



Media Release

5 NOVEMBER 2010

TELECOM MEETS EBITDA EXPECTATION DESPITE A STEEP INCREASE IN REGULATORY COSTS

Telecom New Zealand has today announced adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) of \$443m for the quarter ended 30 September 2010, a reduction of 0.9% on Q1 in the previous financial year.

“Operational performance was satisfactory with good cost control offsetting significantly higher regulatory costs and intensifying competition. Telecom absorbed \$16m of new regulatory costs, and the impact of the Canterbury earthquake of around \$3m, to achieve EBITDA that was on target and within market expectations,” said Paul Reynolds, CEO, Telecom.

Revenue for the quarter was \$1,316m, 2.9% down on Q1 in the previous financial year; whilst, at \$873m, expenses improved to 4% lower than Q1 in the previous financial year.

The quarter also saw the successful completion of the sale of AAPT’s consumer business, with guidance updated to reflect the sale.

“We remain on track to deliver an improvement in free cash flow as capex reduces in comparison to last year,” Dr Reynolds said.

“The New Zealand market continues to reflect the global trend of declining overall telecommunications revenues. Growth in services such as mobile, broadband and ICT is only partially offsetting declines in traditional fixed line and voice services.

“However, the rate of fixed access line loss and fixed to mobile substitution remains somewhat less in New Zealand than many overseas countries, probably reflecting the unusually wide availability of free local calling from Telecom.

“In New Zealand, despite strong price competition, mobile revenues are growing and broadband revenues are up over 5% on last year.

“The XT mobile network continued to grow strongly during the quarter, with 839,000 customer connections at 30 September 2010, representing just under 40% of our total mobile base.

“On Ultra-Fast Broadband (UFB), Telecom is continuing to engage in detailed discussions with both Crown Fibre Holdings and the Ministry of

Economic Development, and we await further announcements,” Dr Reynolds said.

Nick Olson, Telecom CFO, has also announced that Telecom will move to semi-annual reporting. The first semi-annual report will be for the six months to 31 December 2010.

“Although we are now moving to six monthly reporting, in line with our Australasian peers, we will continue to pay dividends on a quarterly basis.

“The rationale for this change is to reduce the costs associated with a quarterly reporting cycle and to create more capacity within the finance function to focus on cost reduction,” Mr Olson said.

ADJUSTED INCOME STATEMENT

Quarter ended 30 Sept	2010 \$M	2009 \$M	Change %
Revenue	1,316	1,356	-2.9 %
Expenses	(873)	(909)	-4.0 %
EBITDA	443	447	-0.9 %
EBIT	180	194	-7.2 %
Net Earnings	83	163	-49.1 %
EPS	4	9	-55.6 %
DPS	3.5	6	-41.7 %

CHORUS

Chorus reported EBITDA of \$192m for the quarter, down 1% on the equivalent quarter last year.

“Chorus is now two-thirds of the way through the fibre-to-the-node programme, and last year laid more fibre than copper for the first time. A further 2,000km of fibre is planned this year,” said Ewen Powell, acting CEO, Chorus.

“2,287 roadside cabinets were installed by 30 September 2010, served by more than 26,000km of fibre. We also introduced Next Generation Home services, which includes technician visits to ensure properties are optimised for VDSL2 and Enhanced Service Delivery Points, which improve broadband speeds in the home.”

WHOLESALE AND INTERNATIONAL

Wholesale and International reported adjusted EBITDA of \$37m for the quarter, a 31.5% decrease on the equivalent quarter last year.

“While Wholesale external revenue was up 8% and external EBITDA was up 15%, fully-traded EBITDA was down due to internal cost growth,” said Nick Clarke, acting CEO, Telecom Wholesale.

“The quarter featured strong access and broadband connection growth, including 19,000 new access connections and 18,000 new broadband connections. We will now focus on customer service improvements, cost control, and realising the benefits of combining the international and domestic data portfolios.”

The assessment of strategic options for Telecom International's wholesale voice business continues.

TELECOM RETAIL

Telecom Retail reported EBITDA of \$108m for the quarter, a 16.1 % increase on the equivalent quarter last year.

“EBITDA increased strongly when compared to Q1 last year, which contained high cost of sales due to the launch of XT,” said Alan Gourdie, CEO, Telecom Retail.

“The withdrawal of the unprofitable Big Time plan has caused a one-off increase in churn in consumer access and broadband. However, business access churn has continued to reduce and bundles are performing well, with 60% of broadband customers now on a Total Home bundle.

“We continue to focus on improving retention of high value customers, and taking cost out of our business,” Mr Gourdie said.

GEN-i

Gen-i reported EBITDA of \$54m for the quarter, a 38.5% increase on the equivalent quarter last year.

“EBITDA growth was driven by reduced costs and strong IT services and mobile margin growth and we remain on track to deliver our planned EBITDA,” said Chris Quin, CEO, Gen-i.

“While mobile connections grew 9%, mobile revenues grew 2%, reflecting lower handset revenues. Underlying trends are improving, however, with voice and data up by 6.5%.

“Over the coming year we will continue to simplify our propositions to meet client needs, focus on cost-out and target growth in mobile, ‘cloud’-based services, trans-Tasman and Australia.”

AAPT

AAPT reported adjusted EBITDA of A\$22m for the quarter, a 24.1% decrease on the equivalent quarter last year.

“Due to our continued focus on cost management, EBITDA of A\$22m is in line with guidance when normalised for a one-off favourable adjustment that was made in the previous year’s Q1,” said Paul Broad, CEO, AAPT.

“The sale of AAPT’s Consumer division was completed on 30 September, which, in addition to the sale of shares in iiNet and Macquarie Telecom, generated A\$139m in net cash.

“We will continue to simplify and align our operations to a leaner business structure, including the completion of our billing rationalisation programme in Q3. Looking ahead, our focus remains on accelerating sales growth in on-net data sales and our new SIP voice product for the business and wholesale markets.”

GUIDANCE

Financial guidance does not reflect any impact from the Government’s Ultra Fast Broadband initiative, which is likely to reshape the industry.

- FY11 Guidance
 - Adjusted EBITDA of \$1.72 billion to \$1.78 billion
 - Depreciation and amortisation of \$1.00 billion to \$1.06 billion
 - Effective tax rate of around 33%
 - Adjusted Net Earnings of \$330 million to \$370 million
 - Capex of \$1.0 billion to \$1.1 billion
- FY12 Guidance
 - o Adjusted EBITDA to increase by \$20m to \$80m
 - o Effective tax rate of 25% to 28%
- FY13 Guidance
 - o Adjusted EBITDA to increase by \$20m to \$80m
 - o Effective tax rate of 25% to 28%
 - o Capex around \$0.75b

DIVIDEND

For FY11 Telecom will target a payout ratio of 90% of adjusted net earnings. In accordance with this policy, a Q1 dividend of 3.5c per share has been declared, with full imputation. The discount on the dividend reinvestment plan (DRP) will be set to nil and an on-market buy back will be introduced to eliminate any increase in capital.

ENDS

Contacts at Telecom NZ media relations:

Mark Watts, +64 (0)272 504 018

or

Ian Bonnar, +64 (0)27 215 7564

Forward-Looking Statements

This release includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of Telecom. Such forward-looking statements are based on the beliefs and assumptions of management from and information currently available at the time such statements were made.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Telecom's control, and which may cause actual results to differ materially from those expressed in the statements contained in this media release. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are further discussed in the management commentary and in the risk factors and forward-looking statement disclaimer in Telecom's annual report on Form 20-F for the year ended 30 June 2010 filed with the U.S. Securities and Exchange Commission. Except as required by law or the listing rules of the stock exchanges on which Telecom is listed, Telecom undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP financial measures

Telecom results are reported under IFRS. This management commentary includes non-GAAP financial measures which are not prepared in accordance with IFRS. The non-GAAP financial measures used in this presentation include:

1. EBITDA. Telecom calculates EBITDA by adding back depreciation, amortisation, finance expense, share of associates' losses and taxation expense to net earnings/(loss) from continuing operations less finance income.
2. Capital expenditure. Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill and other non-cash additions that may be required by IFRS such as decommissioning costs.
3. ARPU. Telecom calculates ARPU as mobile voice and data revenue for the period divided by an average number of customers.
4. Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.

Telecom believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Telecom, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP financial measures as reported by Telecom may not be comparable to similarly titled amounts reported by other companies.