



MEDIA RELEASE

21 February, 2014

TELECOM FY14 HALF YEAR RESULTS

GATHERING MOMENTUM ON EXECUTION OF STRATEGY

CHANGING NAME AND LAUNCHING NEW INTERNET TV BUSINESS

Telecom announced today a flat net profit after tax of NZ\$167 million for the half year ending 31 December 2013.

Chairman Mark Verbiest said Telecom has been focused for nearly a year now on a clear long-term strategy and is gathering momentum in its execution.

“Over the last year we have moved quickly and decisively, putting several critical foundations in place and making a number of bold market moves.

“We have gained greater traction on our cost competitiveness, increasing the projected free cash flow benefits we believe will be generated by our Turnaround Programme, a centrally-driven series of business improvement initiatives.

“Our investments in revamping our mass market brands, Telecom and Skinny, have delivered greater cut-through in key markets. This has given us the conviction to move beyond the Telecom name, and better reflect our digital services capability and future focus. Later this year, we intend to change our company name and core customer brands to Spark.”

Earnings for the Group were flat, while underlying lead indicators and revenue performance, especially in mobile, were encouraging. However as expected the ongoing market decline in legacy fixed data and voice, together with the strategic choices made during FY13 to put market share outcomes ahead of short-term financial performance, has continued to impact earnings in New Zealand.

“We expect to see the positive lead indicators from the half year begin to flow more into our financial results from the second half onwards and into the 2015 financial year,” said Mr Verbiest.

Total operating revenues from continuing operations declined 3.0% to NZ\$1,847 million, largely attributable to a 9.2% decline in fixed line revenues. Strong mobile performance saw mobile revenue up 5.8%, partially offsetting the fixed revenue decline. Operating costs for continuing operations fell 2.1% largely due to ongoing



cost reduction initiatives, particularly labour costs. These initiatives were offset by cost growth associated with increased customer numbers and data volumes.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) from continuing operations were down 5.8% while net earnings from continuing operations were down 12.5%.

Capital expenditure for continuing operations was up 18.2% to NZ\$266 million, reflecting the significant investment in the first half of the year in networks, products and services. Major capital expenditure items included; an ongoing re-engineering programme, upgrade of the core data transport network, and mobile network investment particularly in 4G LTE.

As the previous year's price-downs in broadband and wholesale are overtaken, the effect is expected to help moderate the rate of decline in legacy fixed revenues in the second half of the financial year.

The Directors have declared a half-year dividend of 8 cents per share, and an intention to pay a minimum of 16 cents per share for the full year. Directors also outlined an aspiration to sustainably increase ordinary dividends over time as the projected improved cash flow performance materialises.

Chief Executive Simon Moutter said that other moves being made in the market are also giving the company additional confidence.

"We've continued to make huge investments in New Zealand's digital networks, launching 4G mobile underpinned by a brand-new core data transport network, building more data centre capability and committing to a leadership position in 700MHz spectrum. We have sold the AAPT business in Australia to focus all our efforts on getting it right for New Zealand customers."

"There has also been investment in the digital services so essential to future growth. Notably, we have decided to enter the internet TV market, with a standalone and high-quality internet TV brand, ShowmeTV, to be launched later in the year."

"We are pleased with our progress to date. We are working hard to become a fast, agile retailer, focused on winning customers. Future oriented. Competitive. Relevant to all New Zealanders. Willing to make bold moves. There's real momentum building, for our customers and for us."

H1 FY14 operational overview

Gen-i has continued to leverage its leadership position in data, mobility and Cloud services to help business and government clients unleash their full potential in a digital world. During the first half, plans were announced to build new greenfield data centres in Auckland and Wellington and a new data centre was opened in Christchurch, further strengthening data hosting capabilities following the acquisition of Revera last year.

Gen-i also won a multi-year contract with the Government's Network for Learning initiative to build a fast and modern online educational platform for New Zealand



schools to maximise the digital learning opportunities created by the ultra-fast broadband (UFB) rollout.

Last year the mass-market Telecom retail brand was revitalised with a new look and the network of Business Hubs for small and medium business customers was relaunched. These moves have shown an immediate impact in increased sales, foot traffic and positive customer feedback. Digital customer self-service options were also significantly expanded, including the launching of a new Telecom App that has already attracted over 60,000 downloads, and a significant growth in customer take-up of My Telecom and e-billing options.

Telecom has also committed \$149 million to four lots (2 x 20MHz) of newly available 700 MHz band radio spectrum to become the biggest player. This will make possible faster and better 4G mobile coverage for less populated parts of New Zealand. This asset has not yet been paid for as the auction process is still under way. The Commerce Commission is deciding on whether or not the purchase of the 4th lot can proceed, which will be followed by an auction round to determine the allocation of positions in the band.

An ongoing programme to re-engineer the IT stack for the business has also progressed well, with the first release of IT improvements on target for the second half of this financial year. This first release, focused on pre-paid mobile, will deliver significant system capability enhancements and improve customer experience, especially across digital channels.

Telecom Digital Ventures, the innovation focused business unit, has continued to develop its portfolio of growth oriented initiatives. This includes a nationwide WiFi network, primarily using revamped phone booths, which now has over 900 hotspots and 300,000 registered users, giving people better connections when out and about and enhancing the value of mobility solutions for business clients.

Mr Moutter said, “Later this year, we will launch ShowmeTV, our new internet TV business. The migration of entertainment to the internet is creating significant disruption to current broadcast TV business models and real opportunities for new online businesses. The rapid growth of better broadband via fibre and VDSL means watching TV via streaming over the internet is now a much more viable option for New Zealanders. We believe the time is right to enter this market and provide New Zealanders with exciting new choices when it comes to watching video entertainment.”

Outlook

Mr Moutter said the first half results demonstrate a pace and level of change he believes is unparalleled in a large New Zealand business over the last decade.

“We don’t intend to slow down. We will continue to address our cost base and strengthen our organisational performance. We will focus even harder on becoming more relevant to customers and to modern New Zealand, particularly as we continue our intended transition to Spark.



“We anticipate an improved performance in the second half of this financial year, with broadband revenues beginning to stabilise, mobile growth continuing and our Turnaround Programme delivering tangible free cash flow improvements.”

As a result, adjusted EBITDA from continuing operations for the full year is expected to be in the range of NZ\$925 million to \$945 million, excluding the sale of AAPT and rebranding costs.

With a lot of the essential network investment for the strategic repositioning of the business already made or committed, capital expenditure from continuing operations for the full year is expected to be NZ\$450 to NZ\$460m, excluding spectrum, with the capex envelope tightening further in the FY15 to FY17 period.

Mr Moutter concluded, “There is a lot more hard work to come. We’ve got plenty to do to complete our strategic shift and stretch our leadership in data connectivity as well as regain the top spot in the mobile market. And all the while, customer needs will continue to evolve as digital life becomes a reality. But we are convinced we are on the right pathway. We’re committed to this course and to playing a major role in New Zealand’s digital future.”

- ENDS -

For media queries, please contact:

Richard Llewellyn
Head of Corporate Communications
+64 (0) 27 523 2362

For investor relations queries, please contact:

Mark Laing
General Manager Corporate Finance
+64 (0) 27 227 5890



Telecom H1 FY14 Financial Results

Mark Verbiest Chairman
Simon Moutter Chief Executive
Chris Quin Retail CEO
Tim Miles Gen-i CEO
Jolie Hodson CFO



H1 FY14 Financial Results

AGENDA

- **H1 Snapshot**
- Delivering on our Strategy
- Key BU Snapshots
- Key Financial Results
- Looking Ahead



H1 SNAPSHOT

- **Executing quickly and decisively against a clear strategy**
 - Momentum building with number of significant moves made during the six month period and with more to come this year
 - Growing confidence our strategy will deliver intended long-term benefits
- **Group operating earnings maintained**
 - Improved performance by AAPT pivotal to excellent sale price
 - NZ earnings down as expected, reflecting ongoing legacy decline and impact of strategic choices made in FY13 to put market share outcomes ahead of near-term financial results
- **Improving outlook for H2 and FY15**
 - Lead indicators encouraging, particularly in mobile
 - Turnaround Programme of over 200 business improvement initiatives lifting confidence in projected free cash flow improvement (\$200-300m of benefits)
 - Successful sales and marketing tactics expected to moderate the rate of decline of legacy fixed revenues
 - Capital expenditure envelope being tightened for FY15-16

H1 SNAPSHOT CONTINUED

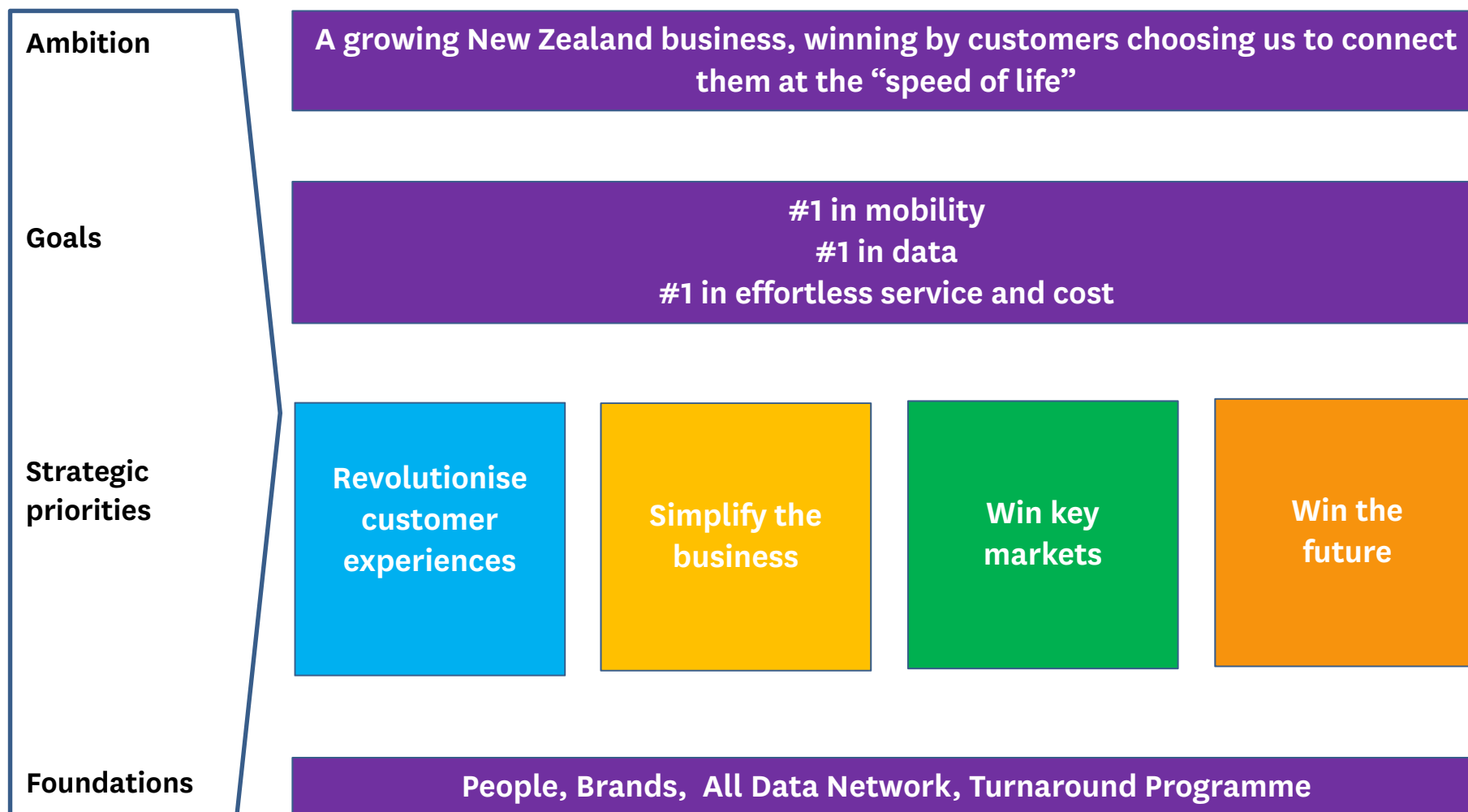
- **Continued rapid strategic repositioning of the Group**
 - Sale of AAPT to focus on New Zealand customers
 - Huge investment in New Zealand's digital future – all data network now a reality, underpinning superior anytime anywhere connectivity for customers, backed by 700MHz spectrum investment
 - Re-engineering programme on track to deliver enhanced customer service capability and efficiencies, with first release in April
 - Selected investment in growth initiatives, including pending launch of new internet TV business to enter the online entertainment market
 - Success of brand makeovers to date has advanced the intention to change company name and core trading brands to Spark
 - Continued major strategic shift of Gen-i business portfolio towards data, mobility, managed ICT, Cloud infrastructure and platform as a service
- **Dividend policy to be reviewed at full year**
 - Aspiration to sustainably increase ordinary dividends over time as improved cash flow performance materialises

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DELIVERING ON OUR STRATEGY



REVOLUTIONISING CUSTOMER EXPERIENCES: KEY WINS

Rapid expansion and take-up of digital customer self-service options across Group	• Telecom Smartphone App launched Sep 2013, over 60k downloads by end Dec 2013 • 'My Telecom' usage grown from 130k to 254k • E-Bill uptake from 100k to 287k in 6 months • Bigpipe broadband trialled and soft-launched with online only service model
National WiFi network growing quickly	• Over 900 hotspots, over 300k registered, over 115k active users • Partnership strategy expanding • A powerful competitive differentiator
Invested in world-class data network	• 3G, 4G, WiFi, ADSL, VDSL and Fibre backed up by 5Tbps OTN • OTN deployed across 66 sites nationally • Underpins 24/7 anytime anywhere connectivity
Optimised Gen-i service models for key customers	• Transitioned 1,350 ME clients to a Dealer managed model within Gen-i • Reoriented sales and client delivery functions more tightly around our customers • Renewed our focus on Wellington clients, in particular Central Government
Business Hubs relaunched	• New SME experience for business customers

REVOLUTIONISING CUSTOMER EXPERIENCES: DIGITAL SERVICES

100,000

Tech in a Sec comments



60,000

Smartphone App users



7M Digital Self Service
Transactions Monthly



800,000

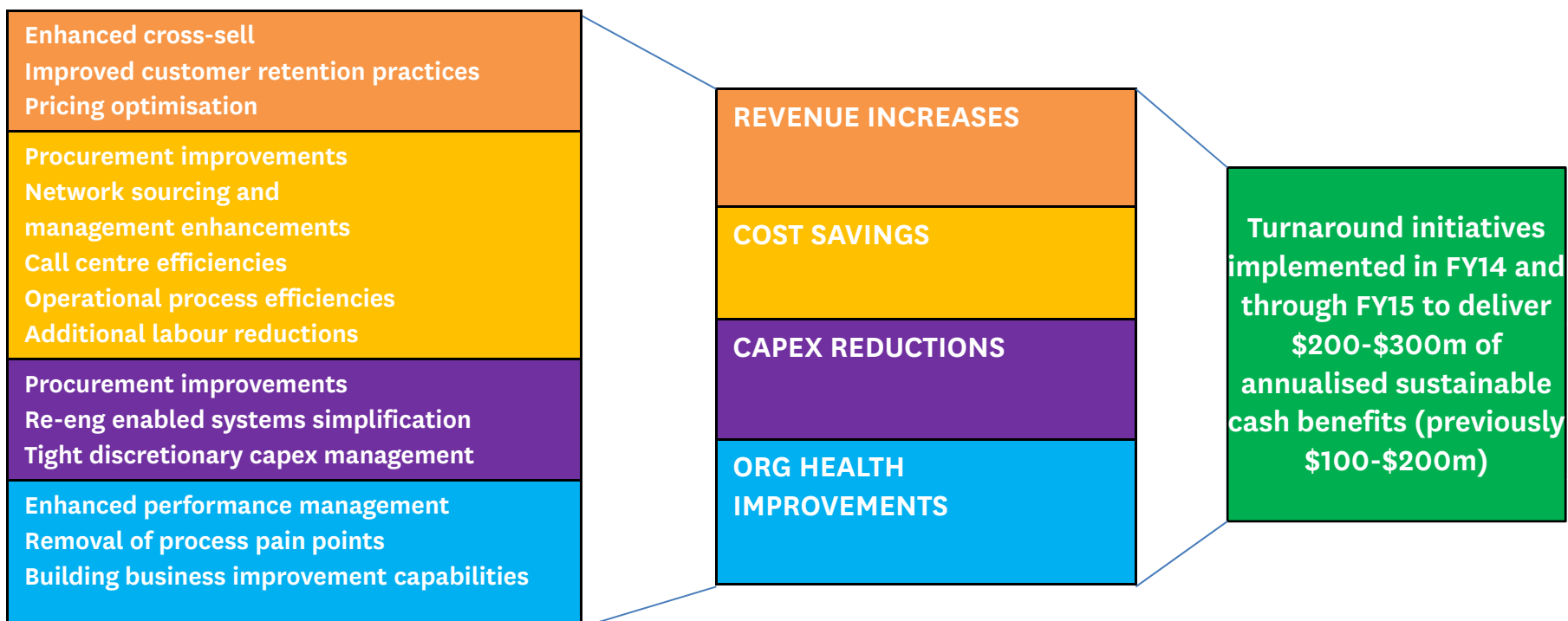
Unique Visits Online
Monthly



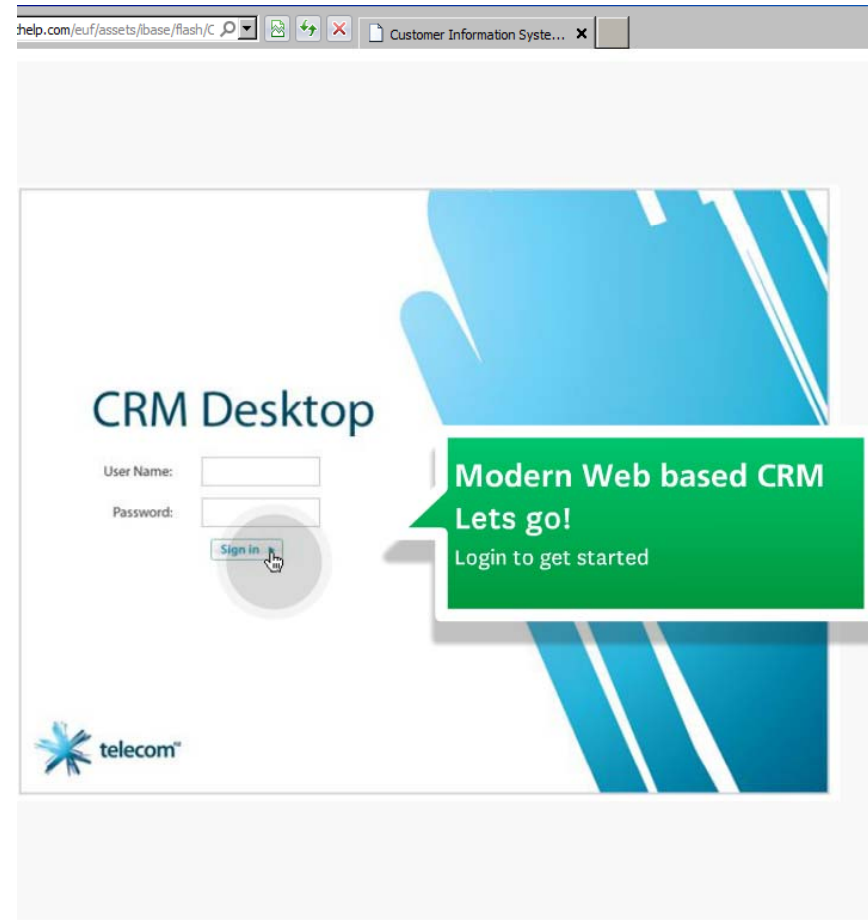
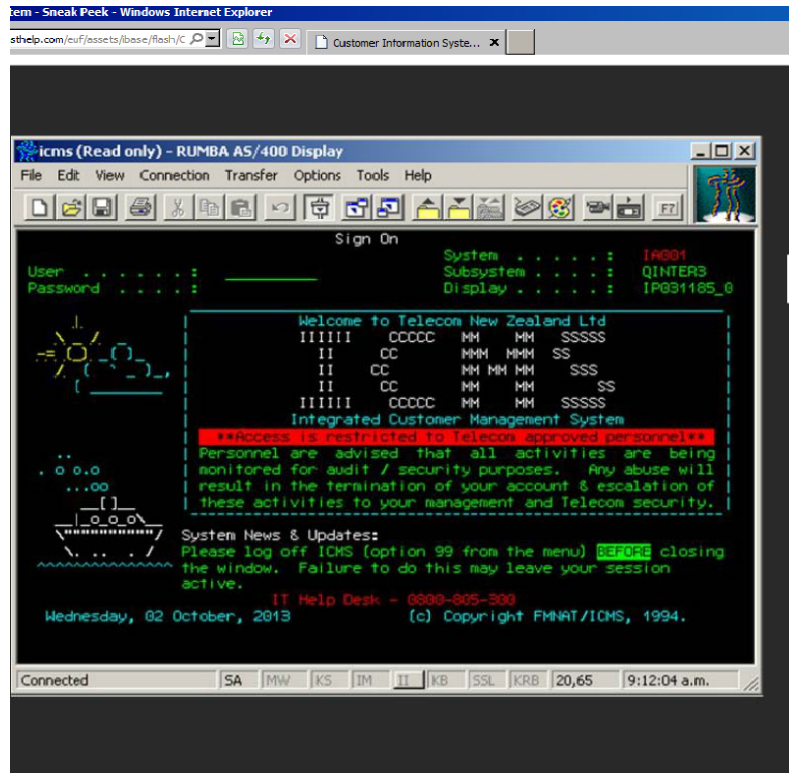
SIMPLIFYING THE BUSINESS: KEY WINS

Turnaround Programme broadened in scope and impact	• Increase in projected benefits • Building performance management capability
IT stack re-engineering 1st major release on target for Q3	• Focus on pre-paid in 1st drop • On time and on budget • From 'Green screen' to modern 'CRM'
Simplification of broadband and mobile plans helping drive sales	• 78% of broadband customers on latest plans • From 126 to 38 post-paid plans within 6-9 months • Re-eng will deliver pre-paid reduction from 3 to 1 core plans
Ongoing simplification of organisational processes	• HR and remuneration processes overhauled • Staff level continuing to decline
Gen-i continuing its strategic shift	• IT Services strategy refocused around network and infrastructure core • Divestment of Auldhouse following earlier divestment of Davanti • Simplified Voice & Data pricing
Sale of AAPT in line with strategic focus on NZ customers	• Sold for A\$450m • Settlement due late Feb

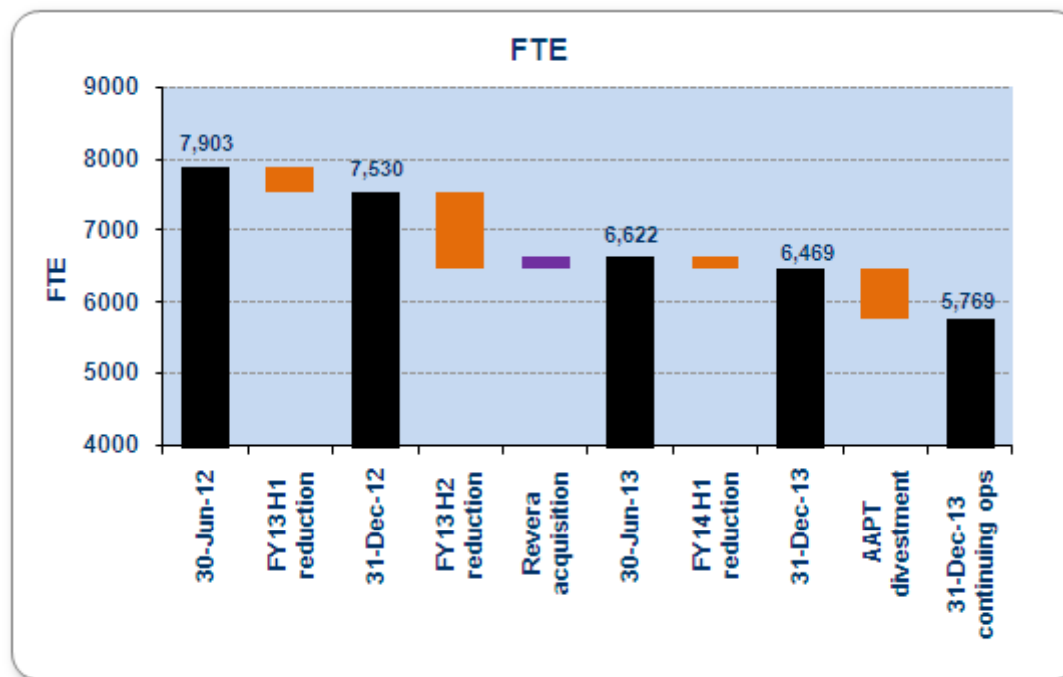
SIMPLIFYING THE BUSINESS: TURNAROUND PROGRAMME



SIMPLIFYING THE BUSINESS: RE-ENGINEERING



SIMPLIFYING THE BUSINESS: GETTING MORE COST COMPETITIVE

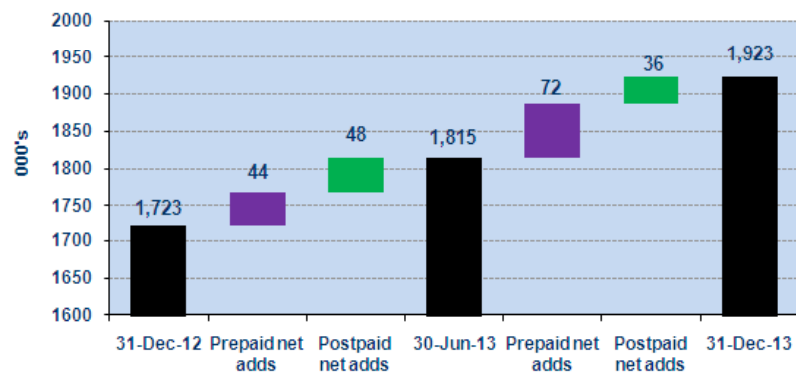


WIN KEY MARKETS: KEY WINS

Retail brand refresh in H1 driving confidence in brand	• 6 percentage point increase in brand preference with Auckland u35 • Increased foot traffic in stores by 14% in Auckland
Skinny and Bigpipe value brands in mobile and broadband	• Skinny brand refreshed in October, driving good pre-paid growth • Bigpipe launched and billing in Feb 2014
Encouraging growth signals showing in mobile market	• Overall mobile connections up 108k • New value-adds coming
Ultra Broadband (VDSL, Fibre) numbers growing well	• Ultra Broadband (VDSL and Fibre) going well, with 20k connections as at 31 Dec 2013
Enabling the education sector as Network for Learning technology partner	• Launched in August 2013 • 239 schools signed up by 28 Jan 2014 • 700+ schools targeted by end 2014
Telecom SME business market growing	• Revenue and margin growth achieved • Mobile market share increased

WIN KEY MARKETS: MOBILE AND BROADBAND

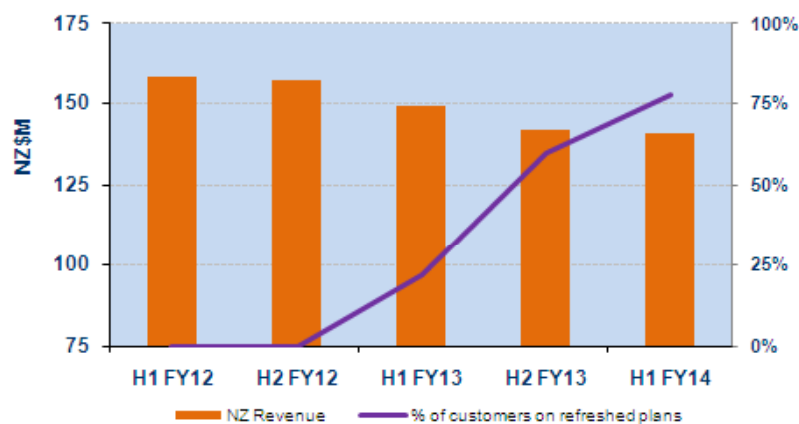
MOBILE CONNECTIONS (6 month active)



Mobile

- Sustained mobile connection growth, with 108,000 net additions in the half
- Total mobile base has grown 12% in last 12 months
- Pre-paid ARPU up 6% YOY, reflecting popularity of monthly prepaid packs
- Post-paid ARPU down 4.5% YOY, reflecting change in mix towards more profitable open term plans
- Devices providing additional source of revenue and margin
- Flanking brand strategy (Skinny) proving effective

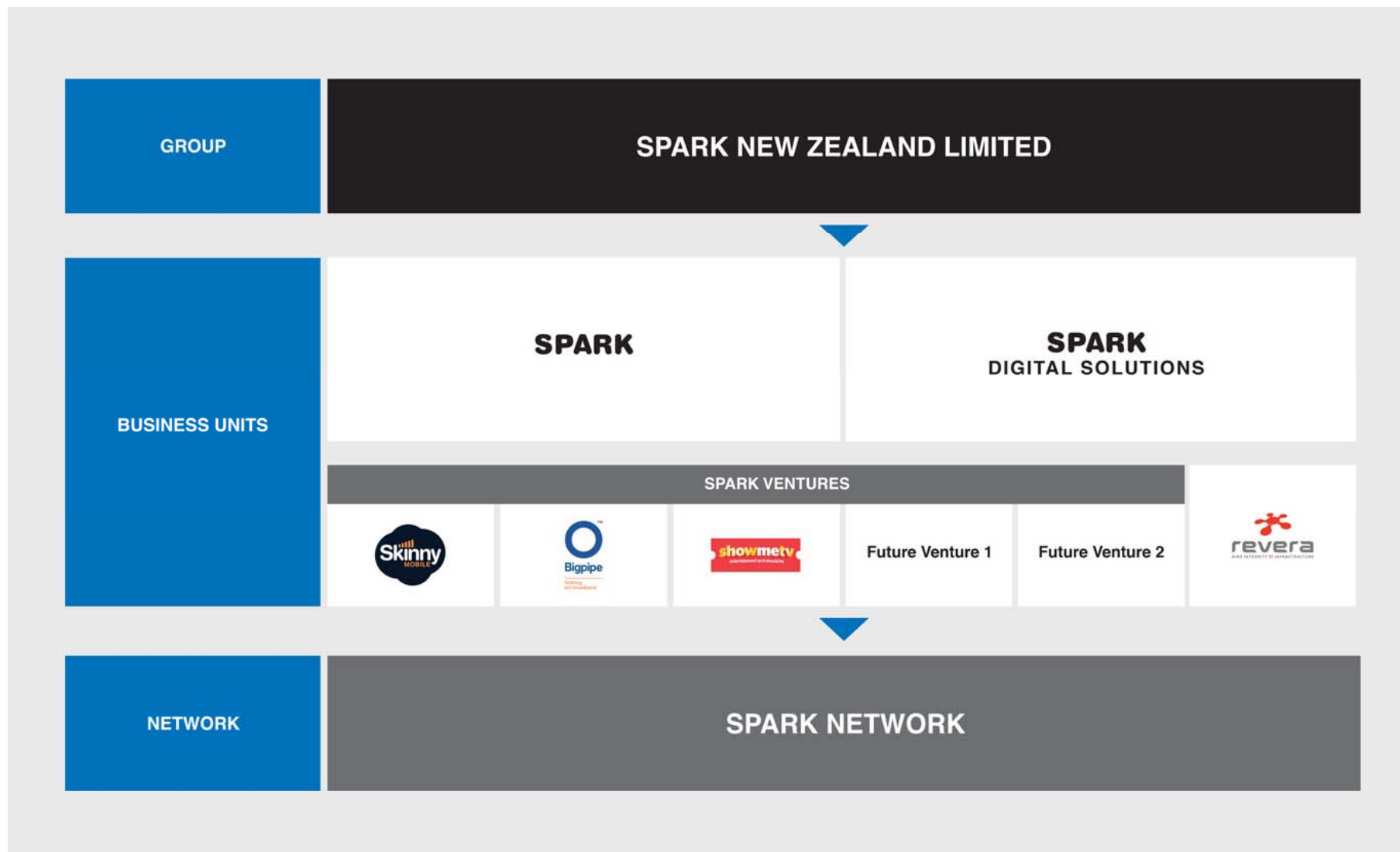
RETAIL BROADBAND REVENUES



Broadband

- 12,000 net broadband additions (Retail & Gen-i) in the half
- Average data usage up 89% in last year to 34GB per month
- Close to holding connection share
- Intense competition and growth in naked broadband category
- Close to half of Telecom broadband customers on higher grade plans, with Fibre and VDSL providing good up sell opportunity
- Progressively filling product gaps

WIN KEY MARKETS: BRAND STRATEGY NOW CLEAR



WIN THE FUTURE: KEY WINS

Digital Ventures making good progress on portfolio	• Announcement of internet TV • National WiFi going very well • Bigpipe trialled and soft-launched • Other moves being made in m-commerce, smart living, smart data, and health • Vigil investment just a part of a growing Group wide opportunity we see in health sector
Spectrum Auction and 4G launch demonstrates commitment to future of mobile	• \$149m investment in 4 lots (2x 20MHz) of 700 MHz spectrum • 4th lot subject to Commerce Commission approval • Price favourable v global benchmarks • 4G LTE launched in main centres
Investment in TGA trans-Tasman cable	• Planning for project progressing well • Partners working through respective approval processes over coming months
Further refocusing of Gen-i towards Cloud, converged ICT, Data Centres and Mobility	• Leveraging Revera capability with Government • Leading local Data Centre portfolio – AKL, WLG, CHC backbone with regional facilities including Dunedin • Mobility Practice established • Partner collaborations – SAP, Cisco, Samsung • Health sector a key sector priority, with rural and education also being developed

WIN THE FUTURE: INTERNET TV MARKET ENTRY

- Video is migrating to the internet
- Episodic TV series binge viewing is the big trend globally, driving demand for freedom and choice
- Telecom has decided to enter, with a world-leading OTT platform in build and content deals under negotiation
- Mid year launch of ShowmeTV will provide more choice for NZ consumers of TV and movies
- Consumer centric - watch what you want, when you want, where you want
- More than 5,000 hours of content at launch, across all key genres, including local
- Available to all New Zealanders not just Telecom customers
- Initially accessible on web and tablet – will be coming to all screens soon



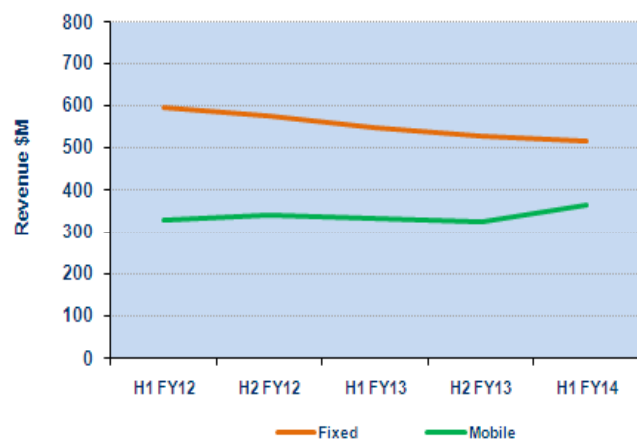
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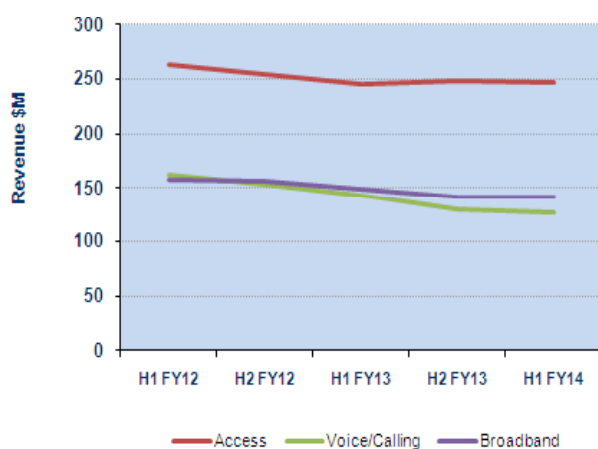


RETAIL BU SNAPSHOT

RETAIL REVENUES



RETAIL FIXED REVENUES



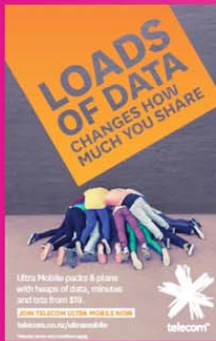
- Retail Revenue stabilised, for first time since 2008
- EBITDA \$328m, down 5.8%
- Strong performance in mobile, revenues up 9% (service revenues up 4%)
- Further improvements in SARC ratio
- Rate of fixed revenue decline slowing to 5.7% YOY (previously >8%)
 - Access churn remains very low at 3.8% on an annualised basis
 - Price and volume reductions resulting in 17% decline in calling revenues
 - 5% decline in broadband revenues reflecting impact of prior year plan refresh (78% on new plans)
- Increased broadband costs of sales reflecting connection growth and backhaul cost increases on rapidly rising data volumes
- 8% reduction in labour costs, following prior year initiatives
- Skinny EBITDA and TDV early investment costs included within Retail

RETAIL CUSTOMER FOCUS IS DRIVING RESULTS

Total mobile base has grown 200,000 connections in last 12 months (includes Skinny & Gen-i)	holding connection share in broadband at around 47%	Business market revenue returned to growth	94% of service transactions are now online
SARC/revenue ratio improved a further one % point	On track for a 2% improvement in support cost per revenue dollar	68% of customers rate us 5/5 for effortless service	6% point increase in brand preference with Auckland u35

RETAIL CUSTOMERS ARE SEEING MOMENTUM

ULTRA MOBILE PLANS



OPEN TERM MOBILE



4G



LOCAL LIKE YOU



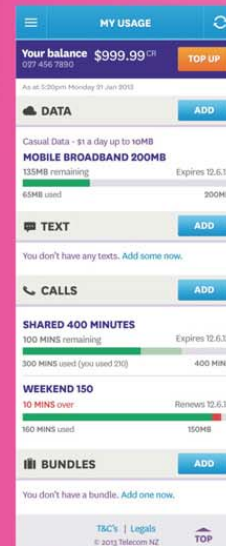
UNICA



WIFI

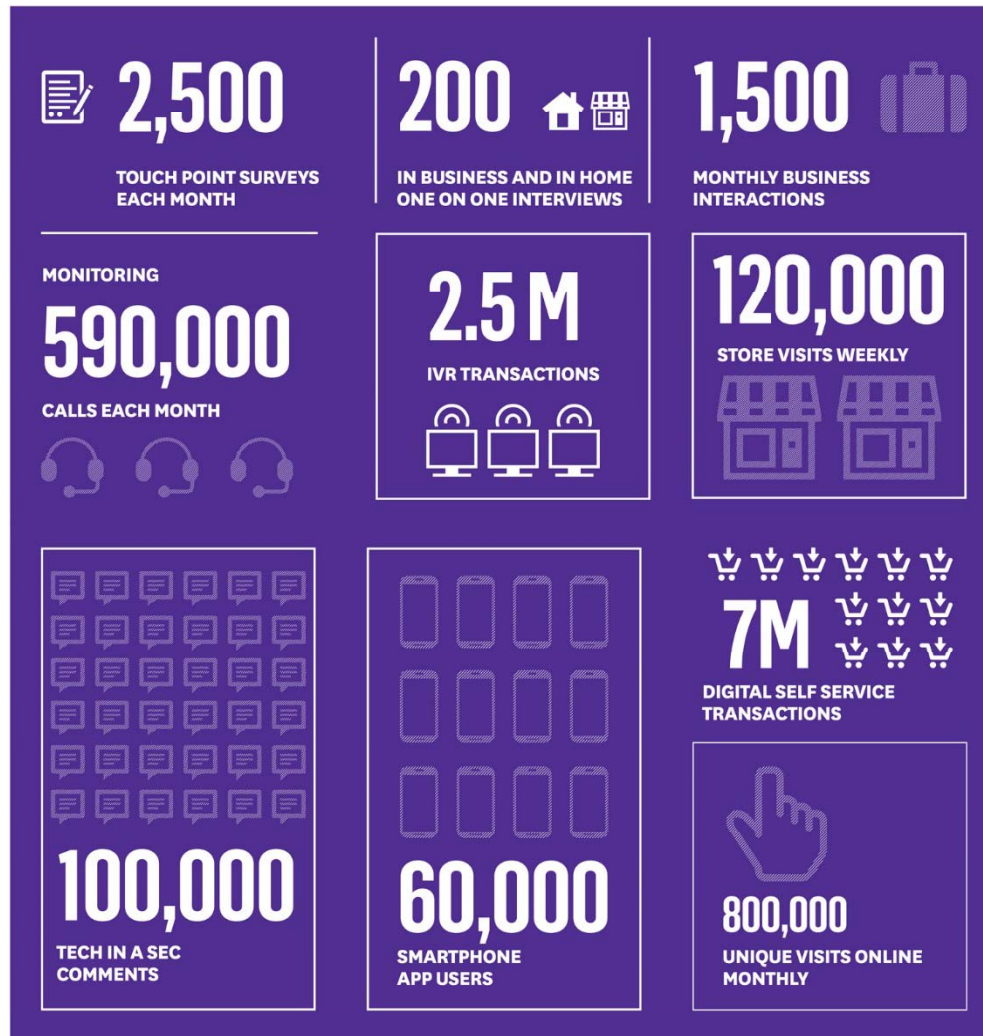


SMARTPHONE APP



TELECOM
6%
BRAND PREFERENCE UP WITH AUCKLAND UNDER 35s

CUSTOMER INSIGHTS



- Know me and like me
- Value and win my business
- Bring me new, cool stuff
- Make it easy for me to deal with you
- Be a company I love and am proud to be with

THE CONSUMER BRAND STORY

OUR HIGHER PURPOSE

UNLEASHING NEW ZEALAND'S POTENTIAL

OUR BELIEF AND DIFFERENTIATION

We believe that New Zealand is the best place on the planet. We will ensure everyone can live, work and play in more incredible ways by being the leaders in the indispensable and amazing experiences data provides

WHAT WE LIVE BY

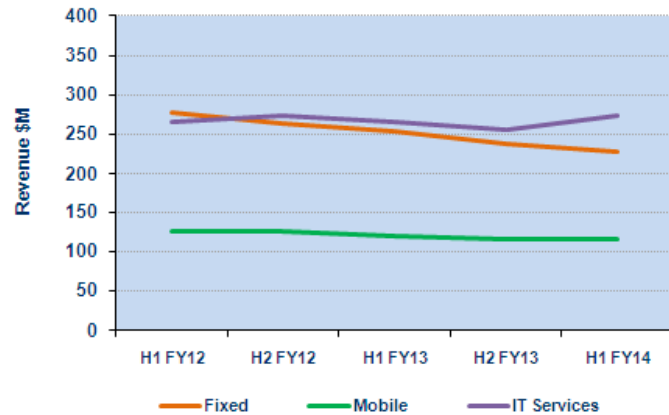
FOR HERE.
FOR YOU.
FOR TOMORROW.

OUR CUSTOMER-INSPIRED CHARACTER

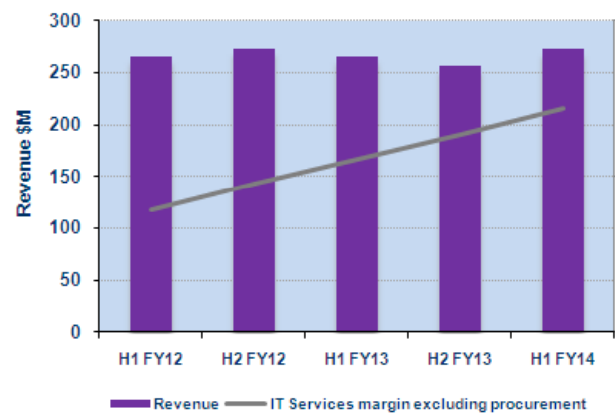
COURAGEOUS. CARING. CURIOUS. COLOURFUL.

GEN-I BU SNAPSHOT

GEN-i REVENUES

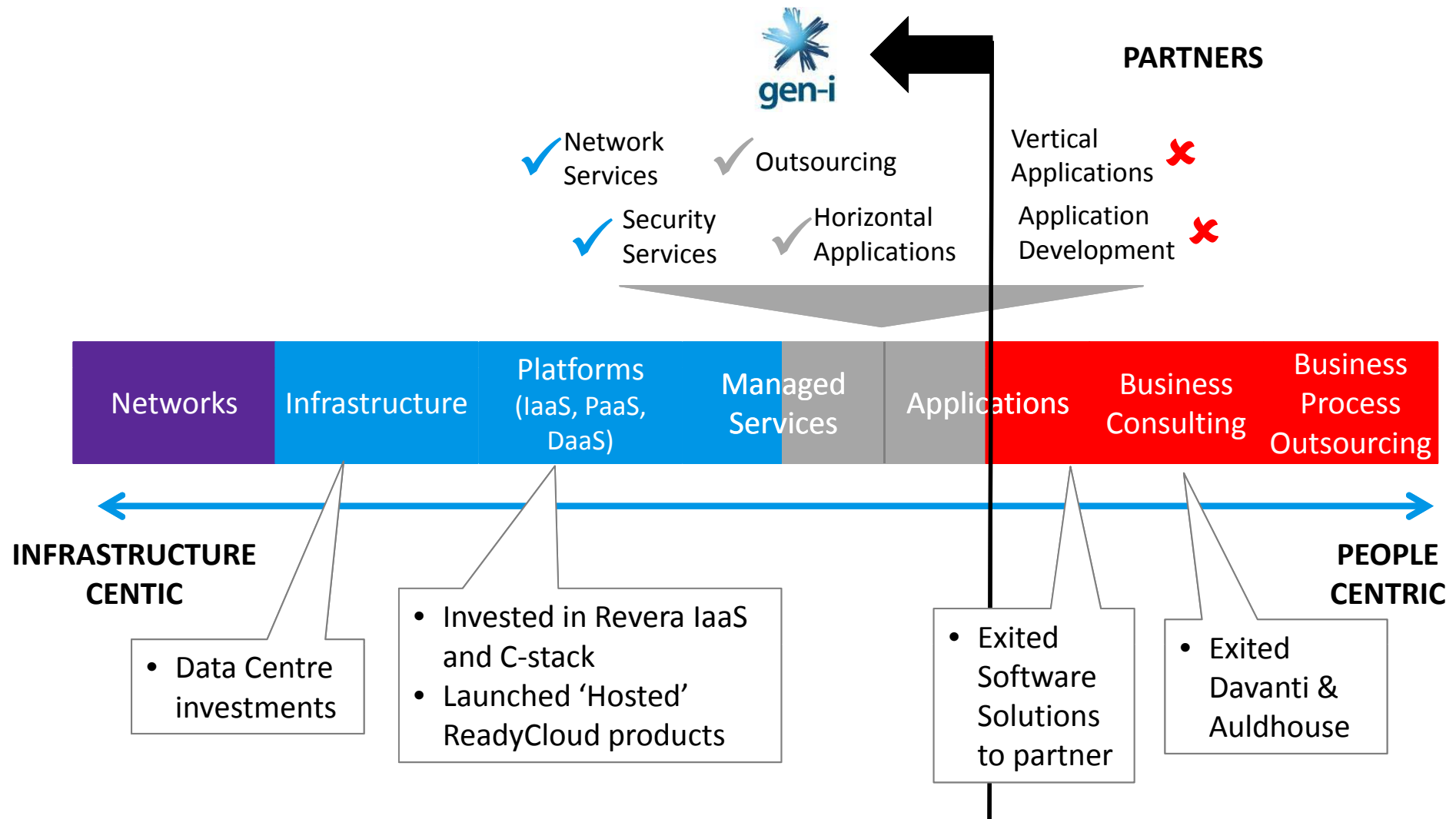


GEN-i IT SERVICES



- EBITDA \$193m, down 4.5%
- Revenues down 3.0%, reflecting intense price pressure across all product categories, particularly in Enterprise Segment
- Maintained #1 NZ market position in Mobile, Data and IT Services
- Focus on Network and Platform-centric ICT
 - Gen-i/Revera has the highest market share (49%) in the Hosted Infrastructure Services category in the NZ IT Services Market Tracker
 - Acquisition of Revera providing synergy value in major accounts
 - Divested Davanti & Auldhouse
 - Partnering to access capability while reducing delivery risk
 - Key wins with N4L and Auckland Council
- Labour costs down 17.8% reflecting operating model changes in H1 FY13
- IT Services contribution margins improving from product simplification, process standardisation and Procurement portal implementation
- Data Centre development on track

GEN-I BU: THE STRATEGIC SHIFT

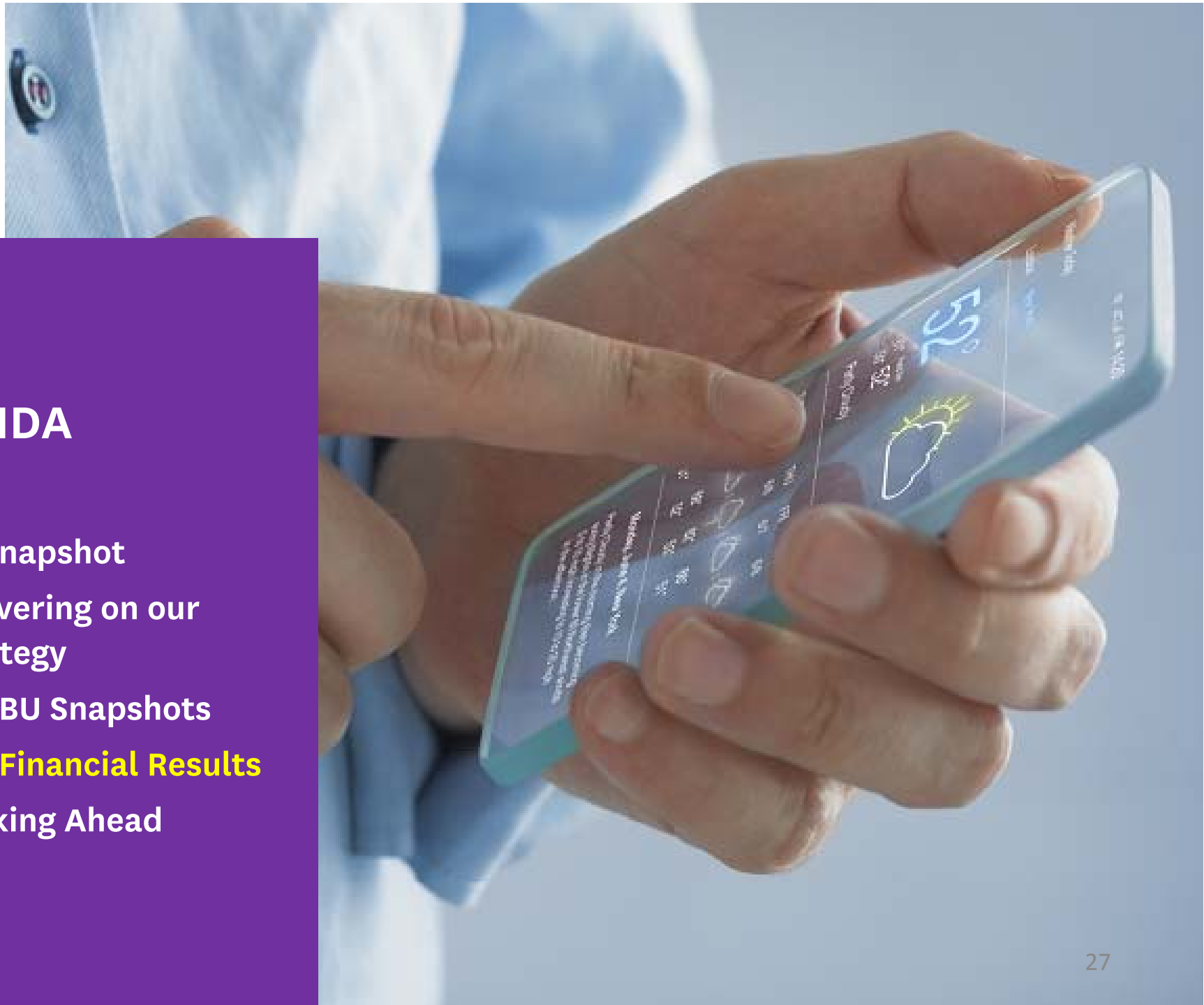


GEN-I BU: REPOSITIONING ON TRACK

Reoriented Sales and Service around the customer	• Sale & Service organisational structure reset • Additional resource focused on government segment, leveraging Revera capability
Future Voice & Data propositions gaining traction	• Migrating clients to Broadsoft IP voice. On track to be #1 in IP voice in FY15 • UFB connected in all regions by March 2014 • On track to launch two new corporate data products in Q4
Leadership position in mobility maintained	• Slight growth in mobile market share, but intense price based competition • Mobility practice established, focused on M2M and mobile apps • Partner collaborations – SAP, Cisco, Samsung
IT Services strategy refocused around network and infrastructure core	• IT contribution margin improving, due to better execution and better quality product mix
Infrastructure investments on track	• Strong pipeline for data centres and Revera • Christchurch data centre complete • Build on track for Auckland, Wellington and Dunedin

AGENDA

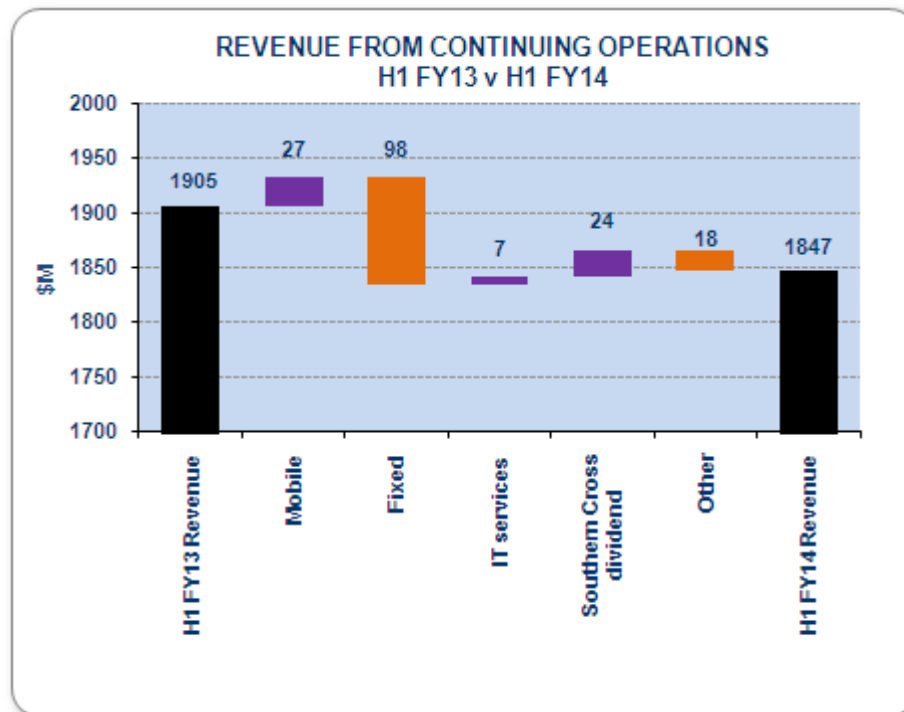
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KEY FINANCIAL RESULTS

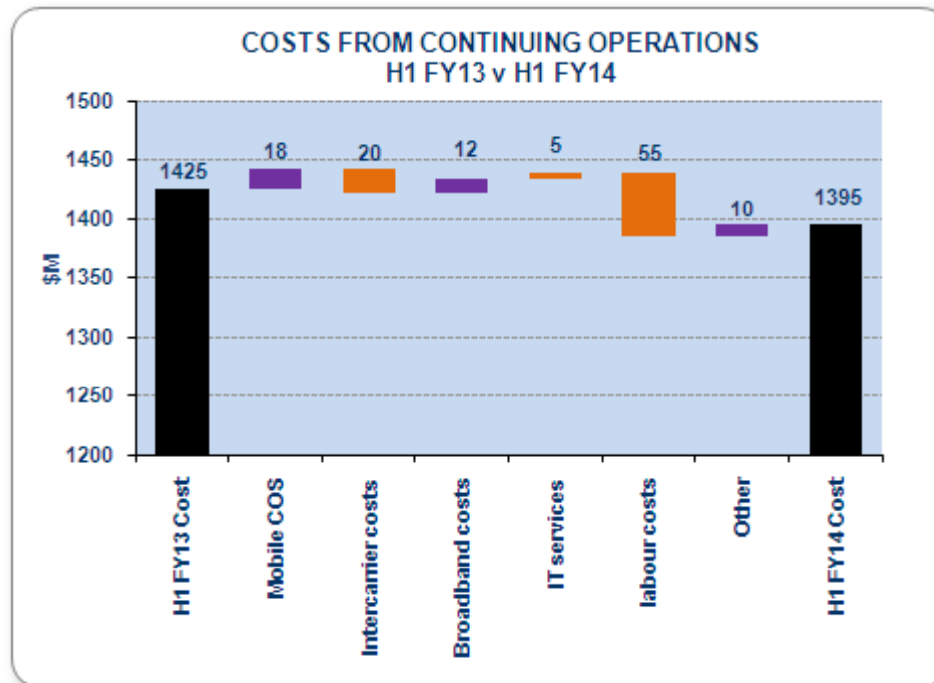
	H1 FY14 \$M	H1 FY13 \$M	CHANGE
Total Revenues - cont ops	1,847	1,905	(3.0)
Operating Costs – cont ops	1,395	1,425	(2.1)
EBITDA – cont ops	452	480	(5.8)
D&A – cont ops	227	228	-
Net financing costs – cont ops	17	22	(22.7)
Tax expense – cont ops	61	62	(1.6)
Net Earnings – cont ops	147	168	(12.5)
Net Earnings - disc ops	20	(5)	NM
Net Earnings	167	163	2.5
Capex – cont ops	266	225	18.2
EPS (cps)	9	9	-

REVENUES



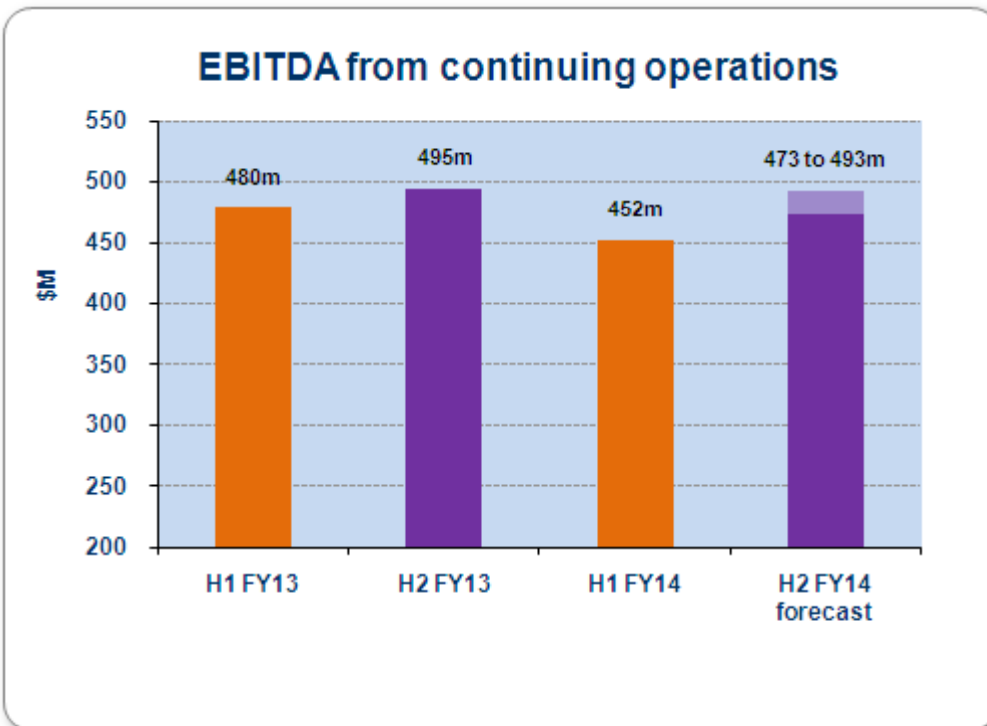
- 3% top line decline
- Strong mobile performance
 - 4% service revenue growth in Retail
 - Price pressure in Gen-i
- Continued fixed line declines
 - Retail access churn 4%
 - 17% decline in calling revenues
 - Broadband price downs in prior year
 - Commercial wholesale deals
- \$24m increase in Southern Cross dividends
- \$5m lower insurance proceeds

COSTS



- Mobile cost of sales reflects strong connection growth
- Inter-carrier costs reflect access line reductions and more efficient consumption of Chorus inputs
- Broadband costs increase reflects base growth and increased backhaul costs
- Labour cost reductions YOY reflect flow through benefits of FY13 cost reduction activities

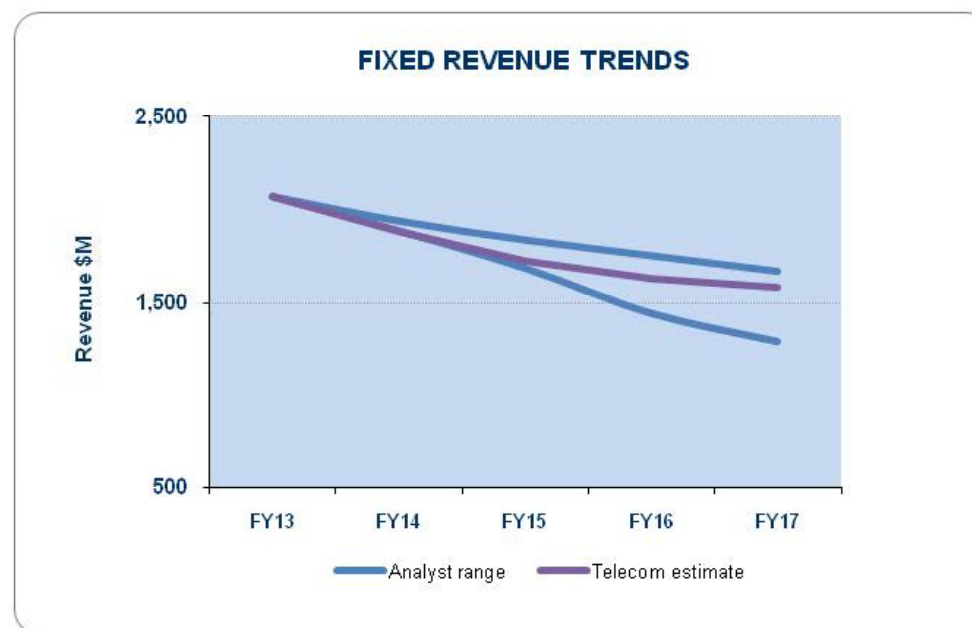
EBITDA FULL YEAR OUTLOOK



- H1 FY14 EBITDA impacted by:
 - Continued fixed line declines
 - Impact of FY13 broadband plan refresh
 - Wholesale commercial arrangements
- Expect improved performance in H2 FY14
 - Sustained growth in mobile revenue/margin
 - Stabilisation of Broadband revenues/margin
 - Turnaround initiatives, delivering improved free cash flow

MEDIUM TERM VALUE DRIVERS

- **Fixed revenue decline moderating to circa 6% CAGR FY14 to FY17**
- **Offset by growth in mobile, IT services & other revenues**
- **Aiming to stabilise top line around FY16**
- **Turnaround initiatives implemented in FY14 and through FY15 to deliver \$200-\$300m of annualised sustainable cash benefits (previously \$100-\$200m)**



Turnaround initiatives	Percentage of benefits
Opex	~75%
Revenue	~10%
Capex	~15%

CAPITAL EXPENDITURE

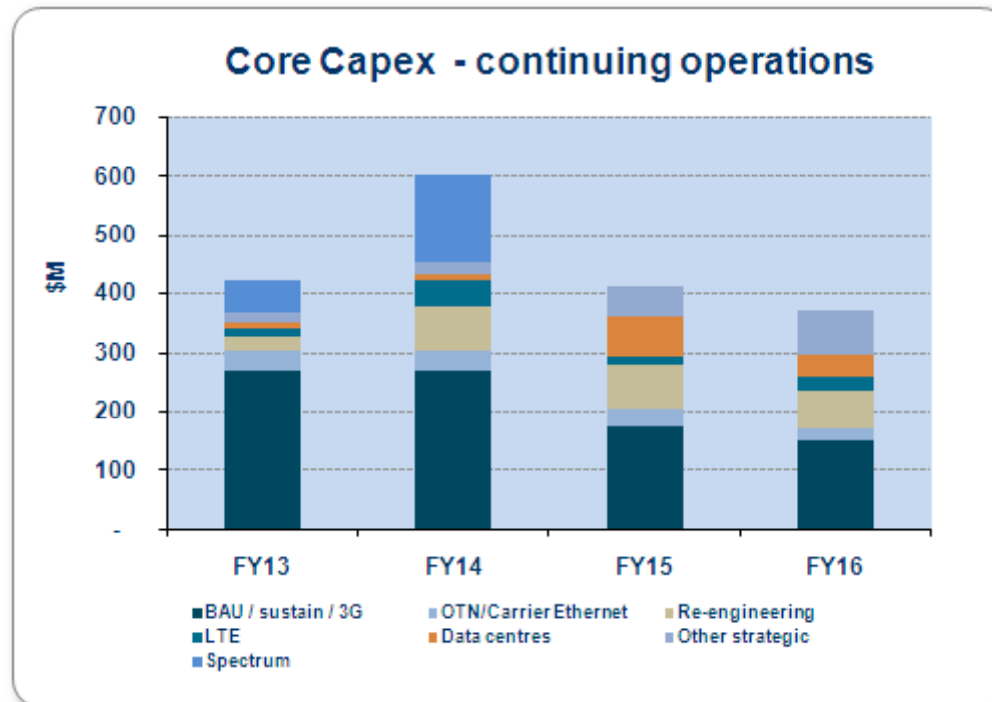


Chart reflects FY14 to FY16 core Capex envelope
FY14 excludes final allocation round for spectrum

- FY14 peak Capex year in strategic turnaround programme
- \$149m spectrum purchase
 - Price favourable vs global benchmarks
 - 4th lot subject to commerce commission approval
 - Final round (allocation) still to be completed
- Targeting sustainable long term core Capex of below \$400m per annum

DIVESTMENT OF NON-CORE ASSETS

AAPT

- **Sold 100% stake for A\$450m, NZ\$490m**
- **Transaction expected to complete 28 February 2014**
- **EBITDA H1 FY14 NZ\$55m, expect approx NZ\$70m for 8 months**
- **D&A H1 FY14 NZ\$35m**

Telecom Cook Islands

- **Actively considering divestment of our 60% stake**
- **EBITDA H1 FY14 NZ\$4m**

CAPITAL MANAGEMENT

Repositioning business portfolio in line with strategic shift

- Divestment of non-core assets
- Reinvestment in 700 MHz spectrum, 4G expansion, re-engineering, digital ventures, new brand

Remain committed to conservative capital structure and single A credit rating

- Ratio of net debt/EBITDA (including associated derivatives) not to materially exceed 1.0x on a long run basis, which for credit rating agency purposes equates approximately to 1.5x

Expect debt headroom of approx \$250m post completion of AAPT sale and acquisition of spectrum

- Appropriate given stage in business turnaround

Aspiration to deliver sustainable increases in ordinary dividends over time

- 8cps dividend declared for H1 FY14 (75% imputation)
- Intention to pay a minimum dividend of 16cps in FY14, payout to be reviewed at full year

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OUR SCORECARD: AT THE FY13 FULL YEAR RESULTS, WE SAID WE WOULD TARGET IN FY14

A more competitive organisation:

A new winning culture which is performance driven, more agile and competitive	On track
On track to crystallising an additional \$100-\$200m of annualised benefits from re-engineering, cost out and simplification programmes	Increased to \$200-\$300m

Success in the market:

A 1-2% point increase in mobile market service revenue share – with mobile completely re-platformed, 4G LTE launched	On track
Greater brand cut-through and preference in key markets	Beginning
Stabilising broadband market connection share - VDSL and fibre products take-up accelerated	Achieved
Double digit revenue growth from Gen-i networked ICT – with expanded data, mobility and Cloud capability	Achieved

Success for the future:

At least four new highly differentiated offers to consumer & SME customers	On track
Clear strategic path forward for Australia	Achieved
Digital Ventures having launched a portfolio of new products and services	Achieved



FINANCIAL OUTLOOK

Adjusted EBITDA:

- **Expect full year adjusted EBITDA from continuing operations of \$925m to \$945m**
- **Guidance excludes AAPT sale proceeds and rebranding costs**

Capex:

- **Expect FY14 Capex from continuing operations of \$450m to \$460m, excluding spectrum**

Dividend:

- **Intention to pay a minimum dividend of 16cps in FY14**
- **Payout to be reviewed at year end**

A solid half-year, with a sound strategy being executed at increasing pace.

Telecom is busy reinventing itself for its customers and for the digital future.



DISCLAIMER

Forward-looking statements and disclaimer

This announcement may include 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 may 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 announcement. 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 and the regulatory environment in New Zealand and Australia; competition in the markets in which Telecom operates; risks related to the sharing arrangements with Chorus, 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.

The securities referred to in this announcement have not been, and will not be, registered under the United States Securities Act of 1933 or under the securities laws of any state or other jurisdiction of the United States. This announcement does not constitute an offer of securities in the United States or to any person to whom it would not be lawful outside Australia and New Zealand. Any securities described herein may not be offered or sold in the United States absent registration under the Securities Act or pursuant to an applicable exemption from registration, or to any person to whom it would not be lawful outside Australia and New Zealand.

Non-GAAP financial measures

Telecom results are reported under IFRS. This announcement 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. Adjusted net earnings. Adjusted net earnings are net earnings for the year adjusted by the same items to determine adjusted EBITDA, together with any adjustments to depreciation, amortisation and financing costs, whilst also allowing for any tax impact of those items.

Telecom believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Telecom, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP financial measures as reported by Telecom may not be comparable to similarly titled amounts reported by other companies.

Telecom Group

Group result

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Adjusted operating revenues and other gains					
Fixed	1,148	1,112	1,067	1,000	969
Mobile	459	471	465	456	492
IT Services	267	276	269	261	276
Other operating revenue	110	98	88	102	102
Other gains	18	8	16	11	8
Internal Revenue	-	-	-	-	-
Adjusted operating revenues and other gains	2,002	1,965	1,905	1,830	1,847
Adjusted operating expenses					
Labour	347	321	321	256	266
Intercarrier costs	433	385	362	342	342
Other operating expenses	766	747	742	716	787
Other expenses	5	-	-	9	-
Asset impairments	-	-	-	12	-
Adjusted operating expenses	1,551	1,453	1,425	1,335	1,395
Adjusted EBITDA - continuing operations	451	512	480	495	452
Adjusted EBITDA - Chorus discontinued operations	321	-	-	-	-
Adjusted EBITDA - AAPT discontinued operations	40	48	36	38	55
Adjusted EBITDA - total	812	560	516	533	507
Depreciation and amortisation expense - continuing operations	237	248	228	231	227
Net finance expense - continuing operations	59	21	22	20	17
Taxation expense - continuing operations	46	65	62	41	61
Net earnings after tax - continuing operations	109	178	168	203	147
Profit or loss - discontinued operations	(7)	4	(5)	(27)	20
Net earnings after tax including discontinued operations	102	182	163	176	167

Analysis & KPI's

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
Fixed revenue					
Access	436	427	419	410	399
Voice/Calling	373	348	327	285	272
Broadband	188	187	177	169	166
Data	132	128	126	122	117
Other	19	22	18	14	15
	1,148	1,112	1,067	1,000	969
Mobile revenue					
Mobile usage	345	351	360	363	366
Mobile other	114	120	105	93	126
	459	471	465	456	492
FTE Permanent - continuing operations	6,686	6,710	6,387	5,512	5,342
FTE Contractors - continuing operations	432	428	402	390	427
FTE Total - continuing operations	7,118	7,138	6,789	5,902	5,769

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Revenue and EBITDA by Unit

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Operating revenue and other gains					
Connect	448	331	339	312	294
Retail	938	936	904	877	901
Gen-i	703	682	663	644	643
Corporate	53	50	53	62	67
Eliminations	(140)	(34)	(54)	(65)	(58)
	2,002	1,965	1,905	1,830	1,847
EBITDA					
Connect	(61)	(62)	(67)	(47)	(64)
Retail	338	371	348	352	328
Gen-i	199	226	202	200	193
Corporate	(25)	(23)	(3)	(10)	(5)
Continuing operations	451	512	480	495	452
Discontinued operations - AAPT	40	48	36	38	55
Discontinued operations - Chorus	321	-	-	-	-
Total group adjusted EBITDA	812	560	516	533	507

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Financial breakdown by business unit - Retail

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Adjusted operating revenues and other gains					
Fixed	596	577	547	530	516
Mobile	331	342	340	334	372
IT services	1	1	1	1	1
Other operating revenue	10	13	15	12	12
Other gains	-	3	-	-	-
Internal Revenue	-	-	1	-	-
	938	936	904	877	901
Adjusted operating expenses					
Labour	67	68	61	53	56
Intercarrier costs	202	176	157	156	158
Other operating expenses	212	309	321	297	343
Internal expenses	119	15	17	19	16
	600	568	556	525	573
Adjusted EBITDA	338	368	348	352	328

Analysis & KPI's - Retail

Local Service					
Access Lines (000)	1,023	976	949	933	913
Broadband connections (000)	598	599	612	630	640
Fixed					
Access	264	255	245	248	247
Voice/Calling	163	153	143	130	119
Broadband	158	157	149	142	141
Managed Data	1	1	1	1	-
Other	10	11	9	9	9
	596	577	547	530	516
FTE Permanent	1,787	1,736	1,615	1,435	1,432
FTE Contractors	124	125	138	131	136
FTE Total	1,911	1,861	1,753	1,566	1,568

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Financial breakdown by business unit - Connect

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Adjusted operating revenues and other gains					
Fixed	275	271	265	231	224
Mobile	3	3	5	6	5
IT services	-	1	1	1	1
Other operating revenue	60	42	47	43	40
Other gains	6	5	-	5	-
Internal Revenue	104	9	21	26	24
	448	331	339	312	294
Adjusted operating expenses					
Labour	82	73	81	60	70
Intercarrier costs	184	165	161	142	142
Other operating expenses	141	150	158	142	141
Asset impairments	-	-	-	11	-
Internal expenses	102	5	6	4	5
	509	393	406	359	358
Adjusted EBITDA	(61)	(62)	(67)	(47)	(64)

Analysis & KPI's - Connect

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
Local Service					
Access Lines (000)	417	440	442	421	414
Fixed					
Access	111	114	118	110	101
Voice/Calling	116	108	101	79	82
Broadband	2	1	1	1	-
Managed Data	39	39	37	36	36
Other	7	9	8	5	5
	275	271	265	231	224
<u>Analysis of international transits:</u>					
International transit revenue - \$m	85	74	71	55	64
International intercarrier costs - \$m	67	57	55	43	54
FTE Permanent	2,094	2,146	2,064	1,825	1,856
FTE Contractors	134	140	138	152	119
FTE Total	2,228	2,286	2,202	1,977	1,975

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Financial breakdown by business unit - Gen-i

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Adjusted operating revenues and other gains					
Fixed	277	264	255	239	229
Mobile	125	126	120	116	115
IT Services	266	274	266	257	273
Other operating revenue	7	8	4	4	3
Other gains	4	-	-	2	3
Internal Revenue	24	10	18	26	20
	703	682	663	644	643
Adjusted operating expenses					
Labour	159	141	146	120	120
Intercarrier costs	47	44	44	44	42
Other operating expenses	235	266	252	259	268
Asset impairments	-	-	-	1	-
Internal expenses	63	5	19	20	20
	504	456	461	444	450
Adjusted EBITDA	199	226	202	200	193
Adjusted EBITDA - Telecommunications solutions	180	199	179	171	164
Adjusted EBITDA - IT services	19	27	23	29	29
Total	199	226	202	200	193

Analysis & KPI's - Gen-i

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
Local Service					
Access Lines (000)	74	73	68	67	67
Broadband connections (000)	19	20	19	19	21
Fixed					
Access	61	58	56	52	51
Voice/Calling	94	87	83	76	71
Broadband	28	29	27	26	25
Managed Data	92	88	88	85	81
Other	2	2	1	-	1
	277	264	255	239	229
FTE Permanent	2,370	2,379	2,280	1,977	1,869
FTE Contractors	150	134	114	89	163
FTE Total	2,520	2,513	2,394	2,066	2,032

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Financial breakdown by business unit - AAPT (Discontinued operation)

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Adjusted operating revenues and other gains										
Fixed	341	261	235	233	217	266	202	185	188	189
Mobile	5	5	3	2	2	4	4	3	2	1
Other operating revenue	2	4	3	1	2	2	3	2	1	2
Other gains	-	-	1	-	-	-	-	1	-	-
Revenue from continued operations	22	24	21	16	14	17	18	15	14	13
	370	294	263	252	235	289	227	206	205	205
Adjusted operating expenses										
Labour	64	65	63	59	52	51	50	49	49	46
Inter-carrier costs	208	134	118	114	95	162	104	92	93	83
Other operating expenses	38	30	34	29	23	29	24	27	23	21
Expenses to continued operations	20	17	12	12	10	16	13	10	10	8
	330	246	227	214	180	258	191	179	175	158
Adjusted EBITDA	40	48	36	38	55	31	36	27	30	47

Analysis & KPI's - AAPT

Fixed					
Access	-	-	-	-	-
Voice/Calling	70	60	50	51	48
Broadband	56	38	35	33	36
Managed Data	55	52	57	64	66
Other	85	52	43	40	39
	266	202	185	188	189
FTE Permanent	768	751	733	703	690
FTE Contractors	14	14	8	17	10
FTE Total	782	765	741	720	700

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Financial breakdown by business unit - Corporate

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Adjusted operating revenues and other gains					
IT services	-	-	1	2	1
Other operating revenue	33	35	22	43	47
Other gains	8	-	16	4	5
Internal Revenue	12	15	14	13	14
	53	50	53	62	67
Adjusted operating expenses					
Labour	39	39	33	23	20
Other operating expenses	23	22	11	18	35
Other expenses	5	-	-	9	-
Internal expenses	11	12	12	22	17
	78	73	56	72	72
Adjusted EBITDA	(25)	(23)	(3)	(10)	(5)

Analysis & KPI's - Corporate

Southern Cross Dividends - \$m	26	32	19	37	43
FTE Permanent	435	449	428	275	185
FTE Contractors	24	29	12	18	9
FTE Total	459	478	440	293	194

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Analysis & KPI's - Mobile

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
Mobile (Retail & Gen-i)					
<u>Mobile revenue:</u>					
Voice revenue - \$m	198	193	193	192	188
Data revenue - \$m	144	154	163	166	173
Other mobile revenue ¹	114	121	105	92	126
	456	468	460	450	487
<u>New Zealand average revenue per user (ARPU) 6 month active</u>					
ARPU - \$ per month	28.45	28.54	33.75	33.55	32.78
Postpaid - \$ per month	53.25	53.51	56.43	54.84	53.89
Prepaid - \$ per month	10.29	9.41	11.32	11.92	12.01
Voice - \$ per month	16.48	15.85	18.30	18.03	17.06
Data - \$ per month	11.97	12.69	15.44	15.52	15.71
<u>Number of mobile customers at period end (000) (New Zealand - Group) 6 month active</u>					
Postpaid	857	893	863	908	948
Prepaid	1,157	1,123	847	895	967
Internal postpaid	17	15	13	12	8
Total mobile customers ²	2,031	2,031	1,723	1,815	1,923

1 Other mobile revenue includes handset sales and mobile interconnect

2 Mobile connections exclude MVNO connections.

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Costs summary

	H1 FY12	H2 FY12	H1 FY13	H2 FY13	H1 FY14
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Operating expenses					
Labour	347	321	321	256	266
	347	321	321	256	266
Intercarrier costs					
Baseband and access charges	264	262	245	236	231
Other intercarrier costs	169	123	117	106	111
	433	385	362	342	342
Other operating expenses					
Direct network costs	50	41	42	27	44
Mobile cost of Sales	153	183	175	163	193
IT Services cost of sales	153	164	156	163	161
Broadband cost of sales	122	119	121	127	133
Field services	28	23	25	14	17
Computer costs	46	34	39	35	38
Accommodation Costs	71	53	51	57	43
Advertising Promotions and Communication	36	27	39	32	44
Bad debts	6	2	6	8	16
Other expenses	101	101	88	90	98
	766	747	742	716	787

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Capex Summary

	H1 FY12 NZ\$m	H2 FY12 NZ\$m	H1 FY13 NZ\$m	H2 FY13 NZ\$m	H1 FY14 NZ\$m
Major Programmes:					
Optical transport network	-	-	14	19	22
Re-engineering	-	-	8	17	44
Mobile network	46	48	29	55	89
Mobile spectrum	-	-	54	-	-
	46	48	105	91	155
Revenue retention and sustain:					
Southern Cross	1	3	11	-	10
Regulatory	8	7	2	2	1
Revenue retention and sustain other	116	123	107	103	100
	125	132	120	105	111
Discontinued Operations:					
Chorus	136	-	-	-	-
AAPT	18	22	21	23	27
	154	22	21	23	27
Total Group	325	203	246	219	293

Capital expenditure is presented on an accruals basis.