TELECOM NEW ZEALAND

H1 FY11 RESULT BRIEFING

Chief Executive Officer – Paul Reynolds
Chief Financial Officer – Nick Olson

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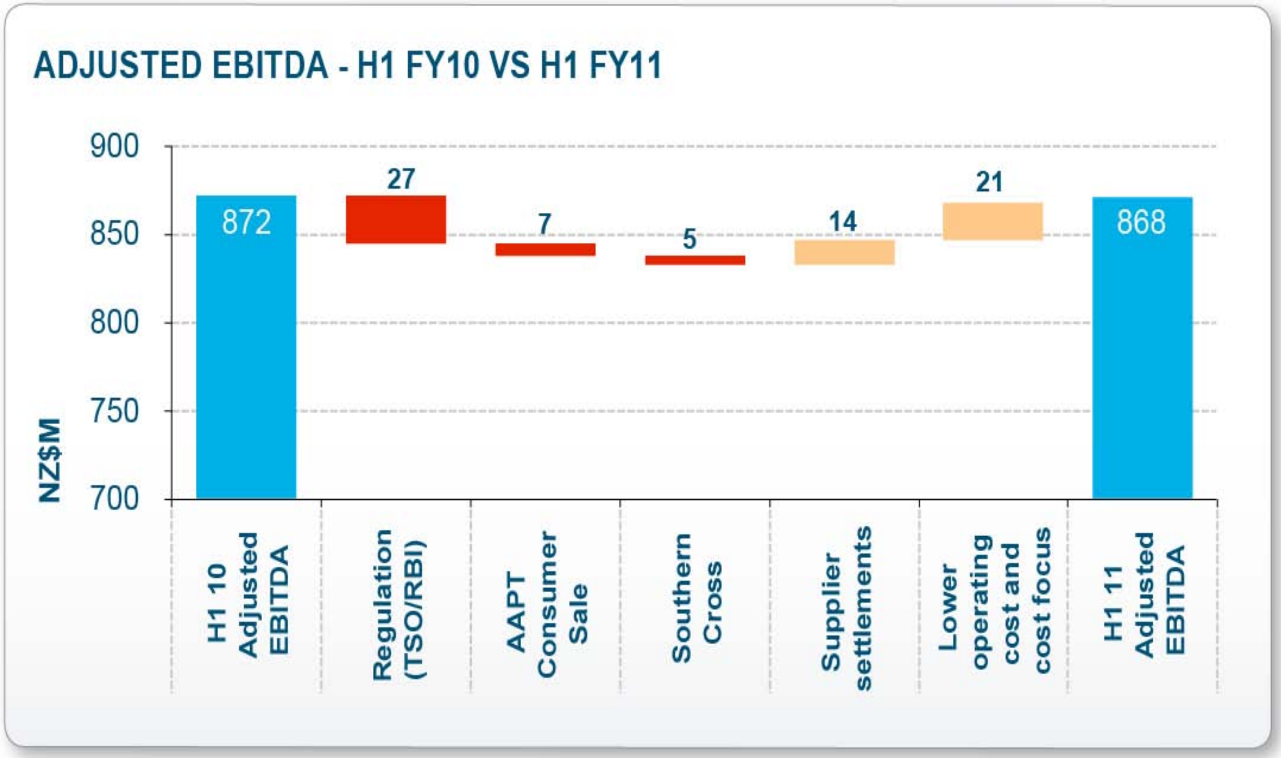
Key messages, product trends, and business unit performance

GROUP H1 FY11 KEY MESSAGES

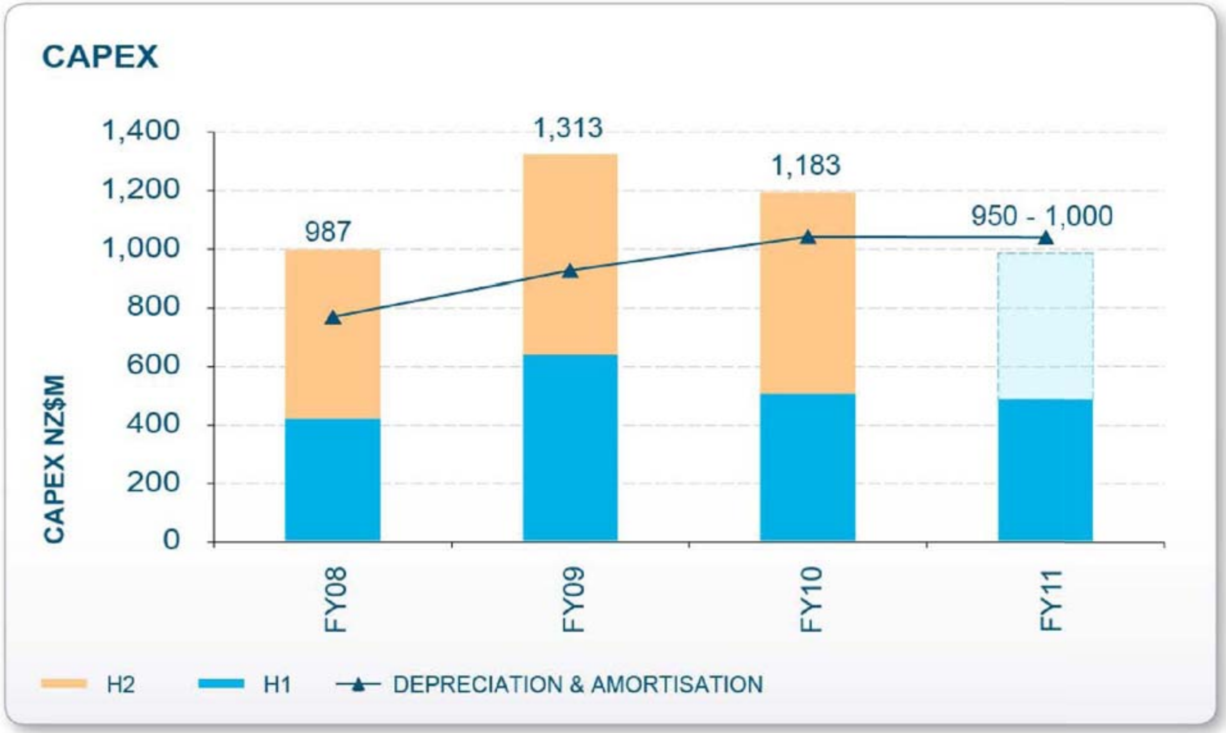
- Adjusted EBITDA of $868m, down 0.5%
  - Cost out focus offsetting regulatory impacts and revenue declines
  - Solid fixed line performance
    - Lines steady, churn improving
    - 1 year, 1000 cabinets to go to complete FTTN programme
  - Focus on targeted growth
    - Solid mobile performance – base, ARPU and perception improving
    - IT Services revenue growth of 10%
  - Southern Cross dividend of $39m vs $44m in H1 FY10
- Adjusted NPAT of $158m, down 35%, mainly impacted by regulatory changes (TSO/RBI and taxation)
- FY11 Capex Guidance $950m to $1.0 bn, previously $1.0bn to $1.1bn
  - Driven by reduced spend in low growth markets, re-validation of investment needs and tighter control of project costs
- UFB negotiations continue

GROUP H1 FY11 KEY MESSAGES



- Cost out focus offsetting regulatory impacts and revenue declines

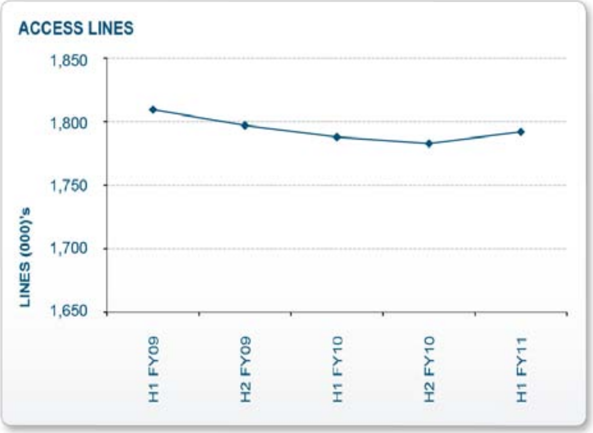
GROUP H1 FY11 KEY MESSAGES

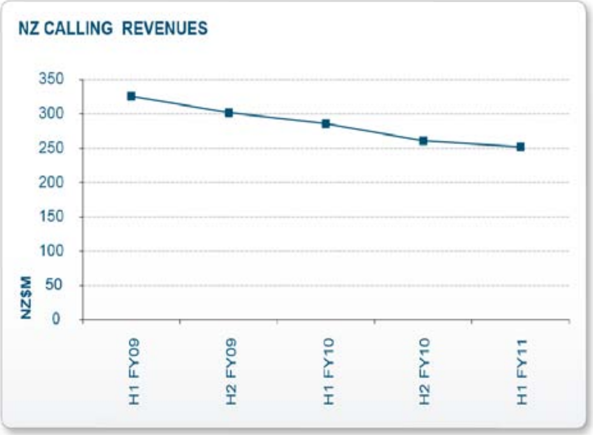


STRATEGY UPDATE - VISION 2013

- Position business for UFB world
- Vision 2013 - Call to action focused on momentum in operating excellence, cost reduction and capital intensity
  - Product, platform and process excellence
  - Fit for purpose operating model
  - Focus on free cash flow through capital intensity
  - Embedded through aggressive initiatives, clear accountabilities and aligned group incentives
  - On track to deliver cost out of $155m in FY11
- Focus on targeted growth

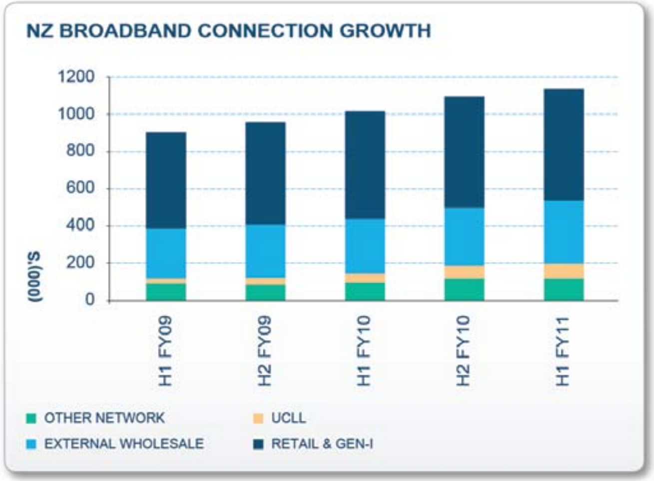
ACCESS & CALLING TRENDS

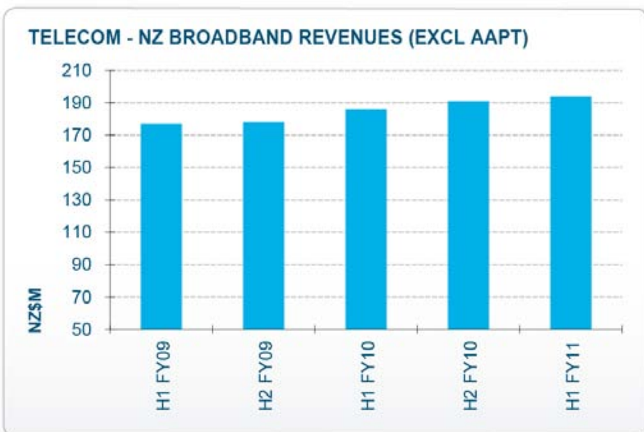




- Fixed line access performance solid
  - Access lines steady
  - Free local calling helps slow decline
  - Lines continue to shift from Retail to Wholesale
  - Fibre access market growing quickly off a low base
- Competition driving declines in Calling revenues
  - Underlying decline steady at around 12% (excl. transits and AAPT)

BROADBAND TRENDS

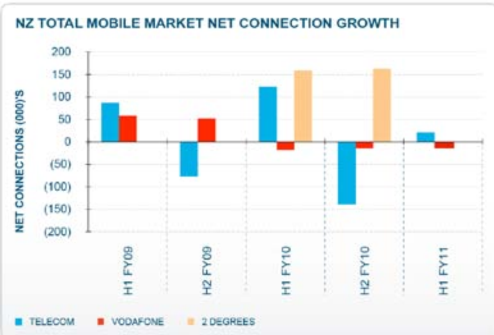


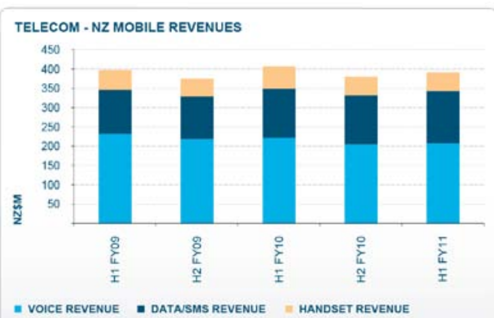


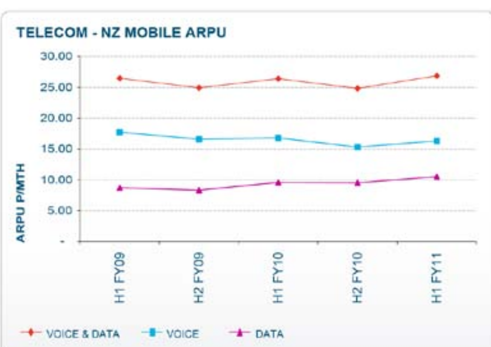
- Total market connections and revenues grew at ~10% to 12%
- Telecom focus on value and margin
  - Over 1 million connections on the Telecom network
  - Retail share 54%, ARPU steady
  - Competition intense in LLU areas
  - Wholesale pricing expected to remain volatile

Note – H1 data is based on a combination of IDC and Telecom estimates. "Other Network" assumed to be constant in half. All UCLL connections are assumed to be Broadband connections.
Note – includes all fixed line and cable Broadband, excludes mobile Broadband

MOBILE TRENDS

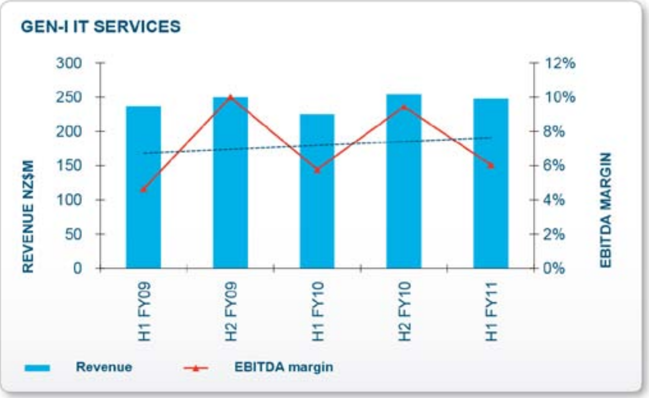


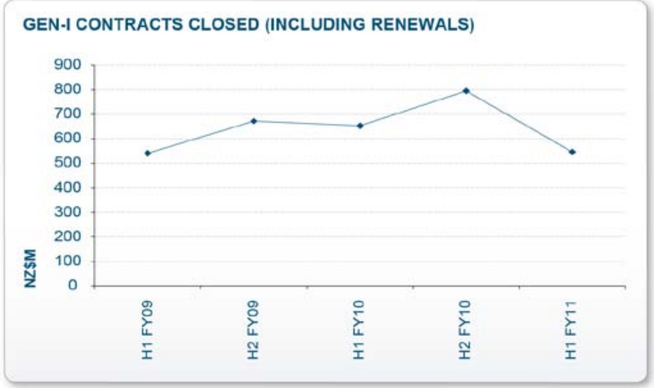




- Total market revenue growth slowed
- Telecom connections up 21k in first half, and 40k in Q2
  - Postpaid base stable in Q2 as churn reduces
  - Prepaid connection up in Q2 through strong Xmas sales
  - 1m+ XT connections, 46% of base, 71% of cellular revenue
- Telecom ARPU improving - driven by conversion to XT and growing smartphone penetration
  - 16% of mobile base using smartphones
  - Growth opportunity through increased penetration of smartphones
- NZ mobile revenues down $15m or 4% vs H1 FY10
  - Driven by lower handset revenues and lower voice revenues, offset by growth in data revenues

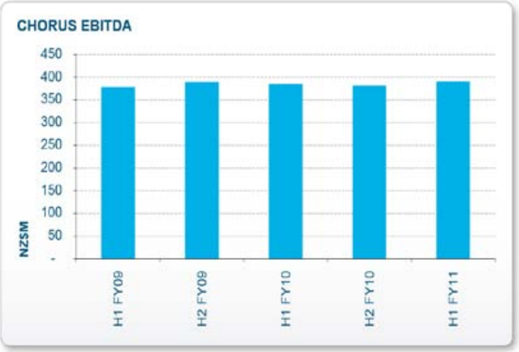
IT SERVICES TRENDS

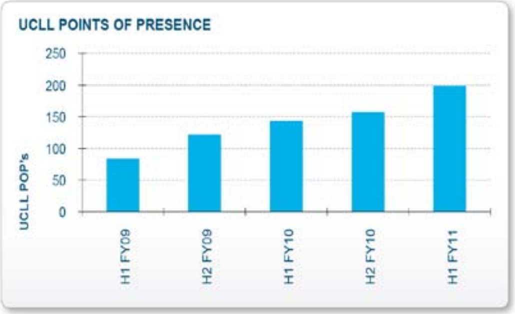


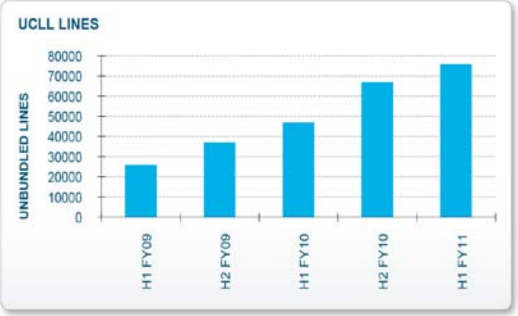


- IT Services market returning to growth
  - Cloud services continue to grow
  - Centralisation of government IT Services
  - Competition consolidating
- Gen-i IT Services revenues up by 10%, EBITDA up 15% vs H1 FY10
  - EBITDA margin seasonal but trending upwards
  - Managed services revenues growing faster than the market
  - Focus on growing share of customer wallet in outsourced client base

CHORUS







H1 Key Points

- EBITDA increased $6m for the half year
- Approx. 26,300km of fibre optic cable deployed
- Steady growth in UCLL with 101 exchanges now unbundled and 14% growth in unbundled lines (vs H2 FY10)
- Revised Service company contract resulting in strong performance gains and better customer experience
    - 15% improvement in meeting customer restoration and provisioning targets
    - One third less repeat faults
- Right First Time initiatives have removed approximately 50,000 annual truck rolls

Plan H2

- Ongoing involvement with Government’s UFB and Rural Broadband initiatives
- 1 year, 1,000 cabinets to go to complete FTTN programme
- Further cost savings, e.g. eliminate avoidable truck roll volumes, consolidated procurement and negotiate better terms

WHOLESALE & INTERNATIONAL

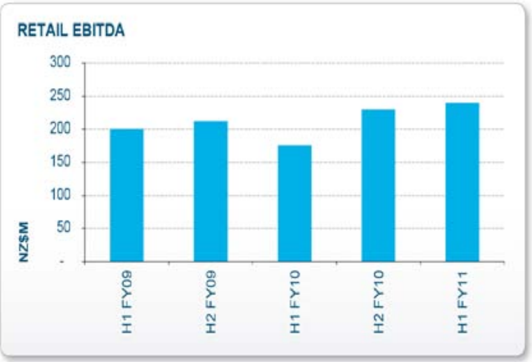
H1 Key Points

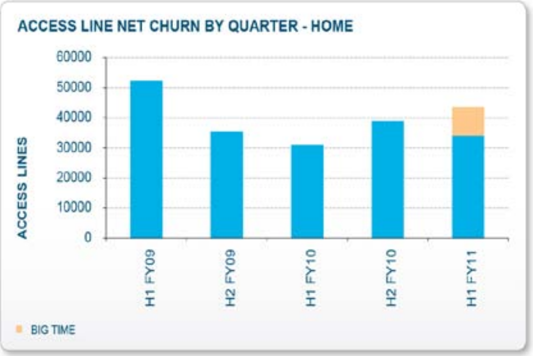
- External EBITDA up 9% vs H1 FY10
- Fully traded EBITDA down 58% vs H1 FY10
  - Internal cost allocation and changing product mix
- Access and Broadband connections growing strongly
- December 2010 enforceable Undertakings obligations met

Plan H2

- Deliver customer service improvements
- Continued cost containment
- Mass market price offers to retain voice customers on-net
- Strategic options for International wholesale voice

RETAIL





H1 Key Points

- EBITDA up 36%
- Targeted growth
  - Mobile connections, ARPU and XT perception improving
- Churn reduction in fixed line
  - SME access churn down and Broadband connections increasing
  - Consumer Access churn impacted by withdrawal of ‘Big Time’ broadband plan
- Focus on cost

Plan H2

- Leverage superior XT performance and refresh of Mobile plans to stimulate acquisition
- Continued drive to increase smartphone and tablet penetration to generate ARPU growth
- New Broadband bundles to stimulate demand
- Build fibre based services
- Simplification of products and processes
  - Reduce number of access plans on offer

Gen-i

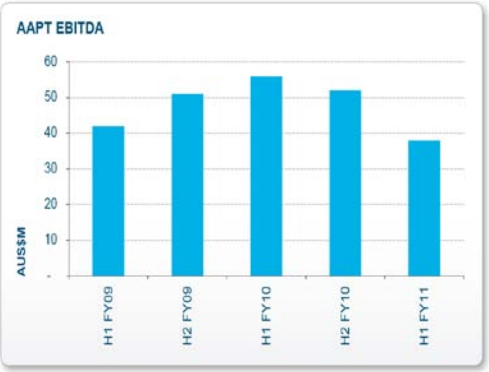
H1 Key Points

- EBITDA growth of 6.1% over H1 FY10, IT Services EBITDA up 15%
- Price decline in NZ voice and data has flattened through H1
- Managed services built for new Fibre world
- Australian revenues are down 9% reflecting the initial impact of CBA transition
- Mobile 5% connection growth (vs H1 FY10), voice and data revenues up 5%

Plan H2

- Margin growth through operational excellence
- Elimination of 200 services, 66 complete
- Cost out through Suppliers, Overheads, Right First Time, and Vision 2013
- Growth in Mobile, Cloud Services, Trans Tasman
- Complete CBA migration and deliver continuing services

AAPT



H1 Key Points

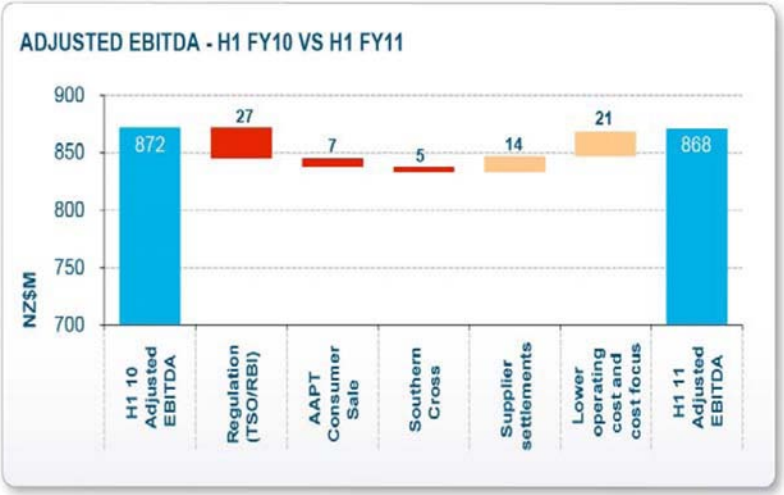
- H1 EBITDA of A$38m impacted by:
  - Telstra wholesale terms
  - Consumer sale
  - Partially offset by lower opex
- Successfully divested Consumer from AAPT
- All proceeds related to the sale of Consumer received
- Strong sales performance for Wholesale and Business
- Inter-city core network upgrade programme completed

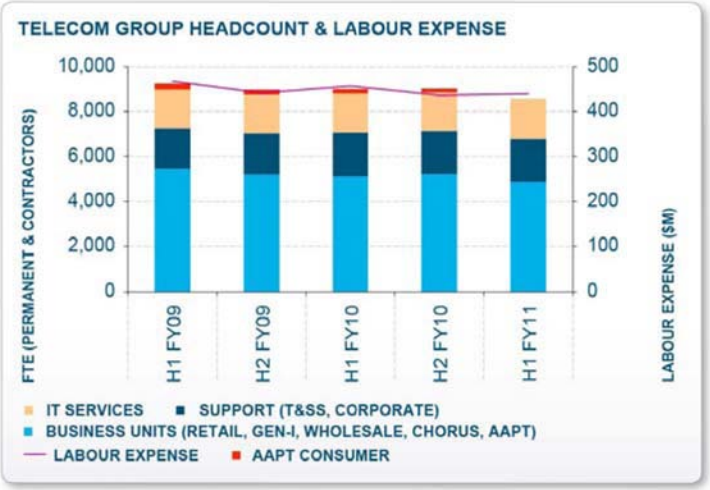
Plan H2

- Sales focus on data and new SIP Voice product
- Align operations to a leaner business structure by Q4
- Queensland floods: minimal impact on customer services
- Complete billing rationalisation programme

Group Financials

KEY FINANCIAL MESSAGES





- Adjusted EBITDA $868m, down 0.5% on H1 FY10
  - TSO/RBI regulatory impact of ~$27m vs H1 FY10
  - AAPT decline due to Consumer sale of $7m
  - Southern Cross dividend of $39m vs $44m in H1 FY10
  - $14m gain from supplier settlements
  - Offset by lower operating costs and cost focus

INCOME STATEMENT - REPORTED

Half year ended 31 Dec	2010 $M	2009 $M	Change %
Revenue	2,601	2,671	-2.6%
Expenses	(1,731)	(1,799)	-3.8%
EBITDA	870	872	-0.2%
Depreciation & amortisation	(530)	(510)	3.9%
EBIT	340	362	-6.1%
Net finance expense	(89)	(85)	4.7%
Share of associates' profit/(losses)	1	-	NM
Income tax expense	(87)	(34)	NM
Net Earnings	165	243	-32.1%
Net earnings attributable to shareholders	164	242	-32.2%
EPS	9	13	-30.8%
DPS	7	12	-41.7%

ADJUSTING ITEMS

Half year ended 31 Dec	2010 $M	2009 $M	Change %
Reported Net Earnings	**165**	**243**	**-32.1%**
Add/(Subtract) adjusting items			
Gain on sale relating to AAPT Consumer	**(18)**		
UFB costs	**12**		
Natural disaster costs	**4**		
Related tax effects	**(5)**		
Adjusted Net Earnings	**158**	**243**	**-35.0%**

INCOME STATEMENT - ADJUSTED

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%**
Depreciation & amortisation	**(530)**	**(510)**	**3.9%**
EBIT	**338**	**362**	**-6.6%**
Net finance expense	**(89)**	**(85)**	**4.7%**
Share of associates' profit/(losses)	**1**	**-**	**NM**
Income tax expense	**(92)**	**(34)**	**NM**
Net Earnings	**158**	**243**	**-35.0%**
Net earnings attributable to shareholders	**157**	**242**	**-35.1%**
EPS	**8**	**13**	**-38.5%**
DPS	**7**	**12**	**-41.7%**

BUSINESS UNIT ADJUSTED EBITDA

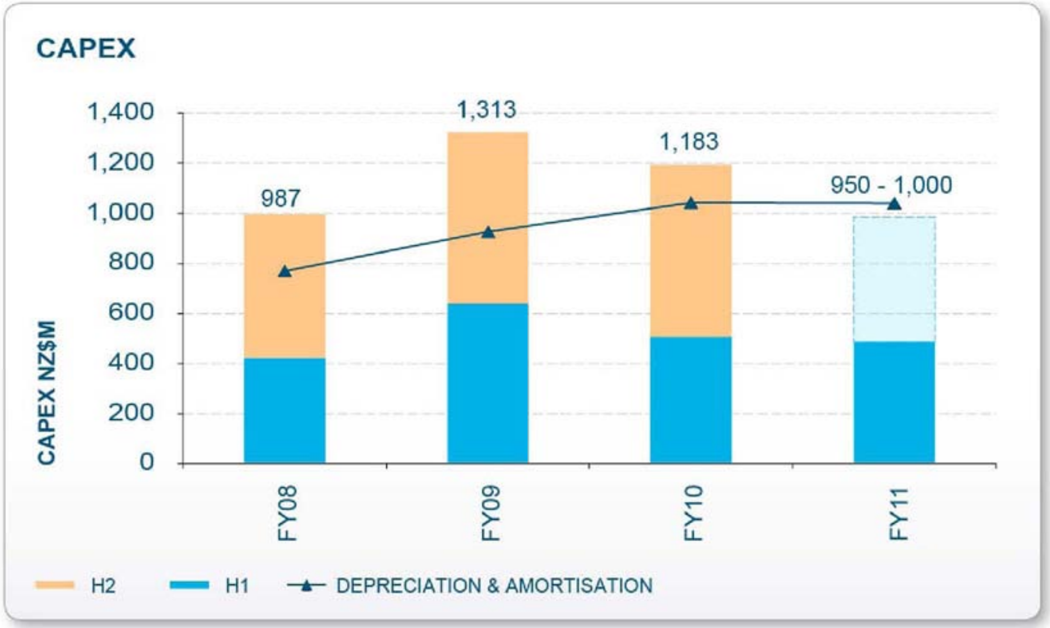
	H1 2010 $M	Change %
Chorus	391	1.6%
Wholesale & International	46	-57.8%
Retail	240	36.4%
Gen-i	105	6.1%
AAPT	48	-28.4%
T&SS	-	-
Corporate	38	5.6%
Total EBITDA	**868**	**-0.5%**

CASH FLOW

Half year ended 31 Dec	2010 $M	2009 $M
Cash flows from Operating Activities	**533**	**818**
Cash flows from Investing Activities	**(420)**	**(574)**
Cash flows from Financing Activities	**(90)**	**(191)**
Foreign exchange movement	**(7)**	**(18)**
Net movement in cash	**16**	**35**

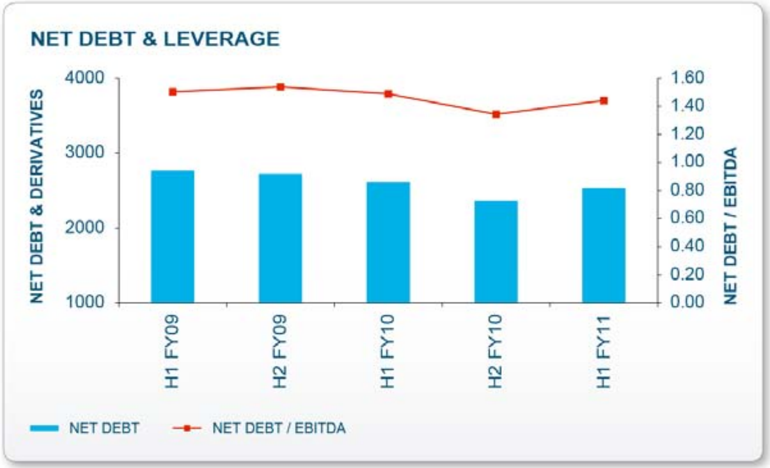
- Lower operating cash flow driven by increased tax payments, inventory purchases, the loss of TSO revenues and other working capital movements

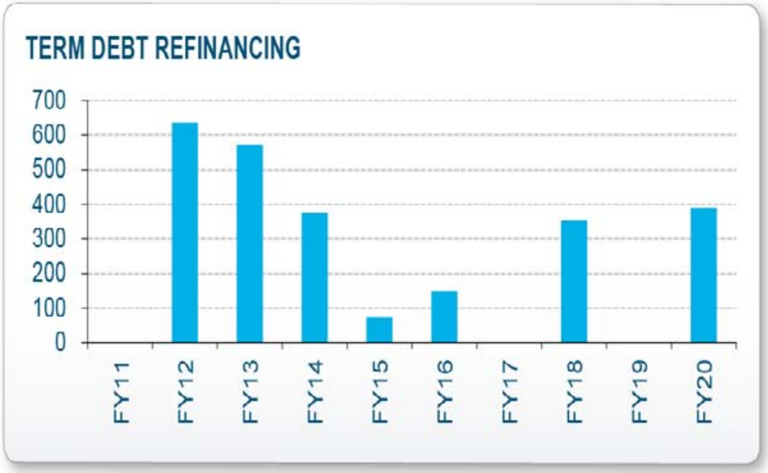
CAPITAL EXPENDITURE



- Forecast capex reduction
  - Reduced spend in low growth markets
  - Re-validate investment needs
  - Tighter control of project costs
  - Revised delegated authority limits

FINANCIAL PROFILE & CAPITAL STRUCTURE





- Credit Ratings maintained
  - S&P A (Creditwatch Negative)
  - Moody's A3(Outlook Stable)
- FY11 dividend policy
  - 90% payout of adjusted net earnings
  - Full imputation at rate of 30/70
  - 3.5cps dividend declared for Q2
  - DRP and on-market buyback suspended for Q2
- Appropriate capital structure for current operating environment

1 = Adjusted EBITDA calculation based on last 12 months, and utilises debt and derivatives at accounting values

Public Policy & Regulation, Guidance

Government Broadband initiatives (UFB/RBI)

- Ultra Fast Broadband (UFB)
  - Commercial negotiations continue with Crown Fibre Holdings (CFH) in relation the governments UFB initiative
  - We have participated in the MED’s consultation process and industry workshops regarding structural separation
  - Timetable for potential structural separation will be revised upon entering into a contractual arrangement with CFH
- Rural Broadband Initiative (RBI)
  - Joint bid with Vodafone has been selected for commercial negotiations
- Our focus remains on finding solutions that meet the needs shareholders, the Government and New Zealand

PUBLIC POLICY AND REGULATION

- Undertakings milestones continue to be delivered on time, and in full, including demanding FTTN targets
- Draft Commission decision on mobile termination rates signals significant reductions starting in Q4
  - Draft voice termination rates of 4.68cpm, bill and keep for SMS termination
  - Final decision expected in late March

PUBLIC POLICY AND REGULATION

- Further progress this half towards international best practice:

Simplification	• Resale de-regulation for data, broadband • Draft UBA de-regulation in 51 Urban Exchanges • Variation 3 and Amended Variation 4 • Continuing backhaul de-regulation • *Simplified separation model* • *Workable non-discrimination regime*	**Targeted & proportionate regulatory framework**
Pricing that supports investment	• Commercial freedom for VDSL pricing • Draft reduction in UBA retail minus discount to reflect changing costs of data transmission • *WACC to support investment*	**Pricing that enables a commercial rate of return and recognises risk**
Best practice governance arrangements	• Balanced government policy – Decision to introduce Productivity Commission • Supreme Court protection of robust competition in 0867 case • *Merits review to ensure accountability*	**Clear regulatory duties and objectives. Accountability and error-correction**

Desired outcomes

FY11 GUIDANCE

- This 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 $950m to $1.0 billion, (previously $1.0bn to $1.1bn)

FY12 – FY13 GUIDANCE

- This financial guidance does not reflect any impact from the Government's Ultra Fast Broadband initiative, which is likely to reshape the industry

- FY12 Guidance
  - Adjusted EBITDA to increase by $20 million to $80 million
  - Effective tax rate of 25% to 28%
- FY13 Guidance
  - Adjusted EBITDA to increase by $20 million to $80 million
  - Effective tax rate of 25% to 28%
  - Capex around $0.75 billion

DISCLAIMER

Forward-Looking Statements

- This presentation 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. 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 presentation. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed in the first half 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 which was 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 International Financial Reporting Standards (IFRS). The non-GAAP financial measures used in this presentation includes, but are not limited to:
    - Earnings before interest, tax, depreciation and amortisation ('EBITDA'). Telecom calculates EBITDA by adding back/(deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/loss and taxation expense to net earnings/(loss) from continuing operations; and
    - 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; and
    - Average Revenue per User ('ARPU'). Telecom calculates ARPU as mobile voice and data revenue for the period divided by the average number of customers for the period. This is then divided by the number of months in the period to express the result as a monthly figure; and
    - Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.
- Telecom believes that these non-GAAP financial measures provide useful information, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS.

TELECOM NEW ZEALAND

H1 FY11 RESULT BRIEFING

Chief Executive Officer – Paul Reynolds
Chief Financial Officer – Nick Olson