

Attachment D - Financial Information

See Attached

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2000



Online



Growth



Value

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THIS REPORT IS DATED 31 AUGUST 2000,
AND IS SIGNED ON BEHALF OF THE
BOARD BY:



RODERICK DEANE
CHAIRMAN



THERESA GATTUNG
CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

TELECOM CORPORATION OF NEW ZEALAND LIMITED

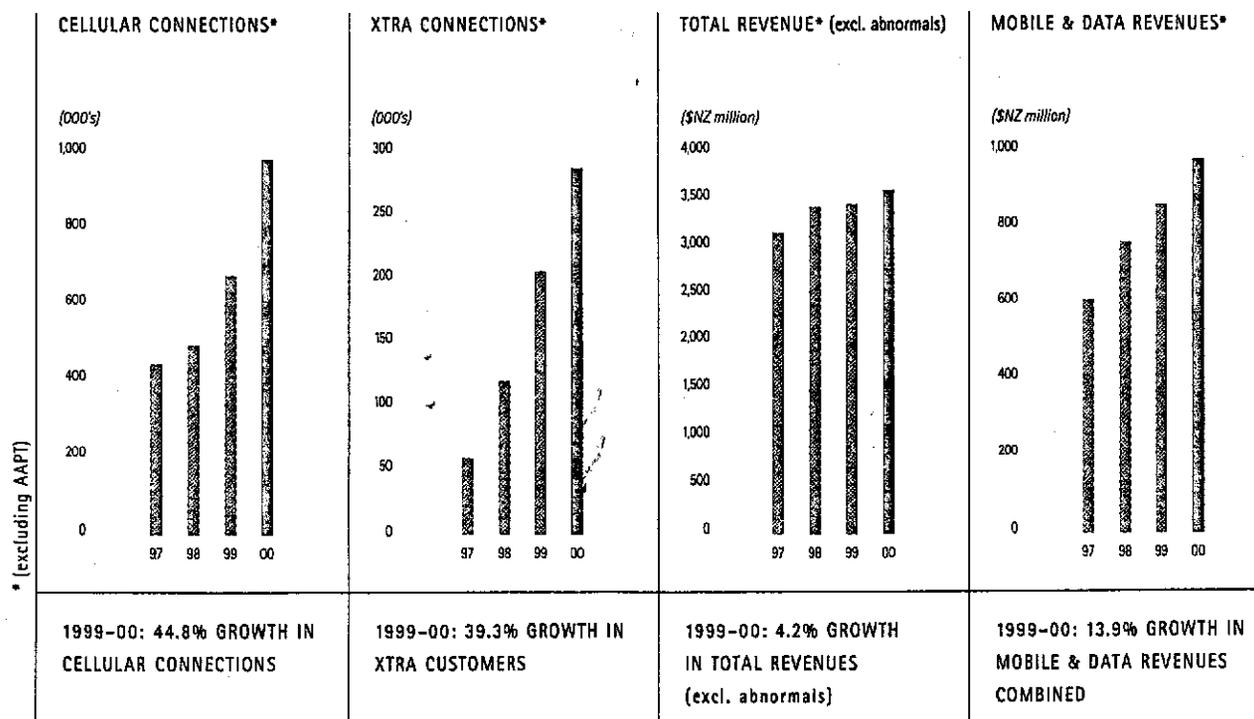
Outlook

The world is going **online**. That means people are making ever more use of communications networks – fixed-line and mobile – to be informed, educated or entertained; to do business; and to access the Internet.

Telecom is at the heart of the online world. Our business enables people to have more communication and more information – and to do so in ways which are faster and ever more valuable.

We foresee continued business **growth** as the world moves online. Telecom is helping drive the trends evident today. And our investment in networks and new services will shape communication and information tomorrow. We will focus principally on growth in our part of the online world – New Zealand and Australia.

With growth should come **value**. Indeed, we can only expect business growth when customers realise value from using our networks and services. And such business growth will ultimately drive growth in value to Telecom shareholders.



Review

In the year ended 30 June 2000, Telecom set a platform for future growth.

Some of the achievements:

- AAPT strategic investment • ADSL broadband roll-out
- Southern Cross Cable development • Huge growth in data
- CDMA mobile network construction started • Resolutions alliance
- Cellular connections near 1 million • New corporate business in Australia

Net earnings for the year were NZ\$783 million, down 6.1% after consolidating our investment in AAPT. Excluding AAPT, Telecom had total revenues of NZ\$3,601 million, up 4.2%, and net earnings of NZ\$846 million, up 2.4%.

FINANCIAL PERFORMANCE

	1997	As at and for the year ended 31 March 1998	1999	As at and for the year ended 30 June 2000*
Operating revenues (\$NZ millions)	3,083	3,398	3,450	4,346
EBITDA ¹ (excluding abnormals) (\$NZ millions)	1,776	1,945	1,959	2,037
Net earnings (\$NZ millions)	581	820	822	783
Earnings per share (NZ cents)	30.8	45.9	46.9	44.7
Total assets (\$NZ millions)	4,618	5,165	5,375	7,981
Return on assets ²	27.3%	29.6%	29.8%	22.8%
Gearing ³	51.4%	43.6%	42.9%	62.4%
Interest cover ⁴	10.9	7.6	6.9	5.1
Debt rating ⁵	Aa1/AA	Aa1/AA	Aa2/AA	A1/A+
Cash flow from operating activities (\$NZ millions)	1,419	1,537	1,574	1,545
Capital expenditure (\$NZ millions)	696	587	564	869

1 Earnings before interest, tax, depreciation and amortisation.

2 Normalised earnings before interest and tax divided by average total assets (net of cash and short term investments).

3 Net debt divided by the total of net debt and capital funds.

4 Normalised surplus from continuing operations divided by net interest expense including interest capitalised and capital note coupons.

5 Long-term foreign currency ratings from Moody's Investors Services/Standard and Poor's.

* Includes the consolidation of AAPT from 1 December 1999.

Chairman's letter to shareholders



RODERICK DEANE
CHAIRMAN

TELECOM IS IN TRANSITION. YOUR COMPANY IS SEIZING NEW OPPORTUNITIES IN THE ONLINE WORLD - AND BROADENING ITS STRATEGIC FOCUS TO ENCOMPASS AUSTRALIA AS WELL AS NEW ZEALAND.

Telephony and network operations, fixed wire, mobile and international, remain our core business. But no matter how excellent we make this business, we must develop beyond old boundaries if we are to sustain superior growth in value for shareholders. Thus Telecom is now becoming a more diversified online and communications company.

The past year has seen major steps in that direction. In November 1999, we increased Telecom's strategic shareholding in AAPT in Australia to approximately 80%. And we have continued to expand and strengthen our networks, introduce new services of value to customers, and form valuable new alliances.

Our results for 1999-00 show progress in many ways although transition does bring new costs in the interim. Telecom's net earnings of \$783 million for 1999-00 include funding and goodwill costs associated with our investment in AAPT. That result was down 6.1% from the previous 12 months. Excluding AAPT, Telecom achieved modest earnings growth to \$846 million.

Transition for sustained growth requires major new investment in our business. Telecom will invest in new mobile and broadband technologies, and continue to expand and strengthen its networks. In Australia we intend an even closer relationship with AAPT, based on our offer to buy minority shareholdings in that company. Through this and other initiatives, Telecom is building a strong presence on both sides of the Tasman.

Investing for growth requires strong cash flows and financial flexibility. The Board has decided on a change to our dividend policy which will see more of Telecom's earnings retained and invested in key projects. From 2000-01, we will target a dividend payout around 50% of annual net earnings, dependent on the level of earnings, cash flow and other investment opportunities in any given year. Telecom will continue to pay dividends on a quarterly basis, with imputation to the fullest extent possible.

Distributions to shareholders will be lower than in recent years. But the Board is confident that retaining cash and investing for growth will deliver greater value for shareholders in the medium and longer term.

Our transition has several dimensions. But some things will never change. Telecom will retain a strong focus on delivering value to customers. Only on this basis can we sustain an unswerving commitment to growth in value for shareholders.

TELECOM IS
EXPANDING IN
NEW MARKETS.

FINANCIAL FLEXIBILITY
TO INVEST FOR
BUSINESS GROWTH.

Roderick Deane

THERESA GATTUNG, CHIEF EXECUTIVE
AND MANAGING DIRECTOR



Chief Executive's Statement

IN 2000, WE HAVE SET A NEW GOAL FOR TELECOM: TO BE THE BEST PERFORMING ONLINE AND COMMUNICATIONS COMPANY IN AUSTRALASIA. IT'S AN AUDACIOUS GOAL, EXTENDING TELECOM BEYOND ALL THAT IT HAS ACHIEVED IN THE PAST DECADE. WE RECOGNISE IT'S TIME FOR BOLD MOVES THAT REPOSITION THE COMPANY FOR THE NEXT TEN YEARS. OUR NEW GOAL SETS A PATH FOR GROWTH, IN EXISTING AND NEW MARKETS.

It's a goal for a changing world. People are making increased use of a diverse array of communications and information technologies. Internet connection, for instance, is higher in New Zealand than almost any other country.

In our part of the world, people are quick to adopt new services and to see advantages in being connected through fixed-line or mobile networks. New broadband technologies are making this easier and less costly. In more traditional telecommunications markets, competition between service providers is becoming more intense and prices are in decline.

Telecom is, of course, a major driver of these trends. We provide connectivity and we constantly seek to add value once customers are connected. As our goal indicates, Telecom is committed to business growth in both New Zealand and Australia as this region goes online and adopts new communication technologies as rapidly as any other part of the world. This annual report summarises our business strategies in seven key areas.

First, we are building our presence in Australia through AAPT and through working closely with corporate customers. AAPT has modern networks and over 875,000 business, government and residential customers. This is a solid platform for growth in Australia. Bringing the two companies more closely together will strengthen our group and create greater flexibility for other strategic moves in Australasia.

Telecom seeks to develop new business with major corporates, most prominently the Commonwealth Bank of Australia. In August 2000, the Bank signed an A\$500 million contract for a Telecom-led consortium to source and manage its complex telecommunications and IT needs. The contract will draw on Telecom's outsourcing expertise, AAPT's network capabilities and the skills and resources of other companies including EDS Australia.

OUR STRATEGY IS TO INVEST WHERE
THIS BEST SUPPORTS FUTURE GROWTH.

I LOOK TO THE ONLINE FUTURE CONFIDENT THAT OUR SUCCESS WILL
BRING GROWTH IN VALUE FOR CUSTOMERS AND FOR SHAREHOLDERS.

Second, we are driving mobile communications forward. Telecom is rolling out a next-generation CDMA network as the platform for a new wave of digital services from mid 2001 onwards. In Australia, AAPT is building a CDMA network for service to around half the populated area. Demand is growing for mobility of telephony, information services and Internet access. Across the Telecom group, we expect sustained growth in mobile connections, especially digital, and increasing take-up of value-added services.

Third, Telecom is committed to leadership in data. Australasian markets are seeing explosive growth in data flows and applications fuelled by the availability of new computer software and advanced network services. Telecom is meeting the demand by increasing bandwidth through Jetstream and other products, and by creating communications and IT solutions to meet the needs of businesses.

The Internet is central to everyone's view of the future. A fourth Telecom strategy is about making it more valuable to people in our part of the world. Xtra is New Zealand's leading Internet service provider and web portal, while across the Tasman, AAPT is developing a powerful

alliance between connect.com.au and America Online.

Voice calling is core to our business. In 1999-00 local service and national and international calling comprised around 60% of total Telecom revenues. Our strategy is to maintain value in the voice business by being highly competitive on service quality and price. We will increasingly look to package calling with other services of value to customers.

Business growth requires Telecom to expand and strengthen its networks. Our strategy is to invest where this best supports future growth and maximises the commercial use of new technologies. In 2000-01, capital expenditure is expected to reach \$1 billion with 60% invested in networks for voice and data growth, and our cdmaOne and Southern Cross Cable projects.

Across our region we also need people of talent and commitment. We have strategies for recruiting and developing the human resources vital for taking our business forward in every respect. To be best-performing, Telecom needs individuals and teams who seek best performance in the contribution each makes.

Best performance raises other imperatives including the need to constrain operating costs. In 2000-01

our priorities include reduction in costs not directly related to revenue growth and cost saving through simplification of business processes. Telecom will continue to build alliances with other companies whose assets and skills complement our performance. We recognise that Telecom can best manage the costs and risks implicit in growth by co-operating with like-minded others. esolutions, the alliance with EDS New Zealand and Microsoft, is a great example.

In all we do, customers will be our principal focus. Telecom will base its creation and delivery of services and products on keen understanding of customer requirements. And we will target continuous improvement in their satisfaction. In June 2000, our service channels earned a 49% overall "excellent" rating from customers - up five percentage points from a year earlier and a good base to build on.

Best performance in Australasia is our goal. I look to the online future confident that our success will bring growth in value for customers and for shareholders.



Theresa Gattung
Chief Executive and Managing Director

AUSTRALIA

- 19 MILLION PEOPLE
- 7.1 MILLION HOUSEHOLDS
- OVER 1 MILLION BUSINESSES
- 9 MILLION CELLULAR CONNECTIONS
- TELECOMMUNICATIONS REVENUES NEARLY DOUBLED IN PAST 5 YEARS



AUSTRALIA IS CENTRAL TO TELECOM'S FUTURE. IN 2000, WE HAVE TAKEN MAJOR STEPS TO BUILD OUR PRESENCE IN THAT MARKET BY LEVERAGING THE EXPERTISE AND EXPERIENCE OF TELECOM IN NEW ZEALAND.

Australia offers huge potential. The number of Internet subscribers, for instance, is estimated to rise to three million this year and perhaps six million by 2006. Mobile customers are increasing rapidly, with user numbers expected to reach nine million this year and nearly 11 million by the end of 2001. Australia has a rising population and a diverse, growth-oriented business sector.

AAPT is a strong platform for growth for Telecom. As Australia's third largest telecommunications carrier, AAPT has more than 875,000 customers and extensive network infrastructure and services. It has a focused programme of 'first mile' access network build out, which includes fibre optic rings in the central business districts of six state capitals, an Australian-wide broadband wireless network, LMDS and a national mobile network using CDMA technology.

AAPT owns and operates Australia's largest secure private Internet Protocol (IP) network, which services the Victorian Government by linking more than 3,500 sites including schools, hospitals and police stations, and some 700,000 daily users. This IP network is also utilised by AAPT for the provision of data services to a number of business and corporate customers and is part of AAPT's extensive offering of fixed-line, data, Internet and mobile services.

Building presence in Australia

AAPT NETWORKS

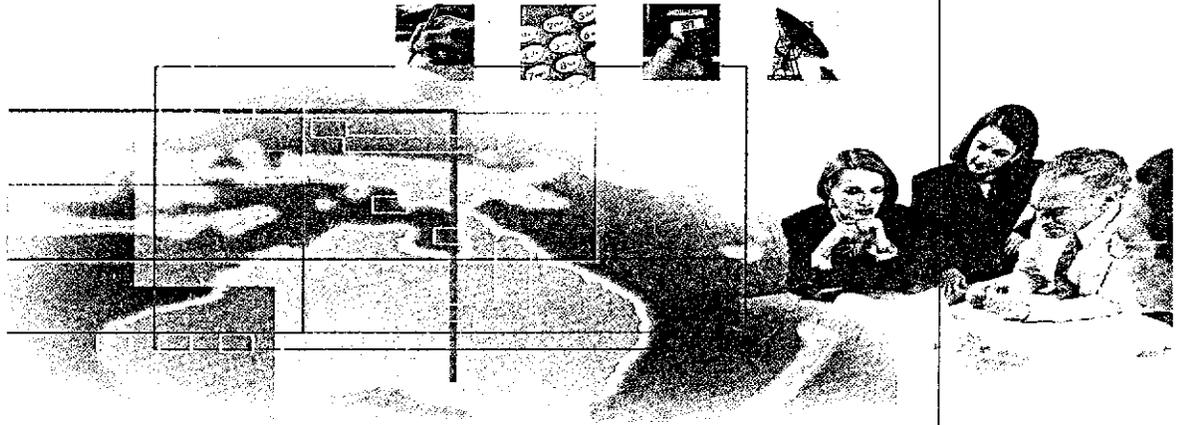
- CDMA TRIAL IN QUEENSLAND: COMMERCIAL LAUNCH EARLY 2001
- FIBRE RINGS IN SYDNEY, MELBOURNE, BRISBANE, ADELAIDE, PERTH, CANBERRA - 670 KM IN TOTAL
- AAPT ROLLING OUT A BROADBAND WIRELESS LMDS NETWORK NATIONALLY

AAPT launched Smartchat in 1997 to offer national and international calling to consumers. This was expanded in 1999 to provide a bundled 'full service' consumer offering, including local calls. By the end of June 2000, Smartchat had captured 300,000 customers or more than 5% of the overall residential local call market.

The successful Smartchat launch and AAPT's push into regional Australia has led to the establishment of an additional 300-seat call centre in Victoria.

Telecom and AAPT are committed to keep on deploying their joint infrastructure on an Australasian basis. Together, the two companies have been focusing on providing the best mobile, voice, data and Internet services on both sides of the Tasman. Our IP networks give scope to offer integrated, managed IP network services to Australasia.

Seamless Trans-Tasman solutions will become increasingly important to businesses operating in both countries. AAPT is chasing business in Australia from New Zealand-based corporates, who are doing business across the Tasman and several large corporate accounts have already been won.



AAPT has established an Internet joint venture in Australia with America Online (AOL), one of the world's leading interactive service companies. This initiative brings together AAPT's network, marketing and distribution capabilities with AOL's content and software plus its business contacts. The joint venture gives AAPT a tremendous opportunity to develop substantial new markets.

In the business Internet area, AAPT and its subsidiary connect.com.au, one of Australia's largest Internet access and e-commerce providers, have acquired leading e-commerce provider Commerce Solutions. connect.com.au has also entered a major e-procurement licencing agreement with US software provider Ariba and acquired 60% of EC-Pay Pty Ltd, which owns and markets a specialist Internet-based service for the superannuation industry.

Telecom and AAPT have been working to develop new business with major corporates in Australia. To secure the 10-year contract with the Commonwealth Bank Group of Australia, Telecom assembled a strong team, led by TCNZ Australia, which included AAPT, EDS and Com Tech. TCNZ Australia will streamline the Commonwealth Bank Group's existing telecommunications infrastructure into a single Internet Protocol network supporting a full range of integrated data, voice and video services. This will provide a seamless service that will enable links and integration across the Bank's 1,100 branches, around 4,000 agencies, 100,000 Eftpos terminals and nine million customers.

Commonwealth Bank's relationship with the consortium will give it the opportunity to be first to market with new packages and services and to offer online financial services and telecommunications to customers. The Group expects the contract will enable it to give customers services and benefits they could not otherwise access. It sees the agreement's support for online capability as ensuring the Bank is at the forefront of the industry. Commonwealth Bank has taken an initial 5% equity stake in TCNZ Australia, with an option to increase this to 35%. Telecom sees this first big contract with a major Australian corporate as an excellent strategic marriage. The new relationship with the Group will serve as a solid foundation for growth in the Australian corporate market, as it enhances TCNZ Australia's credibility with other major players across the Tasman. It therefore provides TCNZ Australia with a great opportunity to develop business, particularly with the Commonwealth Bank's existing business partners and customers.

FEDERAL GOVERNMENT CONTRACT

- AAPT WILL MANAGE OUTGOING CALLS
- CENTRELINK, DEPARTMENT OF FAMILY & COMMUNITY SERVICES
- A\$18 MILLION IN TELECOMMUNICATIONS SPENDING OVER THREE YEARS

CommonwealthBank



MORE THAN ONE MILLION TELECOM CUSTOMERS NOW KEEP IN TOUCH BY USING MOBILE PHONES. AND ALTOGETHER, OVER 40% OF NEW ZEALANDERS ARE CONNECTED TO A MOBILE NETWORK.

Driving growth in mobile communications



CDMAONE NETWORK

- ACCESS SPEEDS UP TO 144 KBPS
- UNIQUE DIGITAL CODE FOR EACH USER
- ALREADY IN USE BY 50 MILLION WORLDWIDE
- NZ'S BROADEST RANGE OF MOBILE DATA SERVICES

In 2000, mobile communication has really come of age. Telecom has extended choice to people in all walks of life through new packages of services and features that add value to using a mobile phone: competition has spurred growth in the market overall.

Pre-paid service plans, available through various retail channels, have been the major contributor to growth in connections. During the 1990s, Telecom price caps on national calling gave people new certainty and a sense of personal control over their use of fixed-line phones. Now, Telecom is providing mobile customers with the same through pre-paid plans and post-paid plans with "free" minute calling components. By paying in advance, people can overcome possible concern about affordability of their individual calls. Telecom has made mobile phones an option readily available between friends and family members, as well as people at work.

Telecom has made it easy to get connected. Over the past year we have more than doubled the number of outlets selling mobile phones and equipment to 1,600 retailers. These include some 65 Telecom Business Directions stores, as well as the outlets of Cellphone City and Ben Rumble.

Mobile is now Telecom's biggest revenue stream after traditional fixed-line calling. We have created a separate business that manages both the provision of the mobile network and services, and looks after the relationships with our customers. The new division ensures we have a single-minded customer focus, while still enabling us to tap into our full range of telecommunications and online services.

One of the driving factors for the future growth of the mobile business has been Telecom's decision to adopt a CDMA (Code Division Multiple Access) cellular network to provide New Zealand with the next generation of mobile technology. CDMA has taken the world by storm with more than 50 million subscribers using the technology worldwide. It offers a robust, high-quality mobile service with greater capacity than GSM or standard analogue and with high-speed data transfer. This data capacity means Telecom's cdmaOne™ (the brand of CDMA being adopted by Telecom) will provide the higher speeds necessary for services such as mobile Internet access through Wireless Application Protocol (WAP), as well as fixed-line voice quality. The new network will retain the coverage of Telecom's current analogue and digital cellular services – around 97% of the populated area of New Zealand.



The jump in data speed achievable through CDMA is particularly important given that, within a few years, mobile phones are expected to become the main means by which people access the Internet. Checking weather, Lotto, stock prices, traffic, placing a bet, banking and buying consumer goods will all be done by mobile. Telecom expects wireless data to account for at least a quarter of total mobile revenues within four years, compared to about 1% now. It's easy to see why. On just one day during the third week of service, a total of 167,000 text messages were sent and received, with an average of nine Telecom text messages per customer.

Telecom has been trialing WAP on digital phones to assess which services are wanted most by New Zealanders. The trial, started in June 2000, has included customer banking services, financial and entertainment information and local and international news updates, as well as a service for personal time organisation and other customised information applications.

To support this convergence of mobile and Internet technologies, Telecom has also launched the *Airinfo* portal, or Internet website, for Telecom mobile customers. *Airinfo* delivers sports, weather and stock market results, among a growing range of other information, direct to Telecom mobile phones, while also providing an email address for customers.

Just a few years ago mobile phones were the domain of business people. Today their popularity extends to people in all areas of life, as a tool for staying in touch and for personal safety. Other new developments in service and pricing, and our ongoing investment in mobile technology, demonstrate why Telecom remains the mobile provider of choice for most New Zealanders. Cellular connections grew nearly 45% in 1999-00, while cellular call minutes grew by a third.

Telecom is committed to staying at the leading edge of mobile services. We are investing \$200 million on the CDMA network which will support more advanced mobile third generation (3G) technologies in the future. We intend to continue to invest in and support our analogue and digital mobile networks for at least the next four years. Customers will have the option of changing over to cdmaOne™ from the time of launch in the first half of 2001.



- AUGUST 2000, OVER 1,000,000 CONNECTIONS INCLUDING 310,000 DIGITAL (UP FROM 495,000 INCLUDING 16,000 DIGITAL IN AUGUST 1998).



GROWTH IN 1999-00

- 114% IN LANLINK CIRCUITS
- 120% IN FRAME RELAY CIRCUITS
- 36% IN ISDN CHANNELS
- 21% IN TOTAL DATA REVENUE

DATA TRAFFIC IS EXPANDING RAPIDLY AND THAT'S A HUGE GROWTH OPPORTUNITY FOR KEY AREAS OF TELECOM'S BUSINESS.

Businesses and consumers are increasingly going online. There is huge potential for big cost reductions, new operating efficiencies and, indeed, whole new ways of living and doing business.

Telecom is in a strong position to meet rising demand for data services and to help customers capture all the associated benefits. We have made major investments in broadband data networks which can be scaled up as demand grows further. And we have robust vendor relationships with world leaders such as Nokia and Cisco.

Leading growth in **Data**

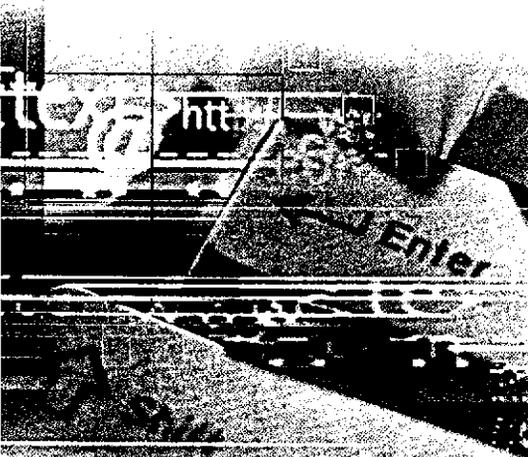
Telecom is committed to market leadership in data. Our strategy is to:

- Ensure people have compelling reasons to use our broadband services
- Target the needs of particular business segments
- Simplify products and prices, and create packages of real value for customers
- Partner with value-adding provider channels
- Accelerate a process of migration from "Old World" data services, such as dedicated data circuits and ISDN, onto new managed services and platforms.

"New World" technologies are at the heart of Telecom's data strategy. Like most telecommunications companies around the world, Telecom used to deliver data services to customers on relatively low speed point-to-point links across legacy platforms. These platforms were limited to delivering specific services and did not have the flexibility provided by new platforms. The advent of IP (Internet Protocol) as the new global standard for data communications is leading to highly flexible, high bandwidth, "anywhere-to-anywhere" packet networks. "New World" technologies such as ADSL (Asymmetric Digital Subscriber Line) provide faster, "always-on" access to a wider range of content, applications and the Internet. Other data services such as Frame Relay, ip.networking (IPVPNs), IPNet and LanLink allow customers to cost-effectively customise their networks to suit their changing requirements.

While customers benefit from the flexibility and affordability these services provide, "New World" data technologies enable Telecom to consolidate platforms. That will bring new efficiencies and lower costs in the delivery of a wide range of data services. With ADSL, Telecom can also develop new revenue streams using the existing copper network.

By delivering multiple data services on the same platform, Telecom is able to migrate customers onto higher value, higher bandwidth services quickly and inexpensively. This means reduced costs and further sales opportunities for Telecom, and the commercial benefits to the customer are equally compelling.



Looking ahead, the ever-increasing demand for IP applications and services will create significant revenue opportunities through the provision of online applications and new online content without the need for major new investment by Telecom.

esolutions is a Telecom alliance with EDS New Zealand and Microsoft New Zealand, launched in February 2000 to offer New Zealand businesses leading edge online solutions. esolutions develops and delivers packages of products and services sourced principally from the parent companies.

Among the first packages is businessXchange which offers businesses a secure e-procurement environment. Its safecom package provides communities of interest with a highly secure physical and virtual safe online communications platform.

eOffice is esolutions' suite of application service provider (ASP) products. It is the easy way to put the applications which customers need into their hands, wherever they are and without the costs of software ownership. eOffice currently gives online access to three products: NettPay, a powerful online payroll system for small to medium businesses, and Office Online, the ASP version of industry standards Microsoft Office 2000 and Microsoft Exchange 5.5.

Telecom's investment in the ultra-high bandwidth Southern Cross Cable will ensure New Zealand businesses have high-speed access to the world, opening up markets previously out of reach. For multinational and Trans-Tasman companies operating in New Zealand, Telecom partnerships with international carriers ensure seamless and reliable data connectivity.

Jetstream uses ADSL to achieve phenomenal bandwidth on copper lines in Telecom local networks. Jetstream provides customers an "always on" link to the Internet at speeds about 70 times faster than a dial-up modem and seven times faster than other "high-speed" offerings to New Zealand customers.

Telecom is among the first in the world to commercially deploy ADSL technology. It has been installed in 69 exchanges with potential to connect a total of 770,000 customers by 30 June 2000. We offer significantly greater broadband coverage than any other provider in New Zealand.

A range of other ADSL-based services will be launched in the future and new value-added service opportunities such as streaming video are being investigated. Jetstream will offer customers access to an expanding range of new content and applications, on and off the Internet. For example, Jetstream's online games server is one of the most popular in the world; and teleworkers can connect seamlessly to corporate LANs via Jetstream without relying on public access to the Internet.

In July 2000, Telecom converted to the international standards for ADSL modems, opening the way for multiple modem vendors to enter the market and stimulate growth through lower equipment costs to customers.





GROWTH IN 1999-00

- INTERNATIONAL OUTWARD CALLS UP 24.9%
- NATIONAL CALLS UP 5.6%
- CALLS TO MOBILE PHONES UP 32.9%
- BUSINESS LOCAL CALLS UP 3.9%

HUMAN VOICES WILL ALWAYS BE CENTRAL TO COMMUNICATION.
IN THE ONLINE WORLD, PEOPLE STILL HAVE MUCH TO TALK ABOUT
AND THE VOICE CALLING BUSINESS REMAINS CORE TO TELECOM.

Calling – local, national and international – is our biggest revenue stream today. And our customer relationships in voice calling provide a solid platform for Telecom's growth in new services based on new communications and information technologies.

Attractive calling offers have reinforced the value of Telecom's services for residential customers. They're taking advantage of capped call prices at off-peak times and call volumes in 1999-00 reached record levels.

Telecom seeks to be highly competitive in voice calling markets by delivering both value to customers and quality of service. Telecom has built an excellent record of service quality over many years and we are focused on doing even better in key areas. To this end, we have linked remuneration for staff directly to measures of customer satisfaction. Improvements in fault repair and account management services during 1999-00 were especially encouraging.

Telecom will look increasingly to package voice calling with services from different networks. In 2000, we have begun working with Sky Television on a market trial among residential customers receiving fixed line telephone and Internet services, combined with mobile communications and digital tv.

Highly competitive in **Voice** calling



Technology is bringing ever more convenient and cost-effective ways of transmitting voice across fixed and mobile networks. Over the next few years, Telecom is, for instance, planning to move voice services from the PSTN (public switched telephone network) to a new IP (Internet Protocol) network, that is designed to manage fast-growing data flows in conjunction with voice traffic.

As technologies for voice and data traffic are integrated more, Telecom will take the advantages out to customers. We expect to introduce new services to customers with increasing speed and at reduced cost.

The future will bring more seamless use of mobile, fixed-line and Internet technologies to communicate, access information or be entertained. There'll be less need for customers to buy specialised equipment; they will be able to access what they need from Telecom.

We will continue to focus on the benefits of new technology and simpler processes to reduce cost where possible and thereby strengthen our ability to deliver value to customers.

XTRA IS COMMITTED TO BEING NEW ZEALAND'S LEADING INTERNET EXPERIENCE. IT'S CERTAINLY THE MOST VISITED NEW ZEALAND WEBSITE AND OVER THE PAST YEAR, DIAL-UP CUSTOMER NUMBERS GREW 39%.



Making the Internet more valuable

New Zealanders are among the world's most active users of the Internet: more than a third of the adult population is said to use it routinely. Nielsen NetRatings of at-home access to sites consistently show Xtra is the most visited New Zealand site – 265,152 unique visits in June 2000, at an average duration of 13 minutes. Only two other sites in the world are more in use by New Zealanders.

People want the Internet to serve their particular needs and interests at work, home or wherever. The real growth of Xtra is seen in rapid increase in customer sessions each day – the average number grew 70% in the past year to 480,000.

Xtra provides a wide choice in channels of news, information, entertainment and services, as well as great search tools for the web. The Xtra site is constantly being updated. For instance, a Health channel launched in May 2000 provides information from expert sources and provides guidance on hundreds of diseases and conditions.

People want the Internet to be reliable and easy to use. Xtra offers them the quality and robustness of the Telecom network, and other services such as Jetstream for high-speed access on standard telephone lines.

Xtra's success demonstrates that people expect quality Internet service and are willing to pay a fair price for it. With Xtra, they have access to an expertly staffed help desk, 24 hours, seven days a week; Cyber Patrol (for parental control of access to selected websites); and pro-active protection against virus outbreaks. Other features include free personal web pages and global roaming which gives customers convenient access to the Internet wherever they go in the world. Xtra also makes it easier for individuals or businesses to register domain names – 6,244 of them over the past year.

In August 2000, the new Xtra Value Pack was launched to enhance still further the value of the Internet. This plan provides a range of service features and replaces other flat rate plans previously on offer. (Xtra continues to offer access at hourly rates as well.) Its success has been confirmed in 2000 with Xtra being declared Best Internet Service Provider for the year by the Telecommunications Users Association of New Zealand.

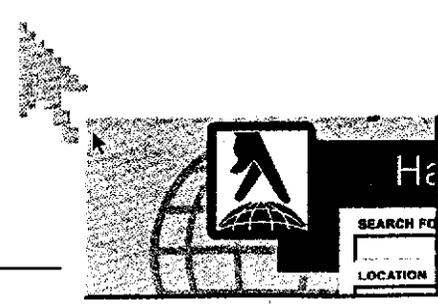


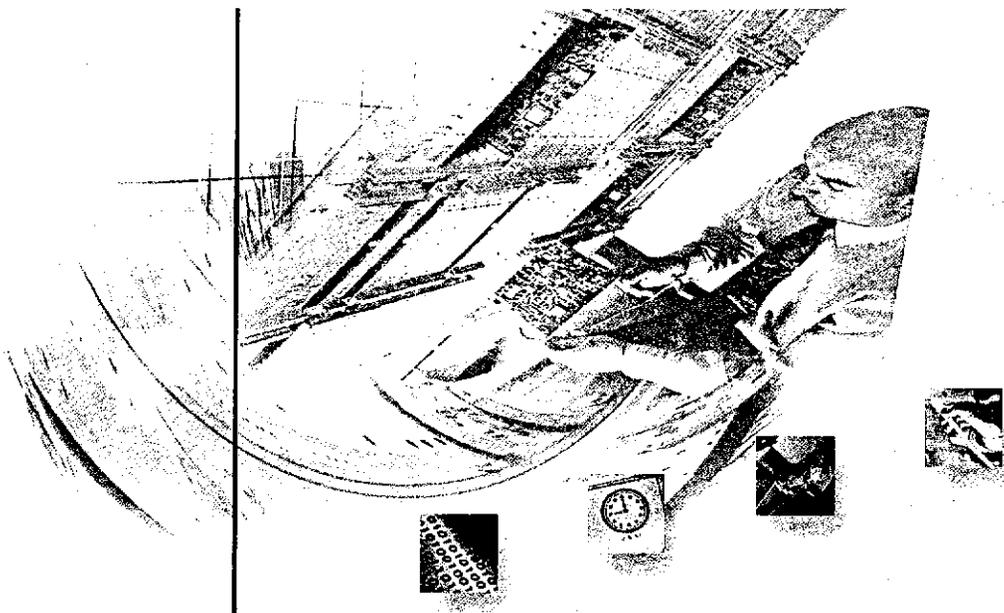
XTRA VALUE PACK

- \$24.95 PER MONTH
- UNLIMITED ACCESS
- UP TO 5 EMAIL ADDRESSES
- GLOBAL ROAMING
- PRIVACY, VIRUS PROTECTION
- HELP DESK
- 100% SATISFACTION GUARANTEE



TOTAL MINUTES ON XTRA
UP 179% IN 1999-00





Expanding and strengthening **Networks**

PEOPLE ARE COMMUNICATING WITH EACH OTHER IN WAYS FEW EXPECTED TEN YEARS AGO. TELECOM NETWORKS HAVE MADE POSSIBLE RAPID GROWTH IN DATA AND VOICE CALLING, IN INTERNET USE AND IN MOBILE COMMUNICATIONS. WE CONTINUE TO INVEST IN TECHNOLOGIES THAT OPEN EVEN GREATER POSSIBILITIES FOR THE FUTURE.

SOUTHERN CROSS CABLE

- MAJOR BOOST TO AUSTRALASIA/
NORTH AMERICA LINKS
- 31,000 KM OF CABLE
- 120 GIGABITS PER SECOND
- 1.5M CALLS AT A TIME
- TELECOM 50% OWNER

Network capacity and diversity are critical to customers and to growth in Telecom's business. In 2000-01 we are investing \$70 million to add capacity and robustness to the national network. Explosive growth in Internet use has driven demand for increased capacity across all links in the network (local, regional and national). Our focus is on investing in technologies that are scalable so that Telecom can move quickly to meet future bandwidth requirements.

The programme will see Telecom lay a new fibre optic cable under Cook Strait and strengthen the fibre link from the West Coast to Christchurch. With an initial bandwidth of 10 gigabits per second, scalable up to 1 terabit, the Cook Strait cable will supply the South Island with diversity and capacity to support economic growth over the next 25 years.

Telecom is a 50% owner in the 31,000 kilometre Southern Cross Cable project, which has a capital cost of approximately \$US1 billion. It's the biggest investment underway by a New Zealand company. When switched on in November 2000, Southern Cross will provide a massive 120 gigabits per second of bandwidth between Australasia and North America – enough to carry nearly 1.5 million simultaneous telephone conversations or transfer two full-length motion pictures every second. Telecom initiated the Southern Cross project in 1996 in response to the dramatic increase in bandwidth requirements stemming from the global explosion in Internet usage. The cable has been designed to support Internet growth and ensure New Zealand has a high-speed link to North America for many years to come.

In telecommunications worldwide, traditional ways of transmitting voice over telephone lines are starting to be replaced by Voice over Packet data technology. Over time there will be less reliance on copper wires and telephone exchange switches. To make this transition, Telecom has formed strong associations with global leaders in the supply of telecommunications technology. For example, Cisco of the United States is working with Telecom on how best to meet the future data requirements of New Zealanders.

Telecom's network will increasingly be based on high bandwidth ATM (Asynchronous Transfer Mode) technology. Tomorrow's services will be layered on ATM, providing the capability for Telecom to carry enormous amounts of data traffic, much of this on our IPNet, designed for Internet Service Providers and businesses alike. Jetstream uses ADSL to extend the speed and bandwidth of the ATM network out onto customers' access lines for high-speed Internet access.

With the increasing demand for enhanced mobile communications, Telecom did extensive international research and found CDMA (Code Division Multiple Access) offered the most potential for the future.

CDMA is the most advanced mobile network technology available and offers a robust, fixed-line quality voice service with high-speed mobile data rates of up to 144kbit/s.

Strong supply relationships with international players enable Telecom to introduce new technologies and expand services at competitive prices. We are also encouraging the competitive supply of build and maintenance services in telecommunications. In 2000, Telecom has tendered out 12 area-based contracts with seven service companies in New Zealand and sold the former network service arm, ConnectTel, to the Downer Group.

Telecom's Network International staff are world leaders in trading in telecommunications transactions and have newly-established points of presence in London, Los Angeles and Tokyo. Using these assets, Telecom intends to maintain and grow call traffic and develop new business providing broadband services.

NETWORK EXPANSION



LAYING THE SOUTHERN CROSS CABLE.

cdmaOne

THE NEW COOK STRAIT CABLE - DESIGNED TO SUPPORT GROWTH FOR 25 YEARS.

