

## **Macquarie Corporate Telecommunications Reports 2004 Full Year Results**

### **Key Points**

- The Company achieved an EBITDA profit of \$7.9 million for the 12 months to 30 June 2004 (FY04). The result represents a \$5.1 million improvement when compared to the \$2.8 million EBITDA profit achieved in the corresponding 12 month period ended 30 June 2003.
- Net loss after tax was \$787,000, compared to a net loss after tax for the previous corresponding period of \$4.7 million. This represents a significant improvement on the previous corresponding period.
- Total service revenue was \$226.9 million, a decrease of 3.2% compared to the previous corresponding period.
- Data service revenue was \$51.1 million, representing a 25.3% increase compared to the previous corresponding period. Data services accounted for more than 22% of total service revenue. Data achieved an EBITDA profit of \$4.2 million, up \$7.5 million on the data EBITDA loss of \$3.3 million in the previous corresponding period.
- Australian voice service revenue was \$161.6 million, a decrease over the previous corresponding period, due largely to continued fierce competition and intense price pressure.
- The Company generated operating cash flow of \$14 million during the period. The Company maintains a healthy balance sheet and a strong cash balance of \$31.8 million.
- The Company will increase investment in both technology and customer services in FY05. The Company's expanded service capabilities for data customers, combined with the development of a new generation IP based Intelligent Business Network, will enhance customer access, and provide new data and voice product capabilities to give the Company a competitive advantage.
- This will increase capital expenditure from a low 5% of revenue, at \$11.3 million in FY04, to projected capital expenditure for FY05 of approximately \$18 million.
- As a result, based on current projections and expectations, Macquarie expects EBITDA profitability to be impacted only in the short term, as the Company invests in marketing, infrastructure and depth of expertise. Macquarie believes that this investment will provide a solid platform for future growth and significant profitability in the medium term.

Australian carrier Macquarie Corporate Telecommunications Holdings Limited (ASX: MAQ) today announced that – in terms of earnings before interest, tax, depreciation and amortisation (EBITDA) – it achieved a profit of \$7.9 million, and a net loss after tax of \$787,000 for the twelve months to 30 June 2004.

The EBITDA result is a \$5.1 million improvement when compared to the \$2.8 million EBITDA profit achieved in the twelve months to 30 June 2003.

Macquarie generated total service revenue of \$226.9 million, a decrease of 3.2% compared to the twelve months to 30 June 2003. The Company now provides services to more than 2,500 corporate and government customers.

In commenting on the Company's performance, Macquarie Chairman Mr Robert Kaye said: "This is a solid result. We are encouraged by the Company's improving revenue mix, with continuing growth in data revenue and less reliance on voice services which remains under substantial industry-wide price pressure.

"We are confident we have a strong customer base, the strategies and the momentum in place to position Macquarie well in the evolving and converging telecommunications market," Mr Kaye said.

Chief Executive Mr David Tudehope said: "We are maintaining our focus on transforming Macquarie into an integrated IT&T carrier that offers a full range of voice, data, on-line and mobile services which address the increasingly complex needs of corporate and government customers in a secure environment."

"We are particularly encouraged by the strong growth in data revenue and its positive contribution to Company EBITDA," Mr Tudehope said. "As Macquarie continues to leverage its competitive strengths in data services, we are confident that the positive momentum in data revenue will be maintained."

The following tables summarise the revenue and EBITDA performance of Macquarie's major lines of business for the past three comparable reporting periods.

<b>REVENUE</b> <i>(A\$ million)</i>	Full Year 2002	Full Year 2003	Full Year 2004
Voice	194.5	182.2	161.6
Data	27.2	40.8	51.1
Singapore	6.7	11.2	10.1
Mobiles	-	0.3	4.1
Corporate Office	-	-	-
Other	7.1	-	-
<b>TOTAL</b>	<b>235.5</b>	<b>234.5</b>	<b>226.9</b>

<b>EBITDA</b> <i>(A\$ million)</i>	Full Year 2002	Full Year 2003	Full Year 2004
Voice	5.5	13.0	13.2
Data	(11.8)	(3.3)	4.2
Singapore	(1.9)	-	(1.0)
Mobiles	-	(1.6)	(2.4)
Corporate Office	(4.5)	(5.3)	(6.1)
Other	(2.9)	-	-
<b>TOTAL</b>	<b>(15.6)</b>	<b>2.8</b>	<b>7.9</b>

## Operational Review

The twelve months to 30 June 2004 represented a continued improvement in Macquarie's business fundamentals. Data revenue grew as management executed its strategy of improving Macquarie's revenue mix, with an increased contribution from higher value data and online services. Data represented more than 22% of Macquarie's service revenue for the year, and more than 24% in the second half.

Macquarie's data business, which provides secure data networking and data hosting services to Australian corporate and government customers, generated revenue of \$51.1 million. This represents a 25.3% increase compared to the twelve months ended 30 June 2003. The data services business contributed \$4.2 million to EBITDA, a \$7.5 million increase on the equivalent EBITDA loss of \$3.3 million in 2003.

The early investment by Macquarie in its Intellicentre is now delivering positive growth fuelled by increasing recognition by customers of the benefits of having a dedicated world-class complex hosting facility staffed by highly skilled specialists available 24 hours per day.

The evolution of convergence in telecommunications and its inherent complex electronic security requirements has also been recognised by Macquarie. Macquarie has therefore invested in both the necessary equipment and expertise, as well as achieving high levels of accreditation in this area. The potential for Macquarie to differentiate itself in this market is significant.

In its traditional Australian voice business, Macquarie generated revenue of \$161.6 million in the twelve months to 30 June 2004, compared to \$182.2 million in the twelve months to 30 June 2003. The voice service market was again characterised by intense competition and industry-wide price pressure. Voice revenue was also negatively impacted by the loss of the NSW Police contract, previously outlined at the 2003 Annual General Meeting.

The continuing price pressure and decline in corporate voice revenue reinforces the strategy of the Company to diversify into other higher margin areas and to continue to reduce reliance on voice service revenues.

Macquarie's Government Business Services group, which sells Macquarie's services to Australian Federal, State and Local Governments, continues to contribute to overall revenues and helps in broadening Macquarie's customer base and market opportunity.

Macquarie has achieved GATS (Government Approved Telecommunications Services) status with the Victorian Government, giving Macquarie the right to tender for Victorian Government voice and data telecommunications business. The Victorian Government "panel" status is in addition to Macquarie's status on Federal, NSW and Queensland panels.

The Government Business Services group significantly expanded services to a number of clients during the period, including The Prime Minister and Cabinet's Office and The Department of Communications, Information Technology and the Arts, demonstrating the benefit of Macquarie's recent Gateway security accreditation and highlighting the potential for Macquarie in the Government sector.

Mobile service remains an important element in Macquarie's full service offering and is a competitive necessity as part of Macquarie's strategy to offer bundled telecommunications solutions to customers.

The Australian mobile market remains very competitive with the major players aggressively vying for market share. Despite this, Macquarie is confident the financial and strategic contribution of its mobile offering will strengthen and improve into the future. The EBITDA loss for this relatively new business unit of \$2.4 million is in line with expectations.

The Singapore business generated revenue of \$10.1 million in the twelve months ended 30 June 2004, a decrease of 9.7% compared to the previous corresponding period. Whilst the Singapore business continued to expand customer numbers to more than 550 customers, the performance of the division reflects significant price reductions evident in the international voice market and the environment in Singapore.

Capital expenditures for the period totaled \$11.3 million, representing approximately 5% of service revenue. During the year, Macquarie upgraded some of its internal systems, expanded capacity for the growth in customer data services, and, in the final quarter of FY04, significantly upgraded its data networking assets. This was in response to a well-established trend of traditional networking products evolving to IP based networking products. This upgrade strengthens the Company's capacity to handle further growth, and enhances its ability to deliver a wider range of IP based products to its customers.

Macquarie continues to maintain a strong balance sheet. The Company had \$31.8 million in cash and no debt at 30 June 2004.

### **Investing in the future**

In this coming financial year, Macquarie intends to commence a capital investment program to establish an IP based Intelligent Business Network.

"This new generation data and voice access network will provide Macquarie customers with access to an IP based network providing for vastly increased bandwidth demands, voice over IP, integrated access, end to end security services and other content driven services," Macquarie Chairman Robert Kaye said.

The new Intelligent Business Network is consistent with Macquarie's strategy of investing in key infrastructure that will provide the Company with a competitive advantage, and will represent the next stage of its evolution.

"This exciting new Intelligent Business Network will give Macquarie a sustainable competitive advantage and provide the Company with a new generation IP based network to leverage the increasing convergence of voice and data telecommunications," Mr Kaye said.

Macquarie has a strong track-record of delivering core infrastructure projects on time and within budget.

The new IP network will also enhance Macquarie's capacity for product development, service delivery, security and end to end customer management.

Capital expenditure for FY05 is expected to be approximately \$18 million, with about half this amount invested in the new Intelligent Business Network. Macquarie expects the Intelligent Business Network will be deployed by the end of calendar year 2005.

## **Outlook**

“Macquarie has decided to invest significant resources, both operating and capital, to position the Company for further growth, particularly in IP based products and services,” Mr Kaye said.

“This investment is crucial to the ongoing enhancement of Macquarie’s capability to meet its customer’s increasingly sophisticated IP based needs.”

In addition, Macquarie will be investing in marketing, in building its brand profile within the corporate and government sectors, and creating heightened awareness of the Company’s ability to deliver to customer’s expectations.

As a result, based on current projections and expectations, Macquarie expects EBITDA profitability to be impacted in the short term, as the Company invests in both infrastructure and depth of expertise.

With the bulk of additional operating expenditure due to be invested in the first half of the year, EBITDA in the first half of FY05 is expected to be around breakeven. Second half profitability is expected to position earnings back on a growth path, but is unlikely to exceed that achieved in the second half of FY04.

Macquarie expects the capital expenditure investment in the Intelligent Business Network, and the investment in enhancing its depth and level of expertise will provide a solid platform for future growth and significant profitability in the medium term.

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*For more information, please contact:*

**Chris Savage**, Savage & Horrigan: (02) 8281 3231 or 0404 012 266