jason Hayes
Partner

Sydney
27 February 2018

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Auditor's Independence Declaration

As lead auditor for the review of Macquarie Telecom Group Limited for the half-year ended 31 December 2017, 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.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
27 February 2018

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