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Macquarie Telecom Reports 2005 Full-Year Results

Key Points

- Macquarie Telecom achieved an EBITDA profit of \$0.7 million for the twelve months to 30 June 2005. The result is consistent with guidance, and reflects the implementation of a major investment program to position the company for further growth
- Net loss after tax was \$7.4 million in the twelve months to 30 June 2005 due to the major investment program, compared to a net loss after tax for the twelve months ended 30 June 2004 ("corresponding period") of \$0.8 million
- Total service revenue was \$230.5 million, an increase of 1.6% compared to the corresponding period
- Data service revenue was \$59.3 million, a healthy 16% increase compared to data revenue for the corresponding period, maintaining the trend of an improving revenue mix
- Australian voice service revenue was \$148.1 million, an 8.3% decrease from the corresponding period. The decline reflected continuing fierce competition and intense industry wide price pressure
- Mobile service revenue was \$12.2 million, a solid 198% improvement compared to the corresponding period
- The Singapore business generated revenue of \$10.9 million in the twelve months ended 30 June 2005, an increase of 7.4% compared to the corresponding period
- Capital expenditure for the period was \$14.7 million, as Macquarie invested to build its capability to meet customers' increasingly sophisticated IP based needs
- The roll-out of the Metro Access Network is expected to complete over the coming months

Australian carrier Macquarie Telecom (ASX: MAQ) today announced that – in terms of earnings before interest, tax, depreciation and amortisation (EBITDA) – it recorded a profit of \$0.7 million for the twelve months to 30 June 2005.

The EBITDA result, which is in line with expectations and guidance, reflects a period in which Macquarie Telecom commenced the implementation of a major investment program to position the company for further growth. This investment is vital to the ongoing enhancement of Macquarie Telecom's capability to meet its customer's increasingly sophisticated IP based needs.

Macquarie Telecom generated total service revenue of \$230.5 million, an increase of 1.6% compared to the twelve months to 30 June 2004. Service revenue has increased in each of the past three consecutive halves. The Company now provides services to more than 2,970 corporate and government customers including more than 764 customers in Singapore.

In commenting on the Company's performance, Macquarie Telecom Chairman Robert Kaye said: "These results are in line with expectations and within previous guidance. We are laying the foundations to deliver future growth and profitability with an important investment phase. I am confident the benefits of the investment program will steadily materialise. We returned to EBITDA profitability in the second half, and look forward to solid EBITDA momentum."

Mr Kaye said the ongoing investment program is focused on three main areas:

"Firstly, our program of investing in the Metro Access Network commenced in 2005, and will continue into 2006. The Metro Access Network is a new generation network that will help meet our customer's increasingly sophisticated and converging IP based as well as traditional network needs. The Metro Access Network will deliver a range of voice and data services and meet customer's expanding IP needs," Mr Kaye said.

"Secondly, we are continuing to invest in our established security services – an ongoing product and service differentiator for Macquarie Telecom.

"Thirdly, we have been focused on introducing and establishing the Macquarie Telecom brand. Effective branding is an important ongoing process, and the phase of introducing our new brand is largely complete," Mr Kaye said.

Chief Executive David Tudehope said: "We are continuing to execute on our strategy of transforming Macquarie Telecom 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 our corporate and government customers. Our revenue mix is improving – with an encouraging increase in data revenue – as management continues executing the strategy of concentrating on higher margin areas."

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

REVENUE <i>(A\$ million)</i>	Full Year 2003	Full Year 2004	Full Year 2005
Voice	182.2	161.6	148.1
Data	40.8	51.1	59.3
Singapore	11.2	10.1	10.9
Mobiles	0.3	4.1	12.2
TOTAL	234.5	226.9	230.5

EBITDA <i>(A\$ million)</i>	Full Year 2003	Full Year 2004	Full Year 2005
Voice	13.0	13.2	8.4
Data	(3.3)	4.2	(0.3)
Singapore	-	(1.0)	(0.8)
Mobiles	(1.6)	(2.4)	(1.1)
Corporate Office	(5.3)	(6.1)	(5.4)
TOTAL	2.8	7.9	0.7

Operational Review

The twelve months ended 30 June 2005 represented a continued improvement in Macquarie Telecom's revenue mix. Data continued to deliver positive growth and now represents more than 25.7% of Macquarie Telecom's service revenue.

Macquarie Telecom's data business, which provides data networking and data hosting services to Australian corporate and government customers, generated revenue of \$59.3 million. This represented a 16% increase compared to the twelve months ended 30 June 2004.

Data recorded an EBITDA profit of \$0.6 million in the second half, which partially offset the first half loss of \$0.9 million, resulting in a full year Data EBITDA loss of \$0.3 million.

Full year Data profitability was in line with expectations, and was impacted by investments in IP based products and services, and investment in enhancing the depth and level of data and security expertise at Macquarie Telecom. The second half data result reflected growth in IP network revenue, validating Macquarie's investment program in developing IP based products and services.

Macquarie Telecom's data hosting facility, the Intellicentre, continued to build its customer base and revenue momentum.

In its traditional Australian voice business, Macquarie Telecom generated revenue of \$148.1 million in the twelve months ended 30 June 2005, down 8.3% compared to the twelve months ended 30 June 2004, but only down 2.6% on the six month period ended 31 December 2004. The voice service market was again characterised by intense competition and industry-wide price pressure, which impacted profitability.

The continuing price pressure and decline in corporate voice revenue is an industry wide phenomenon and reinforces the need for the company to continue reducing reliance on voice service revenues and diversifying into other higher margin areas. The substantial investment program being implemented is an important element of executing this strategy.

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

The Singapore business generated revenue of \$10.9 million in the twelve months ended 30 June 2005, an increase of 7.4% compared to the corresponding period. The Singapore business is expanding to meet customer's needs and the performance of the division is encouraging, considering the continuing competitive price environment.

Mobile service revenue was \$12.2 million, a strong 198% improvement compared to the corresponding period. Macquarie Telecom is confident the revenue contribution of mobile will continue to strengthen, although more likely at a slower rate.

Mobile service remains an important element in Macquarie Telecom's full service offering and is a competitive necessity as part of Macquarie Telecom's strategy of offering bundled solutions to customers that take care of all telecommunications requirements.

Capex and Guidance

Macquarie Telecom will complete the roll out of the Metro Access Network in 2006, and expects the total capital investment to be approximately \$9 million, in line with expectations. Of the \$9 million, \$7 million will be spent in the 2006 financial year.

Macquarie Telecom is continuing to invest in IP based products and services, as we consolidate the platform to build future growth and profitability. Recurring core capital expenditure is expected to be approximately 5% of revenue, reflecting this investment in IP infrastructure, differentiated security products and customer growth.

Mr Kaye said Macquarie Telecom expects the investment program will continue to impact profitability in the current year. However, despite these major investments, EBITDA for the current year is expected to maintain a growth trend.

"We expect EBITDA for the first half of 2006 to be similar to that achieved in the second half of 2005. We expect second half 2006 profitability to return to a solid growth curve as our investments begin to deliver profit benefits," he said.

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