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Companies Announcement Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
Sydney NSW 2000
Australia

6 May 2011

RE: ELECTRONIC LODGEMENT – TELECOM Q3 FY11 TRADING UPDATE

Dear Sir/Madam

In accordance with the ASX Listing Rules, I enclose the following for release to the market in relation to Telecom's Q3 FY11 Trading Update:

1. Media release
2. Investor Presentation
3. Key Performance Indicators
4. Appendix 7

Telecom's Chief Executive Officer, Paul Reynolds and Chief Financial Officer, Nick Olson, will discuss the Q3 FY11 trading update at 10:00am New Zealand time today.

This Announcement will also be released to the New Zealand and New York Stock Exchanges.

Yours sincerely

Craig Mulholland
Group Company Secretary
Telecom Corporation of New Zealand Limited

Stock Exchange Announcement

6 May, 2011



TELECOM TRADING UPDATE – Q3 FY2010 / 11

Telecom has today released its trading update for the quarter ended 31 March 2011.

The trading update provides analysts and investors with certain non-financial key performance indicators for the quarter. Telecom's full year results, including financial performance, will be disclosed on 19 August 2011.

"A continued strong focus on operational excellence and cost control means we remain on track to deliver our full year earnings guidance and indeed we have improved the Group Capex outlook," said Telecom CEO Paul Reynolds.

"We now expect full year Capex to be within the \$900m to \$930m range for the FY11 financial year, down from the \$950m to \$1.0bn indicated previously. In addition, we have also introduced Capex guidance for FY12, indicating that Capex for that period will be no more than \$750m. Guidance for FY13 has been withdrawn.

"This reduction comes as we complete significant multi-year programmes of investment, such as the XT mobile network and fibre-to-the-node, and look to bring our Capex-to-sales ratio closer to that of our international peers.

"We will drive more efficient investment through avoiding duplication and waste, along with ensuring investment delivers products and services that New Zealanders want as well as generating appropriate returns.

"The XT mobile network continues to grow strongly and we now have over one million customers on XT, representing around 51% of our total mobile base, and 77% of our mobile revenue.

"The Access base remains steady with relatively low levels of fixed to mobile substitution by international standards, and Telecom's broadband base continues to grow with more than one million customers on the Telecom network," said Dr Reynolds.

Telecom New Zealand has also today announced a Q3 dividend of 3.5c per share, with full imputation. The Dividend Reinvestment Plan (DRP) and on-market buy back have been suspended due to the current status of UFB negotiations.

GUIDANCE

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 \$1.72bn to \$1.78bn
 - Depreciation and amortisation of \$1.00bn to \$1.06bn
 - Effective tax rate of around 33%
 - Adjusted Net Earnings of \$330m to \$370m
 - Capex of \$900m to \$930m (previously \$950m to \$1.0bn)

- FY12 Guidance
 - Adjusted EBITDA to increase by \$20m to \$80m
 - Effective tax rate of 25% to 28%
 - Capex of no more than \$750m
- FY 13 Guidance
 - FY13 Guidance has been withdrawn reflecting the announcement to deliver the FY13 Capex target one year early and UFB uncertainty

CONFERENCE CALL

Investors and Analysts are invited to join a teleconference with Telecom's Chief Executive, Paul Reynolds who will discuss the key performance indicators and answer questions.

DATE: Friday 6 May 2011

TIME: 8 am (Australian time)
10.00 am (New Zealand time)

Country	Date	Time	Dial In
New Zealand	06/05/2011	10:00am	0800 440 246
Australia	06/05/2011	08:00am AEST	1800 730 235
USA	05/05/2011	06:00pm EST	1 877 941 2068
Hong Kong	06/05/2011	06:00am HKT	800 908 530
Singapore	06/05/2011	06:00am SGT	800 616 3007
Japan	06/05/2011	07:00am JST	00531 252 004
UK	05/05/2011	11:00pm GMT	0800 358 5267

Please dial into the teleconference 5 minutes before the start of the presentation.

An archive of the conference call will be available for replay later at
<http://investor.telecom.co.nz/>

- ENDS -

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Corporate Communications Manager
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TELECOM NEW ZEALAND

Q3 FY11 TRADING UPDATE

Chief Executive Officer – Paul Reynolds

Q3 KEY MESSAGES



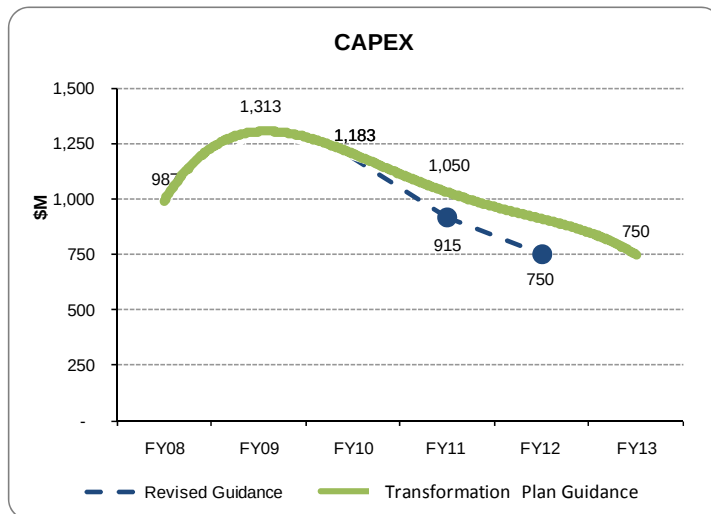
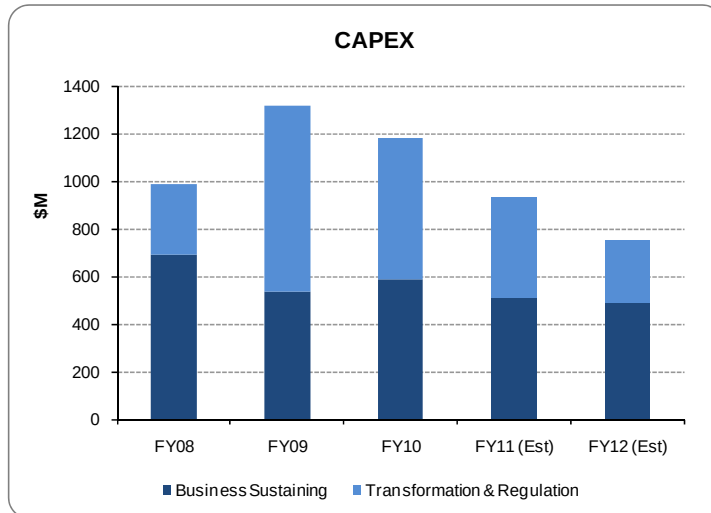
- Guidance changes
 - FY11 Capex guidance of \$900m to \$930m
 - FY12 Capex guidance of no more than \$750m
 - FY13 Guidance withdrawn
- Feb 2011 Earthquake – Insurance to cover significant impact
 - \$13m insurance excess
- Solid performance in fixed line access and broadband
- 1.1m XT mobile connections, customer satisfaction increasing
- Final binding Ultra Fast Broadband bid submitted
 - Telecom and Vodafone joint bid selected by the government to deliver Rural Broadband Initiative
- Q3 dividend of 3.5 cps
- Southern Cross Dividend of \$23m vs \$14m in Q3 FY10

STRATEGY UPDATE – VISION 2013



- Increasingly competitive operating environment
- Customer satisfaction improving
- Focus on free cash flow through capital intensity and reducing cost base while maintaining customer focus
- Re-organisation of the business to prepare for a fibre based world
 - Smaller, more focused executive team
 - Increased focus on product and process to remove duplication
 - Greater alignment of Chorus and Wholesale
- Intense focus on optimising capex and opex

CAPEX



Note – Assumes mid point of guidance

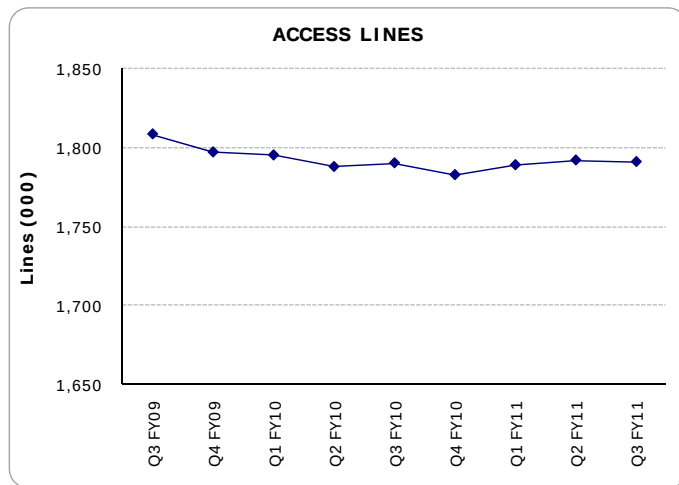
- FY11 Capex of \$900m to \$930m*, including Christchurch earthquake impacts
- FY12 capex no more than \$750m*
 - On track to achieve FY13 target one year early
- Sustainable reduction driven through:
 - Completion of FTTN in Dec 2011
 - Reduction in Operational Separation spend as key milestones have been met
 - Nearing completion of build of managed ethernet backhaul deal
 - Lower capital intensity in Australia following the sale of AAPT Consumer
 - Management focus on high return projects
 - Improved efficiency and minimising duplication

CHRISTCHURCH – FEBRUARY EARTHQUAKE



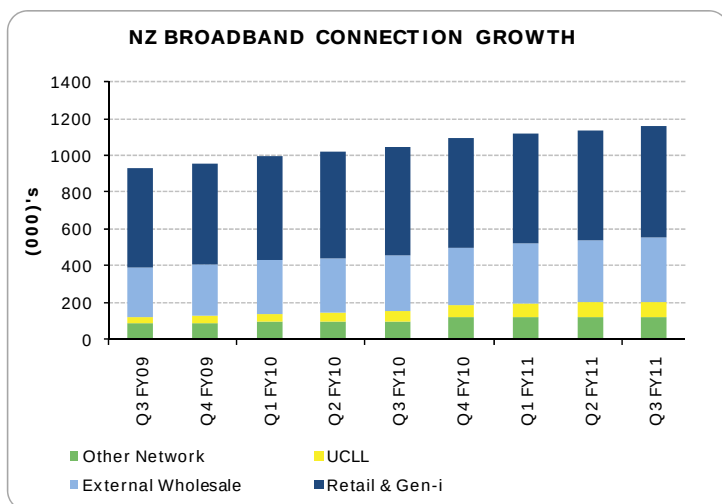
- Network fully operational and stable
- Insurance to cover significant impact
 - Final costs and insurance recovery under assessment
 - \$13m insurance excess
- Earthquake impacts to be treated as an adjusting item
- Insurance recovery unlikely to be recognised until FY12

ACCESS TRENDS



- Fixed line access performance solid
 - Access lines steady
 - Low levels of fixed to mobile substitution
- Lines continue to shift from Retail to Wholesale
- Steady UCLL growth with increasing points of presence
- Approx. 27,000km of fibre deployed
- FTTN on track for completion by Dec 2011

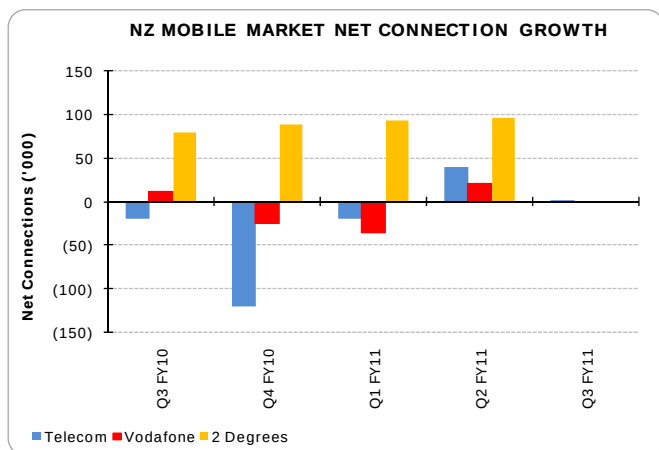
BROADBAND TRENDS



Note – Q3 data is based on a combination of IDC and Telecom estimates. “Other Network” assumed to be constant in quarter. All UCLL connections are assumed to be Broadband connections. Includes all fixed line and cable Broadband, excludes mobile Broadband

- Total market connections continue to grow at ~10% to 12%
 - Growth in mobile broadband having limited impact on fixed line broadband
- Telecom focus on value and margin
 - Retail share of growth increased over Q2 following the launch of new bundles
 - Retail share 53%

MOBILE TRENDS



- Focus on acquiring on high value customers
- Telecom connections up 1k in Q3
 - Postpaid base up 6k
 - Prepaid connection down 5k
 - 1.1m XT connections, 51% of base
- Customer perception continues to improve
- New consumer plans launched
- Strong Gen-i acquisition based on quality of network and ICT relationships
- Smartphone penetration growing steadily
- Market remains highly competitive
 - MTR finalised, Telecom focused on adding value to plans

GOVERNMENT BROADBAND INITIATIVES (UFB/RBI)



- Ultra Fast Broadband (UFB)
 - Submitted final binding proposal which meets the key components of the UFB vision
 - Due to the competitive nature of this process we retain a degree of caution
 - Focus now shifts to preparation for the UFB environment
 - De-merger if we are selected as UFB partner; or
 - Competing with new entrants in the access business
- Rural Broadband Initiative (RBI)
 - Telecom and Vodafone selected by the government to deliver broadband to rural NZ
 - Telecom will deliver an open access fibre network designed around schools, cell towers, cabinets and exchanges
 - Retail and Gen-i to offer mobile on open access towers
 - Work begins in July 2011

GUIDANCE CHANGES



- Guidance changes driven by Vision 2013 and UFB uncertainty
 - Revised guidance provides insight into operational performance on a status quo basis, prior to UFB announcement
- FY11 Capex guidance lowered again
 - Expected to be \$900m to \$930m
- FY12 Capex guidance issued
 - Expected to be no more than \$750m
- FY13 guidance withdrawn, reflecting
 - Announcement to deliver FY13 capex target one year early
 - UFB uncertainty

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
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 - Effective tax rate of around 33%
 - Adjusted Net Earnings of \$330 million to \$370 million
 - Capex of \$900m to \$930m, (previously \$950m to \$1.0bn)
- FY12 Guidance
 - Adjusted EBITDA to increase by \$20 million to \$80 million
 - Effective tax rate of 25% to 28%
 - Capex of no more than \$750m

DISCLAIMER



Forward-Looking Statements

- This presentation includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of Telecom. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Telecom's control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed in the first half management commentary and in the risk factors and forward-looking statement disclaimer in Telecom's annual report on Form 20-F for the year ended 30 June 2010 which was filed with the U.S. Securities and Exchange Commission. Except as required by law or the listing rules of the stock exchanges on which Telecom is listed, Telecom undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

- Telecom results are reported under International Financial Reporting Standards (IFRS). The non-GAAP financial measures used in this presentation includes, but are not limited to:
 - Earnings before interest, tax, depreciation and amortisation ('EBITDA'). Telecom calculates EBITDA by adding back/(deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/loss and taxation expense to net earnings/(loss) from continuing operations; and
 - Capital expenditure. Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill and other non-cash additions that may be required by IFRS such as decommissioning costs; and
- 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

Q3 FY11 TRADING UPDATE

Chief Executive Officer – Paul Reynolds

Telecom Group KPIs - Q3 FY11

	Q3 FY09	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11
Access lines									
Retail	1,256	1,229	1,207	1,191	1,171	1,146	1,120	1,099	1,082
Gen-i	86	84	83	82	81	80	79	78	77
Wholesale	308	326	344	352	363	374	393	402	409
UCLL lines	30	37	41	47	57	67	71	76	81
Other lines (non voice access lines and lines consumed internally)	128	121	120	116	118	116	126	137	142
Total access lines (000)	1,808	1,797	1,795	1,788	1,790	1,783	1,789	1,792	1,791
Broadband and dial up connections									
Retail	519	531	545	559	571	579	581	580	587
Gen-i	19	20	19	19	19	19	19	19	19
Wholesale	277	285	294	296	304	312	330	342	353
UCLL	30	37	41	47	57	67	71	76	81
Total Broadband connections (000)	845	873	899	921	951	977	1,001	1,017	1,040
Dial up connections (000)	141	122	114	107	100	93	87	82	79
Mobile connections									
NZ Group customers at period end									
Postpaid	858	856	861	859	864	840	830	829	833
Prepaid	1,381	1,309	1,368	1,431	1,407	1,312	1,305	1,347	1,342
Internal postpaid	13	21	21	20	20	19	17	16	18
Total mobile customers (CDMA & XT) (000)	2,252	2,186	2,250	2,310	2,291	2,171	2,152	2,192	2,193
XT customers at period end									
XT Postpaid	-	66	175	267	311	369	442	518	563
XT Prepaid	-	27	67	200	284	343	397	492	552
Total XT customers (000)	-	93	242	467	595	712	839	1,010	1,115
Data only devices (000)	78	81	86	101	120	133	137	143	160
FTE									
Group									
FTE Permanent	8,453	8,421	8,313	8,350	8,439	8,393	8,102	7,863	8,059
FTE Contractors	641	546	591	651	732	622	677	710	779
FTE Total	9,094	8,967	8,904	9,001	9,171	9,015	8,779	8,573	8,838 ¹
Other Financial Information									
Southern Cross dividend (\$m)	40	-	35	9	14	5	29	10	23
Dividend per share (cents)	6.0	6.0	6.0	6.0	6.0	6.0	3.5	3.5	3.5

¹ Q3 FY11 FTEs increased by 265, driven by in-sourcing of 311 IT support staff

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

1

Full name of Issuer **TELECOM CORPORATION OF NEW ZEALAND LIMITED**

Name of officer authorised to make this notice **NICK OLSON** Authority for event, e.g. Directors' resolution **DIRECTORS' RESOLUTION**

Contact phone number **(09) 358 6933** Contact fax number **(09) 303 3430** Date **6 / 5 / 2011**

Nature of event
Tick as appropriate

Bonus Issue ☐	If ticked, state whether: ☐	Taxable ☐	/ Non Taxable ☐	Conversion ☐	Interest ☐	Rights Issue Renounceable ☐
Rights Issue non-renounceable ☐	Capital change ☐	Call ☐	Dividend ☒	If ticked, state whether: Interim ☒	Full Year ☐	Special ☐
						DRP Applies ☐

EXISTING securities affected by this *If more than one security is affected by the event, use a separate form*

Description of the class of securities **ORDINARY SHARE** ISIN **NZ TELE0001S4**
If unknown, contact NZX

Details of securities issued pursuant to this event *If more than one class of security is to be issued, use a separate form for each class*

Description of the class of securities ISIN
If unknown, contact NZX

Number of Securities to be issued following event Minimum Entitlement Ratio, e.g. ① for ② for

Conversion, Maturity, Call Payable or Exercise Date Treatment of Fractions

Strike price per security for any issue in lieu or date Strike Price available. Tick if *pari passu* ☐ OR provide an explanation of the ranking

Monies Associated with Event *Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.*

<i>In dollars and cents</i>		Source of Payment	RETAINED EARNINGS
Amount per security (does not include any excluded income)	\$0.035		
Excluded income per security (only applicable to listed PIEs)			
Currency	NZD	Supplementary dividend details - NZSX Listing Rule 7.12.7	Amount per security in dollars and cents \$0.006176
Total monies	\$67,362,728		Date Payable 3 June, 2011

Taxation *Amount per Security in Dollars and cents to six decimal places*

In the case of a taxable bonus issue state strike price	\$	Resident Withholding Tax	\$0.001500	Imputation Credits (Give details)	\$0.015000
		Foreign Withholding Tax	\$	FWP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm
For calculation of entitlements - **20/05/11 AUST & NZ; 19/05/11 USA**

Application Date
Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week. **03/06/11 AUST & NZ; 10/06/11 USA**

Notice Date
Entitlement letters, call notices, conversion notices mailed

Allotment Date
For the issue of new securities Must be within 5 business days of application closing date.

OFFICE USE ONLY

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

