TELECOM NEW ZEALAND

Q1 FY11 RESULT BRIEFING

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

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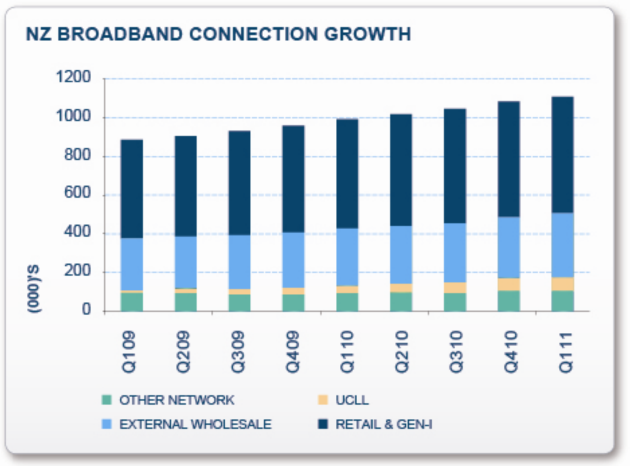
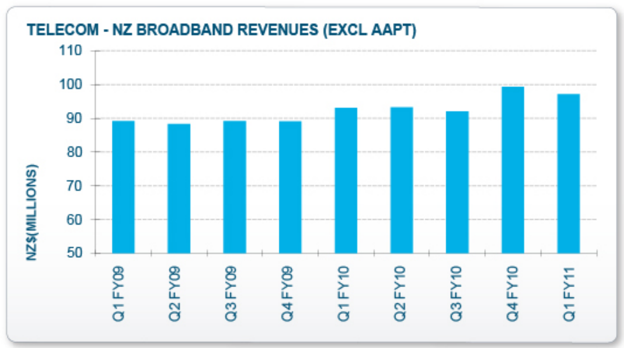
Key messages, product trends, and business unit performance

GROUP Q1 FY11 KEY MESSAGES

- Delivering on cost and capex focus
  - Adjusted EBITDA down 0.9%
  - Absorbed $16m TSO/RBI impact
- NZ mobile revenues improving
  - Increased price competition
  - Revenue growing off lower base
- Southern Cross dividend of $29m vs $35m in Q1 FY10
- Sale of AAPT Consumer completed, with $20m gain on sale
- Adjusted Net Earnings guidance increased to reflect the sale of AAPT Consumer & revised tax guidance
- On track to deliver continued improvement in FCF

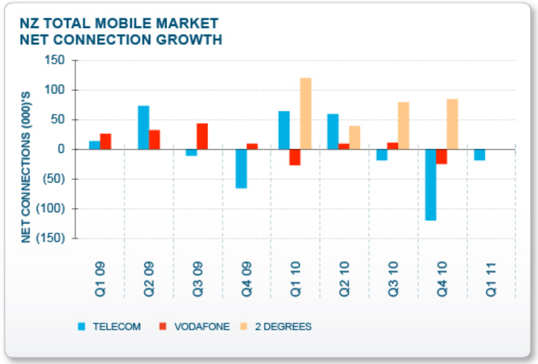
BROADBAND TRENDS

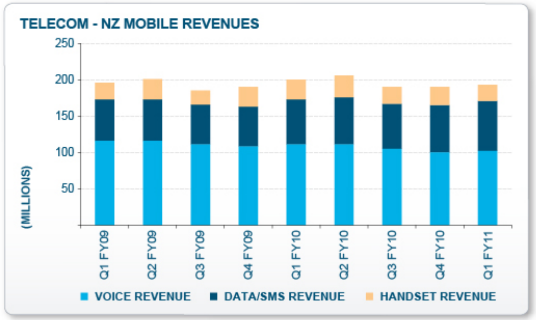


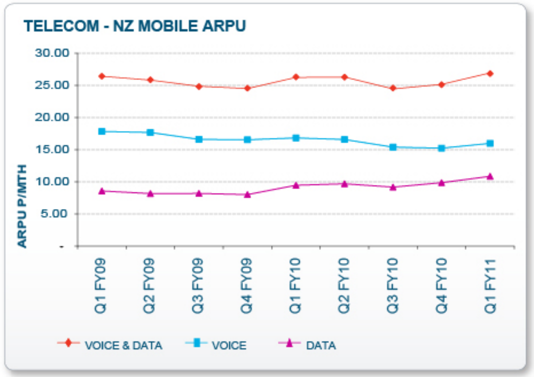


- Overall market growth higher than expected
  - Connection growth of ~10-12% p.a. driving market revenue growth
- Telecom focus is on value and margin
  - Retail share 55%
  - Retail ARPU steady over the past year
  - Competitors offering increased data caps for the same price
  - Wholesale price revisions (retail minus) create revenue volatility

MOBILE TRENDS

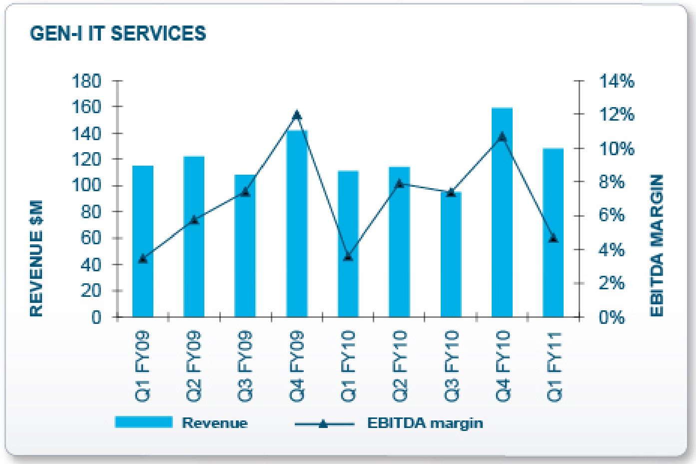


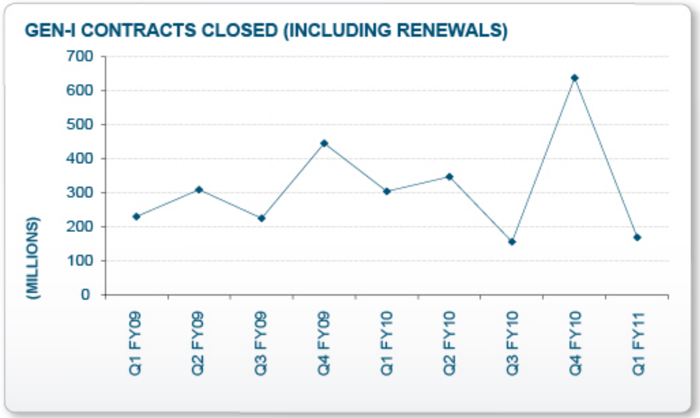




- Telecom's NZ mobile revenues improving sequentially
- ARPU continues to improve
  - XT conversion driving data ARPU
  - Voice ARPU falling
  - Intense price competition emerging
- 839k customers on XT, ~39% of total base
- Churn significantly down
- Telecom connections slightly down (19k in the quarter)
  - Primarily loss of Wholesale

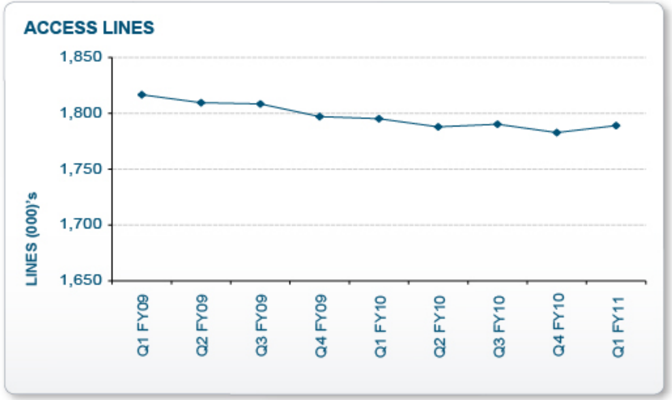
IT SERVICES TRENDS



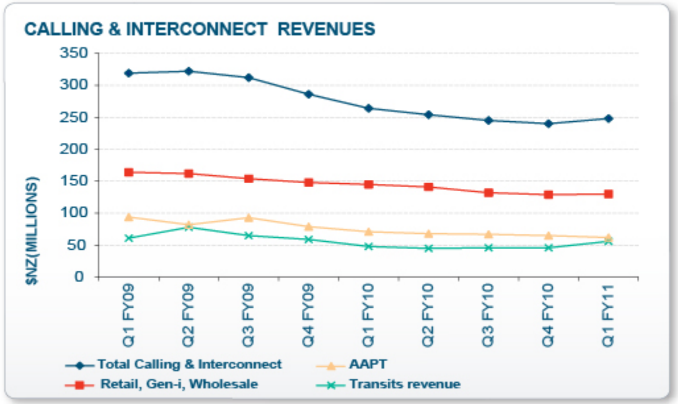


- IT Services market revenues returning to growth after decline in FY10
  - Impacts of economic crisis stabilised at lower levels
  - NZ market fragmented, although some evidence of consolidation
- Gen-i IT Services revenues up by 15% vs Q1 FY10
  - Providing IT Services to ~45% of customer base
  - Growth opportunity via increased penetration
  - Market share steady at 13.5%

ACCESS & CALLING TRENDS

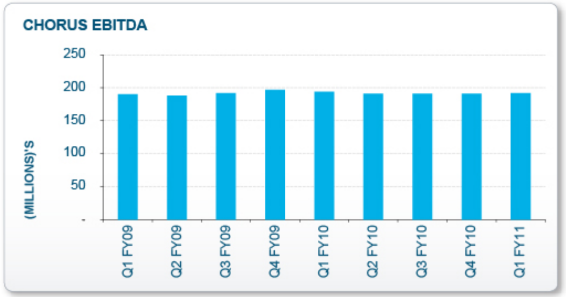


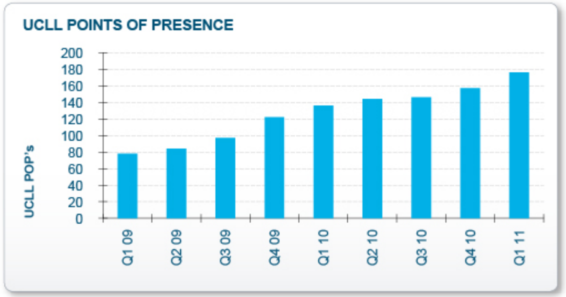
- Strong performance in slowing access decline
  - Total group access revenues decreasing at ~3%
  - Lines decreasing at ~1-2% p.a.
  - Fixed to mobile substitution effects minor and less than expected
  - Increasing focus on bundling and whole of business relationships

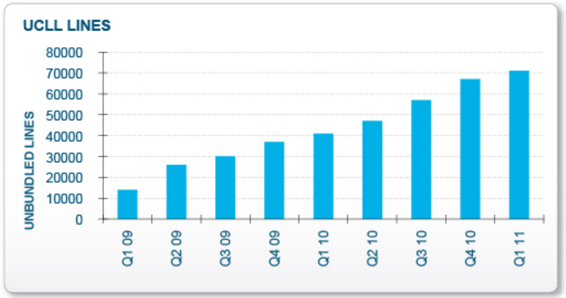


- Competitive declines in calling and interconnect revenues
  - Decreasing at ~15%
  - Impacted by AAPT and International transit
  - Underlying rate down 12%
    - Minutes down 7% as customers communicate using different methods
    - Price pressure primarily in international and F2M calling

CHORUS







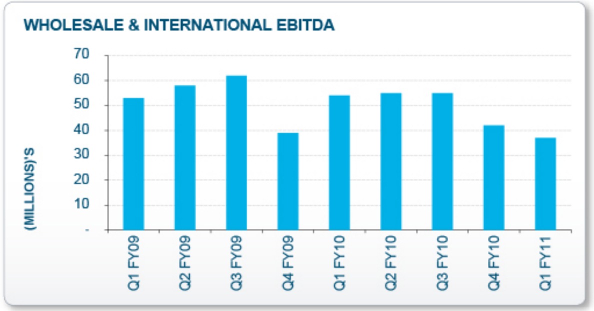
Q1 Key Points

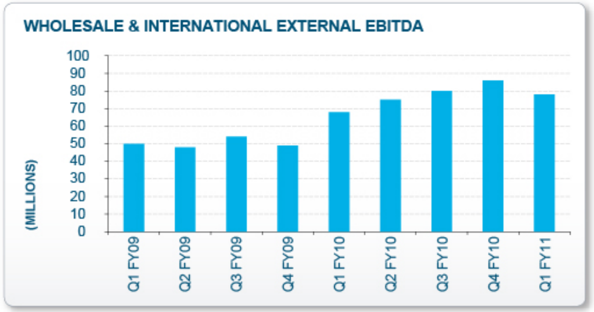
- EBITDA down $2m for the quarter
- Two-thirds of the way through FTTN programme
- Now at 26,000km of fibre optic cable
  - Last year marked the first time that we laid more fibre than copper cabling
- Launch of Next Generation Home Services
- Robust Chorus network prevented major damage from Christchurch earthquake

Plan Q2 – Q4

- On-going involvement with Government's UFB and Rural Broadband initiatives
- Revenue growth through development of commercial product set
- Further cost savings e.g. eliminate avoidable truck roll volumes, consolidate procurement and negotiate better terms

WHOLESALE & INTERNATIONAL





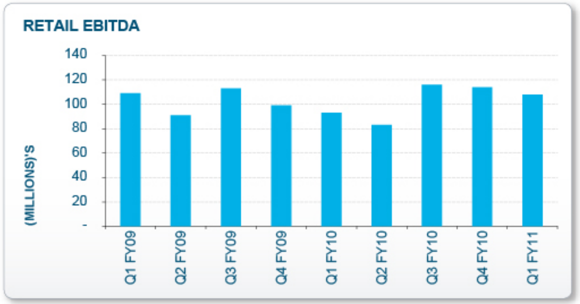
Q1 Key Points

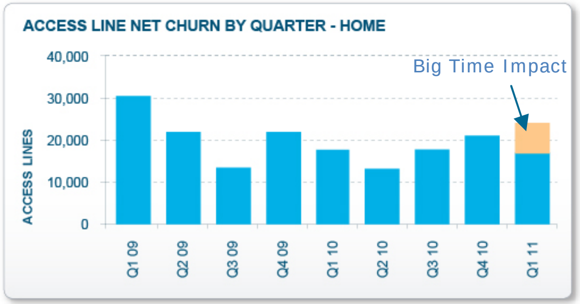
- External revenue up 8%, external EBITDA up 15%
- Fully traded EBITDA down 31.5%
  - Internal cost growth outpacing revenue growth
  - Strong Access & Broadband connection growth
  - Strong reduction in headcount

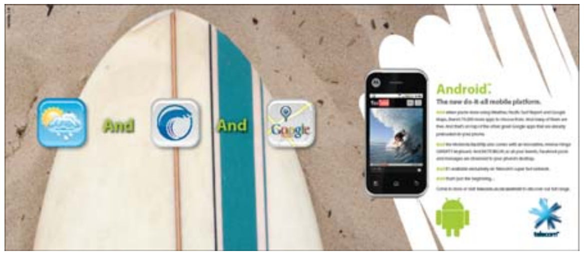
Plan Q2 – Q4

- Focus on growth in domestic & international data and backhaul market
- Mass market products - VDSL2 and MVNO
- Continued focus on external cost containment
- Deliver customer service improvements
- Strategic options for International wholesale voice

RETAIL







Q1 Key Points

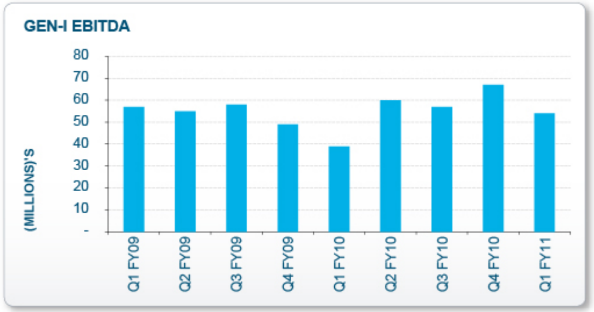
- EBITDA growth of 16%
  - inflated by high XT COS in Q1 FY10
- One-off increased Access and Broadband churn – unprofitable plan withdrawn
- Business access churn continues to reduce
- Mobile churn improvement across all customer segments
- Good cost out

Plan Q2 – Q4

- Retention of high value customers
  - Increase bundle penetration
- Improve value of international calling
- Further migration from CDMA to XT
  - Acquire high value mobile customers
  - Android focus to grow share of smartphone market

Gen-i

Q1 Key Points

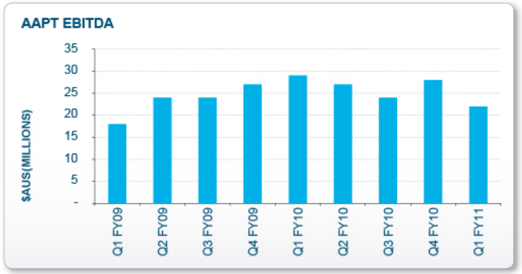


- EBITDA tracking to plan - 38% increase
  - reduced internal cost
- $170m contracts closed vs $305m in Q1 FY10
  - Bid win rate remains high, but less renewals in market
- NZ voice and data declines slowed and stabilising at 9%
- Continue move to simplified hosted business models
- Mobile - 9% connection growth, 2% revenue
- IT Services margin 5% vs 4% in Q1 FY10

Plan Q2 – Q4

- Simplify propositions
- Cost out through suppliers, overheads, Right First Time and focussed delivery
  - Enabling cost reductions of ~$10m
- Growth in Mobile, Cloud Services, Trans Tasman and Australia
- Grow spend share in high value clients

AAPT



Q1 Key Points

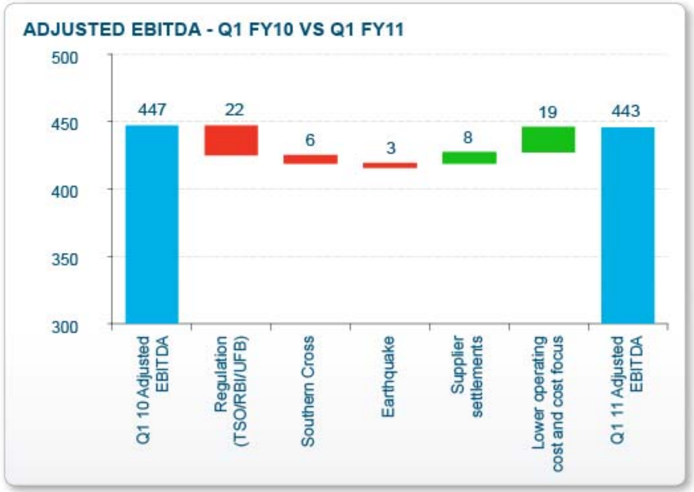
- Q1 EBITDA of A$22m
  - Result in line with normalised Q1 FY10
  - Good cost management
- Strong sales performance for Wholesale and Business
- Telstra wholesale pricing higher than FY10
- A$139m net cash generated from consumer sale including shares in iiNet & Macquarie Telecom

Plan Q2 – Q4

- Sales focus on data and new SIP Voice product
- Align operations to a leaner business structure by Q4
- Complete billing rationalisation program
- Intercapital transmission upgrade program on track for completion FY11

Group Financials

KEY FINANCIAL MESSAGES



- Adjusted EBITDA $443m, down 0.9% on Q1 FY10
    - TSO/RBI regulatory impact of ~$16m vs Q1 FY10
    - UFB costs of $6m for Q1
    - Earthquake damage estimate of ~$3m to 30 Sept
    - Southern Cross dividend of $29m vs $35m in Q1 FY10
    - $8m gain from supplier settlements
- Adjusting item - $20m gain on sale relating to AAPT Consumer
- Q1 FY11 dividend declared of 3.5cps, fully imputed

SEMI-ANNUAL REPORTING

- Shifting to semi-annual reporting
  - In line with Australasian peers
  - Creates opportunity for cost out
- Retain quarterly dividends
- First semi-annual report will be for six months ended 31 December 2010

INCOME STATEMENT - REPORTED

Quarter ended 30 Sept	2010 $M	2009 $M	Change %
Revenue	1,336	1,356	-1.5%
Expenses	(873)	(909)	-4.0%
EBITDA	463	447	3.6%
Depreciation & amortisation	(263)	(253)	4.0%
EBIT	200	194	3.1%
Net finance expense	(40)	(36)	11.1%
Share of associates' profit/(losses)	-	-	NM
Income tax expense	(57)	5	NM
Net Earnings	103	163	-36.8%
Net earnings attributable to shareholders	103	162	-36.4%
EPS	5	9	-44.4%
DPS	3.5	6	-41.7%

INCOME STATEMENT - ADJUSTED

Quarter ended 30 Sept	2010 $M	2009 $M	Change %
Revenue	1,316	1,356	-2.9%
Expenses	(873)	(909)	-4.0%
EBITDA	443	447	-0.9%
Depreciation & amortisation	(263)	(253)	4.0%
EBIT	180	194	-7.2%
Net finance expense	(40)	(36)	11.1%
Share of associates' profit/(losses)	-	-	NM
Income tax expense	(57)	5	NM
Net Earnings	83	163	-49.1%
Net earnings attributable to shareholders	83	162	-48.8%
EPS	4	9	-55.6%
DPS	3.5	6	-41.7%

Q1 BUSINESS UNIT EBITDA

	2010 $M	Change %
Chorus	192	-1.0%
Wholesale & International	37	-31.5%
Retail	108	16.1%
Gen-i	54	38.5%
AAPT	27	-27%
T&SS	1	Nm
Corporate	24	-17.2%
Total EBITDA	**443**	**-0.9%**

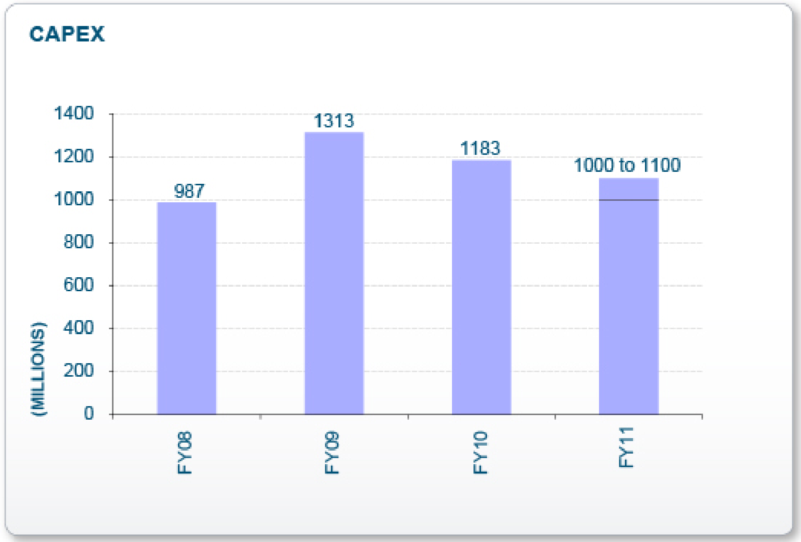
CASH FLOW

Quarter ended 30 Sept	2010 $M	2009 $M
Cash flows from Operating Activities	**262**	**414**
Cash flows from Investing Activities	**(178)**	**(303)**
Cash flows from Financing Activities	**(121)**	**(110)**
Foreign exchange movement	**(1)**	**(14)**
Net movement in cash	**(38)**	**(13)**

- Received net sale proceeds of A$139m
- Lower operating cash flow driven by timing differences, working capital requirements, reduced cash from customers and tax

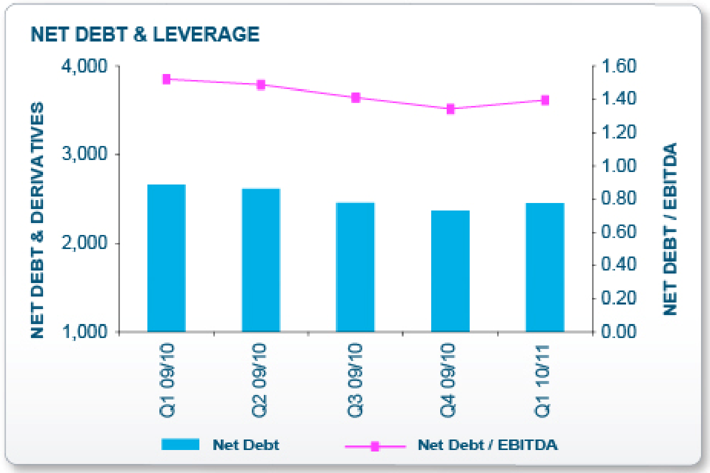
CAPITAL EXPENDITURE

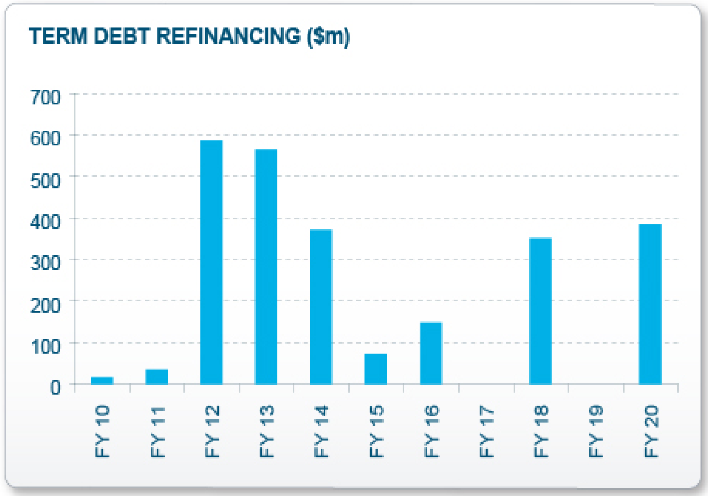
Quarter ended 30 Sep	2010 $M	2009 $M	Change %
XT Mobile Network	37	12	
FTTN	30	39	
FNT	2	18	
NGT Retail	24	14	
Separation	32	45	
Other Regulatory	-	2	
Total transformation and regulation	**125**	**130**	**-3.8%**
Total business sustaining	**118**	**118**	**NM**
Total Group	**243**	**248**	**-2.0%**



- Amended variation 4 approved, capex guidance de-risked
- Capex to decline as forecast

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 Q1
- 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, Technology, Guidance

UFB

- Continued detailed discussion with government and CFH
- CFH selected three providers for preferred negotiations
- Process continues
- Industry and stakeholder briefings on the form of Telecom’s structural separation issued by MED
  - Centred on our UFB proposal
  - High levels of industry feedback

PUBLIC POLICY AND REGULATION

- We continue to press for far-reaching regulatory simplification
- Useful developments towards simplification and rationalisation:
  - Amended 4th Undertakings variation request granted
  - Draft reports signalling deregulation of:
    - UBA
    - Resale services
    - UCLL and UBA backhaul links
  - Supreme Court decision on 0867
- Commission decisions on UBA pricing:
  - UBA Standard Terms clarification prevents a cost-based uplift for cabinet-based wholesale broadband services
  - Commission announced an Undertakings investigation into this area
- MTR pricing decision expected by 31 March 2011

TECHNOLOGY UPDATE

- Technology and system improvements to deliver 88 enforceable milestones to date

- Mobile Network Reliability
  - Capacity upgrades
  - Additional cell sites
  - Software upgrades

- PSTN Reliability
  - Upgrading customers from older exchanges
  - New disaster recovery capability delivered

- FTTN
  - 292 new fibre fed cabinets rolled out in quarter

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 $1.0 billion to $1.1 billion

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 quarter 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 depreciation, amortisation, finance expense, share of associates' losses and taxation expense to net earnings/(loss) from continuing operations less finance income; 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

Q1 FY11 RESULT BRIEFING

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Chief Financial Officer – Nick Olson