

Media Release

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OPERATIONAL FOCUS DELIVERS IMPROVED CASH OUTLOOK DESPITE HIGHER TAX AND REGULATORY COSTS

Telecom New Zealand has today announced adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) of \$868m for the half year ended 31 December 2010, a reduction of 0.5% on the same period in the previous financial year.

Adjusted Revenue for the half was \$2,583m, 3.3% down on H1 FY10; Adjusted Expenses, at \$1,715m, decreased faster, by 4.7%, reflecting lower mobile cost of sales and ongoing efficiency improvements.

Telecom CEO, Paul Reynolds, said:

“A continued strong focus on operational excellence and cost control has helped to offset increased tax and ongoing regulatory impacts. We remain on track to deliver our full year earnings guidance and indeed we have improved the Group capex outlook; we now expect full year capex to be within the \$950m - \$1.0bn range for the financial year, down from the \$1.0bn to \$1.1bn indicated previously.

“Telecom’s strategy has been updated to drive better product, platform and process outcomes for customers, create a leaner operating model, and an intense focus on free cash flow through management of capital and operating costs. Telecom people have been set revised targets and accountabilities to meet these goals.

“As a result, we are on track to deliver our goal of \$155m of cost-out in FY11.

“The XT mobile network continues to grow strongly and we now have over one million customers on XT, representing around 45% of our total mobile base, and 71% of our mobile revenue,” said Dr Reynolds.

Earlier this week the Government announced it will move into commercial negotiations with Telecom and Vodafone for its Rural Broadband Initiative.

Telecom is continuing to engage in detailed discussions with both Crown Fibre Holdings and the Ministry of Economic Development on Ultra-fast Broadband (UFB), and we await further announcements.

ADJUSTED INCOME STATEMENT

Half year ended 31 Dec	2010 \$m	2009 \$m	Change %
Revenue	2,583	2,671	-3.3 %
Expenses	(1,715)	(1,799)	-4.7 %
EBITDA	868	872	-0.5 %
EBIT	338	362	-6.6 %
Net Earnings	158	243	-35.0 %
EPS	8	13	-38.5 %
DPS	7	12	-41.7 %

CHORUS

Chorus reported increased EBITDA of \$391m for H1 FY11, up \$6m on the equivalent period last year.

“Chorus now has one year and fewer than 1,000 cabinets to go in its nationwide fibre-to-the-node programme, which is running ahead of schedule, with around 26,300km of fibre optic cable and 2,600 cabinets already deployed,” said Ewen Powell, acting CEO, Chorus.

“Our focus on quality and service has delivered strong customer satisfaction results and our service companies are delivering benefits in both performance gains and customer experience.

“For example, we’ve seen a 15% improvement in meeting commitments to install and repair customer services on time, and have increased the number of times faults are fixed right, first time.”

WHOLESALE AND INTERNATIONAL

Wholesale and International reported H1 FY11 EBITDA of \$46m for the half, a 57.8% decrease on H1 FY10.

“While Wholesale external EBITDA was up 9% on the previous equivalent period, fully-traded EBITDA was down due to internal cost allocations, a changing product mix and broadband repricing,” said Nick Clarke, acting CEO, Telecom Wholesale.

“Strong access and broadband connection growth continued, including 28,000 new access connections and 30,000 new broadband connections in the half year.

“We will continue to 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 \$240m for the first half of FY11, up 36% on the on the equivalent period last year.

Alan Gourdie, CEO, Telecom Retail, said the solid increase in EBITDA reflects lower mobile cost of sales, a focus on removing cost from the business and improved broadband pricing from Wholesale.

“During the half year we also saw improved mobile performance with good growth in the customer base and ARPU, and a significant positive shift in brand perception of XT, underpinned by excellent network performance.

“We remain focused on reducing churn across our fixed line base, and our Total Office and Total Home bundles continue to perform well with the recently launched Total Home Broadband proving very popular with customers.

“We continue to focus on acquisition and retention of high value mobile customers. In the second half of the year we will be leveraging our superior network and increasing XT brand preference to drive smartphone sales, grow our customer base and continue ARPU growth,” Mr Gourdie said.

GEN-i

Gen-i reported EBITDA of \$105m for the period, a 6.1% increase over the first half of FY10.

EBITDA growth was driven by IT services growth, decreasing overhead costs and decreasing internal costs, which are falling in line with external telco revenues.

“Mobile connections continued to grow, by around 5% in the first half of the year, and voice and data revenues also improved, up 5%,” said Chris Quin, CEO, Gen-i.

“Our focus on future-ready capability has seen the build of managed services to maximise the capabilities of the new fibre world. Our focus for the remainder of the year will be the simplification of services and growth in cloud services through the rollout of more products and services and developing a roadmap for hosted communications.”

AAPT

AAPT reported adjusted EBITDA of A\$38m for the first half of FY11.

EBITDA was affected by Telstra's renegotiated wholesale terms which reflect reduced volumes and the sale of the Consumer business, partially offset by lower operating expenses.

"We have successfully divested the Consumer business from AAPT and completed the sale process, and the Wholesale and Business divisions continue their strong sales performance," said Paul Broad, CEO, AAPT.

"The Inter-city network core upgrade programme is now complete, ensuring the reliability of transmission throughout Australia.

"Our focus remains on creating a simpler, leaner business structure, including the imminent completion of our billing rationalisation programme.

"We will also aim to accelerate sales growth in data and our new SIP voice product for the business and wholesale markets," Mr Broad said.

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 \$1.72bn to \$1.78bn
 - Depreciation and amortisation of \$1.00bn to \$1.06bn
 - Effective tax rate of around 33%
 - Adjusted Net Earnings of \$330m to \$370m
 - Capex of \$950m to \$1.0bn (previously \$1.0bn to \$1.1bn)
- FY12 Guidance
 - Adjusted EBITDA to increase by \$20m to \$80m
 - Effective tax rate of 25% to 28%
- FY13 Guidance
 - Adjusted EBITDA to increase by \$20m to \$80m
 - Effective tax rate of 25% to 28%
 - Capex around \$750m

DIVIDEND

For FY11 Telecom will target a payout ratio of 90% of adjusted net earnings. In accordance with this policy, a Q2 dividend of 3.5c per share has been declared, with full imputation. The Dividend Reinvestment Plan (DRP) and on-market buy back have been suspended due to the current status of UFB negotiations.

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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 (or deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/losses and taxation expense to net earnings/(loss) from continuing operations.
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 revenue for the period (for mobile this is only voice and data) 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.