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MEDIA RELEASE

Strong broadband and mobile performances underpin Telecom's 1st quarter result

Highlights

- Telecom's mobile business had another powerful quarter with a net increase of 72,000 connections and a 73% rise in data revenue in the quarter
- The milestone of 250,000 residential broadband customers has been achieved in early October, more than two months ahead of schedule
- Residential broadband connections increased 38,000 in Q1 2005/2006
- Nearly half the growth (45%) of residential connections was from wholesale (see separate broadband release)
- Solid operating cash flow performance – an 8.3% increase year on year to \$468 million
- Southern Cross Cable is well positioned, with all debt now repaid, and further sales have been secured in the last quarter of US\$37 million

Overview of Group results

	1 st quarter (NZ\$m)		
	30 Sept 05	30 Sept 04	Change %
Operating revenue (excluding abnormals)	1,433	1,391	3.0
Abnormal items	-	10 ¹	NM
Reported EBITDA	532	555	(4.1)
Adjusted EBITDA*	532	545	(2.4)
Earnings before interest and tax	362	380	(4.7)
Adjusted earnings before interest and tax	362	370	(2.2)
Reported net earnings	199	203	(2.0)
Adjusted net earnings	199	193	3.1
* Earnings before interest, taxation, depreciation and amortisation			

Note: All comparisons in the above table and commentary below relate to the first quarter to 30 September 2005 compared with the same period in 2004. All figures are expressed in New Zealand dollars unless otherwise stated.

¹ The abnormal of \$10 million for Q1 2004-2005 relates to the sale of 15 of Telecom's business retail stores.

The prior quarter comparative results have been normalised to comply with International Financial Reporting Standards (IFRS), which Telecom adopted from 1 July 2005.

Telecom today reported net earnings after tax of \$199 million to September 30, 2005, an increase of 3.1% on adjusted earnings for the same period in 2004.

The adjustment reflects the \$10 million abnormal gain on the sale of Telecom's retail stores which was reported in the first quarter of 2004.

Earnings per share (EPS) of 10.2 cents for Q1 2005-2006, increased 2% compared on the adjusted EPS of 10.0 cents for Q1 2004-2005.

Telecom chief executive Theresa Gattung said the result for the first quarter to 30 September 2005 was pleasing and showed that both broadband and mobile services were continuing to grow strongly in each quarter.

"Broadband, mobile, Directories and IT Services all made solid contributions to this result in the September quarter," Ms Gattung said.

"In mobile we're seeing a continuation of the growth that we've achieved in the last three quarters. Our customers are enjoying the benefits of the speeds and applications available on our 3G (EVDO) network and with the roll out of EVDO in every main town and city in New Zealand by Christmas 2005, around 80% of New Zealanders will be able to experience the benefit of Mobile Broadband data speeds.

"We'll have a number of new 3G handsets in the market before Christmas which will create further demand for our range of T3G services.

"In broadband we achieved our goal of reaching 250,000 residential customers by the end of 2005 more than two months ahead of expectations. During the quarter it was also pleasing to see that the growth in the wholesale market has continued to accelerate with 45% of all the new growth in residential connections coming from wholesale.

"This compares with 34% for the fourth quarter and 24% in the third quarter of 2004/2005. There's no doubt that the wholesale market is on an upward trend and at last count there were some 21 service providers wholesaling broadband services and providing lively competition."

New Zealand

Operating revenue was \$1,128 million, an increase of 6.4%. Higher operating revenues for mobile, data, broadband and internet, IT services and directories were partly offset by declines in local service and other revenues. This trend continues to highlight the move from traditional services to broadband, mobile, IT and data.

Local Service

Total local service revenue decreased 1.5% to \$263 million, reflecting mostly businesses migrating from dial-up to broadband and internet. Residential access lines declined slightly to 1,418,000.

Calling revenue comprises national calling (national calls, calls to mobile networks and national 0800) and international calling (calls out of and into New Zealand and transit call traffic between destinations worldwide)

- Total calling revenue was stable at \$251 million
- National calling revenue was \$150 million, a decrease of 6.3%
- International calling revenue was \$89 million, a rise of 11.3%

Total calling revenue was boosted by the impact of international transit revenues, now presented as a gross figure as a result of the adoption of IFRS as of 1 July 2005. Excluding transit revenues, the decrease in calling revenue is a continuation of both the product substitution and increased competition impacting on Telecom's traditional national and international calling business.

Interconnection revenue, which includes termination of calls on both fixed and mobile networks, increased 10.8% to \$41 million, primarily due to mobile interconnection revenues from text messaging growth.

Mobile revenue is derived from voice and data services on Telecom's 027 network (CDMA) and 025 (TDMA) networks as well as T3G services.

- Total mobile revenues increased 13.3% to \$188 million
- Voice revenue was \$131 million, an increase of 4.8%
- Data revenue increased 72.7% to \$38 million
- Total connections at 30 September 2005 were 1,673,000, an increase of 22.4% (306,000) over the 12 months from 30 September 2004
- Net mobile connections for the quarter ended 30 September 2005 were 72,000, an increase of 4.5% from 30 June 2005
- Total ARPUs (average revenue per user – monthly) including interconnection were \$47.20
- Mobile data and revenue growth is being driven by services such as Push2Talk, photo and video messaging, Song ID, caller tunes and ring tones
- CDMA connections now accounts for 75% of the customer base, representing 95% of the cellular revenue in the first quarter

Data

Total data revenue increased about 6% to \$108 million. Data revenue was driven by increased take-up of managed IP data services. Retail data revenue was \$87 million, an increase of 6.1% while wholesale data increased 5% to \$21 million

Broadband and Internet

Total revenue increased 25.8% to \$83 million in the first quarter to 30 September 2005 (see broadband release)

IT Services (Solutions)

Total IT revenue was \$93 million, an increase of 31%. Included in this revenue growth is Computerland revenue of \$19 million for July and August 2005. As indicated previously Telecom is targeting double the industry growth in this sector for the full year 05/06.

Directories

Directories revenue of \$62 million increased by 8.8%, driven by sales volume increases.

Australia

Australian performance is expressed in Australian dollars, including comparisons with prior corresponding periods.

Operating revenues were A\$296 million, a decrease of 9.2%.

As announced in Q3 2004/2005 AAPT is concentrating its focus on the SME and mass market segment with investment in product development, indirect channels, telesales capability and business support systems. In Q1 2005/2006 capital expenditure of A\$11 million was invested in direct support of these ongoing strategic initiatives.

Australian consumer comprises AAPT's residential and small business fixed line, mobile and Internet operations.

- Total revenue was A\$137 million, a decrease of 11.6%
- Operating expenses declined 16.1% to A\$104 million
- Business Unit Contribution (revenue less directly attributable costs) was A\$33 million, an increase of 6.5%

Innovative product offers such as Home Chat and Broadband launched in September 2005 have created momentum in both full service customers and bundled customers. Compared to the prior year, full service customers increased by 9.7% to 381,000 and bundled customers more than doubled to 158,000.

The decision to move away from selling mobile as a stand alone product impacted on total consumer revenue. However, internet revenue has increased due to an increase in both dial-up and broadband customers as more customers are buying a bundle of services.

Australian business comprises AAPT's operations in business, corporate, government and wholesale market, and TCNZA

- Total revenue was A\$159 million, a decrease of 7.0%
- Operating expenses reduced 5.8% to A\$114 million
- Business unit contribution (revenue less directly attributable costs) was A\$45 million, a decrease of 10%

Although there was a decrease in business unit contribution compared with the corresponding period last year due to lower overall market prices, the impact on margins has been limited by cost reduction management and overall volume growth.

Dividend

Telecom will pay a fully imputed ordinary dividend for the quarter ended 30 September 2005 of 9.5 cents per share on 9 December 2005 in New Zealand and Australia, and on 16 December in the United States. The books closing dates are 25 November 2005 on the New Zealand and Australian Stock Exchanges and 24 November 2005 on the New York Stock Exchange.

As announced at the full year result in August 2005, Telecom will target an ordinary dividend ratio of approximately 85% of net earnings (after adding back relevant non-cash items) for the 2005/2006 year, subject to there being no adverse change in operating outlook. Accordingly, the dividends for each of the three quarters in the year ending 30 June 2006 will be 9.5cps and the dividend for the fourth quarter will be set to reflect the full year targeted pay-out ratio.

In addition, and subject to no material adverse change in operating outlook, Telecom will pay a further fully imputed special dividend of 10cps in 2005/2006, with payments of 5cps at the half year and full year dividend dates in 2005/2006.

Southern Cross

Telecom holds a 50% equity interest in Southern Cross Cable Network (SCCN). Southern Cross is well positioned to capitalise on the accelerated uptake of broadband with significant capacity to meet future demand. Further sales have been secured in the last quarter of US\$37 million and debt has now been repaid down to zero. As well, Telecom has accrued support fees of approximately US\$33 million at 31 October 2005, of which half has since been paid, the balance is expected to be repaid prior to the end of the full year 2005-2006.

Capital Expenditure increased by \$28 million to \$158 million with increases across the business with the exception of International. For the 2006 financial year, Telecom currently expects total capital expenditure of approximately \$750 million, with additional upside potential of \$25 million.

For further information, please contact:
Phil Love
Senior Corporate Affairs Executive
027 244 8496 or 04 4989155
Phil.love@telecom.co.nz