TELECOM NEW ZEALAND

H1 FY12 RESULT BRIEFING

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

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H1 FY12 KEY MESSAGES

- Demerger successfully completed
- YoY financial comparisons complicated by separation of Chorus network business
  - Reported Net Earnings $1,006m
- Continued YoY operational improvement

• EBITDA from continuing operations*	Flat
• Costs*	-11%
• Headcount (excl Chorus)	-5%
• Revenues*	-8.5%
• Free Cash Flow*	+25%
• Capex*	-32%
• Net Earnings*	+52%

*Adjusted results

H1 FY12 KEY MESSAGES cont.

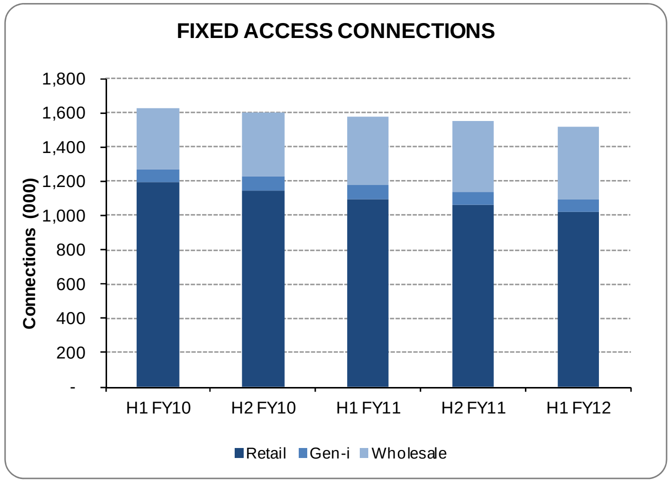
- H1 FY12 dividend of 9.0c, with full imputation
- On-market buyback of up to $300m during 2012 calendar year
- H2 FY12 Guidance
  - H2 FY12 Adjusted EBITDA of around $560m
  - H2 FY12 Adjusted Net Earnings of $160m to $190m
  - H2 FY12 Capex of approximately $190m to $220m

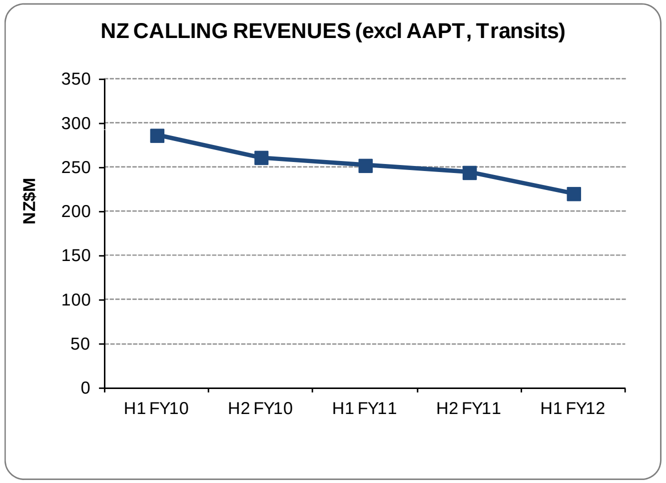
SUCCESSFUL COMPLETION OF DEMERGER

- Demerger successfully executed on 30 November 2011
  - 99.8% of shareholder votes cast were in favour
  - Chorus now separately listed on NZX and ASX
  - Strong Telecom shareholder returns, 12 mth TSR 37%*
- New Telecom successfully established
  - Supplier agreements in place with Chorus
- Telecom positioned for success post-demerger
  - Telecom maintains #1 or #2 position in all core markets
  - Significantly reduced regulatory burden
    - Able to compete on a similar footing with market peers
  - Telecom retains large scale, strategic assets
    - National PSTN network and backhaul assets
    - National 3G mobile network
    - National data networks
    - International cable interests

*Source – Bloomberg as at 23 Feb 2012

ACCESS & CALLING





Objective

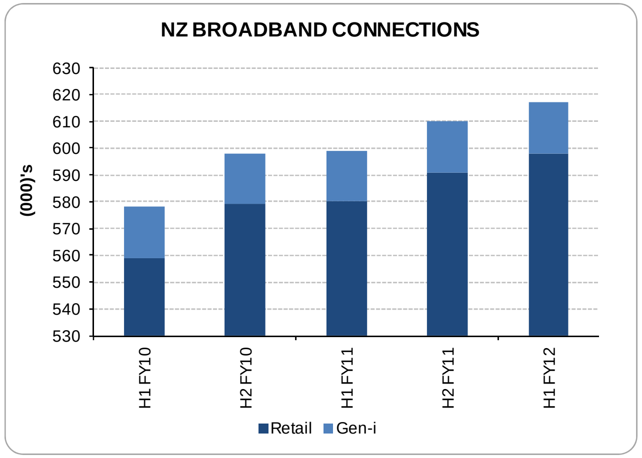
- Retain value by slowing declines in access and calling

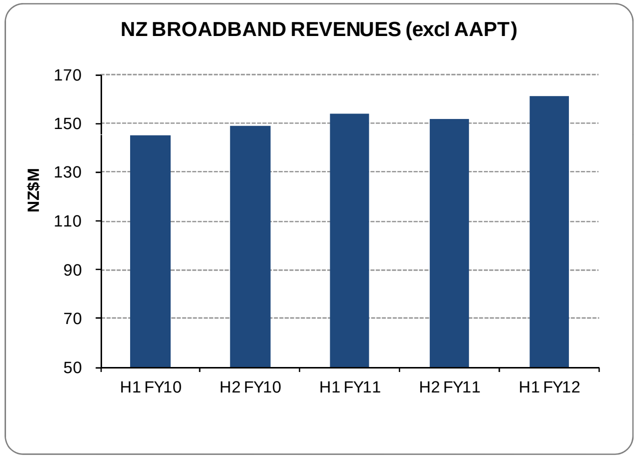
Result

- Total access and calling revenues impacted by AAPT, International Transits and MTR reductions
- Underlying fixed access performance steady
  - Total fixed connections declining at 3-4%
  - Wholesale access connection growth
  - Fixed access revenues declining at ~4% in line with global peers
  - Retail/Gen-i fixed access market share at 64%*
- NZ calling revenue decline (13%) driven by
  - continuing volume declines
  - MTR price decline from 1 May 2011

*Source – IDC Telco Tracker at 30 Sept 2011

BROADBAND





Objective

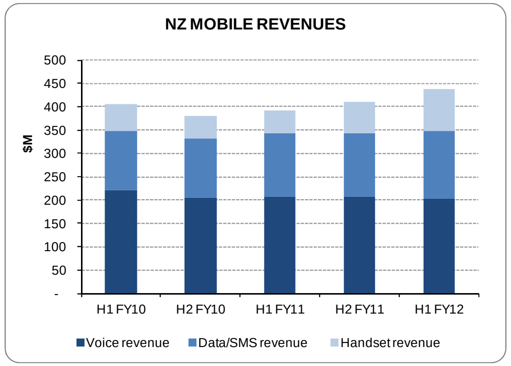
- Growth with a focus on high value and margin

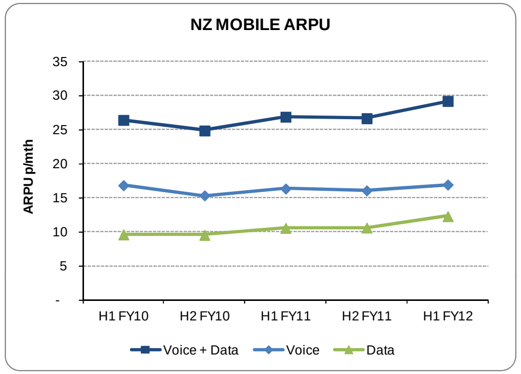
Result

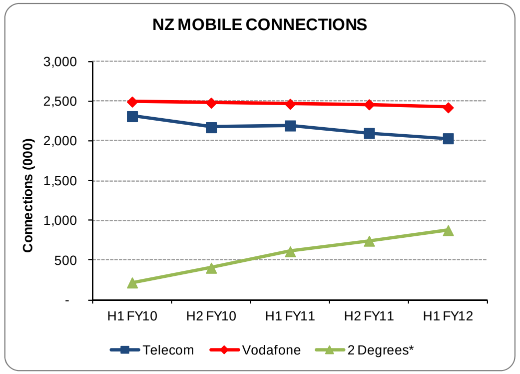
- Connection growth of 7k in H1
- 5% NZ revenue growth driven by connection growth and ARPU growth
  - ARPU increased 2% as customers trade up
- Bundling strategy delivering benefits
  - 500k+ (92%) of retail broadband customers in a bundle
  - Low levels of churn maintained
- Retail/Gen-i market share of connections 51%*

*Source – IDC Telco Tracker at 30 Sept 2011

MOBILE







Objective

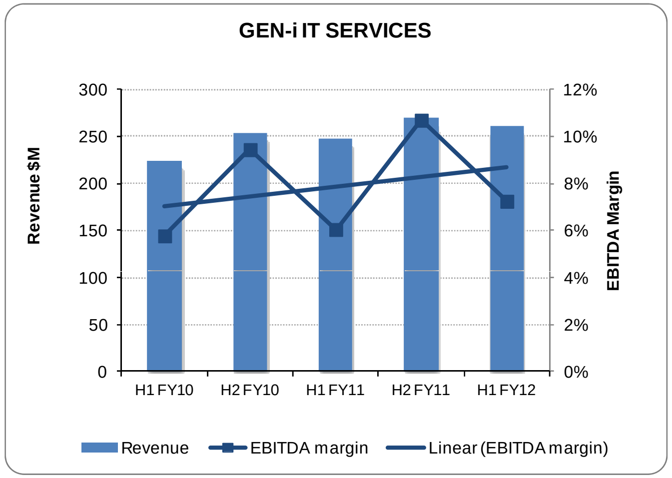
- Grow ARPU and revenue by focusing on high value customers and increasing data usage

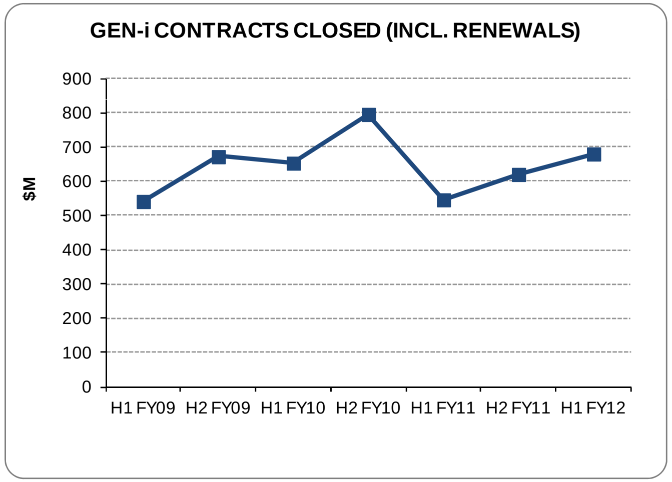
Result

- NZ revenue up 12%
  - 6.4% underlying improvement
  - Device revenues up following change to subsidy accounting
  - ARPU up 9% vs H1 FY11
- Investment in growing postpaid market share
  - Postpaid base up 27k in H1
  - Strong Android & iPhone
  - Increased subsidies
- “Skinny” youth brand launched
- CDMA closure on track for July 2012
  - Prepaid base down 92k in H1, low revenue impact
  - 639k customers and 11% of cellular revenue remain
  - Low usage connections progressively ceased
  - Likely further base consolidation until shutdown in July 2012
- Market share of connections ~37%**

*2 Degrees connections at 8 Feb 2012, sourced from 2 Degrees media release, ** Source – IDC Telco Tracker at 30 Sept 2011

IT SERVICES





Objective

- Drive retention of fixed and mobile services with Hosted ICT Services
- Grow IT Services quality and margin

Result

- Gen-i IT Services EBITDA up 27% vs H1 FY11
    - Operational excellence of E2E processes
    - Sale of Software Solutions and new Infosys partnership
- IT Services margin of 7% (6% in H1 FY11)
- Capital intensity for IT Services remains low
- Focus on growth in infrastructure and application services
- Market share leader, ~14%

BUSINESS UNIT HIGHLIGHTS

Retail

- EBITDA down 3% as mobile cost of sales increases 30%
  - Labour costs down 12%
- Smartphone strategy delivering
- “Skinny” launched
- Broadband connections and ARPU up
- Fibre product development advancing
- Customer satisfaction up

Gen-i

- EBITDA up 17% through growth in mobile and focus on cost out
- Mobile market share grown to 71%
- Transformation improved service and reduced FTE 9% vs H1 FY11*
- Focus on mobile and fibre leadership and Hosted IT Services
- Customer satisfaction up

Wholesale & International

- EBITDA up 5% through lower operating costs and MTR reductions
- International business reorganised
  - Rationalised 34% of customers
  - Headcount down 33% vs H1 FY11
  - Operating costs down 40%
  - EBITDA up 100%+
  - Customer satisfaction up

AAPT

- EBITDA of A$31m, down 18%
- Free cash flow up A$9m following capex reductions
- Focus on cost and customer retention in a tough operating environment

*Excludes sale of Software Solutions, and centralisation activities

BUSINESS UNIT ADJUSTED EBITDA

	H1 FY12 NZ $M	Change %
Wholesale & International	79	5.3%
Retail	233	-2.9%
Gen-i	123	17.1%
AAPT	40	-13.0%
T&SS	1	NM
Corporate	12	-42.9%
Total EBITDA from Continuing Ops	**488**	**0.2%**

- EBITDA from continuing operations was up $1m despite lower Southern Cross dividends and higher mobile cost of sales (“COS”)

Group Financials

CFO OVERVIEW

- Organisation focused on successful execution of complex demerger
- Against that backdrop strong financial performance

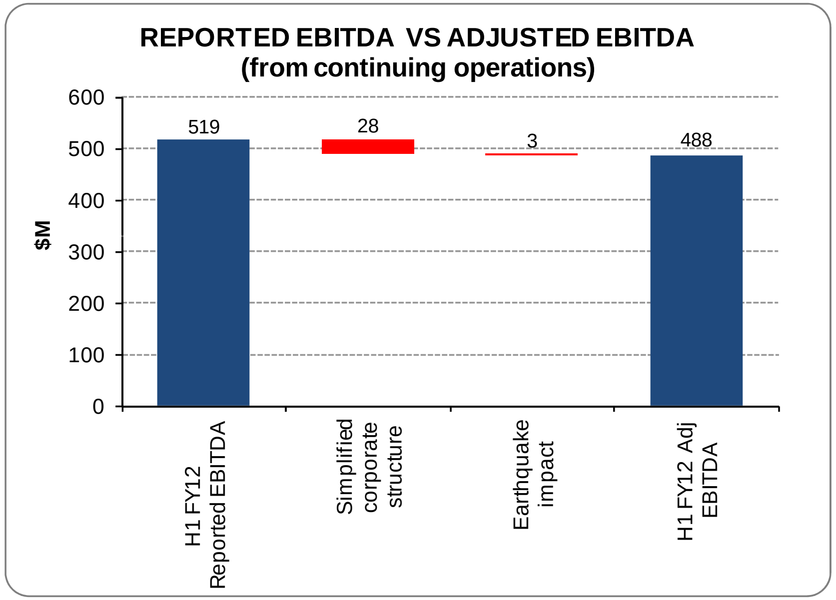
KPIs	Performance to December 2011
Revenue*	Impacted by SX, AAPT, MTR, International
Cost*	Headcount down, Mobile COS up
EBITDA - continuing*	Flat, strong given revenue impacts, mobile COS
D&A - continuing	Down 25%
Total Net Earnings*	Up 52%
Capex	Down 32%, FY12 estimate of <$400m**
Free cash flow*	Up 25%
Net Debt	$755m, demerger costs at low end of range Underpins capital management

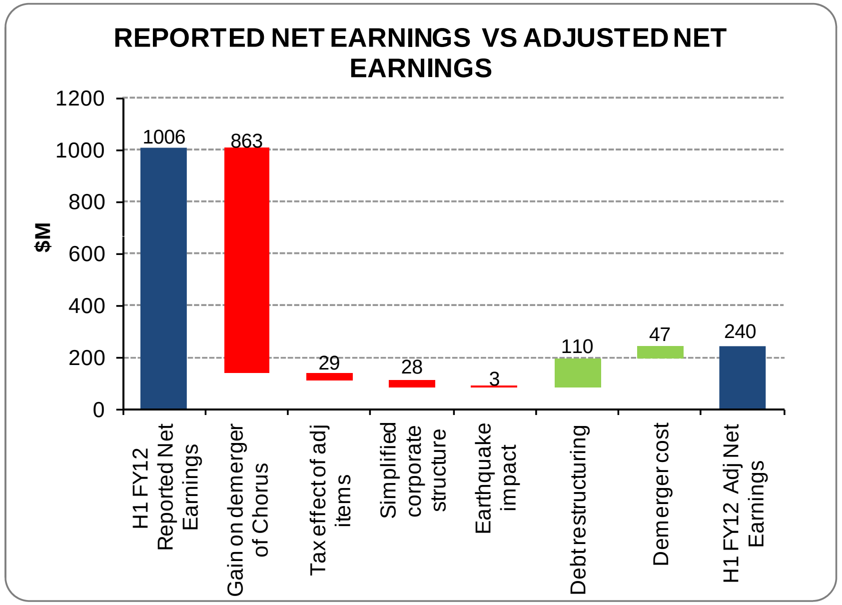
*Adjusted results **Excluding Chorus

FINANCIAL SUMMARY

	REPORTED		ADJUSTED	
	H1 FY12	Change %	H1 FY12	Change %
EBITDA - continuing	519	3.6%	488	0.2%
EBITDA - discontinued	1,137	NM	321	NM
Total EBITDA	1,656	90%	809	-6.8%
Net Earnings	1,006	NM	240	52%
Capex	325	-32%	325	-32%

H1 FY12 REPORTED vs ADJUSTED RESULTS



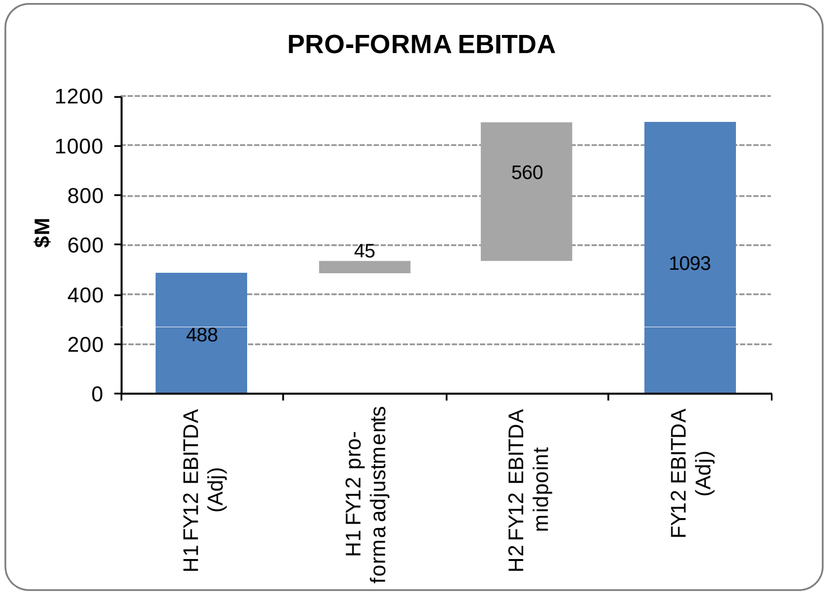


- Adjustments made for:
  - Non cash gain upon demerger of Chorus
  - Non cash reclassifications following simplification of corporate structure
  - Debt restructuring costs
  - Demerger costs

DEMERGER ADJUSTMENTS & COSTS

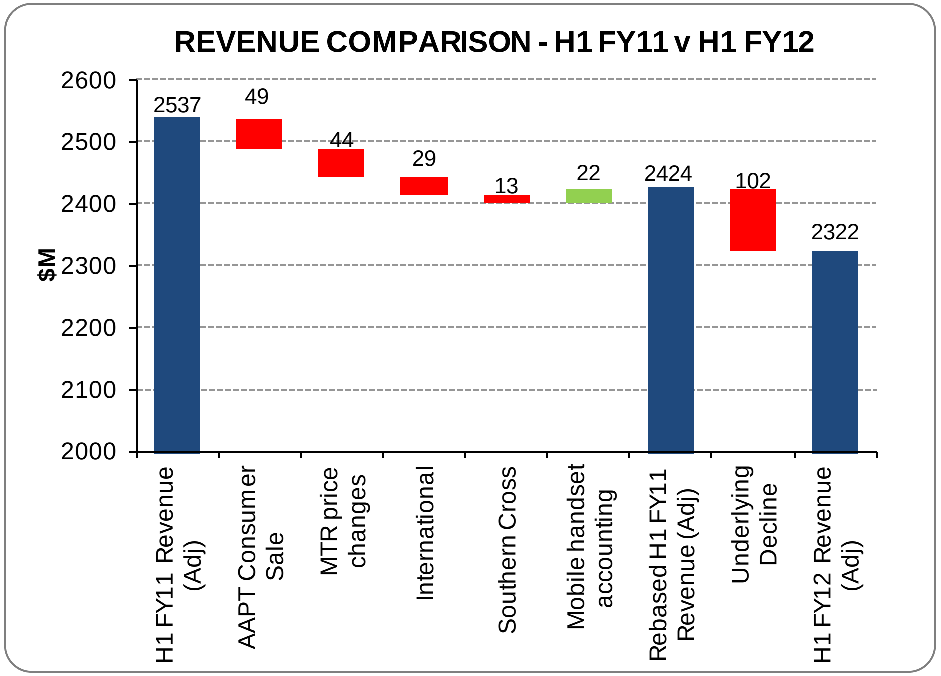
- $863m gain on demerger of Chorus
  - Non-cash, one-off accounting entries
  - $775m relates to difference between fair value and book value of the net assets demerged to Chorus
    - Chorus assets carried at historic cost which is significantly below fair value
    - Historical cost net book value at 30 November 2011 was $489m
    - Fair value at 30 November 2011 was $1,264m (based on Chorus share price)
  - $88m relates to the difference between:
    - the NPV of lease payments that will be received from Chorus (for exchange buildings); and
    - the book value of the exchange buildings being leased
- Demerger transaction costs were $93m

PRO FORMA EBITDA



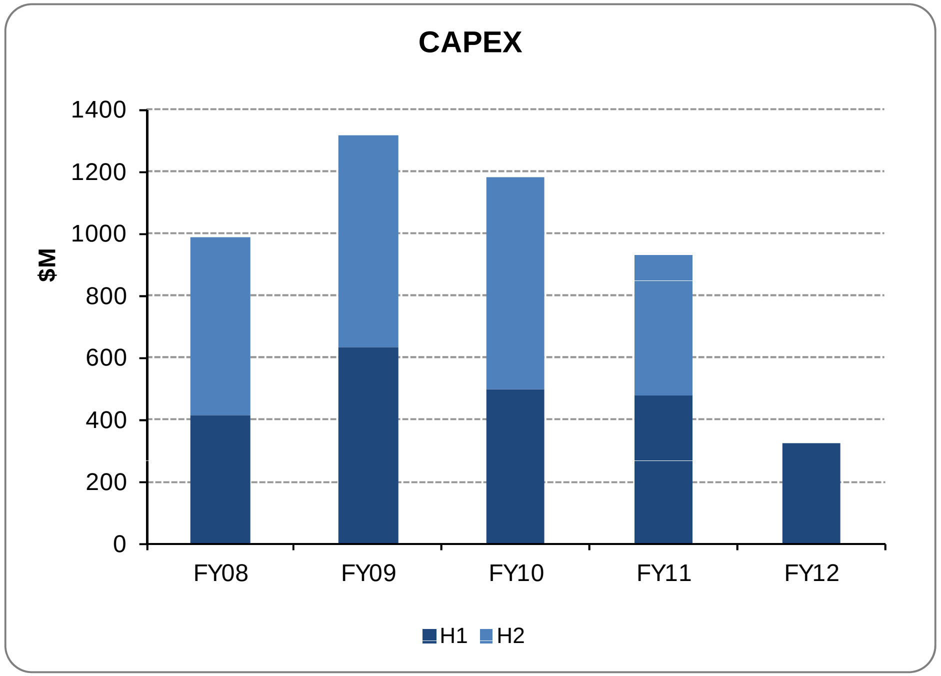
- H1 FY12 Adjusted EBITDA of $488m based on
  - 5 mths of internal trading with Chorus; and
  - one month of external trading (following demerger on 30 Nov 2011)
- Pro-forma EBITDA for H1 FY12 of $533m
  - Estimated EBITDA as if demerger had occurred on 1 July 2011
- Full year estimated pro-forma EBITDA of $1,093m
- Stable underlying performance

REVENUE TRENDS



- Underlying decline around -4%, in line with previous trends
- H1 FY12 revenue decline exaggerated by one-off changes, with minimal EBITDA impact
  - AAPT Consumer sale
  - MTR price declines
  - Rationalisation of International business

CAPITAL EXPENDITURE



- Capex of $325m for H1 FY12, down 32%
- Includes Chorus related capex of ~$150m
- Expect to spend $190m to $220m in H2 FY12

CAPITAL MANAGEMENT

- Telecom remains committed to maintaining an ‘A band’ credit rating
  - Net interest bearing debt to EBITDA not greater than 1.1 times on a long run basis (equates to 1.5 times on a rating agency basis)
- Credit Ratings post-demerger
  - S&P A- (Outlook Stable)
  - Moody’s A3 (Outlook Stable)
- On-market buyback to return surplus capital
  - Up to $300m during the 2012 calendar year
- FY12 dividend policy
  - 90% payout of adjusted net earnings, to be paid semi-annually
  - H1 dividend of 9.0 cents, fully imputed at rate of 28/72
  - DRP and on-market buyback restored
  - H2 dividend expected to be imputed 70 to 100%
- Net debt (and derivatives) $755m at 31 December 2011
  - Post-demerger average cost of debt less than 6%
    - Likely to increase over time to ~6.5%

Strategy & Outlook

STRATEGY & OUTLOOK

- Drive Vision 2013 initiatives
  - Improve customer satisfaction
  - Focus on being #1 in Mobile, Broadband & ICT
    - Mobile smartphone strategy
    - Broadband strategy to bundle and upgrade customers
    - ICT margin growth
  - Cost reduction
    - Further reductions in headcount
    - Transform business to lower cost base
  - Ongoing innovation in fibre, and mobile through LTE
  - Solid outlook for H2 FY12 based on momentum created to date
    - Aspiring to low single digit EBITDA growth

GUIDANCE

- H2 FY12 Adjusted EBITDA of around $560m
- H2 FY12 Adjusted Net Earnings of $160m to $190m
- H2 FY12 Capex of approximately $190m to $220m

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These forward-looking statements can be identified by words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'plan', 'may', 'could' and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. 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 projected in the forward-looking statements contained in this release. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Telecom's anticipated growth strategies, Telecom's future results of operations and financial condition, economic conditions in New Zealand and Australia; the regulatory environment in New Zealand; competition in the markets in which Telecom operates; risks related to the demerger and operating as two separate companies, other factors or trends affecting the telecommunications industry generally and Telecom's financial condition in particular and risks detailed in Telecom's filings 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.

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Non-GAAP financial measures

Telecom results are reported under IFRS. This release 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. Adjusted EBITDA. Adjusted EBITDA excludes significant one-off gains, expenses and impairments.
3. 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.
4. ARPU. Telecom calculates ARPU as revenue for the period (for mobile this is only voice and data) divided by an average number of customers.
5. Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.
6. Adjusted free cash flow. Adjusted free cash flow utilises adjusted EBITDA rather than underlying EBITDA defined above.
7. Adjusted net earnings. Adjusted net earnings are net earnings for the year adjusted by the same items to determine adjusted EBITDA, together with any adjustments to depreciation, amortisation and financing costs, whilst also allowing for any tax impact of those items.

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.

APPENDIX 1: HALF YEAR INCOME STATEMENT - REPORTED

Six months ended 31 December 2011	2011 $M	2010 $M	Change %
Revenue	2,358	2,555	-7.7%
Expenses	(1,839)	(2,054)	-10.5%
EBITDA	519	501	3.6%
Depreciation & amortisation	(284)	(377)	-24.7%
EBIT	235	124	89.5%
Net finance expense	(59)	(63)	-6.3%
Share of associates' profit/(losses)	0	1	NM
Income tax expense	(47)	(28)	67.9%
Net Earnings from Continuing Operations	129	34	NM
Earnings from discontinued operations, net of tax	877	131	NM
Net Earnings	1,006	165	NM
EPS	52	9	NM
DPS	9.0	7	28.6%

APPENDIX 1: HALF YEAR INCOME STATEMENT - ADJUSTED

Six months ended 31 December 2011	2011 $M	2010 $M	Change %
Revenue	2,322	2,537	-8.5%
Expenses	(1,834)	(2,050)	-10.5%
EBITDA	488	487	0.2%
Depreciation & amortisation	(284)	(377)	-24.7%
EBIT	204	110	85.5%
Net finance expense	(59)	(63)	-6.3%
Share of associates' profit/(losses)	0	1	NM
Income tax expense	(46)	(29)	58.6%
Net Earnings from Continuing Operations	99	19	NM
Earnings from discontinued operations, net of tax	141	139	NM
Net Earnings	240	158	51.9%
EPS	12	8	50%
DPS	9.0	7	28.6%

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H1 FY12 RESULT BRIEFING

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