TELECOM NEW ZEALAND

H2 FY11 RESULT BRIEFING

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

CONTENTS

Key messages, FY11 in review, product trends, and business unit performance

A CHALLENGING & REWARDING YEAR

- Completing Operational Separation
- UFB fibre world approaching
- Intensifying competition
- Christchurch Earthquakes

Response:

- Unrelenting focus on ‘Customers at our Heart’
- Vision 2013 strategy to improve agility and efficiency
- Co-ordinated effort to win UFB and begin demerger process
- Launch of the Telecom Foundation

FY11 KEY MESSAGES

- Significant YoY financial improvement:
  - EBITDA[1] of $1,801m, up 2%, stronger H2
  - NPAT[1] of $388m, up 2%
  - Free cash flow[1] of $887m, up 53%
  - Revenues[1] of $5,104m, down 3%
  - Capex of $914m, 23% lower
- Q4 Dividend of 7.5 cps, plus a 2.0 cps special dividend
- Customer satisfaction improved
- Telecom won 70% of government's UFB initiative
- Demerger of Chorus by end of calendar year, subject to approvals

[1] Reflects Adjusted results

PERFORMANCE IMPROVED OVER YEAR

	Original Guidance $M (May 2010)	Final Guidance $M(May 2011)	Actual $M	
Adjusted EBITDA	$1,720 - $1,780	$1,720 - $1,780	$1,801	✓
Capex	$1,000 - $1,100	$900 - $930	$914	✓
FCF*	$620 - $780	$790 - $880	$887	✓

- Strong second half driven by
  - Revenue growth in Mobile and IT Services
  - Cost decreases through
    - lower marketing costs
    - reduced personnel spend
    - lower discretionary spend
    - in-sourcing of IT support functions

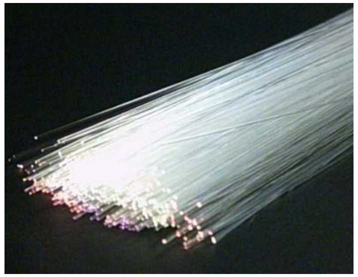
*Free cash flow here is defined as Adjusted EBITDA less Capex, it is before interest and tax.

MAY 2010 - STRATEGY DAY RECAP

Deliver turnaround in EBITDA

- Reduce cost
- Simplify the business
- Retain value
- Targeted growth

Position business for UFB world



- Open and positive engagement with CFH on UFB
- Reshape the businesses

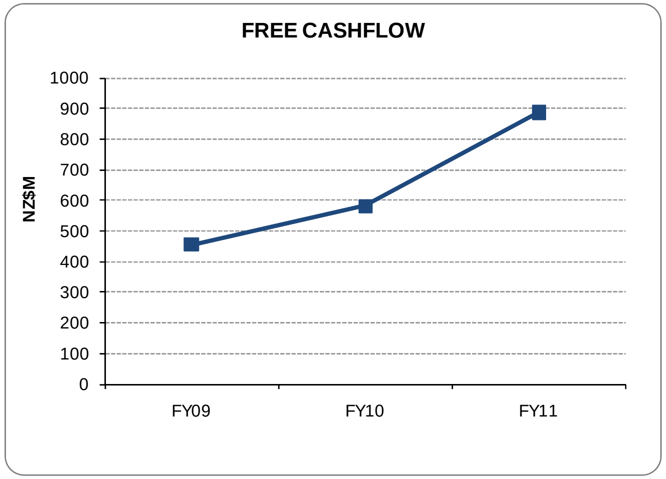
DELIVERING THE STRATEGY

May 2010 Strategy	Performance to June 2011
Deliver turnaround in EBITDA	Adjusted EBITDA up 2.1%
Reduce cost	Adjusted expenses down 6%, $195m of cost out from management action
Simplify the business	Process improvement and restructuring reduced headcount by 7%*
Retain value	~80% of broadband customers[1] in bundles 82% of mobile revenues on XT
Targeted growth–	
Mobile	Growth in revenue and ARPU
Broadband	Strong connection growth
ICT	Managed and cloud services growing
Position business for UFB world	Chorus announced as cornerstone partner for UFB

*Adjusted to account for in-sourcing of IT Support function

[1] Retail customers

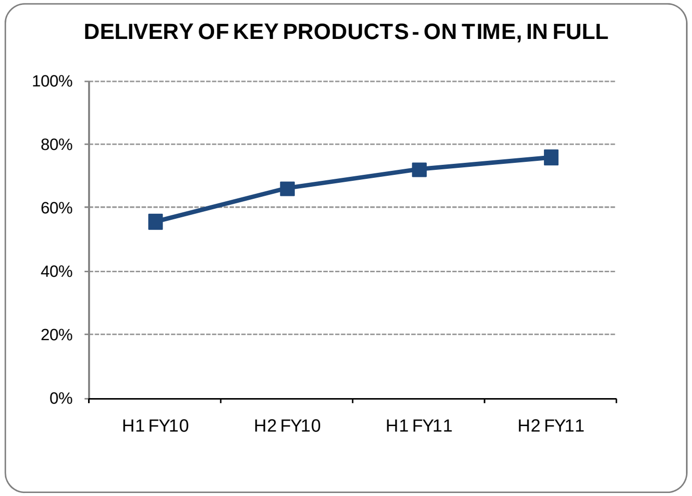
FOCUS ON FREE CASH FLOW



- Capex reduced by $269m in FY11
  - Directing investment towards highest value projects
  - Prioritisation and elimination of duplication
  - Transformation and Undertakings projects completing
- EBITDA growth through cost reduction
  - $195m of cost out
  - Process and platform improvements which drive sustainable reductions
  - Supplier contracts re-negotiated
  - Headcount reduced by 7%*
  - Discretionary opex spend cut

*Adjusted to account for in-sourcing of IT Support function

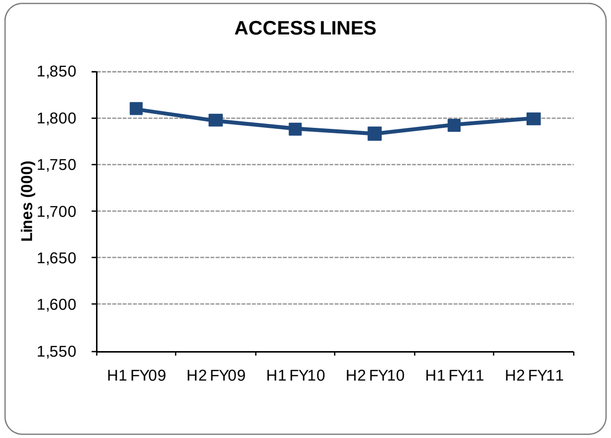
FOCUS ON CUSTOMERS

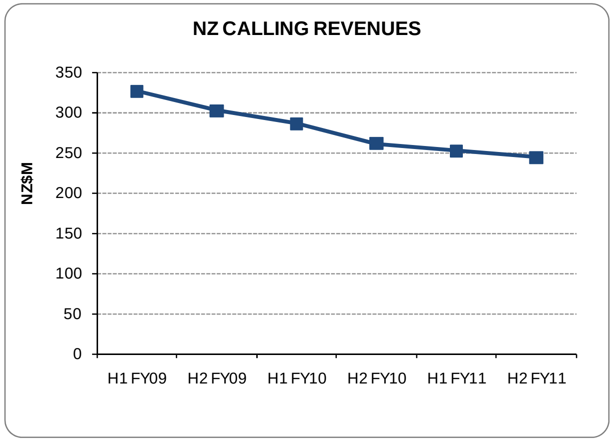


Note – Aggregation of 16 key product measurements, averaged over the period

- Focus on customer satisfaction driving improvements across all business units
- Telecom and Gen-i customer value and brand equity scores strengthened during year
- Primarily driven by:
  - Mobile image and reputation
  - Perception of Broadband speed
  - Gen-i product performance and range
- Right First Time program delivered process improvements for customer purchases and problem resolution
  - Broadband purchase and set up 37% better
  - Mobile purchase and set up 34% better
  - Data purchase and set up 7% better
  - Fault resolution 9% better

ACCESS & CALLING





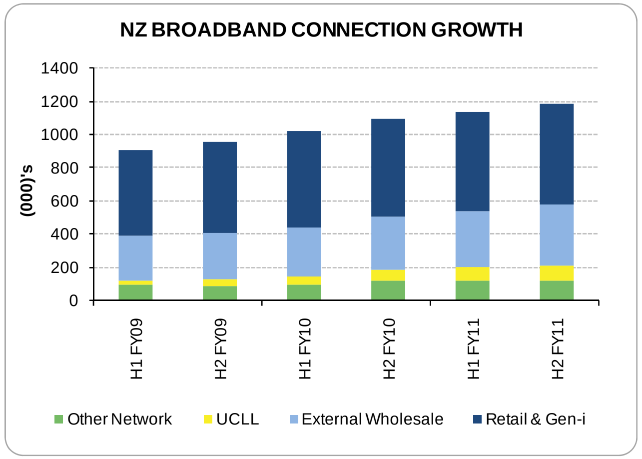
Objective

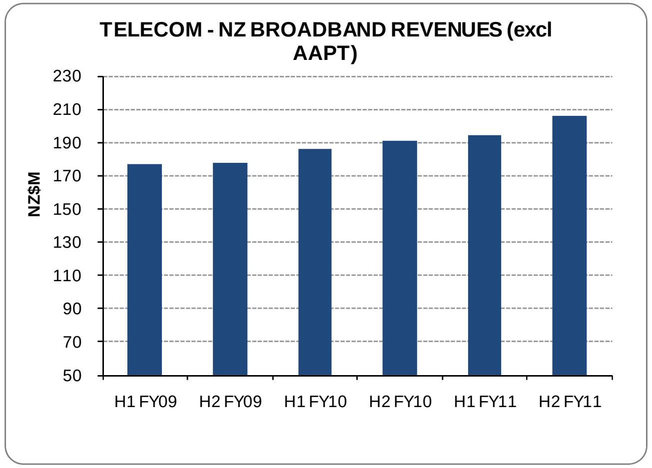
- Retain value by slowing declines in access and calling and retain lines on the Telecom network

Result

- Fixed line access performance steady
  - Total access lines stable
  - Retail lines shifting to Wholesale at ~7% p.a
  - Wholesale access line growth
  - Steady growth in UCLL
- NZ calling revenue declines slowing as usage patterns improve

BROADBAND





Objective

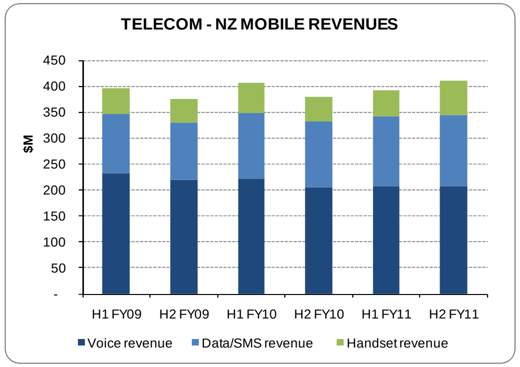
- Growth with a focus on high value and margin

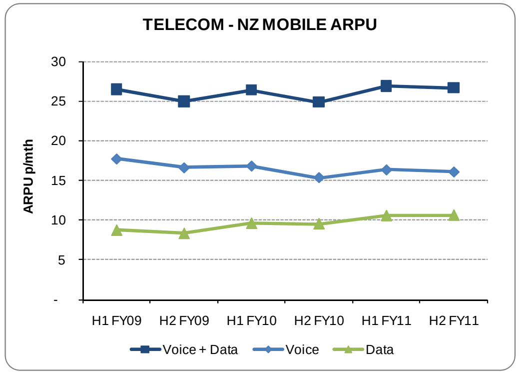
Result

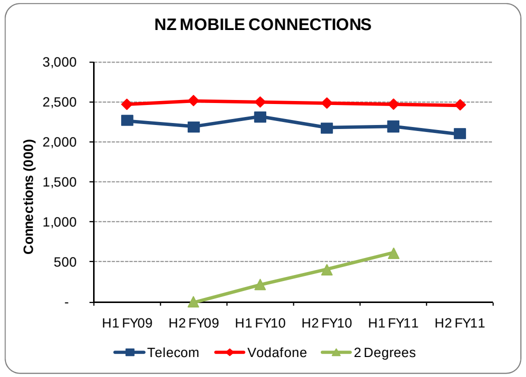
- Total market connections grew by ~90k in FY11
- Focus on margin holding Retail ARPU steady at ~$40 despite price pressure
- Retail market share of connections 53%
- Strategy to sell broadband as part of a bundle
  - ~80% of retail broadband customers in a bundle
- Wholesale ARPU volatile due to changes in UBA price
- Wholesale market share of connections 31%

Note – H2 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. Includes all fixed line and cable Broadband, excludes mobile Broadband

MOBILE







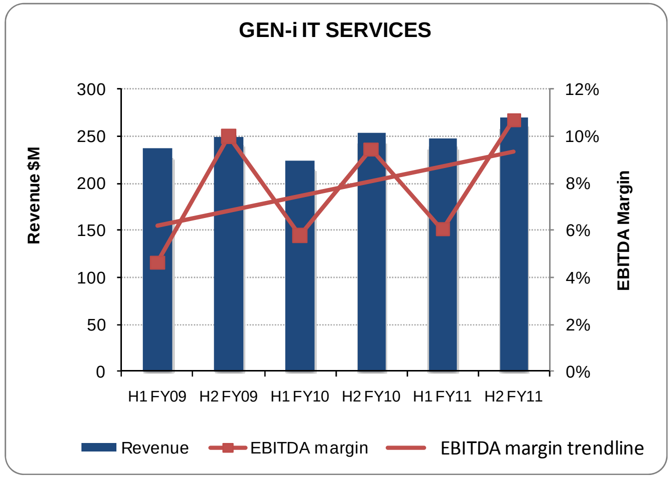
Objective

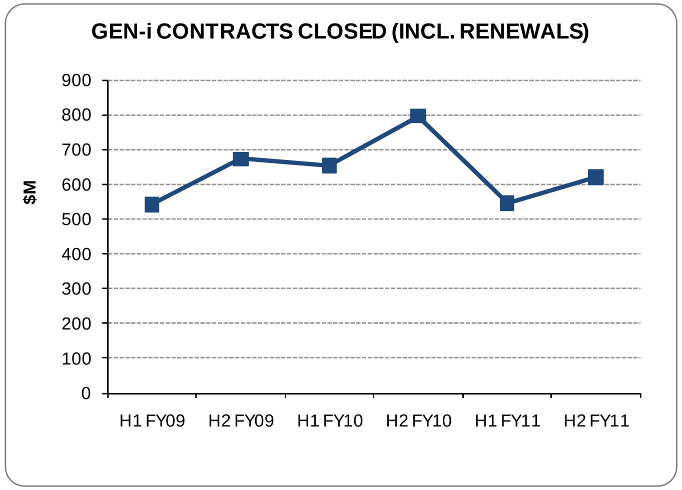
- Grow ARPU and revenue by focusing on high value customers and increasing data usage

Result

- Revenue up 5%, ARPU up 7% vs H2 FY10
  - Smartphone strategy driving increased data usage and handset revenue
  - Corporate wins driving Gen-i revenue growth
- 1.2m connections on XT, 56% of the base, 82% of cellular revenue
- Postpaid base up 3k in H2
  - Strong growth in $75+ ARPU customers
- Prepaid base down 98k in H2, low revenue impact
  - CDMA closure on track, low usage connections progressively ceased
  - Likely further base consolidation until shutdown in 2012

IT SERVICES





Objective

- Create a platform for success in hosted services and grow share of spend in high value clients

Result

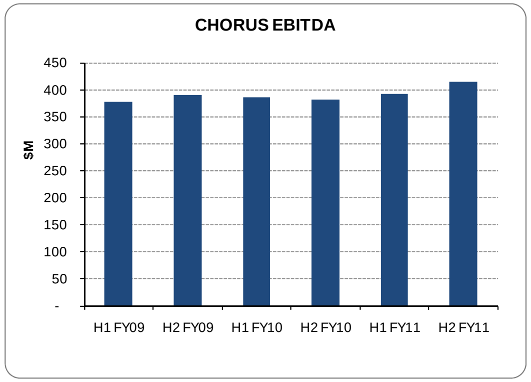
- IT Services market returning to growth
  - Delivering Cloud services
- Suite of Gen-i “ReadyCloud” products launched
- Gen-i IT Services revenue up 7% vs H2 FY10
  - Driven by growth in managed service and procurement
- Gen-i IT Service EBITDA up 21% vs H2 FY10
  - Efficiency gains improving margin

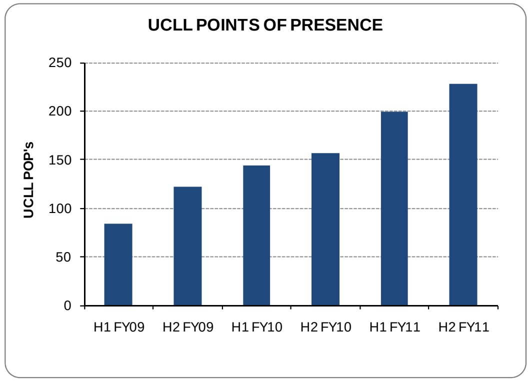
BUSINESS UNIT ADJUSTED EBITDA

	FY11 $M	Change %	H2 FY11 $M	Change %
Chorus	806	5.1%	415	8.6%
Wholesale & International	119	-42.2%	73	-24.7%
Retail	493	21.4%	253	10.0%
Gen-i	237	6.3%	132	6.5%
AAPT	90	-33.8%	42	-39.1%
T&SS	4	NM	4	NM
Corporate	52	85.7%	14	NM
Total EBITDA	**1,801**	**2.1%**	**933**	**4.6%**

- Good progress growing EBITDA across the business
  - Chorus, Retail and Gen-i increasing
  - Wholesale & International external EBITDA increasing
  - AAPT impacted by Consumer sale and Telstra wholesale terms

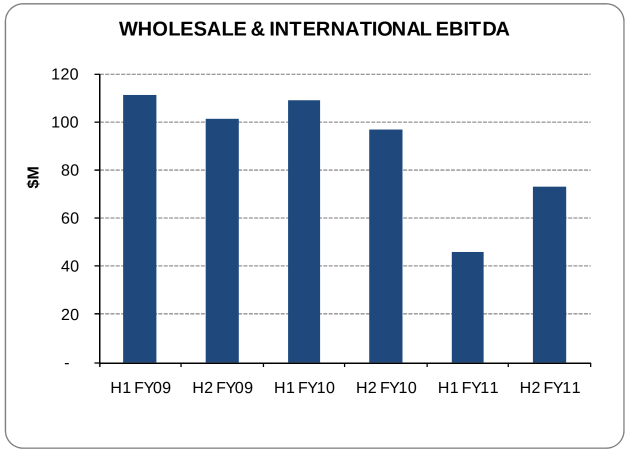
CHORUS





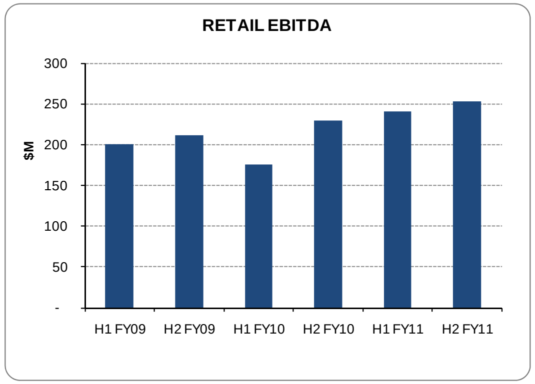
- EBITDA increased 9% vs H2 FY10
- Right First Time initiatives reducing truck rolls
- FTTN on track and expected to be delivered under budget
  - ~400k customers taking broadband from FTTN cabinets
- UCLL growth continues, approx. 93k lines
- Customer satisfaction metrics at an all time high in Q4
- UFB deal secured
- RBI rollout commenced

WHOLESALE & INTERNATIONAL



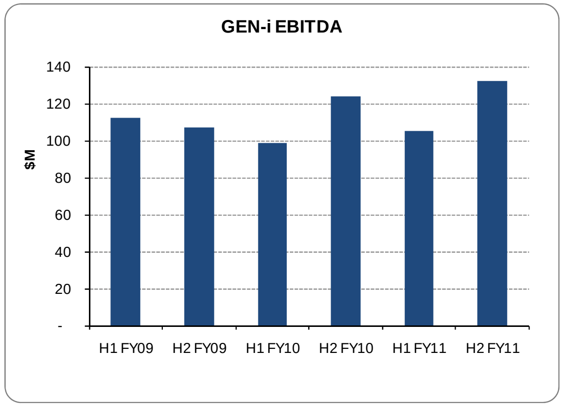
- External EBITDA up 13% vs H2 FY10
- Fully traded EBITDA down 25% vs H2 FY10, reflecting changing product mix
- Access and Broadband connections growing strongly
- Strong growth in HSNS data products
- Delivered all Undertakings commitments
- Customer preference metrics at an all time high

RETAIL



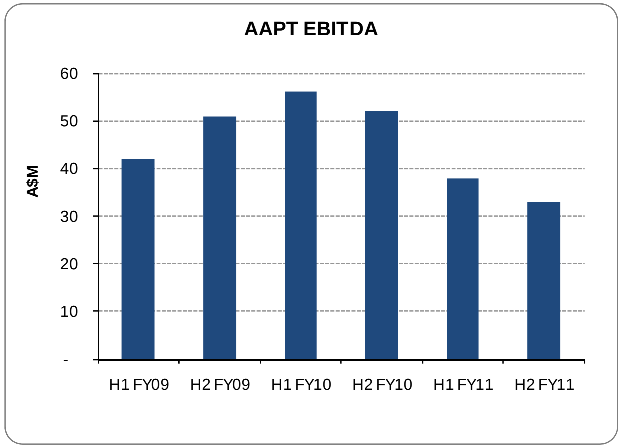
- 10% EBITDA growth vs H2 FY10
  - Fixed revenue stabilising
  - Mobile revenue growing
  - Cost reduction from lower COS, reduced personnel costs and supplier renegotiations
- Product rationalisation creating simplicity
- Fixed line retention
  - Bundles driving Broadband growth, improved ARPU and reduced churn
    - Fixed and Mobile bundle launched
  - SME churn significantly improved
- Targeted Mobile growth
  - Demand for smartphones driving XT growth
  - Growing data revenue, roaming revenue, and ARPU's

Gen-i



- Gen-i EBITDA up 6% vs H2 FY10
  - Lower expenses
  - Effective margin retention in fixed line voice
  - IT Services EBITDA up 21% vs H2 FY10
  - IT Services revenue up 7%
- $620m contracts closed vs $795m in H2 FY10
- Mobile connection growth of 7% vs H2 FY10, NZ mobile revenues up 7%
- Simplification progressed by improving support processes and reducing products
- Cost out focussed on purchasing and management of personnel costs
- ~75%+ of managed data customers now utilising fibre based products

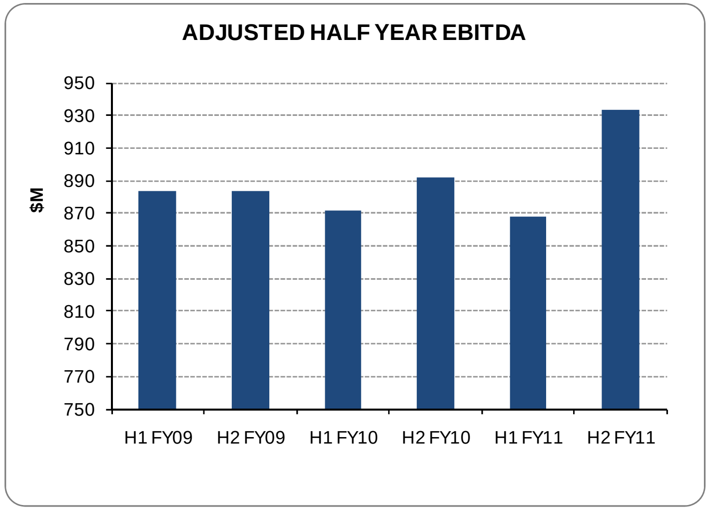
AAPT

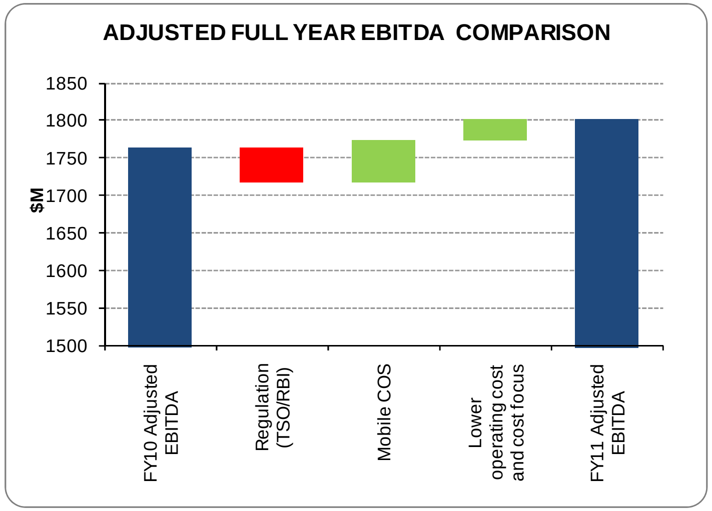


- H2 FY11 EBITDA of A$33m impacted by:
  - Sale of Consumer division
  - Adverse Telstra wholesale terms
- FY11 free cash of A$27m, plus A$139m through sale of Consumer division and investments
- Positioned for EBITDA growth in FY12:
  - Sales of data and internet strong in H2
  - Cost savings delivered through restructuring
- First carrier to achieve NBN network certification
- David Yuile appointed CEO

Group Financials

KEY FINANCIAL MESSAGES





- Focus on cost and capex has increased adjusted free cash flow 53%
  - FY11 Adjusted EBITDA of $1,801m, strong second half
  - FY11 Adjusted NPAT of $388m, up 2% vs FY10
  - FY11 Capex of $914m, 23% lower than prior year
- Q4 Dividend of 7.5 cps, plus a 2.0 cps special dividend bringing total FY11 dividend to 20 cps
  - Non cash asset impairments of $257m

FULL YEAR INCOME STATEMENT - REPORTED

Year ended 30 June	2011 $M	2010 $M	Change %
Revenue	5,122	5,271	-2.8%
Expenses	(3,631)	(3,507)	3.5%
EBITDA	1,491	1,764	-15.5%
Depreciation & amortisation	(1,027)	(1,032)	-0.5%
EBIT	464	732	-36.6%
Net finance expense	(188)	(180)	4.4%
Share of associates' profit/(losses)	1	1	0.0%
Income tax expense	(111)	(171)	-35.1%
Net Earnings	166	382	-56.5%
Net earnings attributable to shareholders	164	380	-56.8%
EPS	9	20	-55.0%
DPS	20	24	-16.7%

ADJUSTING ITEMS

Year ended 30 June	2011 $M	2010 $M	Change %
Reported Net Earnings	**166**	**382**	**-56.5%**
Add / (Subtract) adjusting items			
Gain on sale relating to AAPT Consumer	**(18)**		
UFB and de-merger costs	**29**		
Natural disaster costs	**42**		
Asset impairments	**257**		
Related tax effects	**(88)**		
Adjusted Net Earnings	**388**	**382**	**1.6%**

ASSET IMPAIRMENTS

- $257m of asset impairments booked in H2 FY11
- Non-cash, accounting charge
- Impairments relate to product development of copper assets driven by regulatory requirements
  - Fixed Network Transformation Project
  - Retail NGT
  - Wholesale systems
- Impairment driven by the move to a fibre-oriented industry structure and legislative change

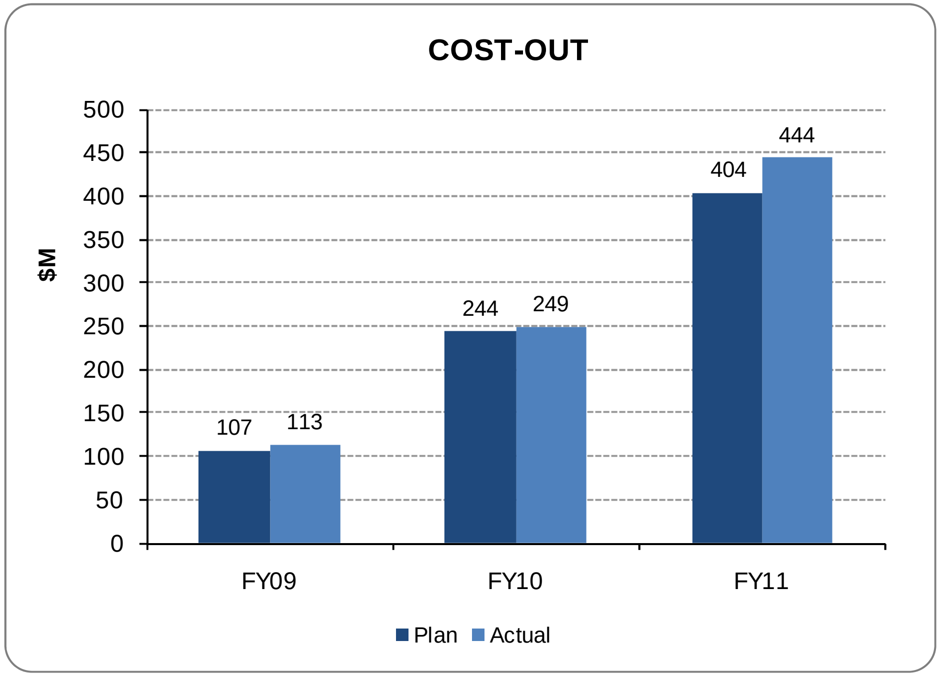
FULL YEAR INCOME STATEMENT - ADJUSTED

Year ended 30 June	2011 $M	2010 $M	Change %
Revenue	5,104	5,271	-3.2%
Expenses	(3,303)	(3,507)	-5.8%
EBITDA	1,801	1,764	2.1%
Depreciation & amortisation	(1,027)	(1,032)	-0.5%
EBIT	774	732	5.7%
Net finance expense	(188)	(180)	4.4%
Share of associates' profit/(losses)	1	1	0.0%
Income tax expense	(199)	(171)	16.4%
Net Earnings	388	382	1.6%
Net earnings attributable to shareholders	386	380	1.6%
EPS	20	20	0.0%
DPS	20	24	-16.7%

H2 INCOME STATEMENT - ADJUSTED

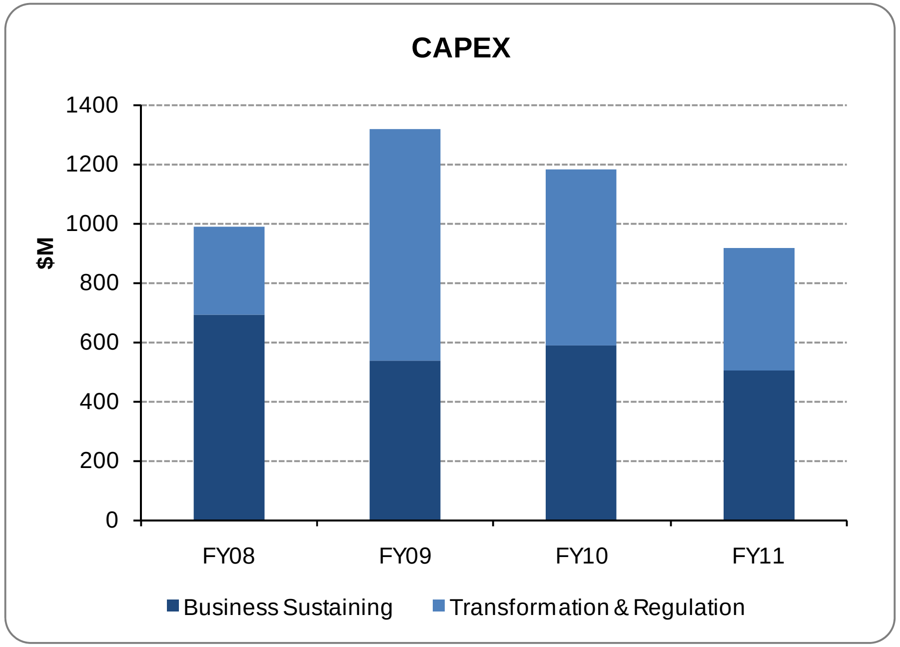
Half year ended 30 June	2011 $M	2010 $M	Change %
Revenue	2,521	2,600	-3.0%
Expenses	(1,588)	(1,708)	-7.0%
EBITDA	933	892	4.6%
Depreciation & amortisation	(497)	(522)	-4.8%
EBIT	436	370	17.8%
Net finance expense	(99)	(95)	4.2%
Share of associates' profit/(losses)	0	1	NM
Income tax expense	(107)	(137)	-21.9%
Net Earnings	230	139	65.5%
Net earnings attributable to shareholders	229	138	65.9%
EPS	12	7	71.4%
DPS	13	12	8.3%

COST-OUT



- $195m of cost-out delivered in FY11
- Primarily driven through management focus on:
  - Personnel savings
  - In-sourcing of IT functions
  - AAPT system consolidation and restructuring

CAPITAL EXPENDITURE



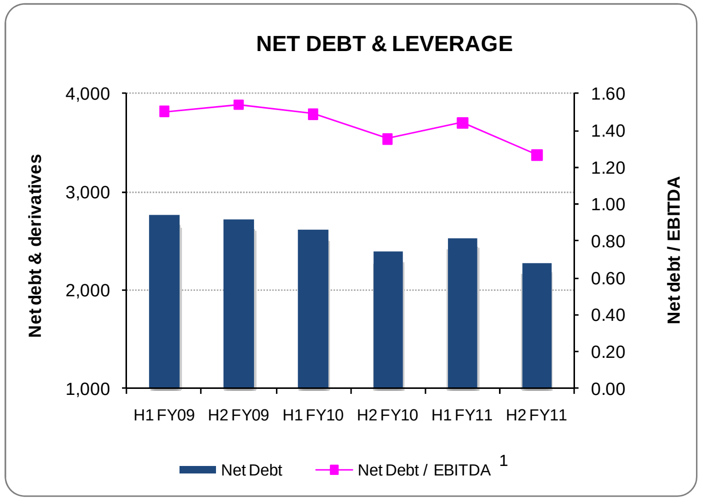
- Capex of $914m, down 23% compared to FY10
- Sustainable reduction driven by
  - completion of key milestones on transformation projects
  - Management focus on high return projects

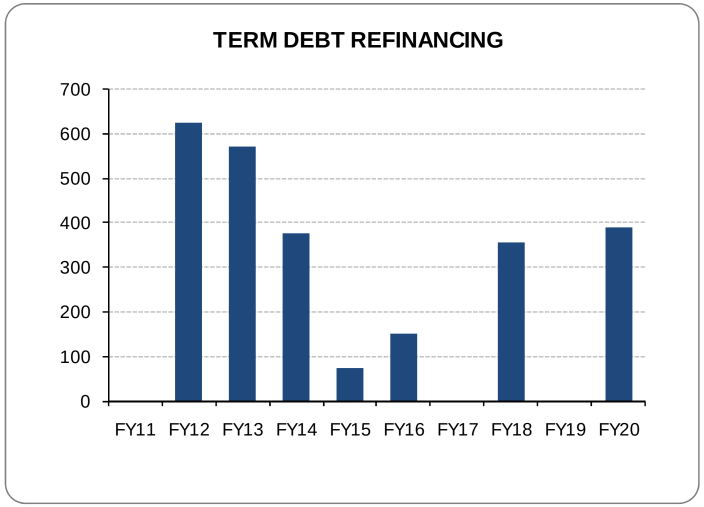
CASH FLOW

Year ended 30 June	2011 $M	2010 $M
Cash flows from Operating Activities	**1,349**	**1,761**
Cash flows from Investing Activities	**(835)**	**(1,091)**
Cash flows from Financing Activities	**(520)**	**(576)**
Foreign exchange movement	**(9)**	**(16)**
Net movement in cash	**(15)**	**78**

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

FINANCIAL PROFILE & CAPITAL STRUCTURE





- FY11 dividend policy
  - 90% payout of adjusted net earnings
  - Full imputation at rate of 28/72
  - 7.5 cps dividend declared for Q4, plus a 2.0 cps special dividend
  - DRP and on-market buyback suspended for Q4
- Future dividends to be paid semi-annually
- Credit Ratings maintained
  - S&P A (CreditWatch Negative)
  - Moody's A3(Outlook Stable)
- Appropriate capital structure for current operating environment

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

Public Policy & Regulation, and De-merger

PUBLIC POLICY AND REGULATION

- Further progress towards regulatory simplification, as Government and the industry prepare for a UFB regulatory environment:

  - Operational Separation Variation 5 (RBI Pricing) approved by the Minister
  - TSO settlement reached with Vodafone
  - Positive draft UBA de-regulation decision, and final UBA price review announced
  - UCLF and UCLL price review underway
  - Mobile Termination Rate determination finalised

LEGISLATIVE CHANGE

- Amendments to the Telecommunications Act have been passed into law
- The changes are enabling legislation for UFB, RBI, TSO and de-merger
- Key changes:
  - Removal of operational separation undertakings, to be replaced with Deeds of Open Access for Chorus
  - Changes to the pricing of key legacy copper services
  - Implements the Government's TSO reforms and provides for a review of the obligations under the TSO in 2013
  - Provides for a review of the telecommunications regulatory framework, commencing in 2016, and aimed to be completed by 2019
  - The sharing of assets and systems by the demerged entities, subject to oversight
  - Removal of accounting separation
  - Removal of ownership restrictions on “New Telecom”

RE-SHAPING BUSINESS FOR FIBRE

- Transition to new operating structure underway
  - Creation of Chief Product Officer role
  - Simplification of corporate centre
  - Progressively aligning the regulated Wholesale business with Chorus
    - Non-regulated wholesale services business remains outside of Chorus

- Preparing for demerger and UFB implementation:
  - UFB product descriptions released
  - HSNS re-priced
  - Asset Allocation Plan submitted for approval and public version voluntarily released to industry
  - Consulting with industry on:
    - Chorus standard offers for UFB products and services
    - Open access Deeds for a demerged Chorus
    - Wholesale Services Agreement

RE-SHAPING TECHNOLOGY APPROACH FOR FIBRE

- Government Operational Separation Undertakings mandated product development for legacy technologies
- Selection as UFB partner and associated legislation change will remove undertakings and require new approach
- $257m of impairments booked in FY11
- Future technology is based on Fibre and Mobile
- More stable future industry structure should curtail waste

KEY STEPS TO DE-MERGER

In order to achieve de-merger by year end the following activities are expected to occur:

ACTIVITY	COMPLETE
Secure UFB contract	✓
Issue UFB product specs and re-price HSNS	✓
Issue Wholesale Services Agreement for consultation	✓
Publish Asset Allocation Plan	✓
Submit Deeds of Open Access for consultation	✓
Ministerial approval of Asset Allocation Plan	
Issue Scheme Book	
Approval of Deeds of Open Access	
Shareholder vote	
Court approval of Scheme of Arrangement	
Implement de-merger	

GUIDANCE

- Telecom anticipates demerging Chorus in FY12, and therefore all financial guidance has been withdrawn

SUMMARY

- Strong FY11 result, delivering on strategy
- Good progress, further opportunities for improvement remain
- Restructuring for fibre underway
- Special dividend of 2.0 cps declared

DISCLAIMER

Forward-looking statements and disclaimer

This announcement 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 of management as well as on assumptions made by and information currently available at the time such statements were made.

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; whether Telecom is able to successfully demerge New Chorus and risks related to the proposed demerger, 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, 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.

TELECOM NEW ZEALAND

H2 FY11 RESULT BRIEFING

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