



MEDIA RELEASE

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Broadband and mobile performances underpin Telecom half year result

Overview of Group results			
	Half Year ended (NZ\$m)		
	31 Dec 2004	31 Dec 2003	Change %
Operating revenues	2,782	2,646	5.1
Abnormal revenue	15	28	(46.4)
Total revenue	2,797	2,674	4.6
Reported EBITDA*	1,120	1,144	(2.1)
Adjusted EBITDA	1,105	1,116	(1.0)
Reported net earnings	391	365	7.1
Adjusted net earnings	376	337	11.6
Net debt	3,725	4,116	9.5
Reported earnings per share	20.1c	19.1c	5.2%
* Earnings before interest, taxation, depreciation and amortisation.			
Note: Adjusted figures exclude abnormal items			

Note: All comparisons in the above table and commentary below relate to the half year ended 31 December 2004 compared with the same period in 2003. All figures are expressed in New Zealand dollars unless otherwise stated.

Telecom today announced net earnings after tax for the half year to December 31, 2004 of \$391 million, an increase of 7.1% on the \$365 million reported in the corresponding period in 2003.

Reported earnings during the half year included two abnormal items:

- A \$10 million gain from the sale of the business retail stores to the Leading Edge Group.
- A \$5 million gain on the repurchase of \$150 million of its \$300 million of convertible notes that were issued in 2001.

Adjusted net earnings for the half year to 31 December 2004 were \$376 million, an increase of 11.6%.

Telecom Chief Executive Theresa Gattung said the Group's earnings performance was particularly pleasing given the investments the company was making in mobile, broadband and IT services. The result was driven by strong revenue growth, lower net interest due to reduced debt levels and lower depreciation.

"Our EBITDA performance reflected strong revenue growth in the areas we have been focusing on – New Zealand mobile, broadband and IT services - and it was encouraging to see very strong growth performances in all of these areas in the December quarter," Ms Gattung said.

"In our New Zealand mobile operations we had one of our strongest quarters ever with 96,000 net new connections for the December quarter. Mobile revenues were up significantly, building on the momentum from growth in recent quarters.

"With the launch of our 3rd generation mobile services late last year, we experienced huge interest in the new range of services that are now available. T3G is now providing customers with high speed mobile broadband. We launched video messaging before Christmas and that is proving popular while Push2Talk is due to launch this month. Mobile data revenues grew 136% in the second quarter.

"Following record broadband connection growth, we are very well placed to deliver on the target of having 250,000 residential customers by the end of December 2005.

"Telecom's Australian business continued to make steady progress with the focus on full service offerings in the consumer business and data services in the business market. However, the business market remains highly competitive."

New Zealand

- Operating revenue was \$2,116 million, an increase of 9.4%. Higher operating revenues for cellular and other mobile, data, internet and solutions, and interconnection were partly offset by declines in calling and local service revenues. This reflected Telecom's transition from traditional voice services to broadband, mobile, IT and data.

Local Service

- Total revenue was \$553 million, down 0.9% while residential access lines were stable at 1,413 million.

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 \$457 million, a decline of 8%
- National calling was \$316 million, a 5.7% decrease
- International calling was \$119 million, a decrease of 15%, although this was partially offset by a reduction in the cost of sales for international calls.

Total calling revenue decreased due to lower call minutes and lower average prices. The impact of email, internet, mobile substitution, text messaging and competition led to lower call minutes.

The Anytime plans launched in August continued to see strong uptake. The lower calling prices available under Anytime have also impacted calling revenues.

Interconnection revenue, which includes termination of calls on both fixed and mobile networks, rose 13% to \$78 million, primarily due to mobile interconnection revenues from text messaging growth.

Cellular and Other Mobile revenue is derived from voice and data services on Telecom's 027 (CDMA) and 025 (TDMA) networks.

- Total cellular and other mobile revenues increased 15.8% to \$345 million
- Voice revenue increased 4.9% to \$255 million
- Data revenue was \$48 million, an increase of 128.6%
- Total connections at 31 December 2004 were 1,463,000 –an increase of 12.4% year on year
- Mobile net connections for the quarter were 96,000, the best quarterly result in several years
- Total ARPU (average revenue per user - monthly) including interconnection rose 1.2% to \$51.60

Data, Internet and Solutions

- DSL Jetstream revenue increased by 57.1% to \$66 million
- Record connection growth continued with 41,000 net residential connections in the December quarter.
- At 31 December 2004 Telecom had 185,000 Jetstream and Jetstart connections, of which 139,000 were residential connections
- Total data revenue was \$279 million, an 11.6% increase
- Solutions revenue increased by \$124 million for the half year. Solutions' revenue growth was significantly boosted by the acquisition of Gen-I and Computerland in the current half year.

Directories

- Directories revenue grew by \$4 million to \$105 million, driven by growth in Yellow Pages advertising revenue.

Australia

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

- Operating revenues were stable on A\$655 million
- EBITDA was stable on A\$68 million

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

- Total revenue was stable on A\$309 million

- Segment contribution (revenue less directly attributable costs) was A\$69 million, an increase of 19.0%

The fixed line customer base was 491,000 connections, up from 450,000 for the corresponding period in 2003. The total number of customers buying bundled services has risen to 98,000 compared with 52,000 a year ago, a rise of 88%.

Mobile revenues declined due to the move away from selling mobile as a stand-alone product and the transfer of the pre-paid customer base to Vodafone.

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

- Total revenue was stable on A\$346 million
- Segment contribution (revenue less directly attributable costs) was A\$106 million, and increase of 3.9%

While the revenue performance for business customers was stable, intensive competition meant volume growth across most product lines including data and internet was offset by lower prices. AAPT won a three year extension of its contract with Commonwealth Bank of Australia (CBA) to provide data services.

Dividend

Telecom will pay a fully imputed second quarter dividend of NZ9.5 cents on 11 March 2005 in New Zealand and Australia and on 18 March 2005 in the United States. The book closing dates are 25 February 2005 for New Zealand and Australia and 24 February 2005 for New York.

Capital expenditure increased by \$98 million to \$317 million for the half year. For the 2005 full year, forecast capital expenditure has increased from \$650 million to \$700 million.

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