TELECOM NEW ZEALAND

Q4 06 Result Briefing

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Chief Executive Officer - Theresa Gattung
CFO - Marko Bogoievski
COO Business – Simon Moutter
COO Consumer – Kevin Kenrick
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GM Wholesale – Matt Crockett

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Contents

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Executive Group

Group Result – 12 months to 30 June 06

	12 months 30-Jun-06 $M	12 months 30-Jun-05 $M	Change %
REVENUE	5,755	5,650	1.9%
EXPENSES	(3,558)	(3,402)	4.6%
ABNORMAL ITEMS	(1,275)	95	NM
EBITDA	922	2,343	-60.6%
DEPRECIATION & AMORTISATION	(705)	(698)	1.0%
EBIT	217	1,645	NM
NET INTEREST EXPENSE	(254)	(289)	-12.1%
INCOME TAX EXPENSE	(394)	(386)	2.1%
MINORITIES	(4)	(3)	33.3%
Net (loss) / earnings	(435)	967	-145.0%

Group Result – Abnormal Items

Quarter Recognised		FY 06 $M	FY 05 $M	Change %
	Reported net (loss) / earnings	(435)	967	NM
	Less:			
Q2 06	Gain on acquisition of SCCL	(60)		
Q1 05	Gain on sale of retail stores		(10)	
Q2 05	Gain on buyback of convertible notes		(5)	
Q3 05	Gain on buyback of convertible notes		(4)	
Q3 05	Gain on sale of Intelsat		(8)	
Q3 05	Recognition of Southern Cross support fees[1]		(37)	
Q4 05	Gain on sale of INL		(86)	
	Add:			
Q4 06	Write-down of Australian operations[1]	394		
Q2 06	Write-down of Australian operations	897		
Q2 06	Intercarrier & Regulatory costs[1]	15		
Q2 06	Provision for contractual settlements[1]	9		
Q3 05	Intercarrier & Regulatory costs[1]		21	
Q4 05	Write-down of TDMA network[1]		16	
Q4 05	Provision for restructuring[1]		3	
	Adjusted net earnings	820	857	-4.3%

1 Figures are net of tax. Other abnormal items are not subject to tax

Group Adjusted* Result – 12 months to 30 June 06

	12 months 30-Jun-06 $M	12 months 30-Jun-05 $M	Change %
REVENUE	5,755	5,650	1.9%
EXPENSES	(3,558)	(3,402)	4.6%
EBITDA	2,197	2,248	-2.3%
DEPRECIATION & AMORTISATION	(705)	(698)	1.0%
EBIT	1,492	1,550	-3.7%
NET INTEREST EXPENSE	(254)	(289)	-12.1%
INCOME TAX EXPENSE	(414)	(401)	3.2%
MINORITIES	(4)	(3)	33.3%
Net earnings	820	857	-4.3%
EPS	41.8	44.0	-5.0%
EBITDA MARGIN	38.2%	39.8%	

* Adjusted for the abnormal items detailed on slide 5 of this presentation

Group Adjusted* Result – Q4 06

	Q4 06 $M	Q4 05 $M	Change %
REVENUE	1,454	1,431	1.6%
EXPENSES	(910)	(870)	4.6%
EBITDA	544	561	-3.0%
DEPRECIATION & AMORTISATION	(182)	(182)	-
EBIT	362	379	-4.5%
NET INTEREST EXPENSE	(63)	(68)	-7.4%
INCOME TAX EXPENSE	(95)	(96)	-1.0%
MINORITIES	(1)	(1)	-
NPAT	203	214	-5.1%
EPS	10.4	11.0	-5.5%
DPS[1]	12.0	9.5	26.3%
EBITDA MARGIN	37.4%	39.2%	

* Adjusted for the abnormal items detailed on slide 5 of this presentation

[1] Q4 06 ordinary dividend of 7cps and special dividend of 5cps

Group result for quarter ended 30 June 06: Key Points

- Another strong performance from NZ Operations offset by EBITDA decline in Australia
- NZ Operations EBITDA +4.1% on PCP driven by momentum from:
  - Mobile; strong EBITDA growth
  - Broadband; volume growth accelerating following launch of new plans in April; net connections +51k; 38k retail & 13k wholesale
  - Solid revenue performance from Directories (+9.8% on PCP)
  - Pleasing performance in Access with revenues stable quarter on quarter
- Australian operations EBITDA of A$17m (-$24m on PCP)
  - Australian carrying value reduced by A$330m to A$270m reflecting operating conditions, wholesale arrangements and EBITDA performance

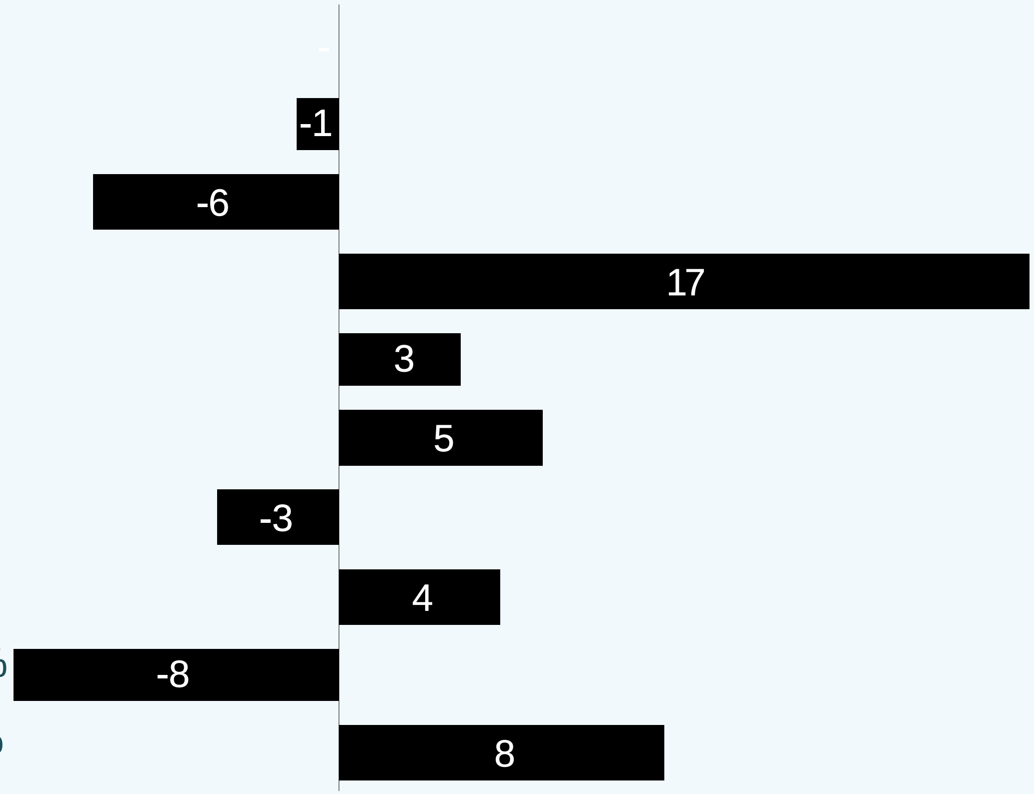
NZ Operations

	FY 06 $M	Change v FY 05 %	Q4 06 $M	Change v Q4 05 %
REVENUE	4,511	3.9%	1,125	1.7%
EXPENSES	2,286	5.2%	566	-0.5%
EBITDA	2,225	2.7%	559	4.1%
DEPN & AMORTISATION	526	-0.2%	135	0.0%
EBIT	1,699	3.7%	424	5.5%

NZ Operations - Revenue

	Q4 06 $M	Change % PCP
Access	265	0.0%
Calling[1]	248	-0.4%
Interconnect	36	-14.3%
Mobile	201	9.2%
Data	111	2.8%
Broadband & Internet	83	6.4%
IT Services	97	-3.0%
Directories	45	9.8%
Other	21	-27.6%
Internal	18	80.0%
Total	**1,125**	**1.7%**

Movement NZ$M

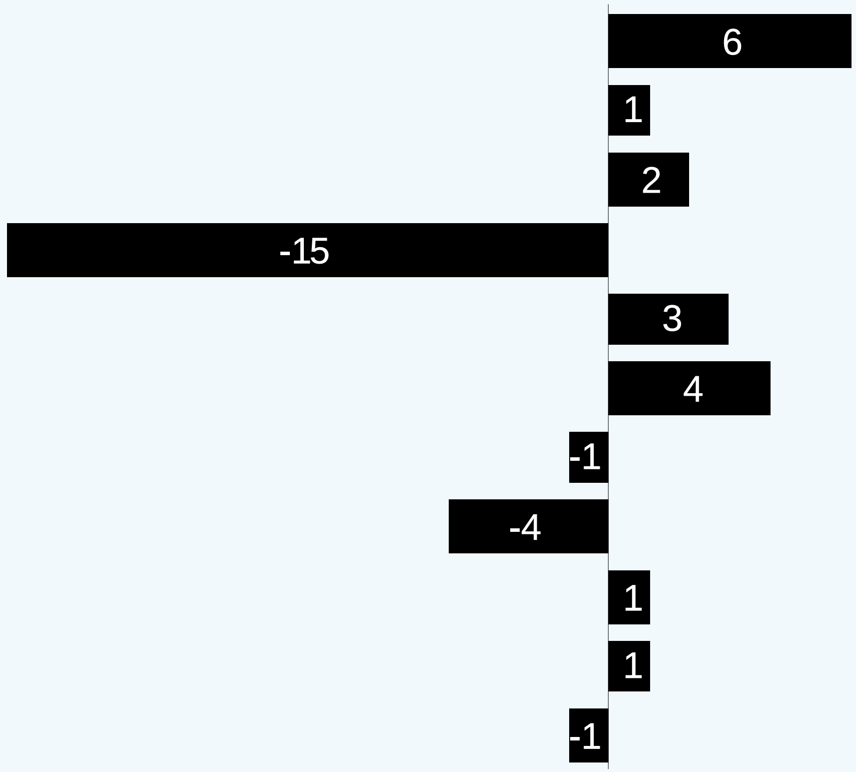


[1] Includes $17m increase on PCP in transit revenue - offset by an increase ($19m) in international settlement costs. Calling revenue adjusted to exclude transit revenue declined 8.6% on PCP

NZ Operations - Expense

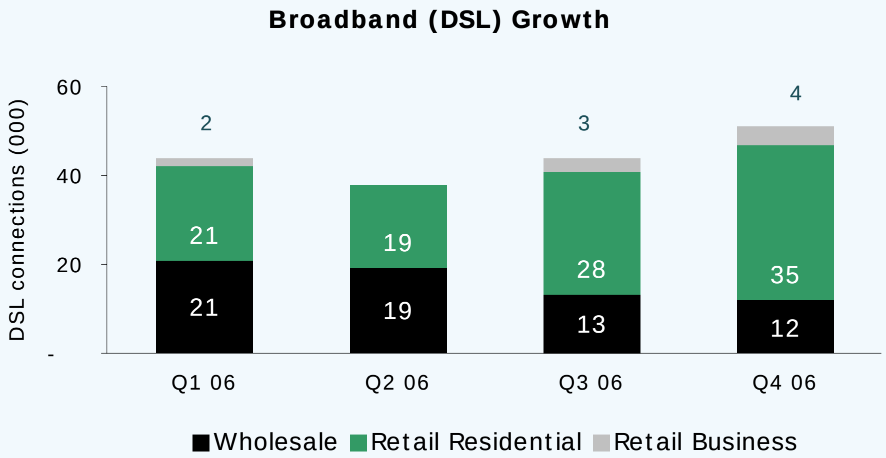
	Q4 06 $M	Change % PCP
Labour	137	4.6%
Inter-carrier costs[1]	122	0.8%
Direct Costs	63	3.3%
Mobile Acquisitions, upgrades	58	-20.5%
IT services sales costs	51	6.3%
BB[2] & Internet, Directories	24	20.0%
Computer Costs	34	-2.9%
Advertising, promotions	21	-16.0%
Accommodation	21	5.0%
Other	31	3.3%
Internal	4	-20.0%
Total	**566**	**-0.5%**

Movement NZ$M

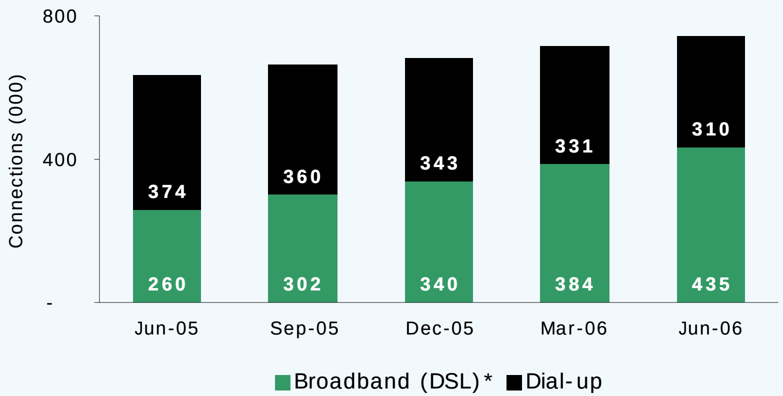


[1] Includes $19m growth on PCP of transit inter-carrier costs largely offset by $17m of transit revenue, [2] Broadband

Broadband – volume growth accelerating



- Strong connection growth following new plan-line up launched in April;
  - 51k net connections (39k retail, 12k wholesale)
- Customers upgraded to new plans, faster speeds
- Entry level $29.95 plan accounts for 6% of base
- Growth in online sales - approx 30% of new sales
- Total DSL connections now 435k (approx 25% of total access lines)



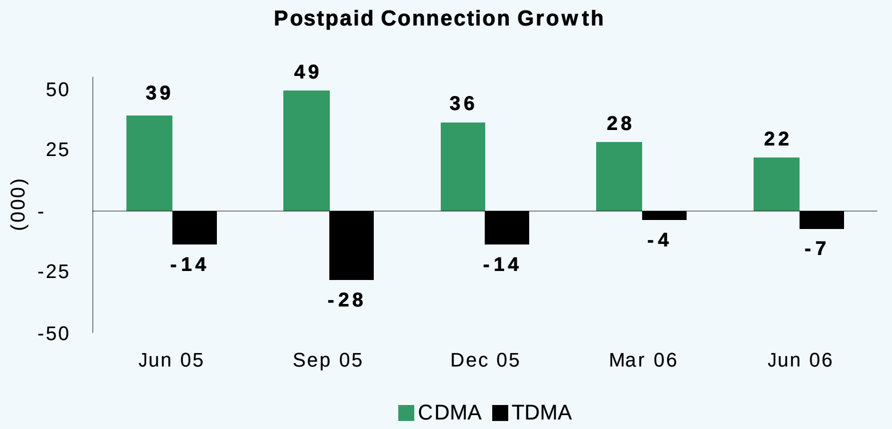
*Comprised of 335k retail & 100k wholesale connections

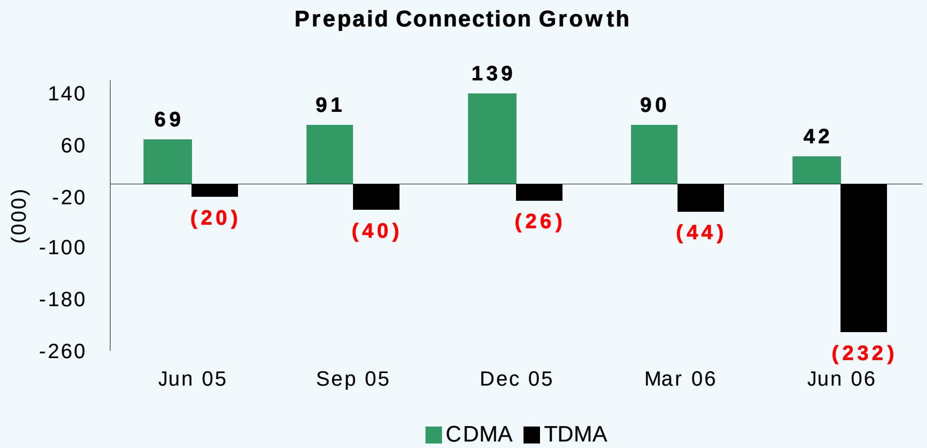
NZ Operations - Wireless

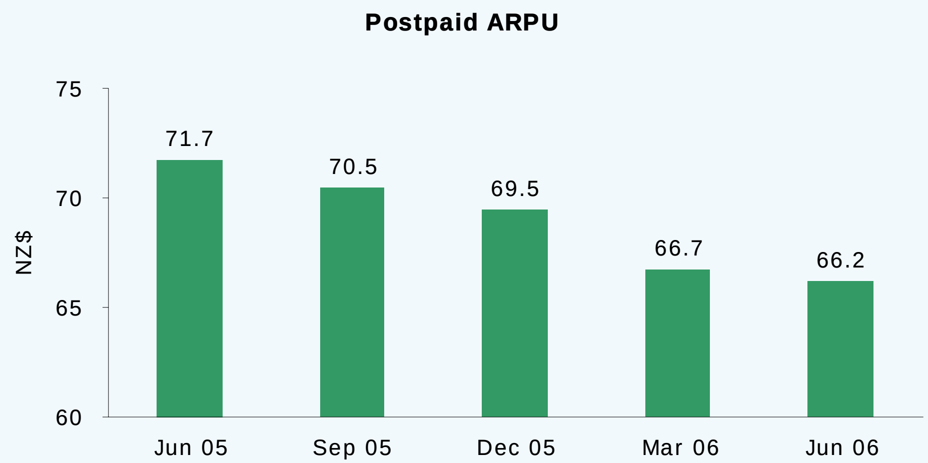
	FY 06 $M	Change v FY 05 %	Q4 06 $M	Change v Q4 05 %
Mobile Voice	526	2.9%	133	3.1%
Mobile Data	171	54.1%	48	37.1%
Mobile Voice & Data Revenue	697	12.1%	181	10.4%
Other Mobile (e.g. handsets)	77	-8.3%	20	0.0%
Total Mobile Revenue	774	9.6%	201	9.2%
Acquisition, upgrade costs & other	289	7.4%	58	-20.5%

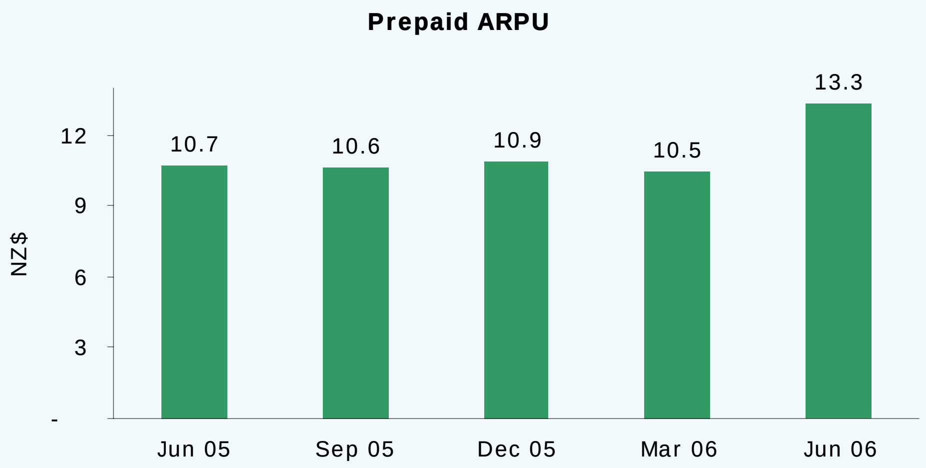
- Continuation of strong revenue growth for the quarter (+10.4% on PCP), driven by data revenue growth (+37.1% on PCP). Data ARPU ($9.2) now represents approx 25% of total ARPU.
- CDMA net connections (+64k for Q4 06) more than offset by TDMA net connections (-239k for Q4 06). TDMA net connection decline impacted by one-off adjustment to remove inactive prepaid TDMA connections prior to upcoming network closure in March 2007.
- Post-paid ARPU stabilising ($66.20 for Q4 06) and prepaid ARPU ($13.30 for Q4 06) strengthened as a result of TDMA net connection adjustment.
- Cost of sales reduction reflects reduced handset subsidies and lower acquisition & upgrade volumes -22% on PCP

NZ Operations - Wireless (cont'd)

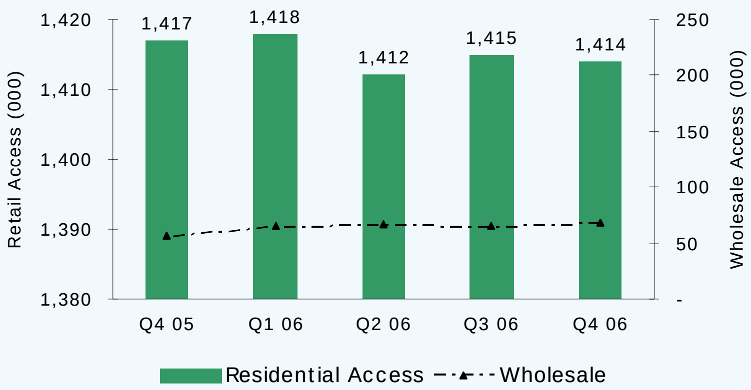


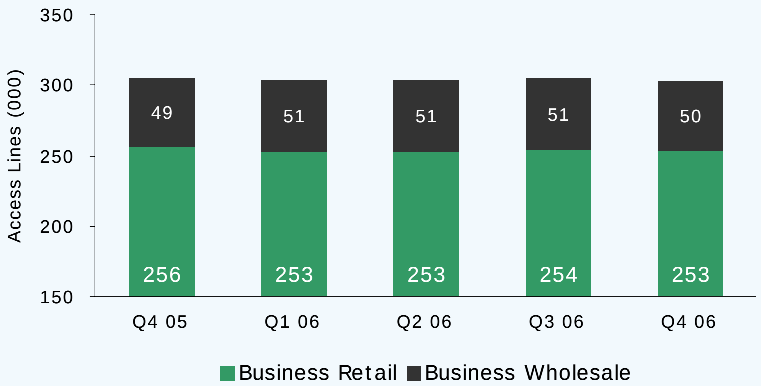






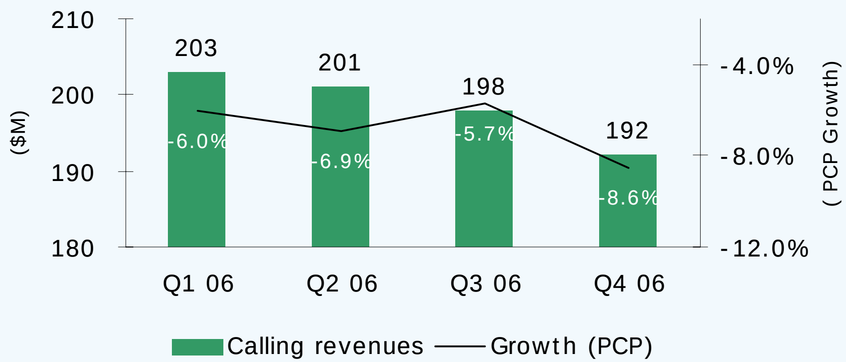
Access & Calling





- Strong performance in Access; Access lines & revenues stable sequentially reflecting lower churn due to success of bundled offerings:
  - strong uptake of Freedom (+50k)
  - more than 450k customers on Anytime plans
- Focus on retention of high value customers through bundling, subscriptions, loyalty & reward programmes
- Calling revenues continue to decline due to price erosion, competition & substitution; -6.8% YOY, -8.6% for the quarter

NZ Ops calling revenues[1]



1 Excludes transit revenues

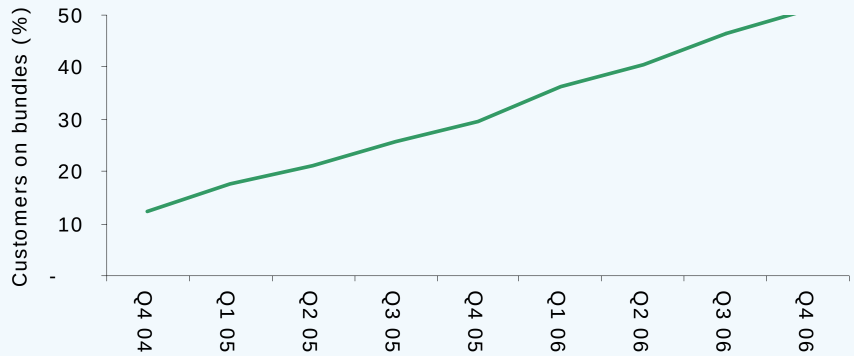
Australia

	Q3 05 AUD	Q4 05 AUD	Q1 06 AUD	Q2 06 AUD	Q3 06 AUD	Q4 06 AUD
REVENUE	305	311	296	303	296	297
EXPENSES	265	270	270	286	281	280
EBITDA	40	41	26	17	15	17
CAPEX	25	35	23	34	25	34
EBITDA less Capex	15	6	3	(17)	(10)	(17)
EBITDA Margin	13.1%	13.2%	8.8%	5.6%	5.1%	5.7%

Australia

- Mass
  - Revenues (ex mobile) steady sequentially & on PCP
  - 51% of customers now on bundles, solid broadband & internet customer growth

AAPT Consumer - Bundled Customers



- Managed
  - Growth in SME & wholesale revenues offset by decline in managed revenues due to price erosion across most product lines and churn of Toll, Vic One and the Customs business
  - Continued focus on channels with existing telesales expanded and new outbound telesales centres established in Brisbane (Feb 05) & Melbourne (May 05)
  - Hyperbaric update
    - E-bill launched March 2006 - providing additional customer information
    - Redesign back-end & self-service capability – next release due Q2 07

STRATEGIC RESPONSE TO NEW REGULATORY ENVIRONMENT

Delivering for customers in the new world

- Getting on with it:
  - Establishing industry working parties around UBS, LLU and naked DSL
  - Operational Separation of retail and wholesale business units
  - Accepted Commissioner's rulings on UBS
  - Sharing of Technical Information, Performance Statistics and Investment Plans

- Transforming the business to deliver better outcomes for customers:
  - Consumer - focusing on value, accelerating NGT
  - Business – a new approach for our Trans-Tasman market segments
  - Technology & Enterprises – operational separation, NZ investment plans
  - Wholesale – progress to date and plans for the future

NZ Consumer Market – Strategic Focus

Insights from Strategic Review

- Customers are demanding improved service experiences and everyday low prices
- Our current product set is too complex and costly to deliver
- Broadband is becoming the primary access service for high value customers
- Fixed and mobile technologies are increasingly converging
- Our current go-to-market cost model is unsustainable

Key Strategic Initiatives

1. Enhance core communication offerings
2. Accelerate transition to NGT
3. Grow broadband penetration
4. Lead fixed mobile convergence
5. Transform cost base

NZ Consumer Market – Near Term Priorities

Enhance Core Communications Offerings

- Improve Broadband helpdesk customer service experiences
- Invest in robustness of core communication services
- Maintain calling price competitiveness

Grow Broadband Penetration

- Introduce unconstrained plan options
- Upgrade network starting in major metro areas
- Launch iVoIP service
- Target 500,000 (consumer & business) retail connections

FY07 Outcomes

Lead Fixed Mobile Convergence

- Upgrade Mobile Broadband to Rev. A technology
- Grow penetration of 'Freedom' types bundles
- Launch world-mode phones

Transform Cost Base

- Restructure to leaner organisation model
- Develop self service channel capabilities
- Systematically review non customer facing operational costs

Consumer Markets – pathway to NGT

- NGT is all about using the shift from the PSTN to an IP network to simplify our product offerings and automate provisioning, billing and self service capabilities.
- The new product range will be built around the cornerstones of broadband and mobile.
- Simplified offerings and superior self service will deliver improved customer experiences and lower operational cost

NGT for Consumer market	
Offers:	simplified set of communication, information & entertainment services
Delivery	self service online
Pricing	subscription based prices
Billing	automated and online

End 06
Offer construct & design completed

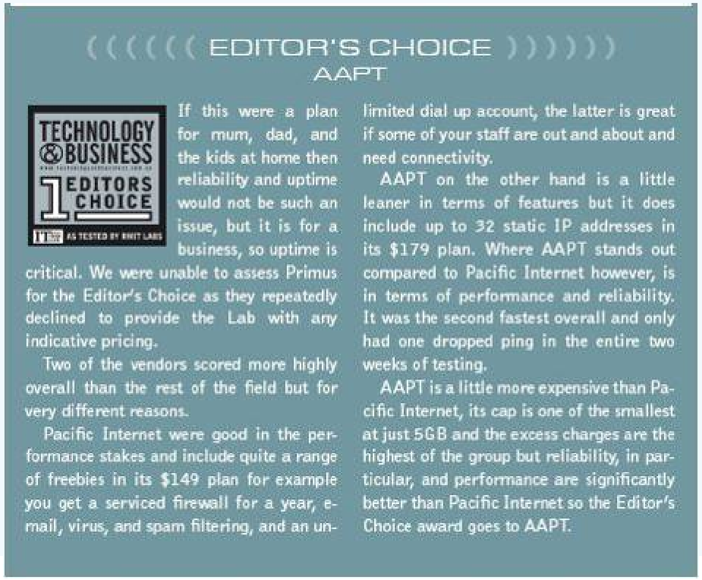
Mid 07
Network & IS system capability in place

End 07
Automated provisioning & billing ready

2008
Rollout to consumer customers

Business Markets – a new approach

- NZ business customers plus Australian managed customers combined into a single strategic business unit
- New Australasian management structure implemented to extend leadership of Trans-Tasman customer propositions and better leverage NZ scale and capability into Australia
- Segmentation revisited with clear focus on buyer requirements and associated optimal delivery models
- Growth strategy implemented:
  - extend ICT leadership to grow business with sophisticated ICT buyers
  - retain & acquire customers with standard communications buyer requirements through a simple & complete communications services offer



(((((((EDITOR'S CHOICE)))))))

AAPT

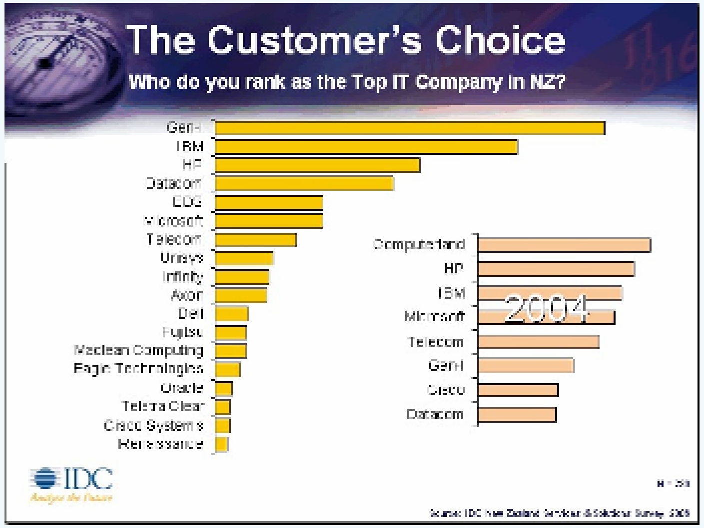
If this were a plan for mum, dad, and the kids at home then reliability and uptime would not be such an issue, but it is for a business, so uptime is critical. We were unable to assess Primus for the Editor's Choice as they repeatedly declined to provide the Lab with any indicative pricing.

Two of the vendors scored more highly overall than the rest of the field but for very different reasons.

Pacific Internet were good in the performance stakes and include quite a range of freebies in its $149 plan for example you get a serviced firewall for a year, e-mail, virus, and spam filtering, and an unlimited dial up account, the latter is great if some of your staff are out and about and need connectivity.

AAPT on the other hand is a little leaner in terms of features but it does include up to 32 static IP addresses in its $179 plan. Where AAPT stands out compared to Pacific Internet however, is in terms of performance and reliability. It was the second fastest overall and only had one dropped ping in the entire two weeks of testing.

AAPT is a little more expensive than Pacific Internet, its cap is one of the smallest at just 5GB and the excess charges are the highest of the group but reliability, in particular, and performance are significantly better than Pacific Internet so the Editor's Choice award goes to AAPT.



Business Markets – Gen-i

Gen-i Australasian Key Clients

Segment	25 customers with spend > $10m, staff >200, multiple sites, trans-tasman operations, IT specific management functions, partial or total outsourcing, technology leadership needs for competitive advantage
Revenue	Approx. $400m - $450m
Brand	gen-i
Offer	Full ICT, substantial bespoke
Delivery	Specific direct customer delivery teams and systems, some scaled where possible, deep partnering engagement

Gen-i New Zealand

Segment	3,000+ customers with spend $100k, staff >30, sites > 3, IT specific management functions
Revenue	Approx. $950m - $1.05B
Brand	gen-i
Offer	Full ICT, some bespoke
Delivery	Scaled but tailored, shared direct delivery teams, some customer specific as required, face to face strategic engagement

- Gameplan
  - Improve retention & growth by expanding integrated ICT product offering & selling more customers up from Telco to ICT services
  - Build from existing ICT services preference and market leadership in IP data networking & applications capability (fixed & mobile)
  - Invest in network delivered services as major point of difference

Business Markets – Telecom & AAPT

AAPT Business Solutions	
Segment	1,500+ (unlimited growth potential), medium enterprise and corporate customers
Revenue	Approx. $180m - $230m
Brand	AAPT
Offer	Standardised but leading edge business grade communications & networking services, some gen-i products & applications
Delivery	Primarily direct delivery teams, differentiated service model, leveraging AAPT mass & gen-i scale where possible, face to face strategic engagement

Telecom Business Solutions	
Segment	130,000+ small and medium enterprise customers
Revenue	Approx. $550m - $600m
Brand	Telecom
Offer	Standardised but leading edge business & internet grade communications services in simplified offers
Delivery	Extensive reliance on online and independent dealer channels for service & field support

- Gameplan
  - Improve retention and lift acquisition through simplifying and raising the value of product offers
  - Invest in the service experience to leverage hyperbaric in Australia and NGT in New Zealand
  - Increase investment in and support of dealer channels to raise in-market coverage

Business Markets – pathway to NGT

- NGT models are applicable, much of our offer range can be simplified, $700m+ cost base to work with
- NGN exists – world class IP Data, Broadband & 3G mobile network capability in place
- ICT capability integrated with gen-i expansion and new technology operations internal structure

NGT for Business market	
Offers	New line-up built around one-office IP data & T3G, simplified user-profiled packages of ICT services
Delivery	Self service via online portals, fully automated back office processes
Pricing	Fixed per user prices, profiled to needs
Billing	Automated and online with online analysis tools

Now

Build NGT design team

Dec 06

Confirm offer line-up & service models

Mid 07

Offers & service portals begin to launch

2008

Full NGT for Business in market

Business Markets – hitting the numbers FY07

REVENUE DECLINERS

- Vic One transition
- Access & calling substitution and price downs
- Legacy data substitution & price downs
- NZ broadband price downs

REVENUE RISERS

- Accelerated AAPT managed customer acquisition
- NZ IP Data networking sales focus
- NZ ICT applications & services expansion
- NZ mobile maintain share of growth

- Efficiency gains
  - Redesign management structure and delayer
  - Continued commitment to "Path 2 Customer" programme & strategic sourcing initiatives
  - Rework account management models & dealer opportunities
  - Leverage product, finance, strategy and commercial functions Trans-Tasman
  - Rebuild service delivery capability and systems
  - Combine IT & T service management for Trans-Tasman scale
  - Accelerate legacy product migration

Wholesale stance and priorities

- Independent proactive stance focused on maximising the value of Telecom's wholesale network services business

- Near term priorities
  - Deliver on current wholesale charter undertakings – build credibility and trust within and outside the industry
  - Refine and implement operational separation model and undertakings
  - Define and build the product sets to drive the next tranche of wholesale growth including LLU and Naked DSL
  - Industry working party engagement to facilitate robust outcomes ahead of regulation
  - Improve efficiency and effectiveness of wholesale operations both to support customer effectiveness and reduce costs

Wholesale priorities – progress to date

- Charter reporting commenced
  - Recent wholesale provisioning and fault resolution performance demonstrably equivalent
- Overall wholesale strategy and operating model agreed
- Proactive wholesale product deployment ahead of regulation
- Industry working party model agreed and kicked off
  - LLU, Naked DSL and copper spectrum management via independently chaired TCF working groups
  - UBS product set innovations via ISPANZ working group
- Simplification and automation of selected key wholesale operational processes
  - Ordering systems automation delivered for broadband products and being extended into voice and data products

WHOLESALE PRODUCT ROADMAP

Sep / Oct 06
UNS;
Full speed upstream UBS

Nov / Dec 06
New backhaul & national transport products

Mar 07
ADSL II
UBS rollout

Apr 07
Number Portability (Fixed & Mobile)

Wholesale – FY 07 outlook

- FY 07 a year of consolidation and investment to transform our wholesale model, meet undertakings and prepare for growth ahead
  - Operationally enable charter commitments and separation model
  - Product/capability delivery – number portability, LLU, Naked DSL, multiple industry codes
  - New interconnection models - internet peering
  - Build the new organisation, its capabilities and culture
- Revenues - flat year on year
  - Strong broadband volume growth partially offset by pricing decreases, e.g. broadband retail and business price alignment
  - Legacy product volume growth slowing with ongoing pricing pressure
  - Little impact from new wholesale products (LLU, Naked DSL) likely in FY07
  - Outlook beyond FY 07 heavily dependant on pricing (yet to be determined) and wholesale competitor activity
- Implementing separation model in a low cost efficient manner
- Enabling growth through productivity, efficiency & service improvement

Operational Separation - objectives

- Meet the needs/expectations of key stakeholders
- Level playing field for all participants while at the same time supporting the right incentives for infrastructure investment in the industry
- Recognise the unique nature & scale of the NZ Telecommunications market and minimise the cost to implement and maintain an Operational Separation model
- Secure certainty for our shareholders
- Use the proposed Operational Separation model to support and drive transformational change within Telecom

Operational Separation - characteristics

- Separation between the retail and wholesale business to be supported by a range of legally binding undertakings including:

  - Commitment to non-discrimination and associated commitment to equivalence of inputs on regulated broadband access products, acknowledging that details of pricing complexity have to be worked through
  - Independent Oversight Group to monitor and report against undertakings
  - Audited review of performance against undertakings
  - Separate incentives for the Wholesale business that support delivery of undertakings
  - High degree of transparency

Wholesale model – incentives

Designed to deliver transparency and non-discriminatory behaviour

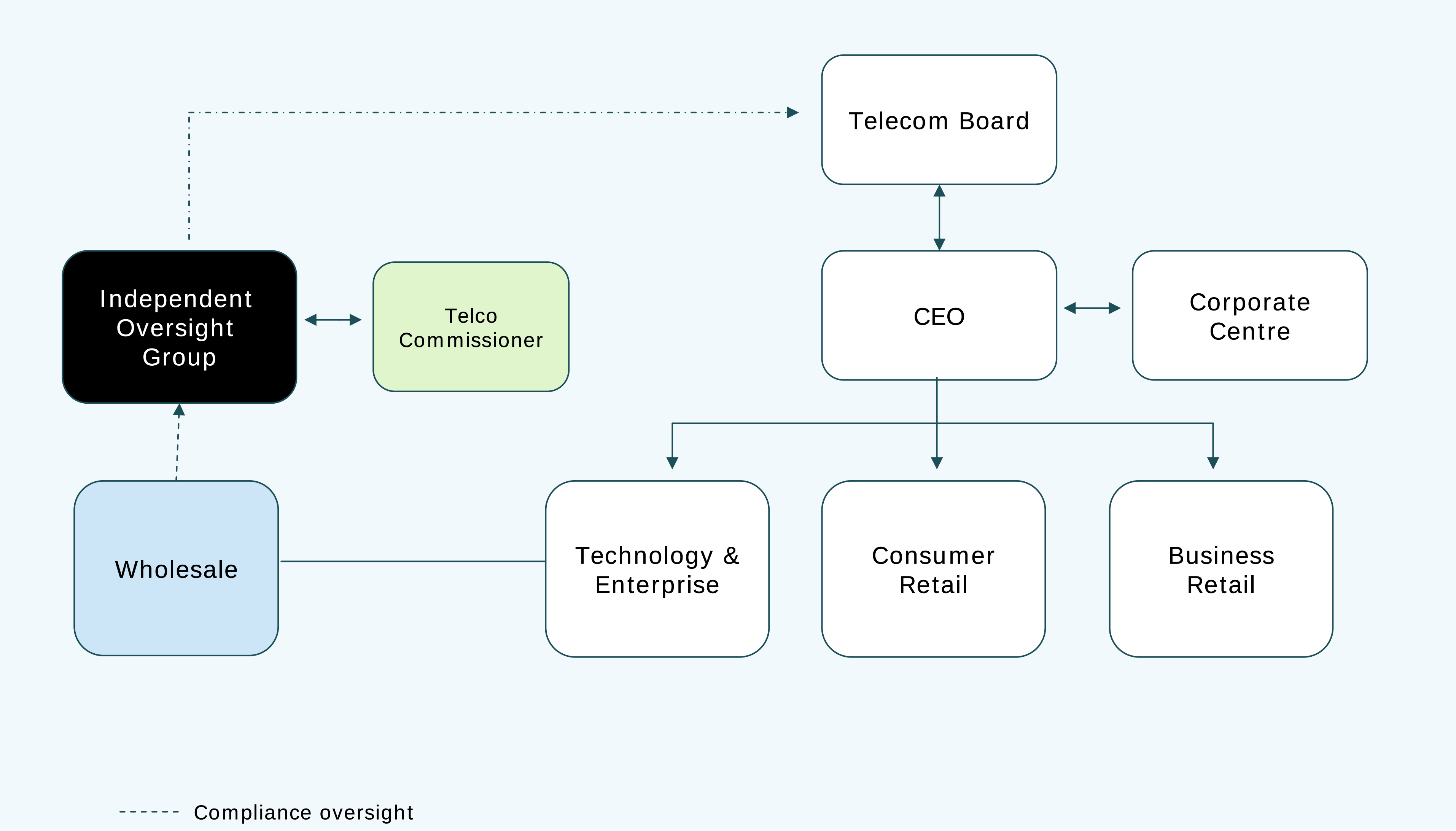
Incentive characteristics

- Must support non-discrimination undertakings
- Need to be transparent
- Should be separate from Retail
- Performance against incentives should be monitored & reported by the IOG
- Performance will be independently audited to support transparency

Incentive commitments

- Creation of an "undertakings" scorecard which would form the basis of performance measures for wholesale employees
- Incentives published publicly
- Wholesale employees will have short term incentives based only on wholesale performance measures, may require new long term incentives for wholesale employees
- IOG to measure performance against scorecard
- Monitored by the IOG

Operational Separation – Governance



Similarities of BT's negotiated undertakings with Telecom's proposed undertakings

Undertaking Themes	BT's negotiated undertakings	Proposed Telecom undertaking
Non–discrimination	▪ Equivalence of inputs on all regulated broadband access products	▪ Equivalence of inputs on all regulated broadband access products ▪ Equivalence of outcomes on all other wholesale products
Independent monitoring and reporting	▪ Independent Oversight Group ▪ Independent monitoring board, comprising 5 people (2 BT, 3 independents) ▪ Chair is a non-executive Director of BT and appointed by BT Board	▪ Independent Oversight Group ▪ Independent monitoring group, comprising 5 people (2 Telecom, 3 independents) ▪ Chair will be a non-executive Director of Telecom and appointed by the Telecom Board after consultation with stakeholders
Incentives and information flows	▪ Performance incentives have no BT Group component ▪ BT Openreach roles and responsibilities are closely defined ▪ Controlled information flows	▪ Wholesale short-term performance incentives have no Telecom Group component ▪ Telecom wholesale roles and responsibilities are closely defined ▪ Controlled information flows

Characteristics of the BT model that Telecom proposes are not relevant for NZ

BT

- Two wholesale units:
  - "Openreach" is the separate unit supplying regulated access products
  - "Wholesale" is the unit supplying non-regulated products
- Re-engineering of its legacy products to all be based on equivalence of inputs
- Openreach CEO reports to the BT CEO

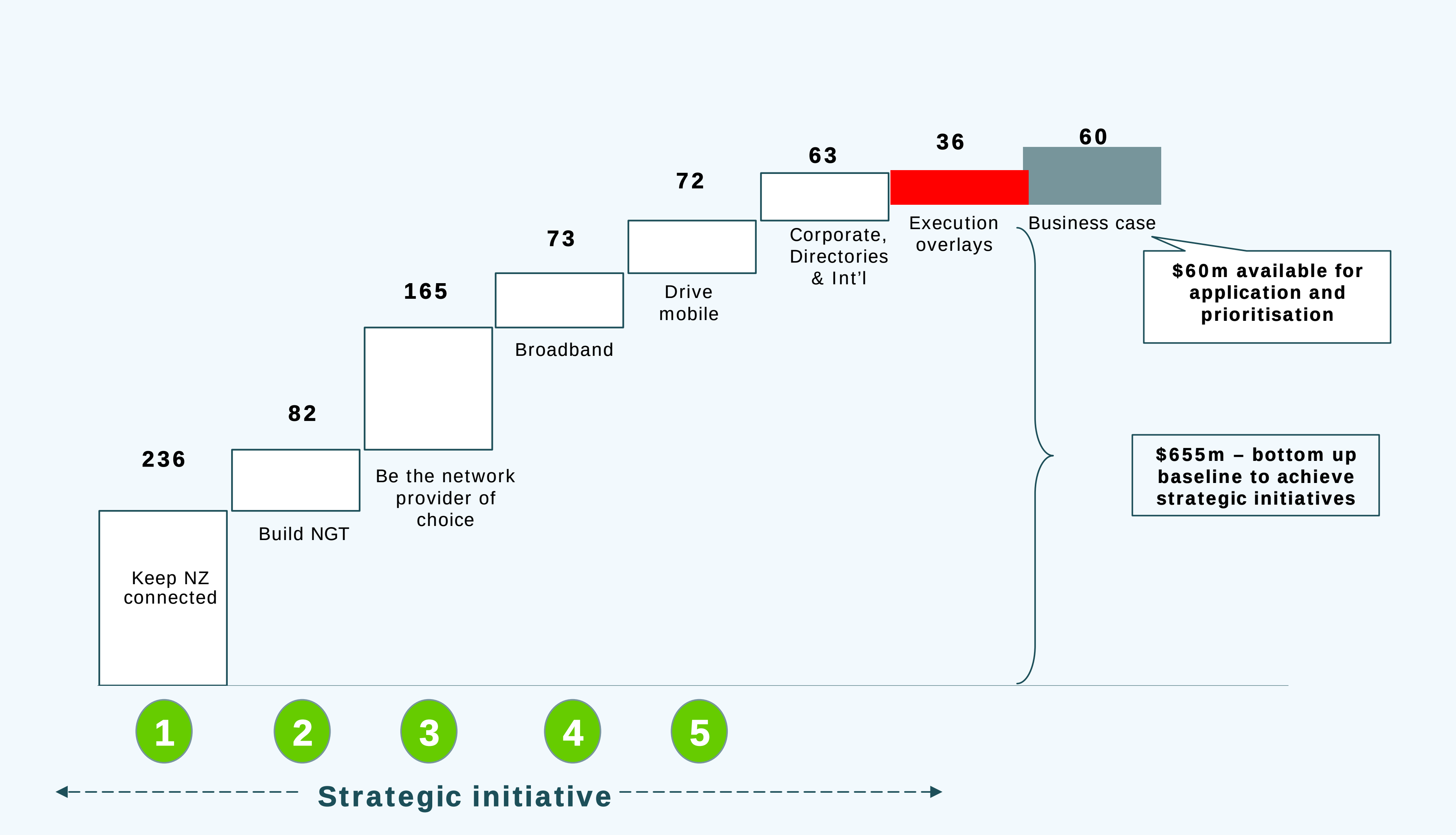
THE RATIONALE

- Proposal orientated around wholesale customers who generally purchase both regulated and non-regulated services (legacy services already being delivered at regulated prices)
- Proposal to deliver regulated services to market as fast as possible

Technology – cost reduction initiatives

- Addressable cost base of $550m+ to work with:
  - Leverage scale in core business processes through the introduction of shared services and shared capability groups, and drive end to end process improvements through Telecom's Path to Customer (efficiency & effectiveness) programme
  - Continue with our strategic sourcing programme and enhance supply chain practices. Optimise the buy vs. build mix for technology investments
  - Rationalise overhead costs by reorganising administration and support groups and drive supply chain improvements
  - Improve organisational flow and more effective management by adopting a flatter organisational structure with larger average spans of control

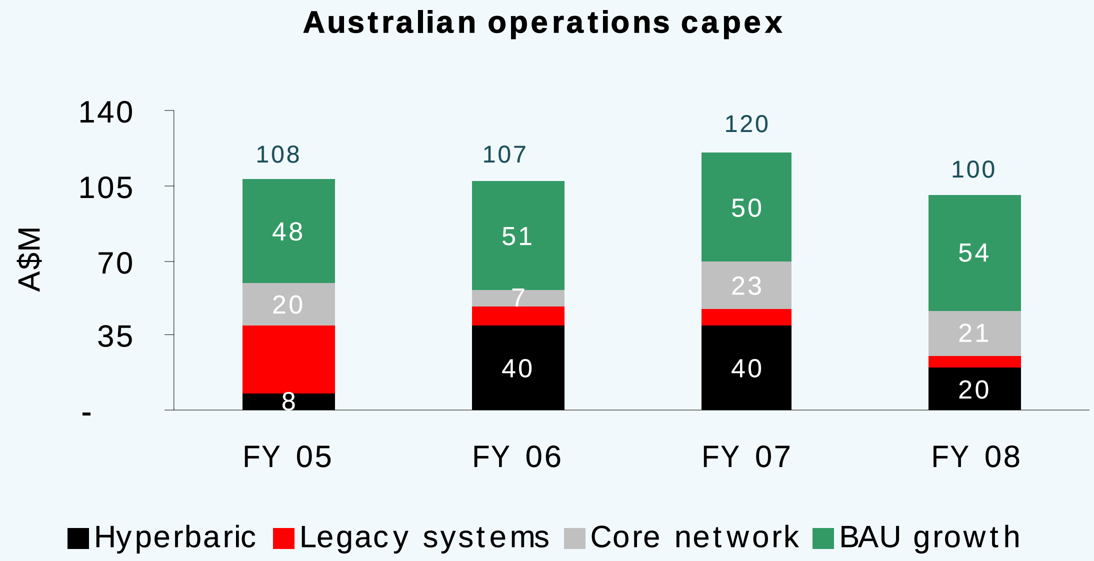
NZ capex – FY 07 investment programme



Capital expenditure by strategic initiative

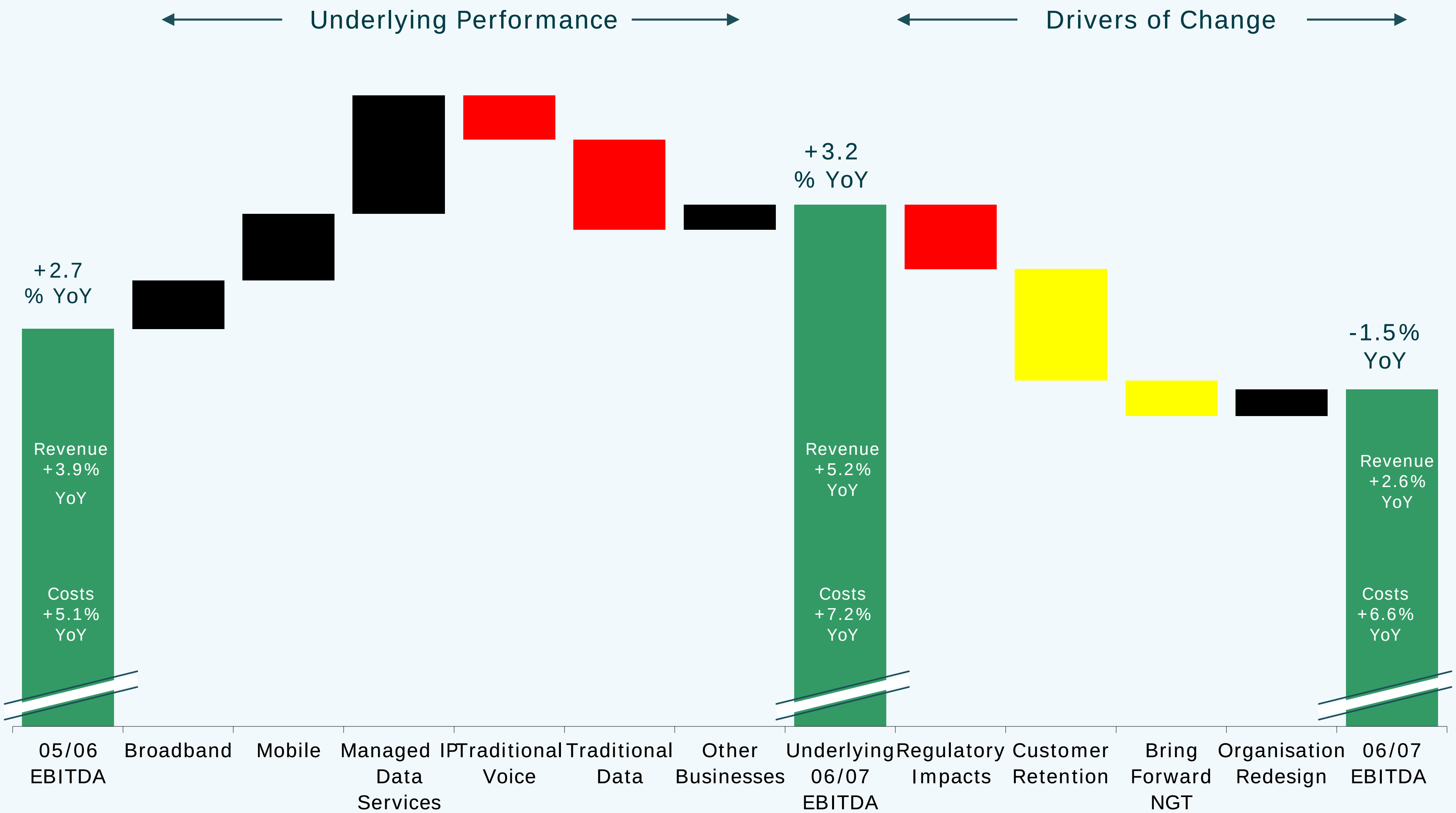
SI	Category	06/07 capex	Investments
1	**Keep NZ connected** - Maintain current service levels & performance - Meet TSO/Regulatory obligations	$236m	Infill, bus access, lead-ins, GS, rural transport, rehab & renew, legacy data, CLE refresh, Mail, messaging & SMS, PSTN basic, IN, No. portability, ISDN
2	**Build NGT** - Build a simple & complete set of offers & service model for NZ customers	$82m	Growth of base platforms, VoIP Foundation, IP core, MSC, NIL, Unified security, new model customer care, Inventory, No. Integration, Voice transition, convergence
3	**Be the network provider of choice** - Invest in NZ infrastructure to meet the future needs of wholesale & retail customers - Provisioning, Assurance and testing tools	$165m	Greenfields, FTTP, basic connectivity (DSL, Eth, IP Edge), Optical access, DSL coverage & capacity, access upgrades, ATM growth
4	**Drive retail broadband** - Invest in Broadband services (customer acquisition/retention & care) in the places where most NZers live & work	$73m	Managed – broadcast, POF etc, Managed data, Support systems
5	**Drive mobile** - Invest in mobile services in the places where most NZers live & work	$72m	All mobile access, operational stability, handsets, roaming, program management
	Other investment with clear linkages to returns - New capability not aligned to NGT (eg, Mobile, ICT, Online) - Cost to meet requirements for committed revenue	$60m	Ferrit, ICT, New VAS, TV, Freedom, new Voice, Mobile supply chain & channels, other mobile services, mobile data apps, innovation & m.commerce, video streaming, LBS.

Australian operations – investment programme



- Hyperbaric Investment Programme
  - Telstra electronic billing feed delivered in FY 06, delivers cost benefits and proves technology
  - Underpins mass market customer proposition & delivers on the “straight up” service promise
  - Technology in place in a number of European Telco’s
  - Internal pilot of new capability commences in Jan 07
  - Market launch by June 07

NZ Operations – EBITDA Outlook FY07



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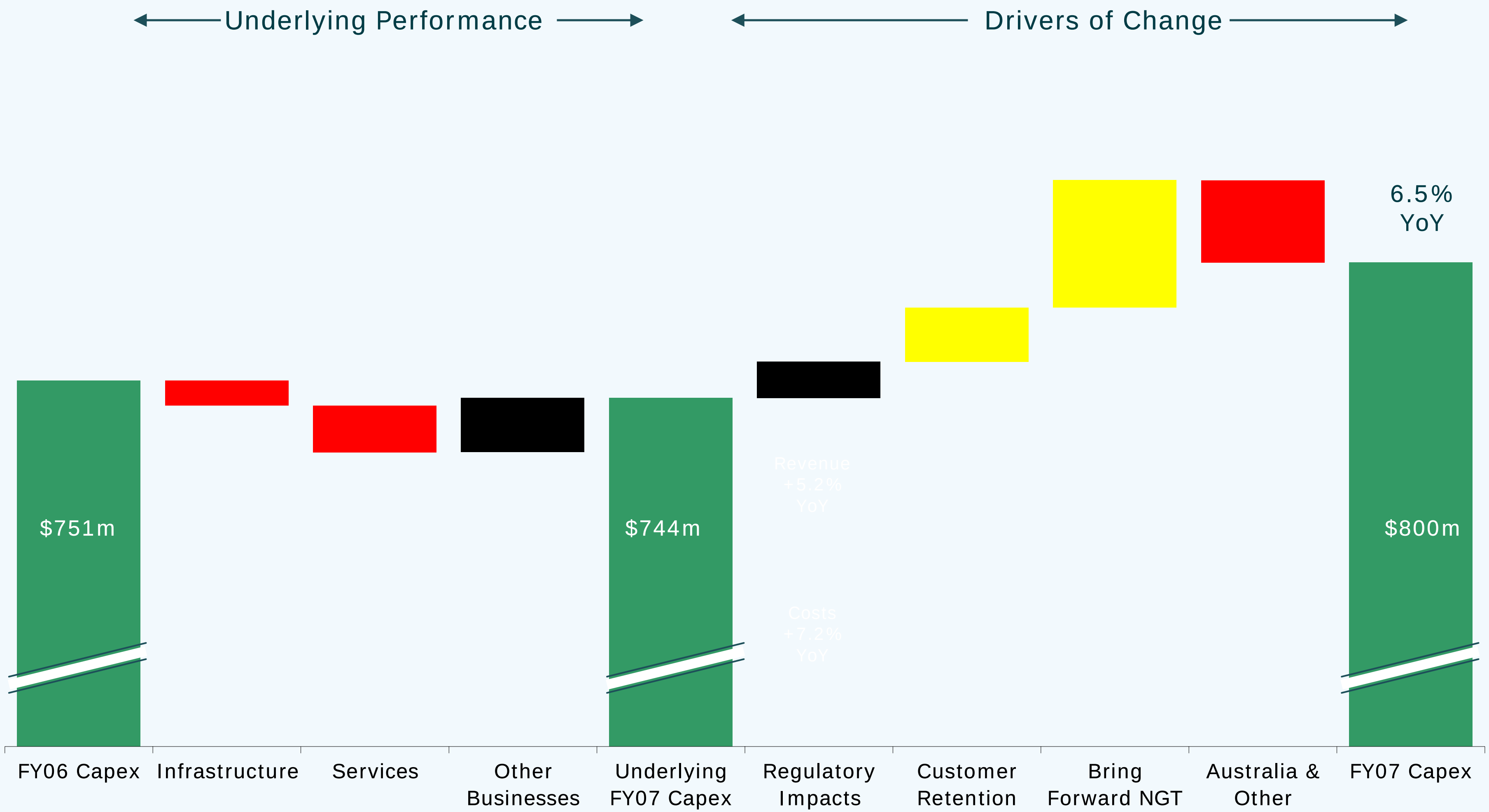
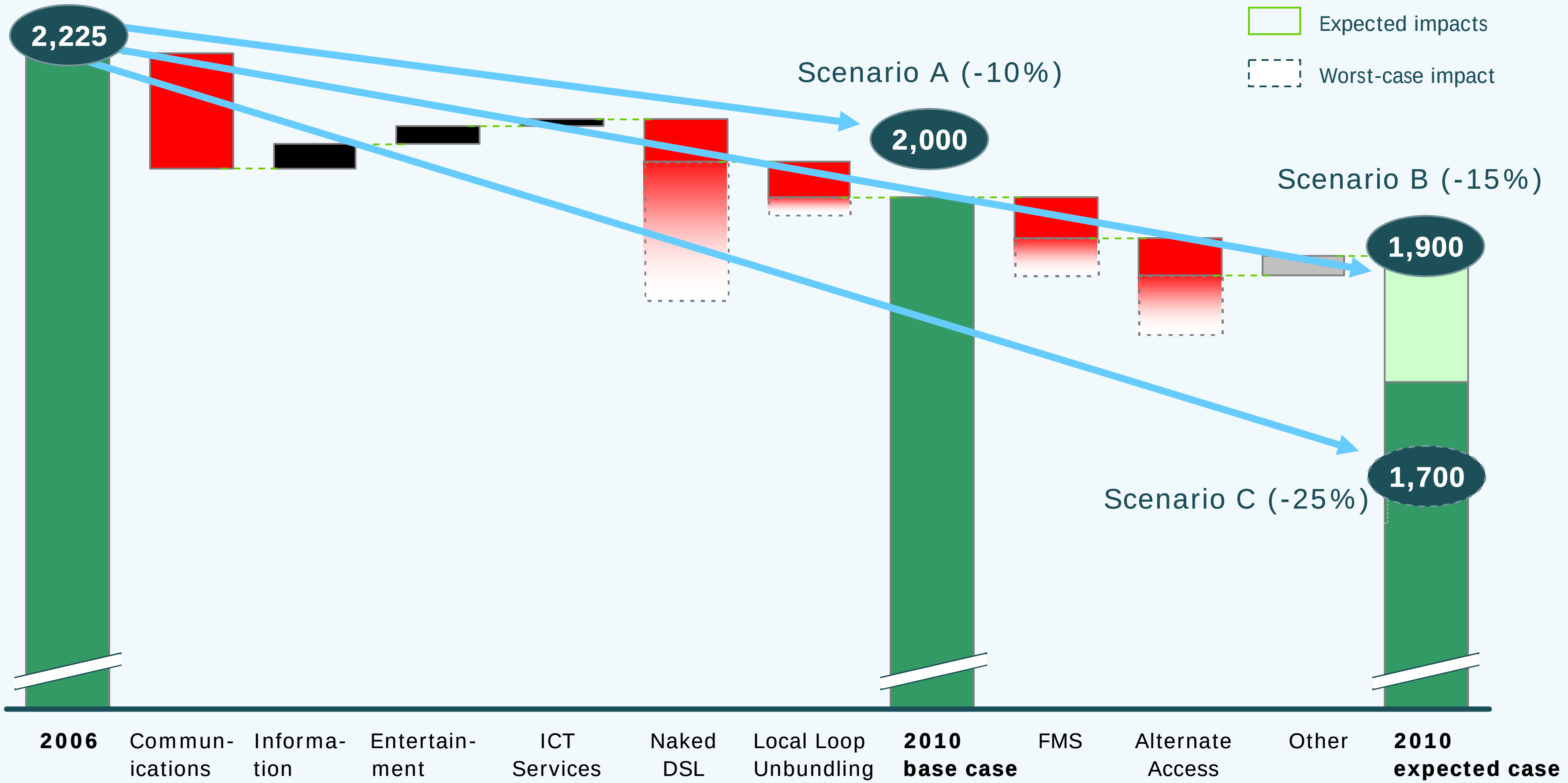
Group Capital Expenditure FY07

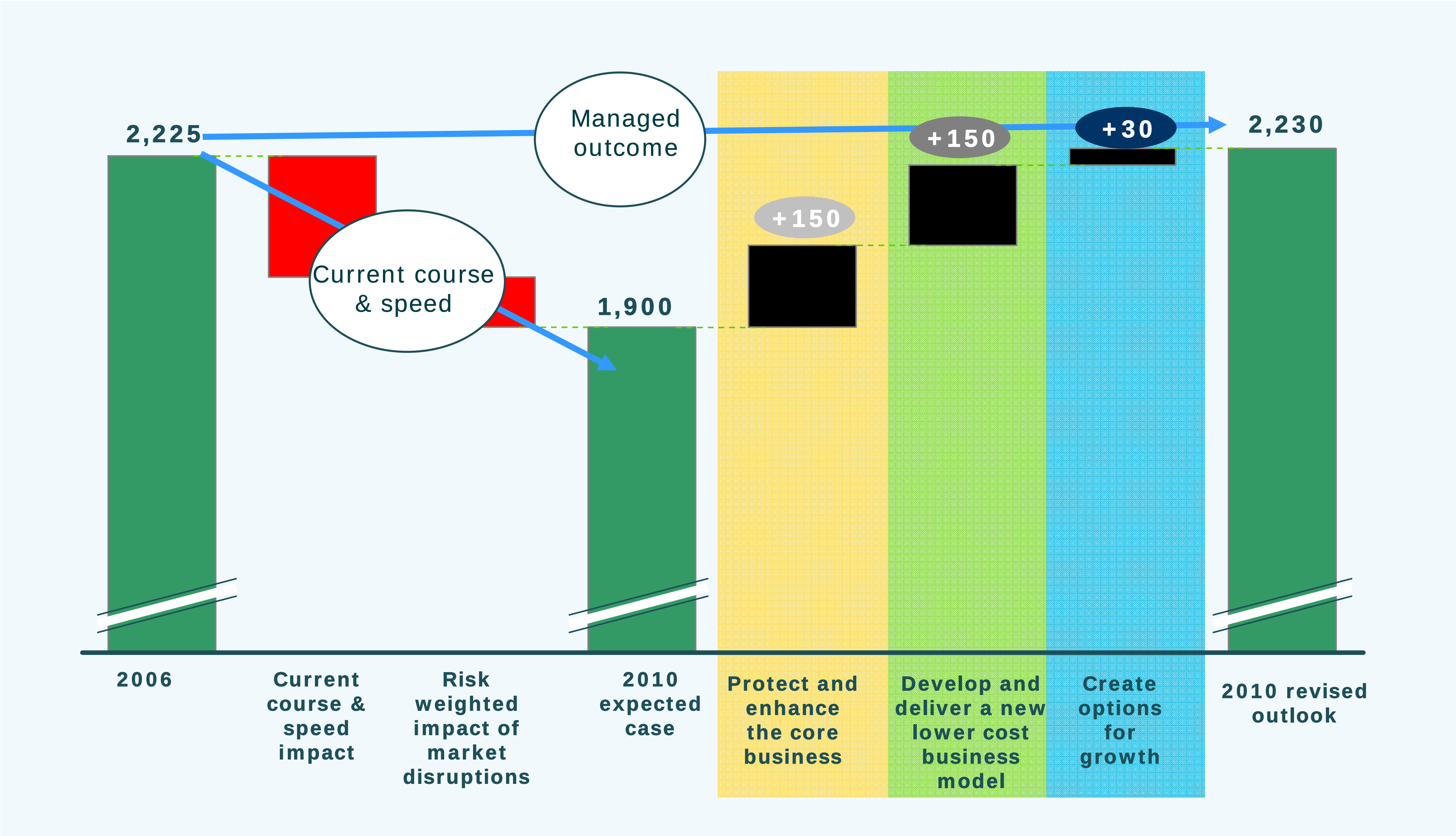


NZ EBITDA indicative outlook pre management response



Note: Excludes Australia and Corporate Support

Our strategic response



TCNZ Group operating outlook FY 07

- For the NZ business
  - EBITDA of -1.5% to -3% compared to FY06
  - Depreciation and amortisation expense of NZ$570m to NZ$585m
- For the Australian business
  - EBITDA broadly consistent with FY06 levels of A$75m
  - Depreciation and amortisation expense of NZ$80m to NZ$85m
- For the Group
  - NPAT within the range of NZ$820m to NZ$860m

Capital Expenditure

	FY 05 NZ$M	FY 06 NZ$M	FY 07* NZ$M
NZ Wired Division			
Growth	202	203	203
Upgrades & Replacements	122	140	110
New Investment			
Product Development	10	21	23
New Network Capability	42	73	104
New IS Capability	50	42	55
Total NZ Wired	426	479	495
Wireless	89	93	100
International	35	14	26
Australian Operations	118	131	145
Corporate & Other	35	34	34
Total Capital Expenditure	703	751	800

* Forecast

Cash-flow

	FY 06 $M	FY 05 $M	Change %
Reported Earnings	(435)	967	NM
Adjustments:			
Depreciation & Amortisation	705	698	
(Increase) / Decrease in Working Capital	12	(20)	
Increase / (Decrease) in Current Taxation	135	79	
Abnormal revenues & expenses	1,275	(95)	
Other	115	74	
Cashflow from Operating Activities	1,807	1,703	6.1%

- Strong annual cash-flow performance reflects working capital contraction in fourth quarter together with lower interest & tax payments relative to the prior year

Balance Sheet cont'd

	30-Jun-06 NZ$M	30 June 05 NZ$M	Change NZ$M	Change %
Short Term Debt	955	863		
Short Term Derivative Assets	(26)			
Short Term Derivative Liabilities	125			
Long Term Debt	2,543	2,973		
Long Term Derivative Assets	(88)			
Long Term Derivative Liabilities	362			
Gross Debt	3,871	3,836	35	0.9%
Cash / ST Investments	219	316		
Net Debt	3,652	3,520	132	3.8%
Total Assets	6,203	7,504		
Shareholders Funds	1,055	2,463		
Gross Debt/EBITDA[1]	1.74x	1.69x		

- Increase in net debt YOY largely reflects payment of special dividends of approximately $200m (5cps in Q2 06 & Q4 06)
- Decrease in shareholders funds reflects write-down of AAPT
- Southern Cross – subsequent to 30 June secured sale of 2 STM64's; shareholder advance currently US$57.5m[2] (US$60m 31 March 06), expect further repayment of advance following latest sales

1 = Normalised EBITDA and Gross Interest calculated based on last 12 months

2 = Excludes accrued interest

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Capital Management

- Credit rating
  - Remain committed to "A" rating and associated long run gearing target of 1.7x debt/EBITDA:
    - consistent with an efficient capital structure that minimises group WACC
    - retains sufficient financial flexibility to absorb earnings, capex or market-wide rating shocks while still allowing ready access to the capital markets
- Dividend Reinvestment Plan (DRP) scheme
  - Reintroduction of 3% issuance discount, from Q4 06
  - Suspension of quarterly share buyback (of shares issued pursuant to the DRP), from Q4 06
- Shareholder distributions
  - FY 06
    - Q4 06 ordinary dividend of 7cps (reflecting target payout ratio of 85%)
    - Q4 06 special dividend of 5cps as previously signalled
  - FY 07
    - Target payout ratio for FY07 of 75% of NPAT (post the depreciation adjustment in respect of the AAPT write-down) or 85% of NPAT (adjusted for relevant non-cash items and before the impact of the AAPT write-down)
    - Interim dividends (Q1, Q2 & Q3) of 7.0cps

Disclaimer

- This presentation contains not only a review of operations, but also some forward looking statements about TCNZ and the environment in which the company operates. Because these statements are forward looking, TCNZ's actual results could differ materially. The fourth quarter media release, management commentary and various documents filed with the US Securities & Exchange Commission ("SEC"), including the Annual Report on Form 20-F, contain additional information about matters which could cause TCNZ's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by TCNZ and filed with the SEC.