HALF YEAR REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2008

Telecom

INTRODUCTION

CEO's report

Paul Reynolds Chief Executive

Dear shareholder

Despite the challenges of a slowing economy Telecom is making good progress and meeting its commitments, as we again delivered a result in line with guidance at our half year results.

The key financials of adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA), capital expenditure, and Net Profit After Tax (NPAT) were all on track.

A strong management focus on cost control ensured earnings remained relatively resilient despite the slowing economy. The tight focus on cost management was reflected in some key decisions made during the quarter, such as the closure of Ferrit, which will save the business $1m a month, a salary freeze for our senior leaders, and the proposal to off-shore some 250 New Zealand, and 350 Australian, contact centre and back office roles over the next 18 months. In addition, we have put in place a best practice procurement model, and reduced consultancy spend by $5m.

At the same time as we are closely managing our operational costs, our investment for growth continues, with capital expenditure of $632m during the half year.

We remain committed to delivering world-class mobile, broadband and ICT services, which will be important foundations for the future growth of Telecom and of New Zealand.

A key milestone was reached during the second quarter when we launched inbound roaming on our W850 network, a significant step on the way to the launch of New Zealand's largest and fastest 3G mobile network, which is on track for June.

A major focus for the rest of the year will be on ensuring the successful launch of this network and delivering for our customers the latest and greatest devices, with better coverage and leading-edge applications and services, all delivered via simple pricing plans.

The Fibre-To-The-Node (FTTN) programme is making excellent progress, delivering average attainable broadband speeds of 13mbps to customers on the new cabinets, and the fixed line transformation is expected to see the first customers on our next generation fixed line network by the end of the year.

Growth rates in broadband and mobile are slowing as both markets become increasingly penetrated and we see some impact of economic downturn. However, it is pleasing to see that, despite this, Retail broadband connections returned to growth during the quarter following the success of new marketing campaigns, and we saw strong pre-paid mobile sales over the Christmas period.

It is also encouraging to see continued growth in the mobile data market, indicating a strong demand for mobile data services both on our current CDMA network and the new range of applications and services we will deliver over our W850 network.

Progress has been made on several regulatory issues, including mobile co-location and sub-loop unbundling and we have submitted our Undertaking on mobile termination rates.

Telecom is on track and meeting its commitments and we are well positioned to deliver more milestones in the second half of the year. We will provide further update on our performance with our Q3 results in May.

PERFORMANCE

Overview of group results

A breakdown of reported group results is shown in the table below.

	SIX MONTHS ENDED 31 DECEMBER (NZ$M)		
	2008	2007	CHANGE %
Operating revenue and other gains	2,837	2,827	0.4
Expenses	(2,054)	(1,892)	8.6
Adjusting items	(101)	-	NM
EBITDA	783	935	(16.3)
Adjusted EBITDA	884	935	(5.5)
Net earnings	163	397	(58.9)
Adjusted net earnings	254	397	(36.0)
Adjusted diluted EPS	13	21	(38)

Operating revenues and other gains totalled $2,837m in the first half (H1 FY09), compared to $2,827m in the six months ended 31 December 2007 (H1 FY08).

Expenses increased 8.6% in the quarter. Within this increase labour costs of $468m were $31m higher than H1 FY08 due to cost inflation, additional customer demand in Gen-i, the establishment of Chorus, and the impact of foreign exchange rate movements in AAPT. The FY09 increase was all in the first quarter, with the second quarter labour costs being less than Q2 FY08.

Adjusting items of $101m comprise of $33m of the impairment of GSM mobile equipment relating to the decision to upgrade to W850 mobile technology, and a $68m write-off of goodwill relating to PowerTel, as its carrying value was no longer supported by forecast earnings.

EBITDA of $783m was 16.3% lower in H1 FY09 when compared to H1 FY08 EBITDA of $935m. This was largely driven by declines at AAPT, Retail and Chorus as well as a $33m impairment charge on mobile network assets and an impairment of $68m relating to the Australian operations as discussed above.

Adjusted EBITDA of $884m was 5.5% lower in H1 FY09 and in line with expectations, reflecting the impact of regulation and competition.

Adjusted Net earnings of $254m were 36% lower than H1 FY08 reflecting the decline in EBITDA, increased depreciation and interest costs, partially offset by lower income tax expense.

Business unit performance

This is the second quarter of reporting Telecom's results based on Telecom's new organisational structure. Telecom's business units comprise Chorus, Retail, Wholesale & International, Gen-i, and AAPT, supported by a Corporate unit and a Technology and Shared Services unit ('T&SS').

The results by business unit incorporate internal trading as required by Telecom's operational separation *Undertakings*.

An analysis of revenue and adjusted EBITDA by business unit is set out below.

	REVENUE SIX MONTHS ENDED 31 DECEMBER			ADJUSTED EBITDA SIX MONTHS ENDED 31 DECEMBER		
	2008 $M	2007 $M	CHANGE %	2008 $M	2007 $M	CHANGE %
Chorus	390	388	0.5	273	296	(7.8)
Wholesale & International	619	539	14.8	222	220	0.9
Retail	1,002	1,069	(6.3)	371	406	(8.6)
Gen-i	761	720	5.7	237	247	(4.0)
AAPT	598	641	(6.7)	38	44	(13.6)
T&SS	26	18	44.4	(250)	(257)	2.7
Corporate	45	53	(15.1)	(7)	(21)	66.7
Eliminations	(604)	(601)	0.5	-	-	-
	2,837	**2,827**	**0.4**	**884**	**935**	**(5.5)**

Business unit results are further presented in the commentary that follows.

Mark Ratcliffe Chorus CEO

CHORUS

Chorus had another strong quarter. The fibre roll out is progressing well, with 214 cabinets installed at the end of December, bringing the total to 309. The number of customers receiving their broadband service from a fibre-fed cabinet has grown to approximately 24,000.

The average broadband speed delivered over our network has also increased, with exchange-fed broadband improving from 5.1mbps in September 2008 to 5.7 mbps at the end of H1 FY09 and FTTN average speeds improving from 9.3mbps in September to 10 mbps at the end of December 2008.

UCLL continues to grow strongly with 46 unbundled exchanges, primarily in Auckland, and three publicly launched UCLL operators. Access seekers are currently focusing on customer migrations but we expect further exchanges to be unbundled in the coming quarters.

Our plans for the rest of the year include renegotiating the contracts with our service companies, which rolled over to June 09, stepping up the FTTN roll out to around 100 cabinets per month, focusing on the fibre roll out for mobile networks and continuing to deliver on our *Undertakings*.

	SIX MONTHS ENDED 31 DECEMBER			QUARTER ENDED 31 DECEMBER		
	2008 $M	2007 $M	CHANGE %	2008 $M	2007 $M	CHANGE %
Operating revenues and other gains						
Local service	7	6	16.7	4	3	33.3
Other operating revenue	7	3	133.3	3	2	50.0
Internal revenue	376	379	(0.8)	185	189	(2.1)
	390	**388**	**0.5**	**192**	**194**	**(1.0)**
Adjusted operating expenses						
Labour	11	3	266.7	5	2	150.0
Other operating expenses	105	88	19.3	50	43	16.3
Internal Expenses	1	1	-	-	-	-
	117	92	27.2	55	45	22.2
Adjusted EBITDA	**273**	**296**	**(7.8)**	**137**	**149**	**(8.1)**
Full time equivalent ('FTE') employee numbers	180	95	89.5	180	95	89.5

Key financials

- External revenues increased by $5m to $14m due to the sale to external customers of UCLL, co-location and backhaul services, partly offset by a reduction in sub-division revenues caused by the tightening of the economy.
- Internal revenue decreased by $3m to $376m as access lines shift from Retail and Wholesale to external customers and the internal revenues are replaced with external revenues.
- Operating expenses increased by $25m to $117m as a result of the costs of running Chorus in an operationally separated way, higher payments to field services companies and higher electricity and accommodation costs.
- As a result of operating expenses rising faster than revenues, adjusted EBITDA was down $23m at $273m.

Telecom Wholesale

Matt Crockett Telecom Wholesale & International CEO

WHOLESALE & INTERNATIONAL

Wholesale continues to experience access and broadband growth, however LLU take up and Wholesale competition also increased during the quarter.

We have been rising to this challenge by putting real focus on strengthening our technology, services and commercial customer value proposition, including confirming we will be launching the world's fastest DSL technology, VDSL2, in the second quarter of this calendar year.

During the quarter all required enforceable *Undertakings* commitments were met. We launched HSNS over copper and EUBA variant, as was indicated in Q1. This is the last of the EUBA variants required under the STD. This will allow service providers to offer a high quality VoIP service combined with best efforts broadband.

Looking forward, our focus will be to improve network performance and launch new products such as VDSL2 in Q4. This is part of our ongoing commitment to provide world-class Wholesale network services and to maintain our position as the pre-eminent wholesale provider in the New Zealand market.

While Telecom International continues to see margin squeeze from competitive activity, the demand for our internet and voice services remains strong.

A review of the international business resulted in the termination of several low margin customers, and cost reduction will remain a key focus area.

	SIX MONTHS ENDED 31 DECEMBER			QUARTER ENDED 31 DECEMBER		
	2008 $M	2007 $M	CHANGE %	2008 NZ$M	2007 NZ$M	CHANGE %
Operating revenues and other gains						
Local service	76	56	35.7	39	30	30.0
Calling	181	134	35.1	100	65	53.8
Interconnection	67	70	(4.3)	33	35	(5.7)
Data	42	37	13.5	22	19	15.8
Broadband and internet	42	30	40.0	21	16	31.3
Other operating revenue	11	10	10.0	5	4	25.0
Internal revenue	200	202	(1.0)	100	102	(2.0)
	619	**539**	**14.8**	**320**	**271**	**18.1**
Adjusted operating expenses						
Labour	28	22	27.3	15	11	36.4
Intercarrier costs	268	223	20.2	142	108	31.5
Other operating expenses	22	19	15.8	11	10	10.0
Internal expenses	79	55	43.6	39	29	34.5
	397	319	24.5	207	158	31.0
Adjusted EBITDA	**222**	**220**	**0.9**	**113**	**113**	**-**
Full time equivalent ('FTE') employee numbers	396	366	8.2	396	366	8.2

Key financials

- External revenues increased by $82m to $419m, mainly as a result of increases in calling, local service, broadband, internet and data revenues, helped in part by the effect of the fall in the New Zealand dollar on international revenues.
- Internal revenues decreased by $2m to $200m because increased Wholesale revenues from Retail and Gen-i relating to growth in broadband and data, were outweighed by decreased International revenues due to price reductions exceeding volume increases.
- Operating expenses increased by $78m to $397m mainly as a result of higher intercarrier costs (partly due to the fall in the New Zealand dollar) and internal charges from Chorus.
- As a result of similar increases in revenue and operating expenses, adjusted EBITDA increased by $2m to $222m. Wholesale EBITDA increased by 12% due to increased revenues reflecting Wholesale's proactive approach to the market. International adjusted EBITDA was down 28% due to lower margins on intercarrier voice adjusted business and other pricing changes.

Connecting New Zealanders Telecom

Alan Gourdie Telecom Retail CEO

RETAIL

Key highlights for the quarter was the reduction in customer churn, driven by our StreetFighter sales and marketing programme and the launch of new, better-value bundles, such as Total Home, resulting in strong Christmas sales despite the economic conditions.

The StreetFighter initiative has been so effective at engaging customers and convincing them to remain with Telecom, that it is now being incorporated as a part of our business-as-usual marketing activity.

The broadband market continues to grow, however, at a slower rate, so for the rest of the year we will focus on improving broadband quality and value and continuing to prioritise reducing customer churn. We're also working to radically improve our online presence to deliver a much better online experience for our customers.

The launch of W850 in June will be a pivotal moment for us and we are committed to delivering an outstanding experience at launch.

We still expect to see a third mobile entrant this calendar year, however, we are confident we are delivering the right products and services to attract and retain customers. In particular, the high number of customers renewing their mobile contracts is a strong indication of our customers' eagerness for the launch of our W850 network.

A renewed focus in our retail stores has delivered higher sales conversion and higher value sales, which is helping offset lower foot traffic. We will also be launching 15 new retail locations prior to the W850 launch.

In Q3 we will expand the Telecom Business Hub with the launch of new products, for small and medium enterprise customers, such as mobile IP centrex and hosted unified communications. These solutions will be aimed at addressing the rise in business customer churn resulting from increased competitor activity and the economic factors, affecting some business customers, such as business failures and cost saving initiatives.

	SIX MONTHS ENDED 31 DECEMBER			QUARTER ENDED 31 DECEMBER		
	2008 $M	2007 $M	CHANGE %	2008 $M	2007 $M	CHANGE %
Operating revenues and other gains						
Local service	368	393	(6.4)	181	195	(7.2)
Calling	190	214	(11.2)	94	106	(11.3)
Mobile	278	302	(7.9)	141	153	(7.8)
Data	13	13	-	7	6	16.7
Broadband and internet	135	127	6.3	68	66	3.0
IT services	9	9	-	5	5	-
Other operating revenue	9	11	(18.2)	4	5	(20.0)
	1,002	**1,069**	**(6.3)**	**500**	**536**	**(6.7)**
Adjusted operating expenses						
Labour	83	84	(1.2)	41	42	(2.4)
Other operating expenses	214	229	(6.6)	118	118	-
Internal expenses	334	350	(4.6)	165	174	(5.2)
	631	663	(4.8)	324	334	(3.0)
Adjusted EBITDA	**371**	**406**	**(8.6)**	**176**	**202**	**(12.9)**
Full time equivalent ('FTE') employee numbers	2,158	2,439	(11.5)	2,158	2,439	(11.5)

Key financials

- Revenues decreased by $67m to $1.0b. Local service and calling revenues decreased by $49m due to reduction of access lines and call minutes, particularly in unbundled exchanges, subscription pricing plans and strong competition, partially offset by higher prices in local access. Mobile revenues decreased by $24m due to lower voice ARPU and the reduction in roaming revenues following the closure of Telstra's CDMA network.
- Operating expenses decreased by $32m to $631m. External expenses decreased by $16m, mainly because of lower mobile handset cost of sales and lower selling expenses. Internal expenses decreased by $16m as well, because of a decline in charges from Chorus reflecting a 7% decline in access lines, partially offset by the impact of increased broadband and data connection costs.
- As a result of revenues falling faster than operating expenses, the Retail EBITDA reduced by $35m to $371m.

Chris Quin GEN-i CEO

GEN-i

The Gen-i business model remains fundamentally strong and we are maintaining our brand preference and leadership position in key market segments. In Q2 Gen-i saw $310m of client contract deals completed, many of which came from extensions of existing relationships, such as Fonterra and the Ministry of Education.

Our strong focus on converged ICT offerings continues to resonate with customers, with IT solutions revenue up 28%.

Many of our clients are focused on overall cost in their businesses and how to use ICT to enable change, which creates an opportunity for Gen-i to position itself as a partner to help our customers manage costs more effectively. In our own business we are managing cost and efficiency tightly, for example, the number of contractors was reduced by 23% in the quarter.

Looking forward to the second half of the year our focus remains on delivery, quality and cost, the launch of new services like Mobile IP Centrex and working with all of our clients to ensure ICT is addressing the cost pressures in their organisations.

Key financials

- External revenues increased by $35m to $754m because a $53m increase in IT Solutions was partially offset by the decline in Telco Solutions.
- Internal revenues increased by $6m to $7m because of purchases by Gen-i which are then on-sold to other business units.
- Operating expenses increased by $51m to $524m; $48m of this increase was in IT Solutions, partly because of headcount increases to deliver more professional services, and IT Solutions outsourcing required to support revenue growth, and partly because of higher other operating expenses driven by higher volumes in the procurement line of business.
- As a result of Telco Solutions adjusted EBITDA dropping faster than IT solutions EBITDA growth, Gen-i's EBITDA reduced by $6m in Q1 and $4m in Q2 ($10m YTD).

The results of Gen-i include those of the New Zealand operation as well as Gen-i Australia. Previously, the results of Gen-i Australia were included in the results presented as 'Australian Operations'.

	SIX MONTHS ENDED 31 DECEMBER			QUARTER ENDED 31 DECEMBER		
	2008 $M	2007 $M	CHANGE %	2008 $M	2007 $M	CHANGE %
Adjusted operating revenues						
Local service	62	66	(6.1)	31	32	(3.1)
Calling	93	102	(8.8)	45	50	(10.0)
Interconnection	12	12	NM	6	6	NM
Mobile	101	100	1.0	50	50	NM
Data	191	194	(1.5)	97	99	(2.0)
Broadband and internet	13	12	8.3	6	6	NM
IT services	227	189	20.1	118	97	21.6
Other operating revenue	55	44	25.0	26	21	23.8
Internal revenue	7	1	NM	3	-	NM
	761	**720**	**5.7**	**382**	**361**	**5.8**
Adjusted operating expenses						
Labour	170	153	11.1	85	81	4.9
Intercarrier costs	38	36	5.6	21	18	16.7
Other operating expenses	230	189	21.7	117	92	27.2
Internal expenses	86	95	(9.5)	41	48	(14.6)
	524	**473**	**10.8**	**264**	**239**	**10.5**
Adjusted EBITDA	**237**	**247**	**(4.0)**	**118**	**122**	**(3.3)**
Full time equivalent ('FTE') employee numbers (000)	2,665	2,519	6	2,665	2,519	6

Paul Broad AAPT CEO

AAPT

AAPT delivered a strong quarter-on-quarter performance, with the re-pricing of uneconomic Consumer offers largely completed, and resulting customer turnover much lower than initially expected. We have also recommenced the systematic migration of legacy customers to the new platform.

To further drive Consumer customer acquisitions, we are launching a geographically targeted door-to-door campaign in March, supported by broader above-the-line marketing activity to boost product awareness and brand preference.

Our offshoring programme is on track and is expected to deliver $7.5m cost savings this year, with plans to move approximately 350 contact centre roles offshore over the next 18 months.

For the remainder of the year, we will continue to focus on cost saving opportunities, such as reducing customer turnover and on-net acquisition with a greater skew toward data and internet customers.

Key financials

- External revenues decreased by A$70m to A$483m, largely because of reductions in calling revenues in Consumer, and resale revenues in Wholesale.
- Internal revenues increased by A$1m to A$8m mainly because of an increased volume of international calls into Australia, where AAPT earns a termination charge from Telecom International.
- Operating expenses decreased by A$63m to A$460m. Intercarrier costs decreased by A$38m due to the reduction in Consumer services and cost savings from moving customers 'on-net'. Other operating expenses decreased by A$21m because of off-shoring, bringing network maintenance in-house and the Hyperbaric launch-related costs in the prior year. Labour costs decreased by A$3m due to a lower headcount, particularly contractors, partly offset by bringing network maintenance in-house.
- As a result of revenues decreasing faster than expenses, AAPT's adjusted EBITDA decreased by A$6m to A$31m.

To eliminate the impact of foreign exchange rate movements, AAPT's results are presented in AAPT's functional currency, Australian dollars ('A$'). AAPT's results are shown excluding the Australian results of Gen-i, which are included in the Gen-i segment results.

	SIX MONTHS ENDED 31 DECEMBER			QUARTER ENDED 31 DECEMBER		
	2008 A$M	2007 A$M	CHANGE %	2008 A$M	2007 A$M	CHANGE %
Operating revenues and other gains						
Local service[1]	13	10	30.0	6	5	20.0
Calling[1]	145	180	(19.4)	70	91	(23.1)
Interconnection	10	7	42.9	5	3	66.7
Mobile[2]	16	20	(20.0)	8	10	(20.0)
Data	65	69	(5.8)	33	33	-
Broadband and internet	83	85	(2.4)	42	42	-
Resale[1]	141	166	(15.1)	68	84	(19.0)
Other operating revenue	10	9	11.1	6	5	20.0
Internal revenue	8	7	14.3	4	3	33.3
Other gains[2]	-	7	NM	-	-	-
	491	**560**	**(12.3)**	**242**	**276**	**(12.3)**
Adjusted operating expenses						
Labour	80	83	(3.6)	37	42	(11.9)
Intercarrier costs	274	312	(12.2)	131	155	(15.5)
Other operating expenses	78	99	(21.2)	39	52	(25.0)
Internal expenses	28	29	(3.4)	17	14	21.4
	460	523	(12.0)	224	263	(14.8)
Adjusted EBITDA	**31**	**37**	**(16.2)**	**18**	**13**	**38.5**
Full time equivalent ('FTE') employee numbers	1,331	1,387	(4.0)	1,331	1,387	(4.0)

1 *Following a review of the integration of PowerTel's results into AAPT, a reclassification from local service revenue to calling and resale revenue has been made in the comparative periods presented.*

2 *In July 2007, Telecom sold its Australian mobile customer base resulting in a gain of A$7m. In the H1 FY08 results this gain was included in mobile revenue, but has now been reclassified to reflect it as a gain.*

Dividend

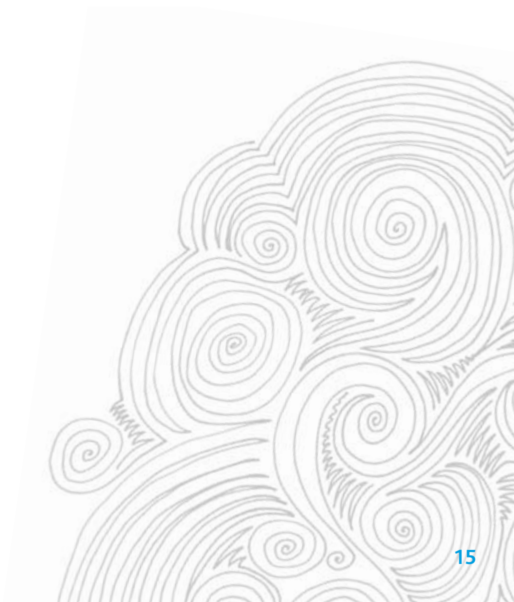
Telecom has declared an ordinary dividend of 6 cents per share (cps) for the quarter ended 31 December 2008. Telecom has, subject to no adverse change in circumstances, committed to pay dividends of 6 cps per quarter for the 2009 and 2010 financial years.

Owing to insufficient credits in the imputation credit account, no imputation credits have been attached to this quarter's dividend payment. Consequently, resident withholding tax has been deducted at 33% from dividend payments to resident New Zealand shareholders.

Telecom has traditionally paid supplementary dividends to non-resident shareholders on a pro-rata basis to the level of imputation. Because no imputation credits are attached to this quarter's dividend, no supplementary dividend has been paid to non-resident shareholders.

We currently predict that dividends during the remainder of the 2009 financial year will also have no imputation credits and that dividends in the 2010 financial year will have partial imputation.

FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2008



Income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	NOTES
Operating revenues and other gains	
Local service	
Calling	
Interconnection	
Mobile	
Data	
Broadband and internet	
IT services	
Resale	
Other operating revenue	
Other gains	
Operating expenses	
Labour	
Intercarrier costs	
Asset impairments	3
Other operating expenses	
Earnings before interest, taxation, depreciation and amortisation	
Depreciation	
Amortisation	
Earnings before interest and taxation	
Finance income	
Finance expense	
Share of associates' profits/(losses)	
Earnings before income tax	
Income tax expense	
Net earnings for the period	
Net earnings attributable to equity holders of the company	
Net earnings attributable to minority interests	
Basic net earnings per share (in cents)	
Diluted net earnings per share (in cents)	
Weighted average number of ordinary shares outstanding (in millions)	

	THREE MONTHS ENDED 31 DECEMBER		SIX MONTHS ENDED 31 DECEMBER		YEAR NDED 30 JUNE
	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 AUDITED NZ$M
	261	266	527	532	1,061
	322	328	641	657	1,291
	44	45	91	90	178
	200	214	399	426	833
	166	163	326	323	638
	143	137	290	266	547
	123	102	236	198	439
	81	98	173	191	370
	54	64	154	137	309
	-	-	-	7	7
	1,394	**1,417**	**2,837**	**2,827**	**5,673**
	(228)	(230)	(468)	(437)	(886)
	(316)	(311)	(638)	(617)	(1,243)
	(101)	-	(101)	-	-
	(432)	(423)	(847)	(838)	(1,653)
	317	**453**	**783**	**935**	**1,891**
	(159)	(136)	(323)	(271)	(574)
	(60)	(45)	(112)	(90)	(187)
	98	**272**	**348**	**574**	**1,130**
	16	21	36	63	119
	(64)	(62)	(132)	(125)	(271)
	-	-	-	(1)	(3)
	50	**231**	**252**	**511**	**975**
	(36)	(59)	(89)	(114)	(262)
	14	**172**	**163**	**397**	**713**
	14	171	162	396	710
	-	1	1	1	3
	14	**172**	**163**	**397**	**713**
	1¢	9¢	9¢	21¢	38¢
	1¢	9¢	9¢	20¢	38¢
	1,831	1,825	1,828	1,915	1,871

Statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	SIX MONTHS ENDED 31 DECEMBER		YEAR ENDED 30 JUNE
(DOLLARS IN MILLIONS)	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 AUDITED NZ$M
Equity at the beginning of the period	**2,736**	**3,604**	**3,604**
Translation of foreign operations	19	40	103
Hedge of net investment	3	(7)	(70)
Revaluation of listed investments	(2)	2	(11)
Cash flow hedges	(17)	81	51
Total income recognised directly in equity	3	116	73
Net earnings for the period	163	397	713
Total recognised income and expenses	166	513	786
Dividends	(277)	(476)	(762)
Tax credit on supplementary dividends	19	53	85
Dividend reinvestment plan	24	151	195
Share cancellation	-	(21)	(65)
Issuances of shares under employee share schemes	4	4	6
Capital reduction	-	(1,113)	(1,113)
Equity at the end of the period	**2,672**	**2,715**	**2,736**
Total recognised income and expenses for the year is attributable to:			
Equity holders of the company	165	512	783
Minority interests	1	1	3
	166	**513**	**786**
Equity consists of:			
Contributed capital	1,328	1,297	1,297
Revaluation reserve	(2)	13	-
Foreign currency translation reserve	(11)	(33)	(33)
Hedge reserve	(10)	37	7
Deferred compensation	8	9	11
Retained earnings	1,353	1,387	1,447
Total equity attributable to equity holders of the company	2,666	2,710	2,729
Minority interests	6	5	7
Total equity	**2,672**	**2,715**	**2,736**

Balance sheet

AS AT 31 DECEMBER 2008

(DOLLARS IN MILLIONS)	31 DECEMBER 2008 UNAUDITED NZ$M	31 DECEMBER 2007 UNAUDITED NZ$M	30 JUNE 2008 AUDITED NZ$M
ASSETS			
Current assets:			
Cash	310	1,066	779
Short-term investments	-	77	-
Short-term derivative assets	39	19	15
Receivables and prepayments	888	1,006	912
Taxation recoverable	75	14	93
Inventories	86	93	57
Total current assets	1,398	2,275	1,856
Non-current assets:			
Long-term investments	521	528	527
Deferred tax asset	-	30	-
Long-term derivative assets	181	78	48
Intangibles	922	976	990
Property, plant and equipment	4,098	3,706	3,984
Total non-current assets	5,722	5,318	5,549
Total assets	**7,120**	**7,593**	**7,405**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	950	952	1,086
Short-term derivative liabilities	12	238	214
Short-term provisions	27	27	22
Debt due within one year	544	1,290	958
Total current liabilities	1,533	2,507	2,280
Non-current liabilities:			
Deferred tax liability	156	156	170
Long-term derivative liabilities	333	308	367
Long-term provisions	19	13	22
Long-term debt	2,407	1,894	1,830
Total non-current liabilities	2,915	2,371	2,389
Total liabilities	4,448	4,878	4,669
Equity:			
Share capital	1,328	1,297	1,297
Reserves	(15)	26	(15)
Retained earnings	1,353	1,387	1,447
Total equity attributable to equity holders of the Company	2,666	2,710	2,729
Minority interest	6	5	7
Total equity	2,672	2,715	2,736
Total liabilities and equity	**7,120**	**7,593**	**7,405**

Cash flow statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	NOTES	SIX MONTHS ENDED 31 DECEMBER		YEAR ENDED 30 JUNE
(DOLLARS IN MILLIONS)		2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 AUDITED NZ$M
Cash flows from operating activities				
Cash received from customers		2,814	2,675	5,583
Interest income		44	71	112
Payments to suppliers and employees		(2,046)	(1,893)	(3,739)
Income tax paid		(38)	(32)	(111)
Interest paid on debt		(123)	(133)	(249)
Dividend income		41	44	89
Net cash flow from operating activities	2	**692**	**732**	**1,685**
Cash flows from investing activities				
Sale of property, plant and equipment		1	1	3
Sale/(purchase) of short-term investments, net		-	(7)	70
Sale of customer base[1]		-	7	7
Purchase of subsidiary companies, net of cash		(6)	-	(4)
Refund on investments		2	-	-
Purchase of long-term investments		-	-	(9)
Purchase of property, plant and equipment and intangibles		(680)	(422)	(945)
Capitalised interest paid		(9)	(7)	(12)
Net cash flow from investing activities		**(692)**	**(428)**	**(890)**
Cash flows from financing activities				
Proceeds from long-term debt		400	-	-
Capital repurchased		-	(1,134)	(1,178)
Repayment of long-term debt and related derivatives		(700)	-	(297)
Settlement of derivatives		(92)	(12)	(53)
Proceeds from/(repayment of) short-term debt, net		94	262	57
Dividends paid		(253)	(323)	(565)
Net cash flow from financing activities		**(551)**	**(1,207)**	**(2,036)**
Net cash flow		(551)	(903)	(1,241)
Opening cash position		779	1,969	1,969
Foreign exchange movement		82	-	51
Closing cash position		**310**	**1,066**	**779**

NOTES TO THE

Condensed financial statements

NOTE 1: financial statements

These financial statements have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the Company's Annual Report for the year ended 30 June 2008 go to: annualreport.telecom.co.nz/2008. The financial statements for the six months ended 31 December 2008 are unaudited. The financial statements are expressed in New Zealand dollars, which is the Company's functional currency. References in these financial statements to '$' are to New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

NOTE 2: Reconciliation of net earnings attributable to shareholders to net cash flows from operating activities

	SIX MONTHS ENDED 31 DECEMBER		YEAR ENDED 30 JUNE
(DOLLARS IN MILLIONS)	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 AUDITED NZ$M
Net earnings for the period	163	397	713
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortisation	435	361	761
Bad and doubtful accounts	17	18	34
Increase/(decrease) deferred income tax	(7)	57	83
Share of associates' (profits)/losses	-	1	3
Asset impairment	101	-	-
Other	(7)	(23)	(3)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:			
Decrease/(increase) in accounts receivable and related items	(7)	(65)	43
Decrease/(increase) in inventories	(30)	(21)	14
Decrease in tax receivable	61	25	68
Decrease in accounts payable and related items	(34)	(18)	(31)
Net cash flows from operating activities	**692**	**732**	**1,685**

NOTE 3: Asset impairments

	THREE MONTHS ENDED 31 DECEMBER		SIX MONTHS ENDED 31 DECEMBER		YEAR ENDED 30 JUNE
(DOLLARS IN MILLIONS)	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 UNAUDITED NZ$M	2007 UNAUDITED NZ$M	2008 AUDITED NZ$M
Impairment of Australian Operations	68	-	68	-	-
Impairment on existing mobile network equipment	33	-	33	-	-
	101	**-**	**101**	**-**	**-**

Australian operations

In the six months ended 31 December 2008 there was a non-cash impairment charge of $68m resulting in the write off of the carrying value of the goodwill held following the acquisition of PowerTel. In previous periods the recoverable amount of the Group's Australian operations had been determined to exceed carrying value based on forecasts at those times. Management's current assessment of forecast earnings and cash flows concluded that the recoverable amount had declined as a result of changes in forecasts and that the carrying value was therefore no longer supported. The decline in forecasts was the result of lower earnings expectations for the current financial year and lower growth rates for future years arising from economic and competitive conditions.

The recoverable amount of the Australian operations was determined based on value in use. The pre-tax discount rate applied in this assessment was 13.3%.

Mobile network equipment

In the six months ended 31 December 2008, a non-cash impairment charge of $33m was recognised to provide for certain mobile network telecommunications equipment following the decision to implement WCDMA 850MHz technology for Telecom's new mobile network.

No impairment charge was recognised in the six months ended 31 December 2007 or in the year ended 30 June 2008.

Shareholder inquiries

Shareholders with inquiries about transactions, address changes or dividend payments should contact Telecom's share registries.

New Zealand Registry
Computershare Investor Services Limited
Private Bag 92119, Auckland 1142

Ph: 0-9-488 8777
Fax: 0-9-488 8787
NZ Toll Free: 0800 737 100

Email: enquiry@computershare.co.nz

Website: www.computershare.com

United States Registry
Details for Depositary Receipts, Transfer Agent, and Registrar
The Bank of New York
101 Barclay Street
New York, NY 10286
United States

Ph (US): 1-888-BNY-ADRs
Ph (non-US): 1-610 382 7833

Website: www.adrbny.com

Please note that no email address or fax number is provided. Inquiries can be submitted directly via the website.

Australian Registry
Computershare Investor Services Pty Limited
GPO Box 7045, Sydney
NSW 2001, Australia

Ph: 0-2-8234 5000
Freephone: 1 800 501 366
Fax: 0-2-8234 5050

Email: sydney.services@computershare.com.au

Website: www.computershare.com

Shareholder inquiries about Telecom's operating and financial performance should be emailed to investor-info@telecom.co.nz or addressed to:

General Manager
Investor Relations
Telecom New Zealand
PO Box 570
Wellington, 6140

Contact phone numbers

Australia	1800 123 350
Canada	1800 280 0398
Hong Kong	800 962 867
New Zealand	0800 737 500
Singapore	800 641 1013
United Kingdom	0800 960 283
United States	1800 208 2130

Go to our investor centre at: *www.telecom.co.nz/investorcentre*

Disclaimer

Forward-looking statements

This report 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 report. 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 2009 second quarter media release and 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 2008 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 report include:

- Earnings before interest, tax, depreciation and amortisation ('EBITDA'). Telecom calculates EBITDA by adding back depreciation, amortisation, finance expense, share of associates' losses and taxation expense to net earnings/(loss) from continuing operations less finance income; 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.

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