TELECOM NEW ZEALAND

Financial Update

Investor Briefing Day – 27 May 2010

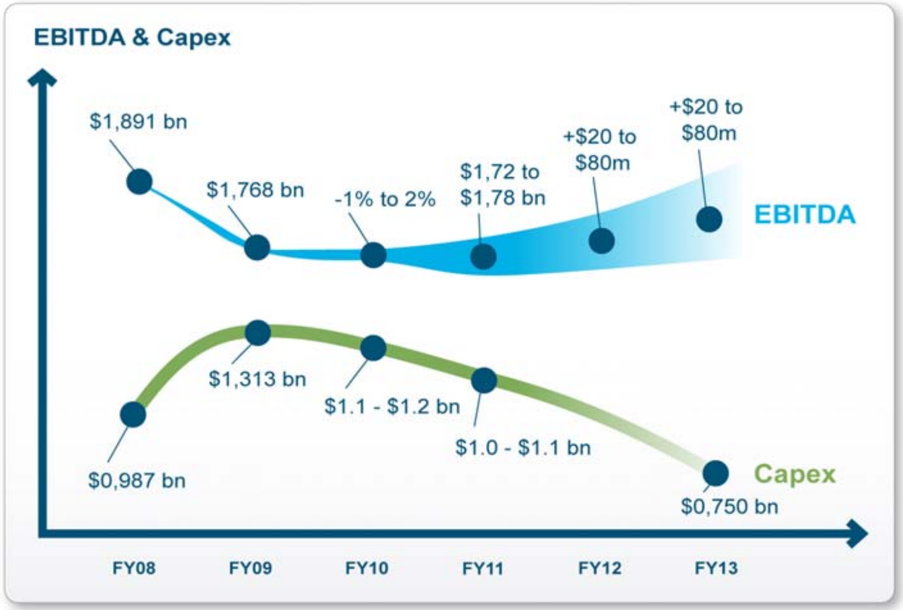
Chief Financial Officer – Russ Houlden

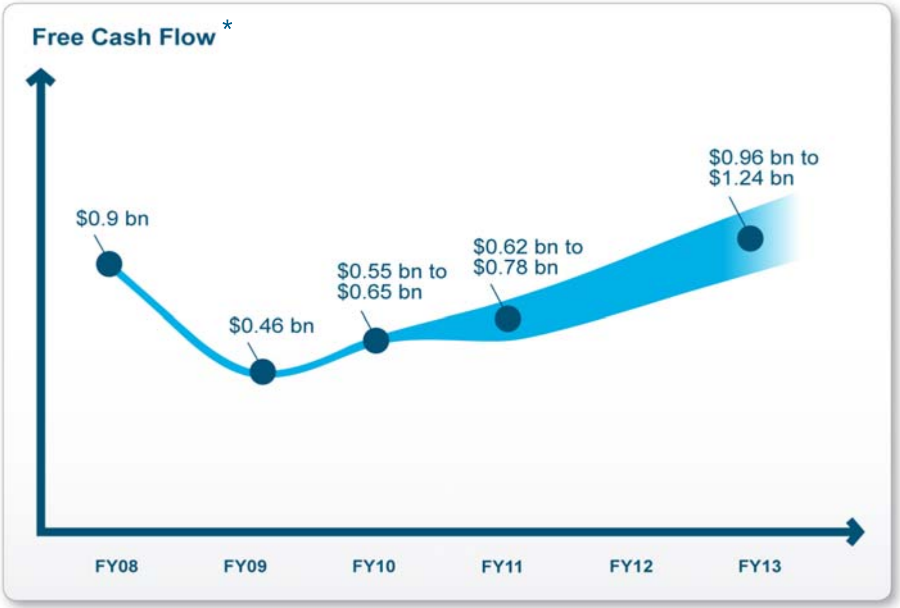
Guidance vs Long Term Plan

- Guidance
  - Only slides headed guidance comprise our formal guidance
  - In the event of a material change to guidance we will update the market at that time

- Long Term Plan
  - All other figures are extracted from the long term plan which was prepared recently
  - These figures are indicative only and provided for transparency, not as further guidance
  - Operating plans evolve continuously
  - We currently intend to update the long term plan on an annual basis

Guidance





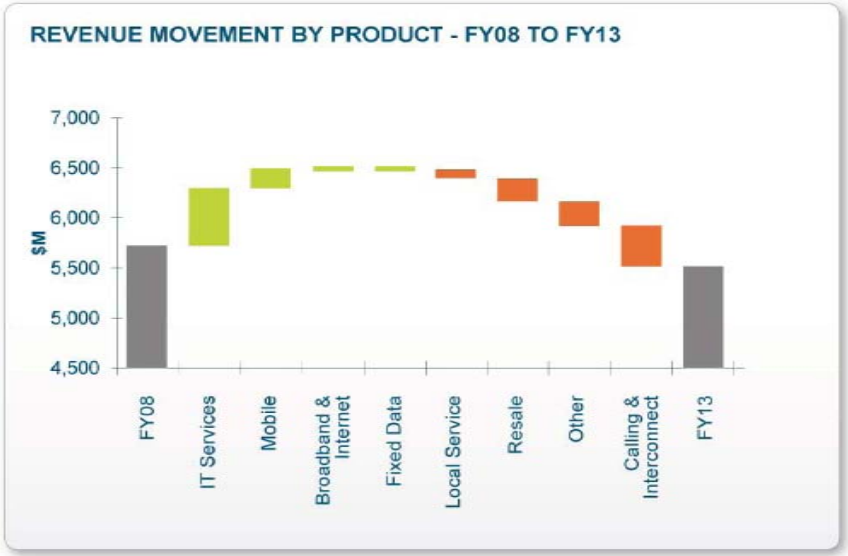
Guidance assumes the retention of AAPT and does not reflect any impact arising from the Government's Ultra Fast Broadband initiative, which is likely to re-shape the industry

*Free Cash Flow here is defined as EBITDA less Capex, it is before interest and tax.

Long Term Plan Assumptions & Drivers

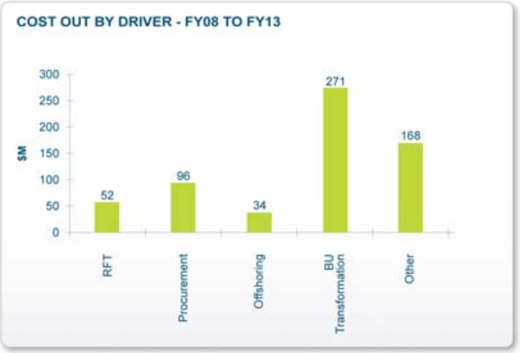
- Assumes the retention of AAPT and the International voice business
- Does not reflect any impact arising from the Government's Ultra Fast Broadband initiatives
- Assumes TSO/RBI are implemented in current form
- FY13 NZ Mobile - market share of revenue to increase to 43%
- FY13 NZ Fixed line assumptions
  - ~165k UCLL and SLU lines
  - ~250k mobile only households/businesses
  - MTR reducing to 8c (6c by 2014, in line with undertaking)
- FY13 NZ Broadband – 1.2m to 1.3m fixed and mobile on-net broadband connections
- FY11-13 - NZ IT Services market to grow at 4.5% CAGR

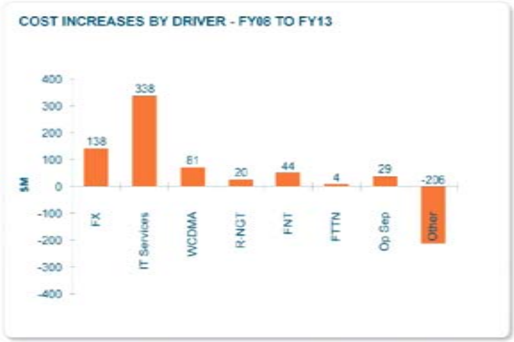
Long Term Plan – External Revenue

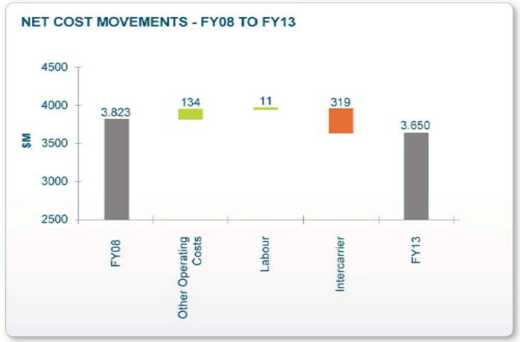


- Total revenues expected to decline $212m over the 5 year period
- Revenue $597m lower than the 2009 long term plan due to revised growth assumptions across all product categories:
  - Still expect solid growth in IT services (in NZ & Australia) and Mobile
  - Broadband growth in New Zealand offset by declines in Australia

Long Term Plan – External Costs





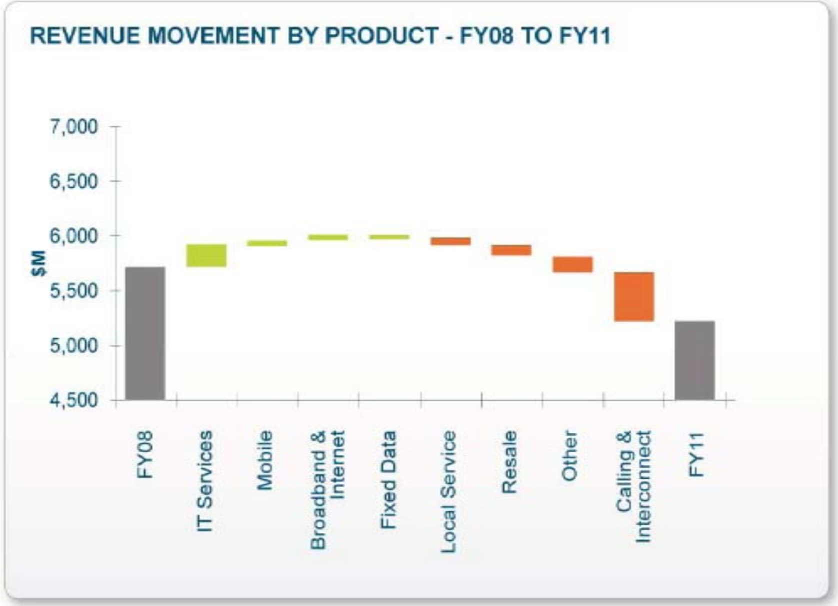


- Cost out of $622m is $98m higher than the 2009 long term plan
  - Simplification of Retail
  - Additional Right First Time savings
  - Greater savings from Retail NGT
  - Offset by lower off-shoring savings

- Cost growth of $448m is $334m less than the 2009 long term plan
  - IT Services growth in Gen-i
  - Foreign exchange effects
  - Mobile cost of sales and increased operating costs
  - Offset by declining volumes in AAPT and TNZI

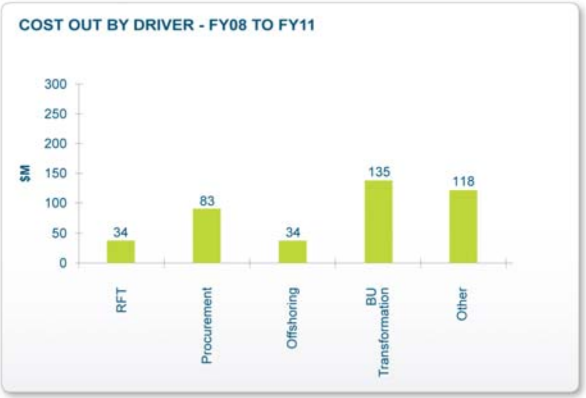
Costs expected to decline $174m from FY08 to FY13

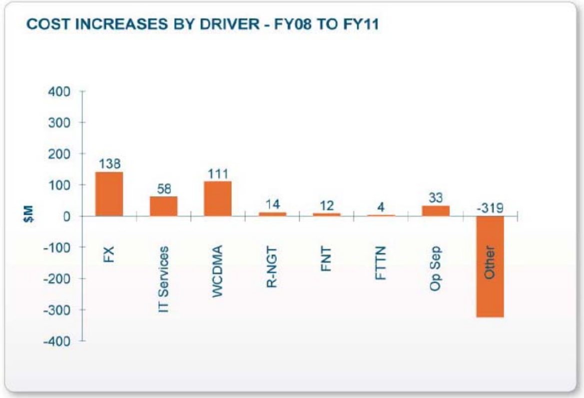
External Revenue – FY08 to FY11

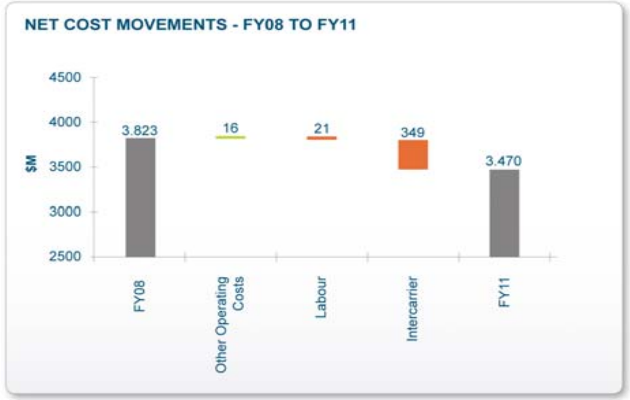


- Total revenues expected to decline ~$500m over the 3 year period
- FY11 expected to be “low point” before returning to growth in FY12
- Reductions to FY11 primarily driven by
  - Declines in traditional telco products
  - AAPT exiting low margin customers

External Costs – FY08 to FY11





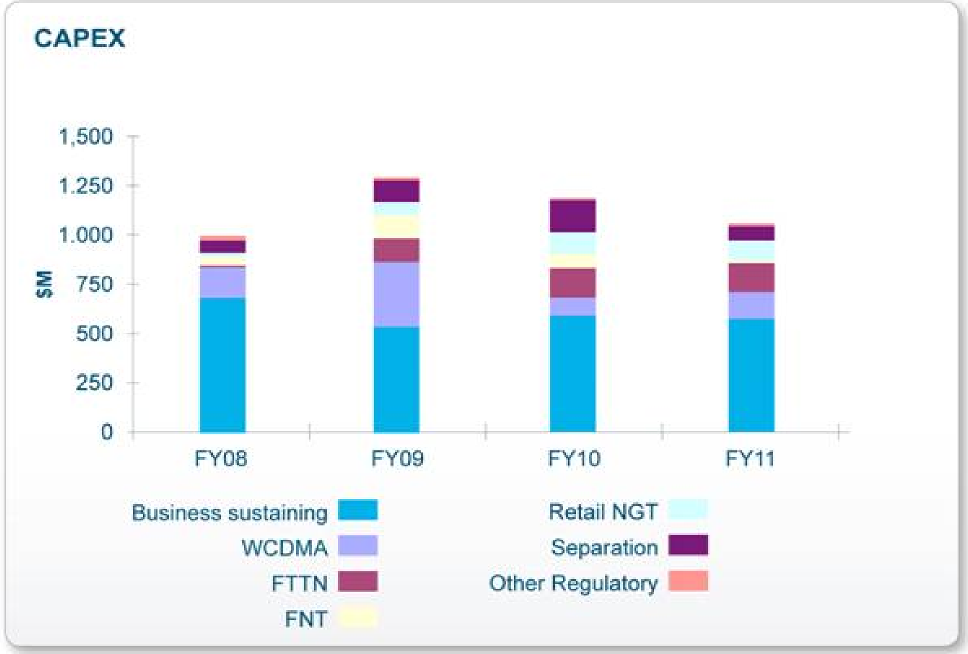


- Cost out of $404m driven by
  - Transformation to lower cost operating models in T&SS and Gen-i
  - Other cost out in Retail and in T&SS
  - Procurement savings in Retail
- Cost growth of $51m driven by
  - Foreign exchange effects
  - Mobile cost of sales and increased operating costs
  - Offset by declining volumes in AAPT and TNZI

Costs expected to decline $353m from FY08 to FY11

FY11 expected to be “low point” before growing in FY12

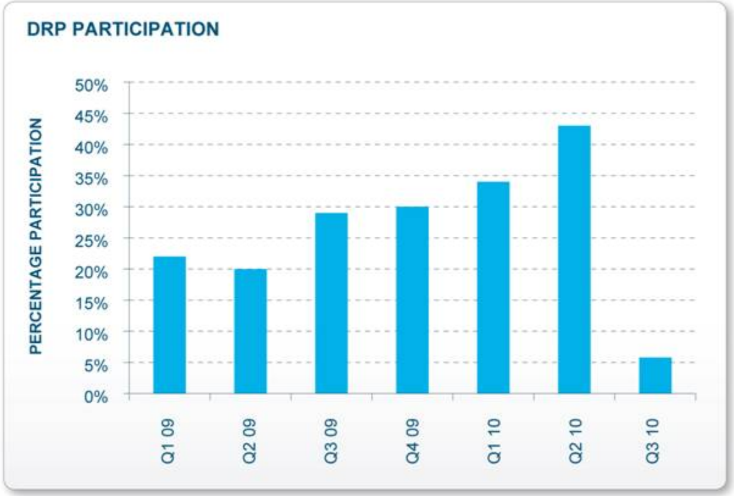
FY11 Capex By Programme

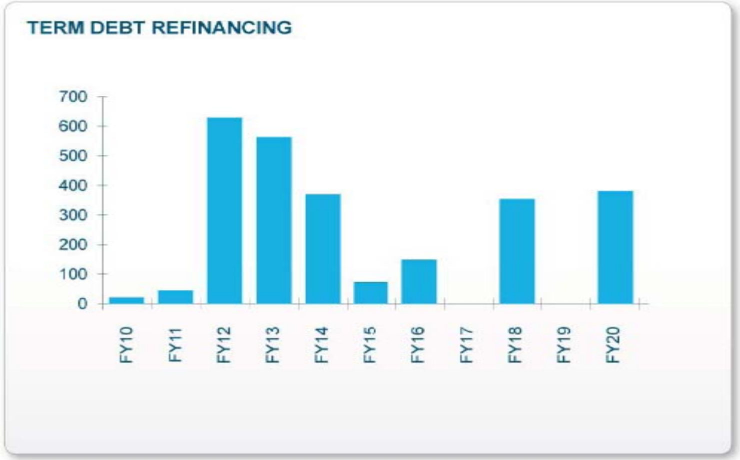


- Capex to sales ratio reduced to ~20% in FY11 reflecting
  - Reduction in Separation, FNT and Retail NGT spend
  - Mobile capex to enhance WCDMA capability
  - Peak year of FTTN

Dividend Policy & Financing

- FY11 Dividend Policy
  - Targeting a payout ratio of approx. 90% of adjusted net earnings
  - Dividend expected to be fully imputed
  - DRP with nil discount and on market buy-back
- Net Debt / EBITDA not to exceed 1.7x
- No need to borrow long term in 2010
- Committed standby facility to be reduced to NZ$700m





Guidance – Maintained FY10 to FY13

telecom nz

- Assumes retention of AAPT and does not reflect any impact from the Government’s Ultra Fast Broadband initiative
- FY10 Guidance maintained
- FY11 Guidance
  - Adjusted EBITDA of $1.72 to $1.78 billion
  - Capex of $1.0 to $1.1 billion
- FY12 Guidance
  - Adjusted EBITDA to increase by $20 to $80 million
- FY13 Guidance
  - Adjusted EBITDA to increase by $20 to $80 million
  - Capex around $0.75 billion

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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
    - 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.