



TELECOM NEW ZEALAND

Q4 FY10 RESULT BRIEFING

Chief Executive Officer – Paul Reynolds
Chief Financial Officer – Russ Houlden



CONTENTS

- Paul Reynolds
 - Key messages
 - FY10 in review
 - Market trends
 - Mobile
 - Business unit performance

- Russ Houlden
 - Economy
 - Group financials

- Paul Reynolds
 - Transformation
 - Regulation
 - Guidance



**Key messages, FY10 in review, market trends,
mobile, and business unit performance**



GROUP Q4 FY10 KEY MESSAGES

- Financial performance delivered in line with guidance
 - Adjusted EBITDA stable at \$1,764m
 - Adjusted Net Earnings of \$382m
 - Capex of \$1,183m
 - Cost out of \$249m
 - First year of FCF growth since 2006

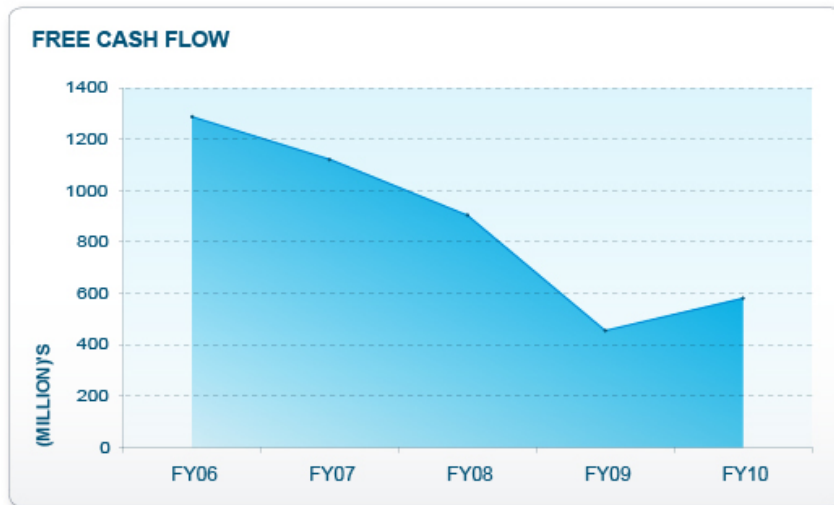
- Comprehensive UFB submission (in August)

- All enforceable undertakings met, awaiting response on 4th variation request

- FY11 to FY13 guidance maintained

- Jul 2010 – Sale of Australian assets for A\$140m
 - Conditional agreement to sell AAPT Consumer division A\$60m

FY10 IN REVIEW



	FY09 % Change	FY10 % Change
Group EBITDA	-7%	0%
Chorus	0%	1%
Wholesale & Intl	-8%	-4%
Retail	-14%	-2%
Gen-i	-16%	3%
AAPT	0%	19%

- Improvement in free cash flow as forecast, driven by:
 - Gen-i EBITDA turnaround delivered in FY10
 - Retail EBITDA turnaround on track for FY11
 - EBITDA growth in AAPT
 - Reduction in Capex post FY09 peak

FY10 IN REVIEW

- Mission - No. 1 in Mobile, Broadband and ICT

- Broadband
 - #1 by market share
 - Retail - 56% share of connections, 41% share of net connection growth in the year
 - 1m+ households can access broadband speeds of 10 Mb/s+

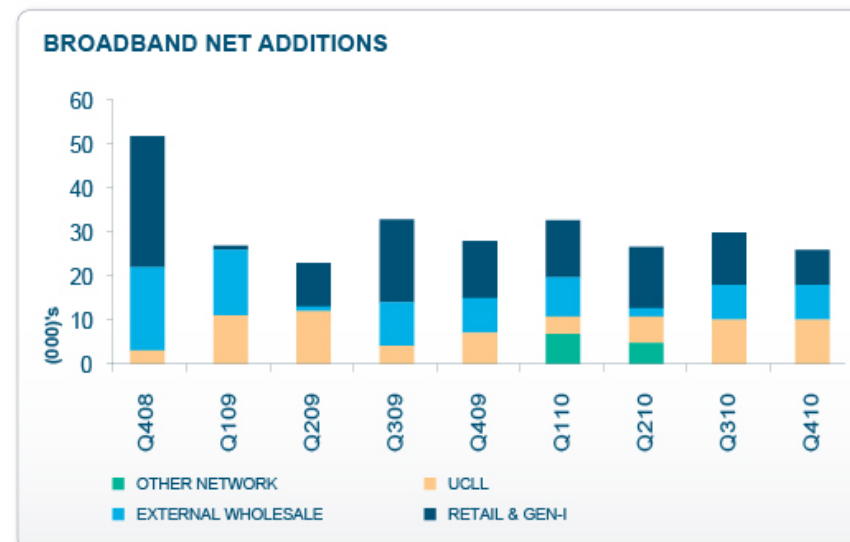
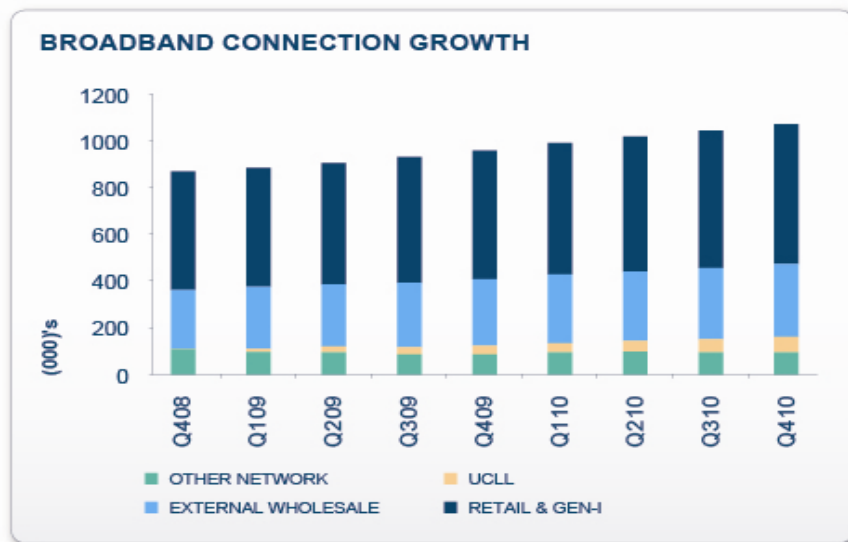
- Mobile
 - #2 by market share
 - 712k XT customers at year end
 - Gen-i XT acquisition 50k over the year
 - XT faster in more places
 - 21 Mb/s maximum speed, 4 Mb/s average speed

- ICT
 - #1 by market preference
 - Margin up from 7% in FY09 to 8% in FY10



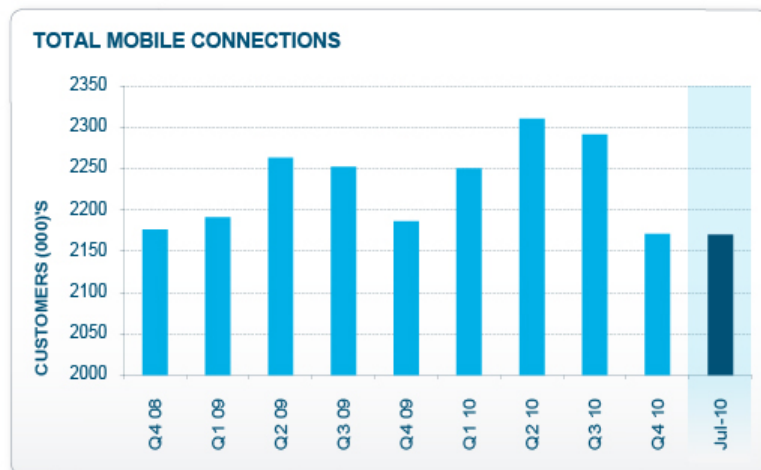
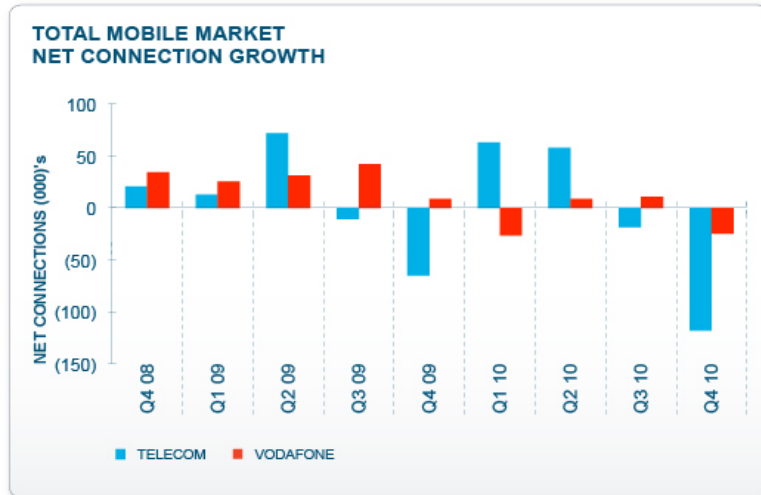
Q4 BROADBAND MARKET TRENDS

- Market growth stable at around 10% p.a.
- Retail market share 56%
- Retail 31% of net connection growth in the quarter, low market activity



Note – Q4 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
 Note – includes all fixed line and cable Broadband, excludes mobile Broadband

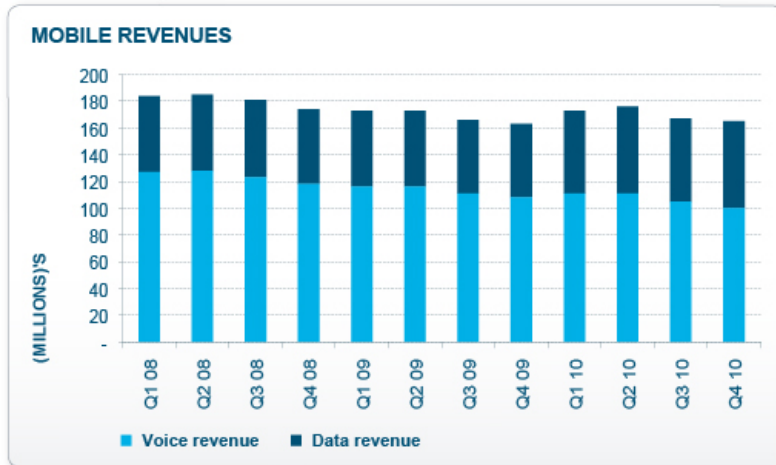
Q4 MOBILE MARKET TRENDS



- Telecom connections down 120k in quarter, reflecting:
 - Seasonal churn (low value prepaid CDMA xmas sales)
 - Lag effect of lower levels of marketing activity in Q3 & Q4
 - Removal of temporary postpaid CDMA connections
 - Intensified competitor activity

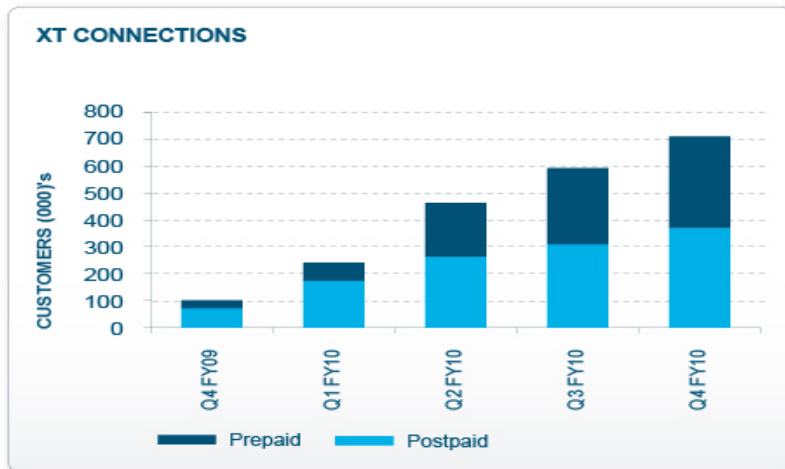
- Mobile connections stable in July

Q4 MOBILE (RETAIL & GEN-i)



Q4 Key Points

- Q4 Revenue flat YoY
 - 12% growth in total Gen-i mobile revenues
 - 98% growth in Retail mobile bb revenues
- Q4 Revenue up 4% YoY when normalised for credits
- 20% growth in XT connections in the quarter



Plan FY11

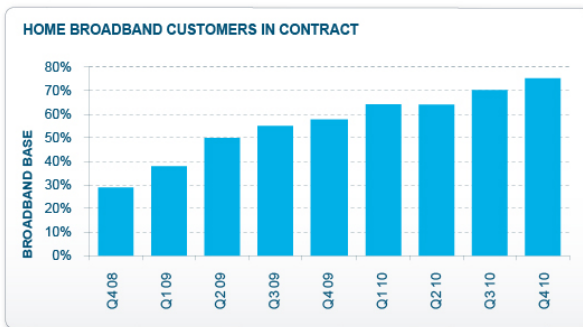
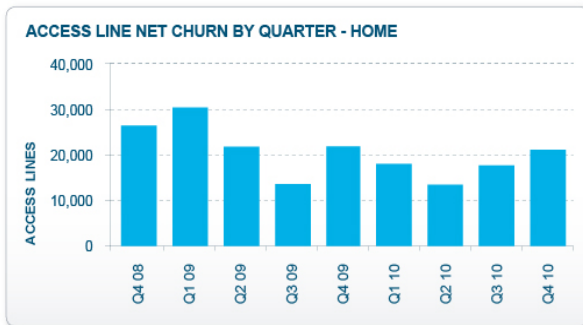
- Continue migration from CDMA to XT while managing cost of sales
- Focus on high value acquisition & underserved Auckland market
- Increase penetration of smart devices
- Continue growth of Gen-i mobility story through new applications and transition of key wins

Q4 Key Points

- EBITDA turnaround on track - full year EBITDA down 2.0%
- Access churn higher than Q3, focus on contracting and bundles
- Broadband – focus on increasing ARPU & EBITDA
- Organisation restructured
- Delivered \$104m of cost out to date

Plan FY11

- Focus on retention
 - Focus on high value and 'at risk' customers
 - Segment-targeted offers
- Focus on simplification
 - Automation of complex 'in-life' products
- Focus on cost out – cumulative FY11 target of \$149m



GEN-i



Q4 Key Points

- Achieved EBITDA turnaround – full year EBITDA up 2.7%
- EBITDA growth of \$19m (40%) vs Q4 FY09
- \$638m in contracts closed vs \$446m in Q4 FY09, YTD \$1.4b
- NZ Voice and data revenue decline trends continued
- Mobile - 12% revenue growth, 6% connection growth (vs Q4 FY09)
- Strong NZ IT Services performance for Q4
 - Full Year Margins up from 7% in FY09 to 8% in FY10
- Successful launch of ReadyCloud, Mobile Office, Voice Connect
- Organisation restructure executed with lower cost base

Plan FY11

- Simplify our client propositions and create focused delivery models
- Leverage Right First Time and End-to-End to optimise and automate our delivery to reduce rework
- Focus on cost out – cumulative FY11 target of \$70m
- Focused growth in Mobile, Cloud Services, Trans Tasman and Australia
- Grow share of ICT spend in high value clients



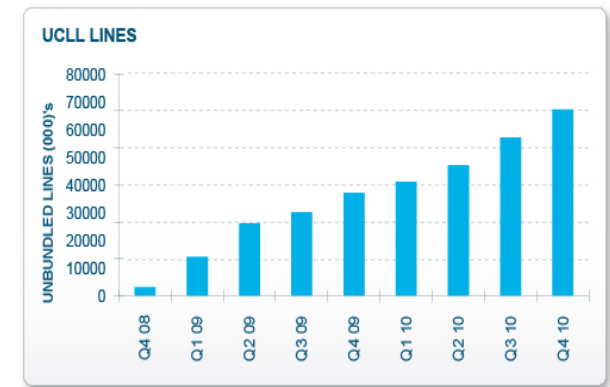
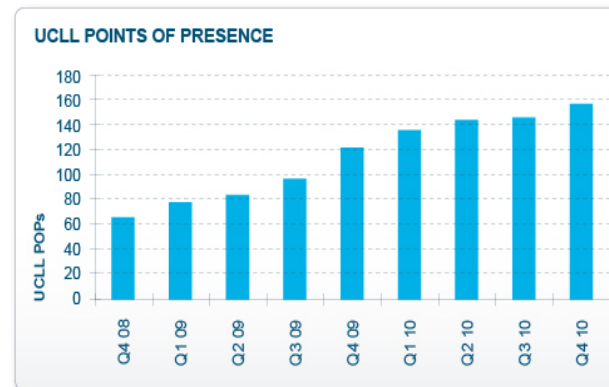
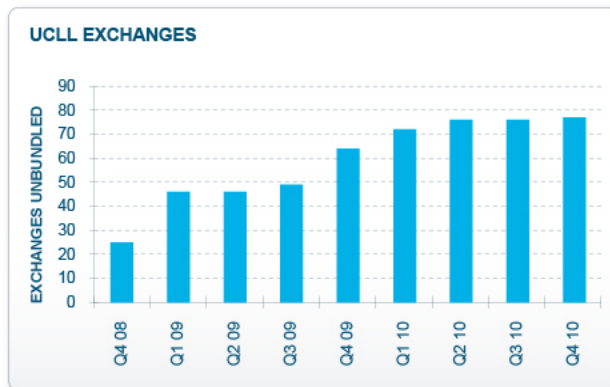
CHORUS

Q4 Key Points

- EBITDA flat for the quarter and year
- Access lines largely stable
- Innovative low cost UFB trials
- Improved service company performance
- Enforceable undertakings commitments met
- Cost reduction achieved through Right First Time

Plan FY11

- Focus on cost out – cumulative FY11 target of \$9m
 - Right First Time
- On-going involvement with Government’s UFB and Rural Broadband initiatives
- Targeting revenue growth through new products



WHOLESALE & INTERNATIONAL



Q4 Key Points

- Full year EBITDA down 4% year on year
 - Internal costs outpace revenue growth
 - Wholesale revenue growth of \$58m, or 7%
- Performance and service measures significantly improved in Q4
- HSNS volume growth of 72% in Q4
- Full launch of MVNO
- Loyalty settlement & HSNS decisions improve regulatory certainty
- Wholesale FMO Pause requested and under consideration by Minister

Plan FY11

- Focus on cost out – cumulative FY11 target of \$9m
 - Personnel, supplier negotiations, and discretionary spend
- Strategic focus on Data Market (International & Domestic), expected to deliver growth
- Tactical interventions focused on mass market retention
- Delivering Undertakings whilst improving customer experience
- Assessment of strategic options for International wholesale voice business continues

AAPT



Q4 Key Points

- Full year EBITDA of A\$108m up by A\$15m (16%) year on year
- Ongoing investment in Mid Band Ethernet and ADSL2+ coverage
- Securing future Business revenue through strong re-signs
- New self service portal released to Wholesale customers
- All AAPT staff successfully migrated to Google Apps

Plan FY11

- Sale of Australian assets for A\$140m
 - Completion of Consumer business sale expected in Sep
- Align operations to leaner business structure
- Complete Billing rationalisation programme
- Business sales focus on Data and new SIP Voice Product
- Complete NBN upgrade programme





Group Financials

KEY FINANCIAL MESSAGES

- First year of FCF growth since 2006 regulatory shock
- Adjusted EBITDA stable at \$1,764m
- \$249m of cost out delivered
- Economic impact reducing
- Capex of \$1,183m (down \$130m on FY09)
- Q4 FY10 dividend of 6c per share
- FY11 dividend policy to pay around 90% of Adjusted Net Earnings
 - Interim dividends of 3.5 cps for Q1, Q2 & Q3, with Q4 adjusted to achieve 90% payout

ECONOMY



- Impact in Q4 of up to \$5m EBITDA, YTD up to \$35m EBITDA
- Residual impacts evident in Gen-i
- Reducing impact reflects gradual recovery of the NZ economy

INCOME STATEMENT - REPORTED



Year ended 30 June	2010 \$M	2009 \$M	Change %
Revenue	5,271	5,638	-6.5%
Expenses	(3,507)	(3,959)	-11.4%
EBITDA	1,764	1,679	5.1%
Depreciation & amortisation	(1,032)	(917)	12.5%
EBIT	732	762	-3.9%
Net finance expense	(180)	(201)	-10.4%
Share of associates' profit/(losses)	1	(1)	NM
Income tax expense	(171)	(160)	6.9%
Net Earnings	382	400	-4.5%
Net earnings attributable to shareholders	380	398	-4.5%
EPS	20	22	-9.1%
DPS	24	24	0.0%

INCOME STATEMENT - ADJUSTED



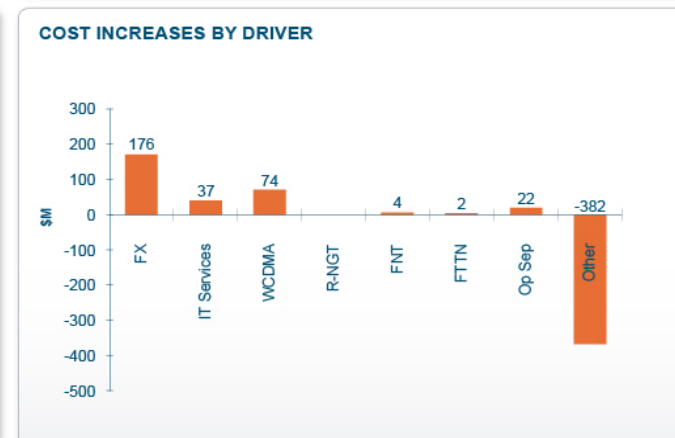
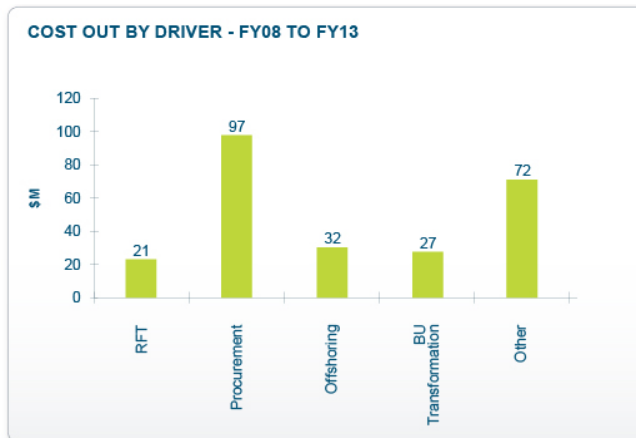
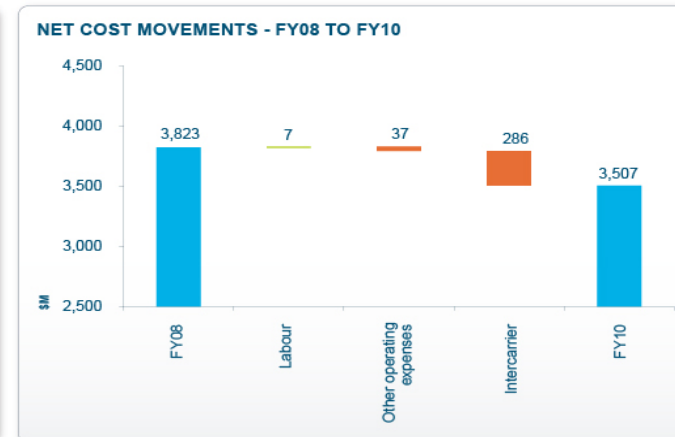
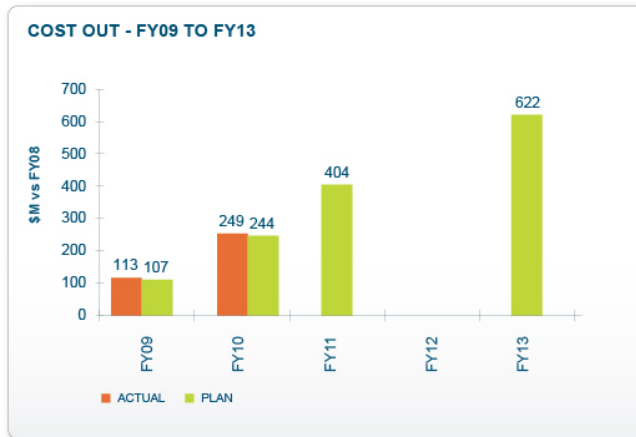
Year ended 30 June	2010 \$M	2009 \$M	Change %
Revenue	5,271	5,626	-6.3%
Expenses	(3,507)	(3,858)	-9.1%
EBITDA	1,764	1,768	-0.2%
Depreciation & amortisation	(1,032)	(917)	12.5%
EBIT	732	851	-14.0%
Net finance expense	(180)	(201)	-10.4%
Share of associates' profit/(losses)	1	(1)	NM
Income tax expense	(171)	(166)	3.0%
Net Earnings	382	483	-20.9%
Net earnings attributable to shareholders	380	481	-21.0%
EPS	20	26	-23.1%
DPS	24	24	0.0%

INCOME STATEMENT - ADJUSTED



Quarter ended 30 June	2010 \$M	2009 \$M	Change %
Revenue	1,335	1,361	-1.9%
Expenses	(907)	(955)	-5.0%
EBITDA	428	406	5.4%
Depreciation & amortisation	(255)	(261)	-2.3%
EBIT	173	145	19.3%
Net finance expense	(47)	(52)	-9.6%
Share of associates' profit/(losses)	0	(1)	NM
Income tax expense	(84)	(22)	NM
Net Earnings	42	70	-40.0%
Net earnings attributable to shareholders	42	70	-40.0%
EPS	2	4	-50.0%
DPS	6	6	0.0%

COST OUT



- Cost out target exceeded by \$5m
- FY10 cost \$316m lower than FY08, of which \$249m due to cost out activities

FINANCIAL POSITION



	30 Jun 10	30 June 09
	\$M	\$M
Cash	360	261
Other current assets	767	927
Non current assets	5,738	5,577
Total Assets	6,865	6,765
Current liabilities	1,419	1,483
Non current liabilities	2,901	2,837
Minority interests	6	5
Equity attributable to shareholders	2,539	2,440
Total Liabilities & Equity	6,865	6,765
Net debt/EBITDA ¹	1.3x	1.5x

Standard and Poor's
Moody's Investor Service

A (Creditwatch Negative)
A3 (Outlook stable)

1 = Adjusted EBITDA calculation based on last 12 months, and utilises debt and derivatives at accounting values



CASH FLOW

Year ended 30 June	2010 \$M	2009 \$M
Cash flows from Operating Activities	1,761	1,551
Cash flows from Investing Activities	(1,091)	(1,282)
Cash flows from Financing Activities	(555)	(880)
Foreign exchange movement	(16)	93
Net movement in cash	99	(518)

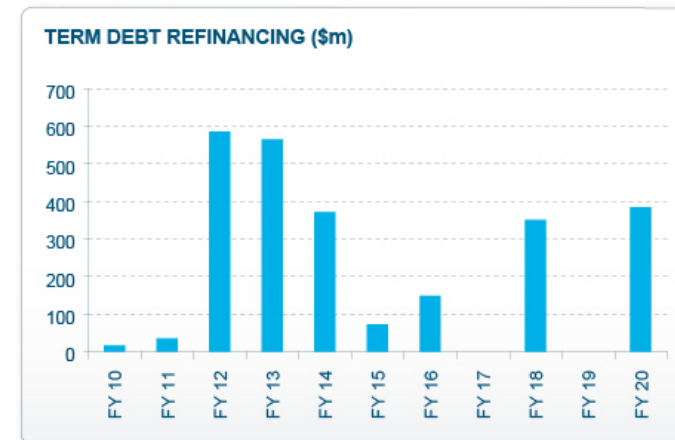
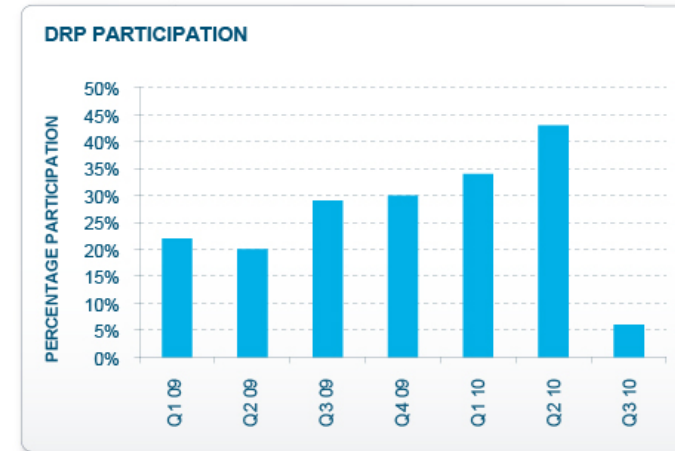
CAPITAL EXPENDITURE



Year ended 30 June	2010 \$M	2009 \$M	Change %
XT Mobile Network	100	315	
FTTN	152	126	
FNT	65	150	
NGT Retail	109	55	
Separation	163	123	
Other Regulatory	7	11	
Total transformation and regulation	596	780	(23.6)
Total business sustaining	587	533	10.1
Total Group	1,183	1,313	(9.9)

FINANCING & DIVIDEND

- Net Debt / EBITDA not to exceed 1.7x
- Committed standby facility reduced to \$700m
- Consider long term debt in FY11 in advance of FY12 maturities
- FY11 Dividend Policy
 - Targeting 90% of adjusted net earnings, fully imputed
 - DRP with nil discount and on market buy-back
 - Interim dividends of 3.5 cps for Q1, Q2 & Q3, with Q4 adjusted to achieve 90% payout





Transformation and Regulation

SEPARATION TRANSFORMATION

Purpose

Deliver the Separation Undertakings milestones

Status

- Delivered milestones to date significant challenges ahead
- Awaiting approval of 4th variation request

Enforceable Milestones	Delivery
Dec 09 requirements met for UCLL	✓
Dec 09 requirements met for UCLL Backhaul	✓
UCLL consumed by Frame Relay	✓
Broadband resale equivalence (Access to service company schedules)	✓
UBA Backhaul consumed by Retail	✓
PSTN number reservation available	✓
EUBA without POTS (50% of lines)	✓
Resale equivalence for ISDN	✓
BUBA/EUBA consumed by Outlier services	✓
One Office stop sell	✓
Stop sell Legacy Data Services	✓
BUBA/EUBA consumed by Telecom Business Units as input in the supply of Retail Broadband services	✓
Telecom will offer IP Trunking service that consumes HSNS as an input	✓
UCLL consumed by BUBA/EUBA	✓
UCLL Backhaul consumed by BUBA/EUBA	✓
Core FMO Capability Requirements met for BUBA/EUBA	✓
PSTN migration progress report	✓



FIXED NETWORK TRANSFORMATION

Purpose

Build and migrate services to an all IP Network to support customer innovation and efficiency

Status

Delivered milestones to date significant challenges ahead

Milestone	Delivery
External trial of PLV (to enable Retail to offer VoIP services via a Residential Gateway)	✓
IPEC End User Customer Network Trial complete (IP Trunking solution for Enterprises, Network Only)	✓
Commercially offered IPEC Trunking service consuming HSNS (High Speed Network Service) (a Wholesale input)	✓
IP Centrex network design complete	Apr 10, rescheduled to Jun 11



NGT RETAIL TRANSFORMATION

Purpose

Create a new lower cost operating model for Retail that underpins world class customer satisfaction

Status

Delivered milestones to date significant challenges ahead

Milestone	Delivery
End customer trials for Retail PLV based on EUBA and Residential Gateway (to enable Retail to offer VoIP services via a Residential Gateway)	✓
Release 1.3 Design and Build ready (software release to improve customer management functionality)	✓
All new Broadband moves and adds on BUBA or EUBA equivalent inputs (to provide equivalent provisioning capability)	✓
Business trial of final launch capability	✓



XT MOBILE NETWORK TRANSFORMATION

Purpose

Launch NZ's fastest and highest coverage 3G mobile network

Status

Focus on optimisation

Milestone	Delivery
HSPA+ upgrade complete	✓
40 Prepaid roaming agreements in place	✓
Deliver Retail Store upgrades	✓
Deploy >50 new cell sites (coverage and capacity)	41 delivered

FTTN TRANSFORMATION

Purpose

Provide world-class
Broadband speeds (at least
10-20 mbps) to 80% of
NZers

Status

On track

Milestone	Delivery
More than 1,054 cabinets commissioned	✓
More than 1,348 cabinets commissioned	✓
More than 1,643 cabinets commissioned	✓
More than 1,864 cabinets commissioned	✓

UFB



- Telecom submitted revised proposal on 2 August 2010
 - Proposal delivers on fibre vision through a package of structural separation and integration of UFB and RBI
 - Will require approval of 75% of shares voted

- CFH will review fibre build component of proposal
 - Preferred build partners announced by October

- Whole of Government approach necessary for regulatory and legislative component of proposal
 - CFH has no mandate in these areas
 - Critical to long term sustainability of industry, ability to attract capital
 - We look forward to engaging with Government further



PUBLIC POLICY AND REGULATION

- Pressing need for far-reaching regulatory simplification and change:
 - Cost, congestion and complexity of current framework is unsustainable
 - Need to focus on transitioning regulation from copper past to fibre future
 - UFB requires significant regulatory re-set

- Useful recent developments:
 - 3rd Undertakings variation request agreed, 4th request before Minister
 - Positive results from UBA data pricing and competition reviews
 - Reached settlements with the Commission on Wholesale “Loyalty offers” and the last remaining historical Fair Trading Act investigations
 - Resale deregulation – draft decision imminent

- MTR
 - Minister accepted Commission’s recommendation to regulate
 - Commerce Commission to commence Standard Terms investigation in Q2
 - Commission decision on benchmarked prices expected in Q4

FY11 GUIDANCE



- This financial guidance assumes retention of AAPT and does not reflect any impact from the Government's Ultra Fast Broadband initiative ("UFB"), which is likely to reshape the industry

- FY11 Guidance
 - Adjusted EBITDA of \$1.72 billion to \$1.78 billion
 - Depreciation and amortisation of \$1.03 billion to \$1.09 billion
 - Effective tax rate of around 37%
 - Adjusted Net Earnings of \$300 million to \$340 million
 - Capex of \$1.0 billion to \$1.1 billion



FY12 – FY13 GUIDANCE

- This financial guidance assumes retention of AAPT and does not reflect any impact from the Government's Ultra Fast Broadband initiative ("UFB"), 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 fourth 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 is to be filed with the U.S. Securities and Exchange Commission in August 2010. 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
 - 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.
 - 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

Q4 FY10 RESULT BRIEFING

Chief Executive Officer – Paul Reynolds
Chief Financial Officer – Russ Houlden