



Telecom

Investor Presentation

September 2011

Disclaimer

Forward-Looking Statements

This presentation includes forward-looking statements regarding future events and the future performance of Telecom, including forward looking statements regarding the Demerger, industry trends, strategies, capital expenditure, the construction of the UFB network, credit ratings and future financial and operational performance. 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 Scheme Booklet, including, in particular, in the section titled "Risks in relation to New Chorus, New Telecom and the Demerger". 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 uses Earnings Before Interest, Taxation, Depreciation and Amortisation ('EBITDA'), adjusted EBITDA and funds from operations ('FFO') when discussing financial performance. These are non-GAAP financial measures and are not prepared in accordance with International Financial Reporting Standards ('IFRS'). They are not uniformly defined or utilised by all companies in the telecommunications industry. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation, or considered a substitute for measures reported in accordance with IFRS. Management believes that these measures provide useful information as they are used internally to evaluate performance, analyse trends on cash-based expenses, establish operational goals and allocate resources. See slide 34 for a description of how these measures are calculated.

Basis of preparation of financial information

This presentation includes financial information about Telecom that has been prepared on several bases of accounting, including an historical special purpose (carve-out) basis and a pro forma basis. See slide 34 for more information about the basis of accounting.

The pro forma financial information in this presentation is not intended to and does not comply with Article 11 of Regulation S-X of the Rules and Regulations of the United States Securities and Exchange Commission in respect of pro forma financial information.

Not an offer of securities

This presentation is not an offer of securities. The securities to be issued in the Demerger have not been registered under the United States Securities Act of 1933 ("US Securities Act") and may not be offered or sold in the United States except in transactions that are exempt from or not subject to the registration requirements of the US Securities Act.

Key investment highlights

- #1 Leading NZ telecommunications and IT services provider with #1 or #2 positions in all core markets
- #2 Able to compete on a similar regulatory footing with market peers
- #3 Strong brand with national presence
- #4 Large scale, strategic assets
- #5 Diversified and comprehensive product portfolio
- #6 Clear strategic objectives to deliver improved momentum, sustainability and growth
- #7 Experienced Board and management team
- #8 Sustained earnings performance within a challenging market
- #9 FY11 pro forma sales of NZ\$5,071m and adjusted EBITDA of NZ\$1,125m¹

¹ Telecom pro forma FY11 EBITDA of NZ\$885 million adjusted for one off items of; a gain of NZ\$18 million due to the sale of the consumer division of AAPT's operations to iiNet, costs of NZ\$23 million in relation to Telecom's UFB proposal, one-off costs of NZ\$20 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$215 million recognised on copper-based regulatory assets due to the combined effect of the move to a fibre-oriented world and regulatory developments.

Agenda

- #1 NZ telecommunications market and regulatory framework**

- #2 Company overview**

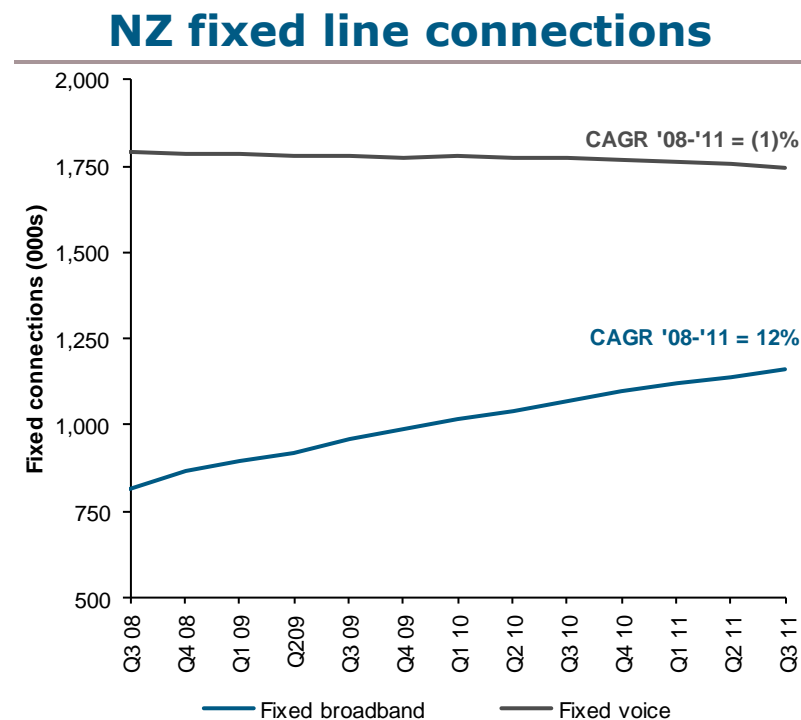
- #3 Strategic priorities**

- #4 Financial overview**

I. NZ telecommunications market and regulatory framework

Fixed line market dynamics

The fixed line market in New Zealand has historically experienced a gradual decline in fixed voice connections compensated by steady growth in fixed broadband connections



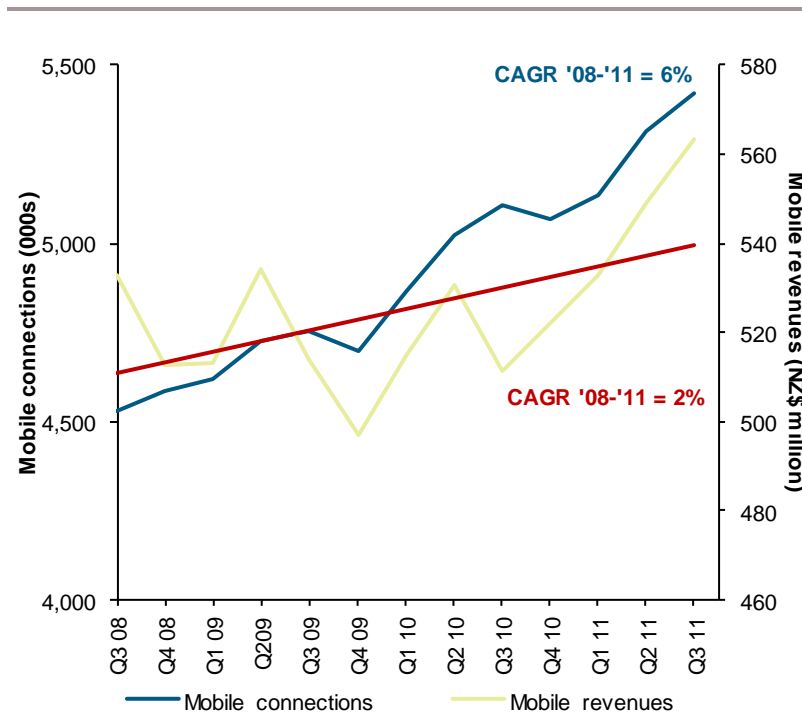
- Slower rate of decline in fixed voice connections compared to comparable overseas markets
- Relatively low fixed-to-mobile substitution rates
- Steady growth in fixed broadband connections with current penetration rates of approximately 65%

Source: IDC NZ Telco Tracker: March 2008 to March 2011

Mobile market dynamics

The mobile market in New Zealand has historically experienced strong growth in subscribers but slower growth in revenues

NZ mobile revenues / connections



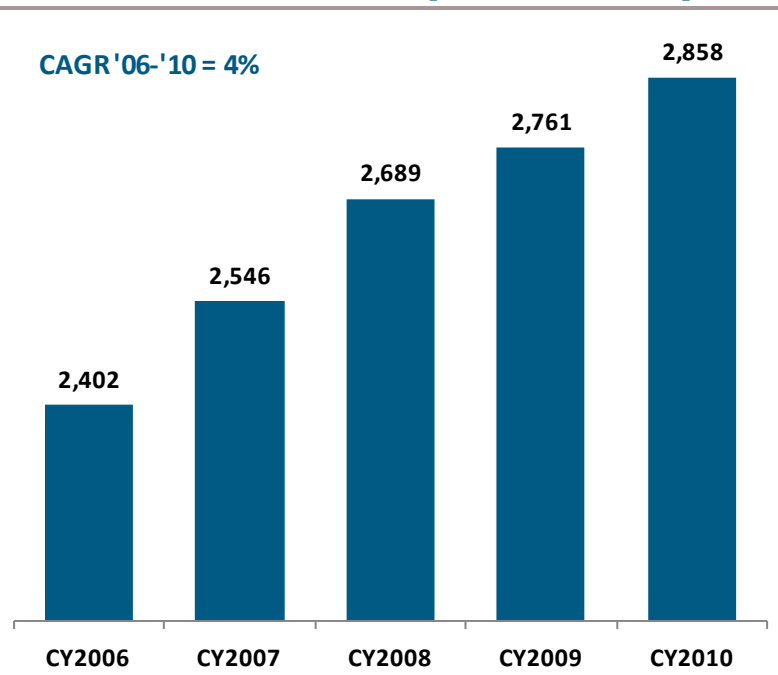
- Mobile subscriber growth has been driven by growth in both handsets and wireless broadband
- Mobile data and smartphones remain key structural growth stories
- Mobile revenue growth has been tempered by competitive in-market dynamics and entrance of a third operator

Source: IDC NZ Telco Tracker: March 2008 to March 2011

ICT market dynamics

The ICT market in New Zealand has historically experienced sustained revenue growth

NZ ICT revenues (NZ\$ million)



- Market growth has been driven by increasing levels of innovation and the introduction of higher value-added-services (VAS) being developed
- Transition to IP based networks and fibre based services is further driving convergence
- Cloud based services, including infrastructure-as-a-service (IAAS) products now being offered within the market

Source: IDC New Zealand IT Services Market: Market Analysis, May 2011

Key market trends

The telecommunications industry continues to evolve rapidly with the development of new technologies, increasing competition and further convergence with other industries

Growth segments

- Continued growth in usage of mobile, internet and data services
- Growing preference for internet-enabled services in the mass market, SME and corporate sectors
- ICT growth to be driven by continued migration to IP based platforms and the adoption of cloud based products and services

Competitive dynamics

- Increasing competitive intensity across all telecommunications and IT services markets

Technological advances and convergence

- Convergence between telecommunication services, content and IT services
- Globalisation of technology manufacturers and increased focus on open platform enabled solutions
- Further advancement in technology is expected to be driven by the proliferation of fibre in the fixed market and through the introduction of 4G networks in the mobile market

II. Company overview

Introduction

Telecom will be New Zealand's largest provider of telecommunications and IT services by revenue, customers and assets

- Upon Demerger, Telecom will:
 - Provide fixed, mobile and IT products and services to retail and wholesale customers
 - Have significant operational scale and a significant customer base

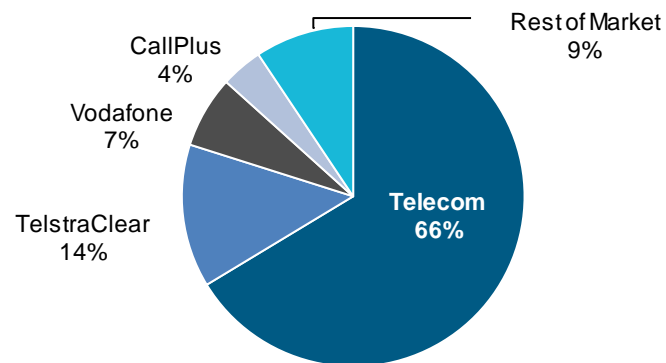
Key Assets	Customer Base
<ul style="list-style-type: none"> • National PSTN network equipment for fixed line calling • National XT 3G mobile network • National backhaul networks • 50% ownership interest in the Southern Cross international cable • One of Australia's most extensive fixed IP networks 	<ul style="list-style-type: none"> • Over 1 million fixed line residential and SME customers in New Zealand • Over 2 million mobile connections (consumer and business) in New Zealand • Over 800,000 fixed and mobile internet and broadband customers in New Zealand • Over 3,000 business clients across Australasia using Gen-i's services • Over 6,000 businesses and wholesale customers in Australia using AAPT's services

- Telecom will purchase fixed line network products on equivalent technical and financial terms to all other industry participants
- The Telecom businesses will not be substantially altered due to the Demerger of Chorus. The key change will be movement from an internal trading to external billing relationship

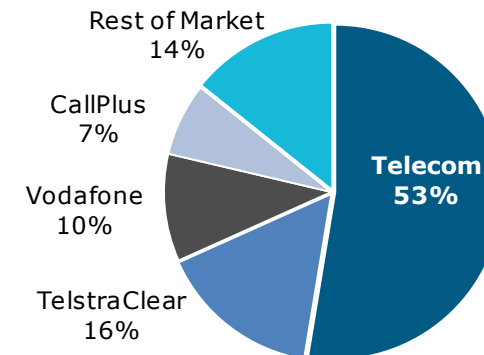
Leading market positions

Telecom is New Zealand's largest provider of telecommunications services, holding #1 or #2 market positions across all core product segments

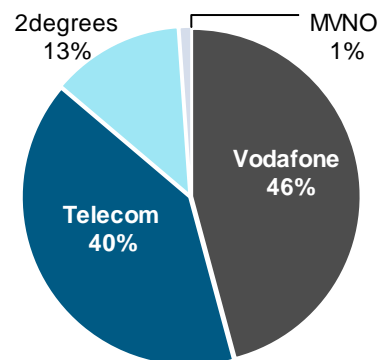
Fixed voice



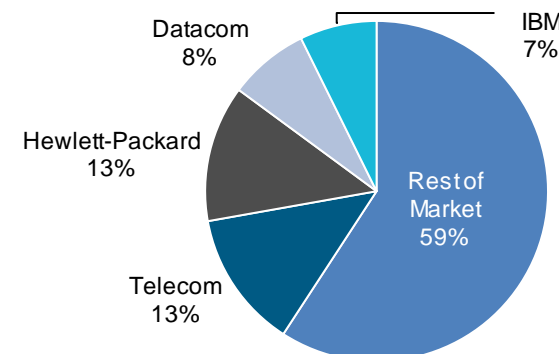
Fixed broadband



Mobile



ICT



Source: IDC NZ Telco Tracker, New Zealand market connections, March 2011 and IDC New Zealand IT Services Market: Market Analysis by revenues, May 2011

Simplified regulatory regime

The proposed regulatory changes were enacted on 30 June 2011 and are conditional on the Demerger of Chorus. Under these changes, Telecom post Demerger will be subject to less of the current Telecom-specific regulations and will compete on a similar regulatory footing with market peers

	Pre Demerger	Post Demerger
Operational Separation Undertakings 'three box' model¹	Yes	N/A
Accounting separation²	Yes	No
Independent Oversight Group	Yes	No
Ownership restrictions	Yes	No
Open access undertakings³	N/A	No
Obligations under the TSO⁴	Yes	Yes
Line of business restrictions⁵	No	No
Oversight of transitional and long term sharing arrangements between Chorus and Telecom	N/A	Yes

¹ The three box model is defined as the separation of the Chorus, Telecom Wholesale and Retail business units as per the Operational Separation Undertakings.

² Accounting separation was recently removed under the Telecommunications Amendment Act.

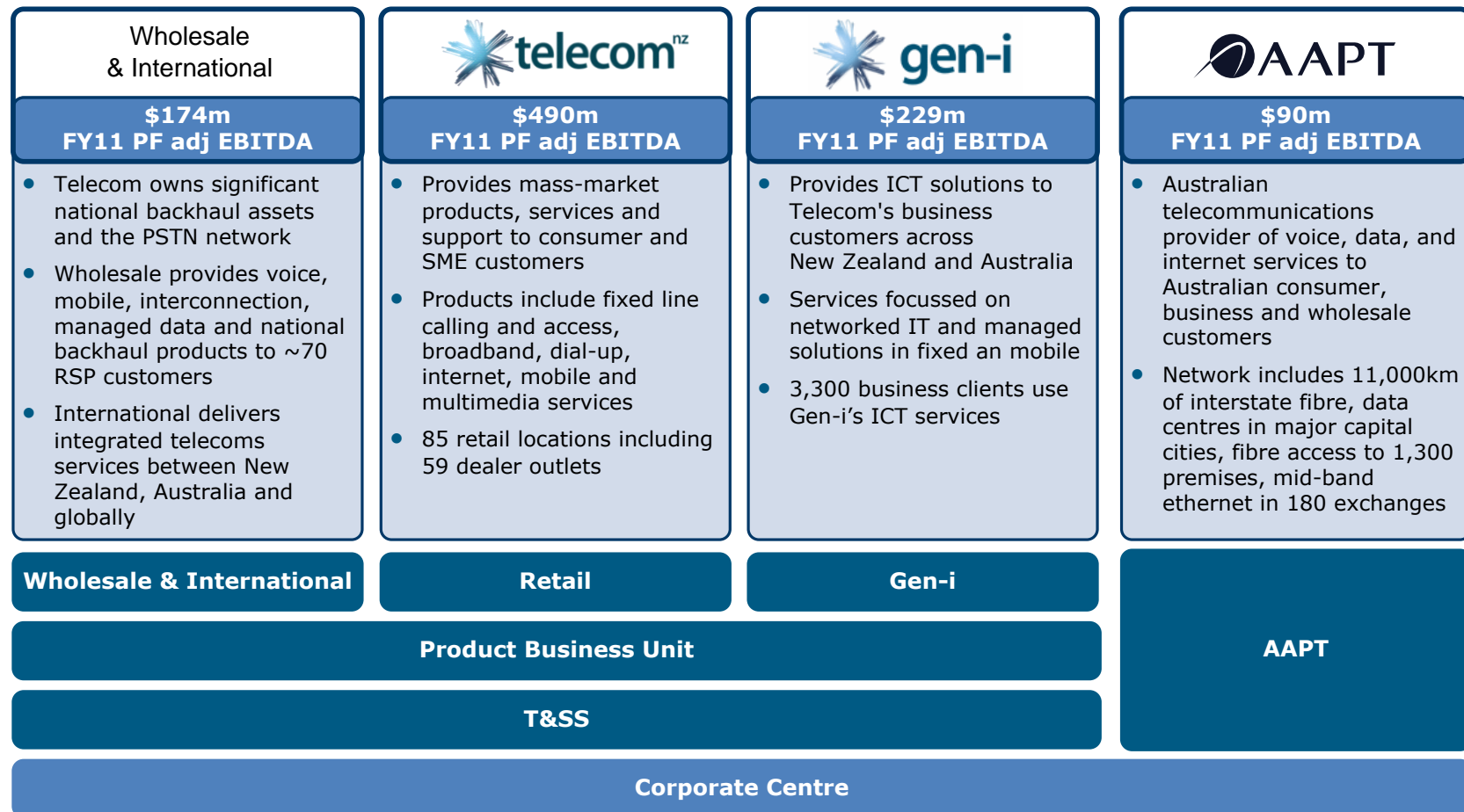
³ The new open access deeds of undertakings are primarily aimed at holding the principles of non-discrimination and equivalence. The draft open access deeds of undertakings currently provide that Chorus is not required to have separate business units or internal trading.

⁴ The Telecommunications Amendment Act requires a review of the TSO in 2013.

⁵ There is a transitional line of business restriction prohibiting Telecom from purchasing UCLL for three years.

Telecom business units

Telecom will have four customer-facing business units, supported by the Product Business Unit, a network and IT unit (T&SS) and a corporate centre



Large scale, strategic assets

Telecom owns and operates significant assets that have high strategic value

New Zealand Assets

National PSTN Network and Backhaul Assets



- Service platforms for voice and data applications
- National backhaul fibre network
- 30 major exchanges
- 2 Auckland gateways

National XT 3G Mobile Network

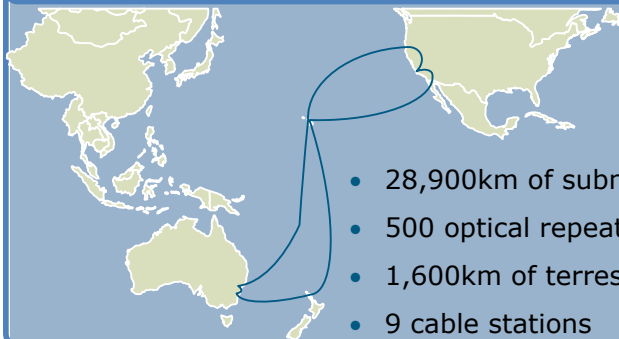


- Significant mobile tower footprint providing coverage to 97% of places where New Zealanders live and work

XT Network
 Good ■
 Fair ■
 Limited ■

International Assets

Southern Cross International Cable Network (50% interest)



- 28,900km of submarine cable
- 500 optical repeaters
- 1,600km of terrestrial cable
- 9 cable stations

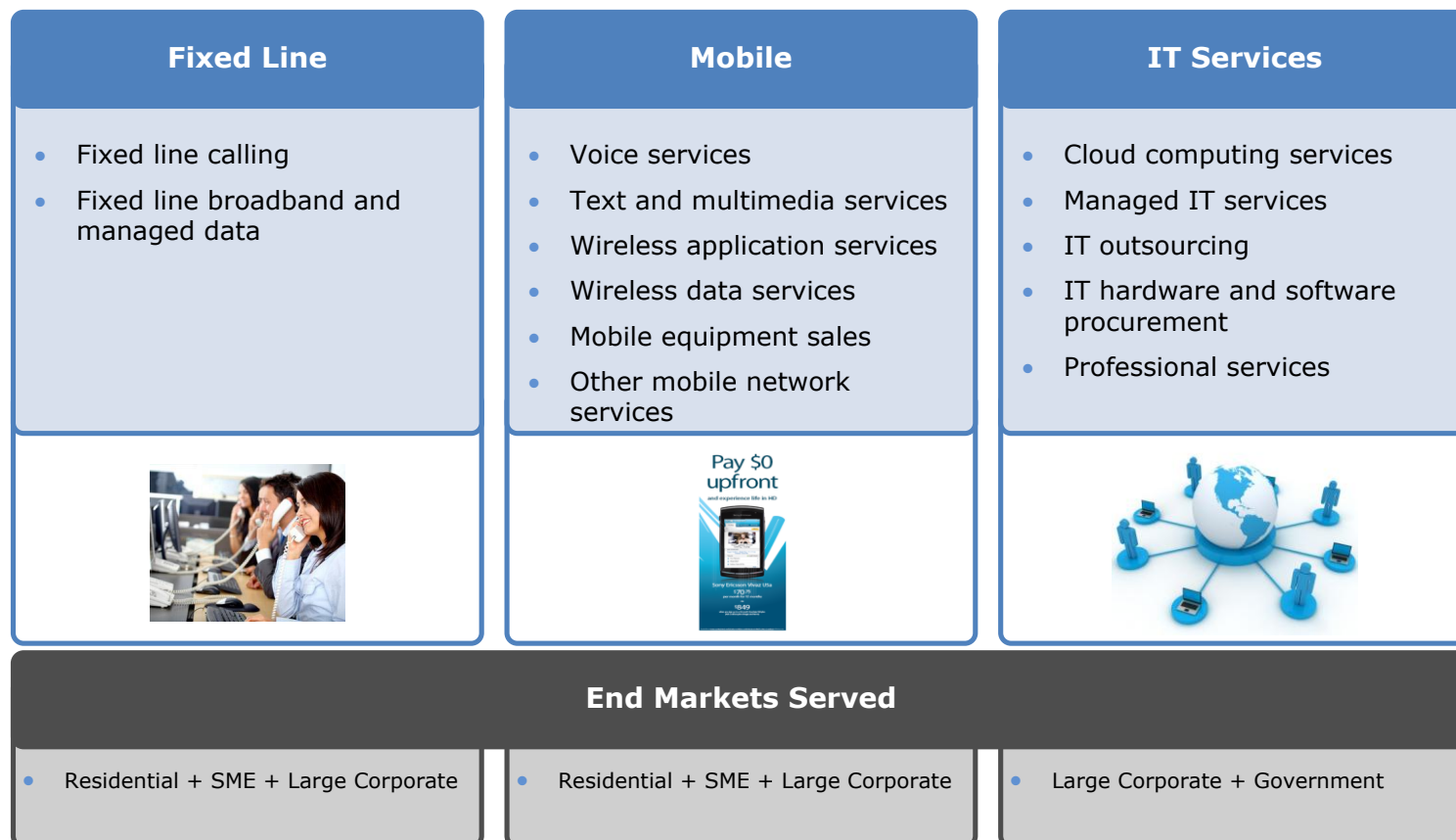
AAPT IP Network



- 11,000km interstate fibre
- Data centres major capital cities
- Fibre access to 1,300 premises
- Mid-band Ethernet in 180 exchanges

Diversified and comprehensive product portfolio

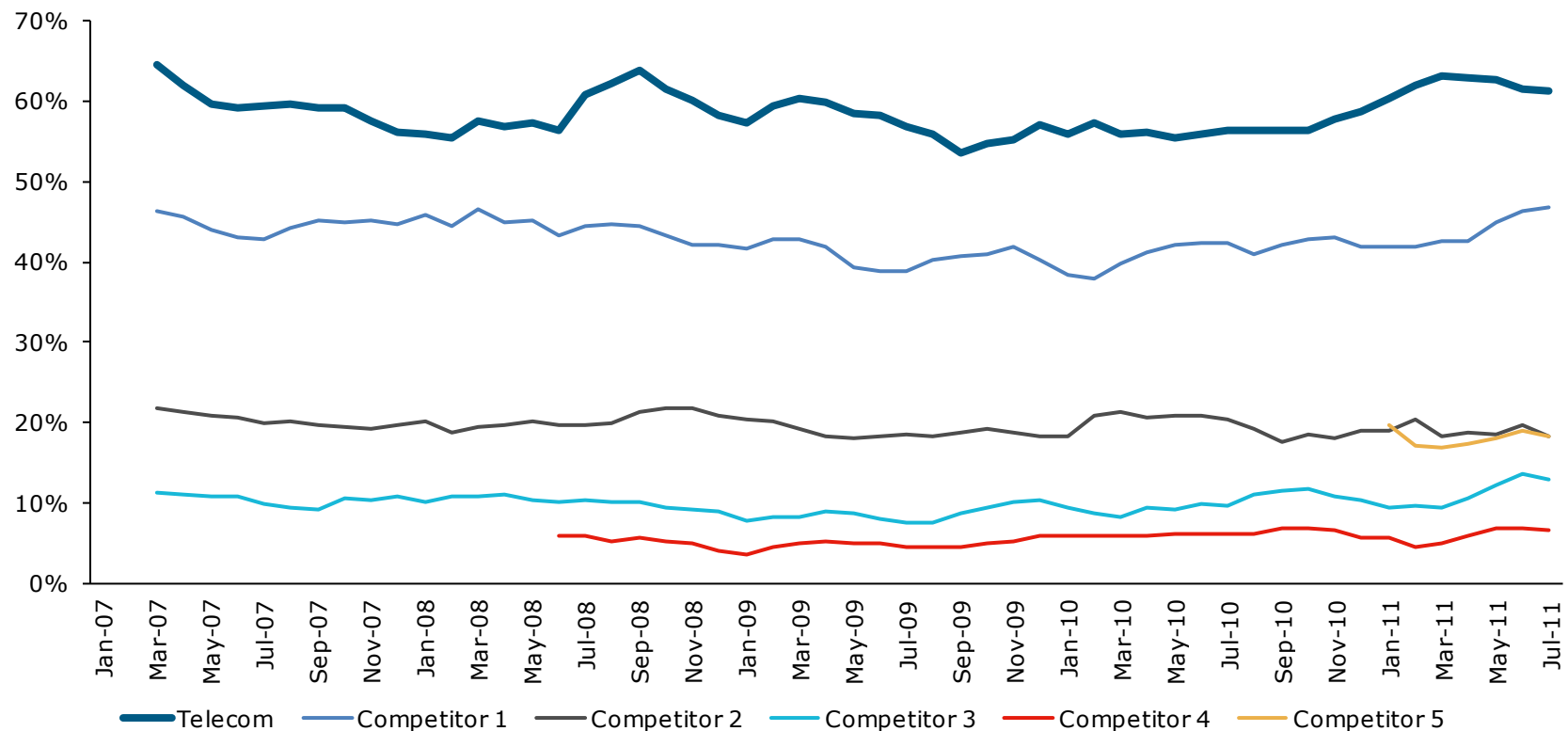
Telecom offers a comprehensive portfolio of products and services in both telecommunications and IT services and in all end customer markets



Strong brand with national presence

Telecom is one of the best known brands in New Zealand and is the consistent #1 preferred provider of telecommunications services in the country

New Zealand telecommunications brand net preference¹



Source: TNS, July 2011

¹ The New Zealand Telecommunications Brand Net Preference chart is independently compiled by TNS and is based on responses given by a random sample of the New Zealand consumer population. Respondents are asked which of the following statements best describes their overall feelings to each New Zealand Telecommunications brand: 1) "The only company I'd use", 2) "A preferred company", 3) "Not a preferred company, but I'd use them under certain circumstances", 4) "I don't know enough about them to say", or 5) "I would never willingly use this company". The indices for each brand are then calculated as the proportion of respondents that choose statement 1) or 2) for that particular brand and are shown on a 3 month rolling average basis.

Experienced Board of Directors

Mark Verbiest Chairman <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Chairman of Transpower NZ and Willis Bond Capital Partners • Director of AMP NZ Office, Freightways, Southern Cross Medical Care Society, and a board member at Financial Markets Authority and the Southern Cross Healthcare Trust
Paul Berriman <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Over 25 years of experience in the telecommunications industry, particularly in IPTV, mobile TV, media convergence and quadruple-play • Current Chief Technology Officer of PCCW since May 2007, Hong Kong's largest telecommunications company, leading the Group's product and technology roadmap and strategic developments
Murray Horn <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Board member of Telecom since July 2007. Current Chair of New Zealand Government National Health Board • Former Secretary to New Zealand Treasury, New Zealand's representative at the OECD, as a governor at the World Bank and as an alternate director at the IMF
Maury Leyland <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Current director of Transpower NZ and Senior Executive at Fonterra since 2005 • 9 years experience with Boston Consulting Group working with New Zealand and Australian corporates
Paul Reynolds CEO & Executive Director	<ul style="list-style-type: none"> • CEO and director of Telecom since September 2007 • Over 28 years experience in the global telecommunications industry. Former executive member of the board at BT and CEO of BT Wholesale as well as eAccess and current board member of xConnect Networks
Kevin Roberts <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Board member of Telecom since August 2008. Current CEO of Saatchi & Saatchi Worldwide • Prior experience includes senior management and marketing positions with Procter & Gamble, Pepsi-Cola and Lion Nathan
Charles Sitch <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Extensive strategic, management and operational turnaround expertise • Current advisory director of BKK Investment Bank with over 20 years management consulting experience with McKinsey & Company
Justine Smyth <i>Non-Executive Director</i>	<ul style="list-style-type: none"> • Current Deputy Chair of NZ Post and Chair of The New Zealand Breast Cancer Foundation, Board member of the Financial Markets Authority and owner and director of Lingerie Brands

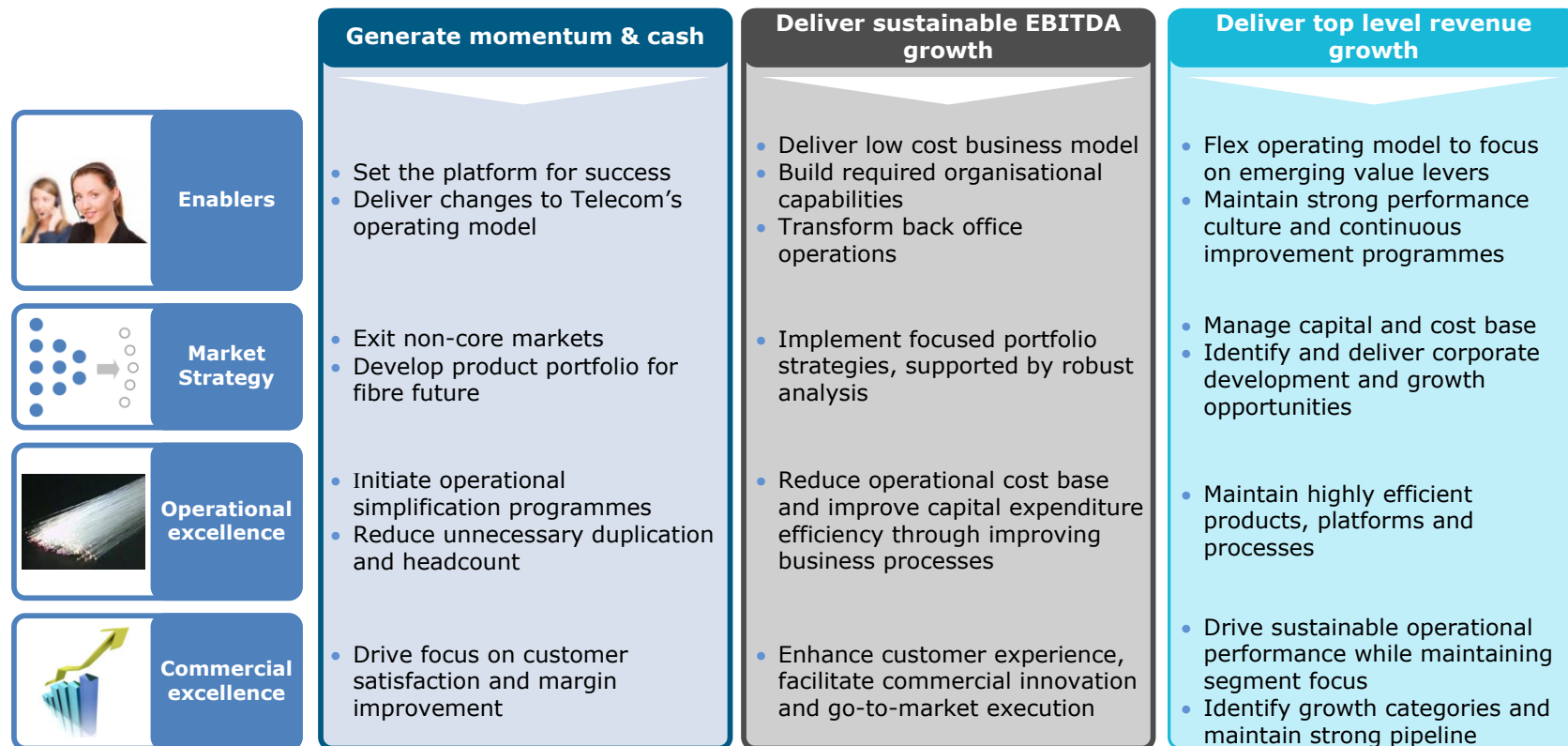
Management team with deep understanding of the business

Paul Reynolds <i>CEO & Executive Director</i>	<ul style="list-style-type: none"> • CEO and director of Telecom since September 2007 • Over 28 years experience in the global telecommunications industry. Former executive member of the board at BT and CEO of BT Wholesale and eAccess. Current board member of xConnect Networks
Tristan Gilbertson <i>Group General Counsel & Company Secretary</i>	<ul style="list-style-type: none"> • Group General Counsel of Telecom since July 2008 • Extensive experience in telecommunications law and regulation. Former roles with Vodafone include legal and regulatory director – Asia-Pacific Region, and governance director – Europe Region
Alan Gourdie <i>Chief Executive Officer, Retail</i>	<ul style="list-style-type: none"> • CEO of Retail since August 2008 • Several years of experience within Heineken including global marketing manager, and managing director of Asia-Pacific Breweries' UK and European operations
David Havercroft <i>Group Chief Technology Officer</i>	<ul style="list-style-type: none"> • Chief Technology Officer of Telecom since April 2010 • Over 26 years experience in the telecommunications industry in Europe and the Asia-Pacific • Prior roles include executive positions in major telecommunications operations, professional services and technology organisations
Nick Olson <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> • CFO of Telecom since October 2010 • Over 20 years finance experience, with 13 years in the investment banking industry • Previous positions within Telecom include Treasurer, General Manager Finance and Group Controller
Chris Quin <i>Chief Executive Officer, Gen-i</i>	<ul style="list-style-type: none"> • CEO of Gen-i since April 2008. Previously General Manager of Gen-i's New Zealand operations • Current board member of NZ ICT Group, ICE HOUSE business incubator and New Centre for Social Innovation
Rod Snodgrass <i>Chief Product Officer</i>	<ul style="list-style-type: none"> • Chief Product Officer of Telecom since April 2011 • Previous positions within Telecom include Group Strategy Director, General Manager of the Wired Division and General Manager of Xtra
Tina Symmans <i>Corporate Relations Director</i>	<ul style="list-style-type: none"> • Corporate Relations Director of Telecom since June 2008 • Currently a director of Turners & Growers Limited and the executive sponsor and trustee on the Telecom Foundation Board
David Yuile <i>Chief Executive Officer, AAPT</i>	<ul style="list-style-type: none"> • CEO of AAPT since 1 July 2011 • Current board member of TransAct and Framehawk. Former COO at AAPT, Director of Networks at PowerTel, CEO of 90 East and Co-Founder of Sales Technology

III. Strategic priorities

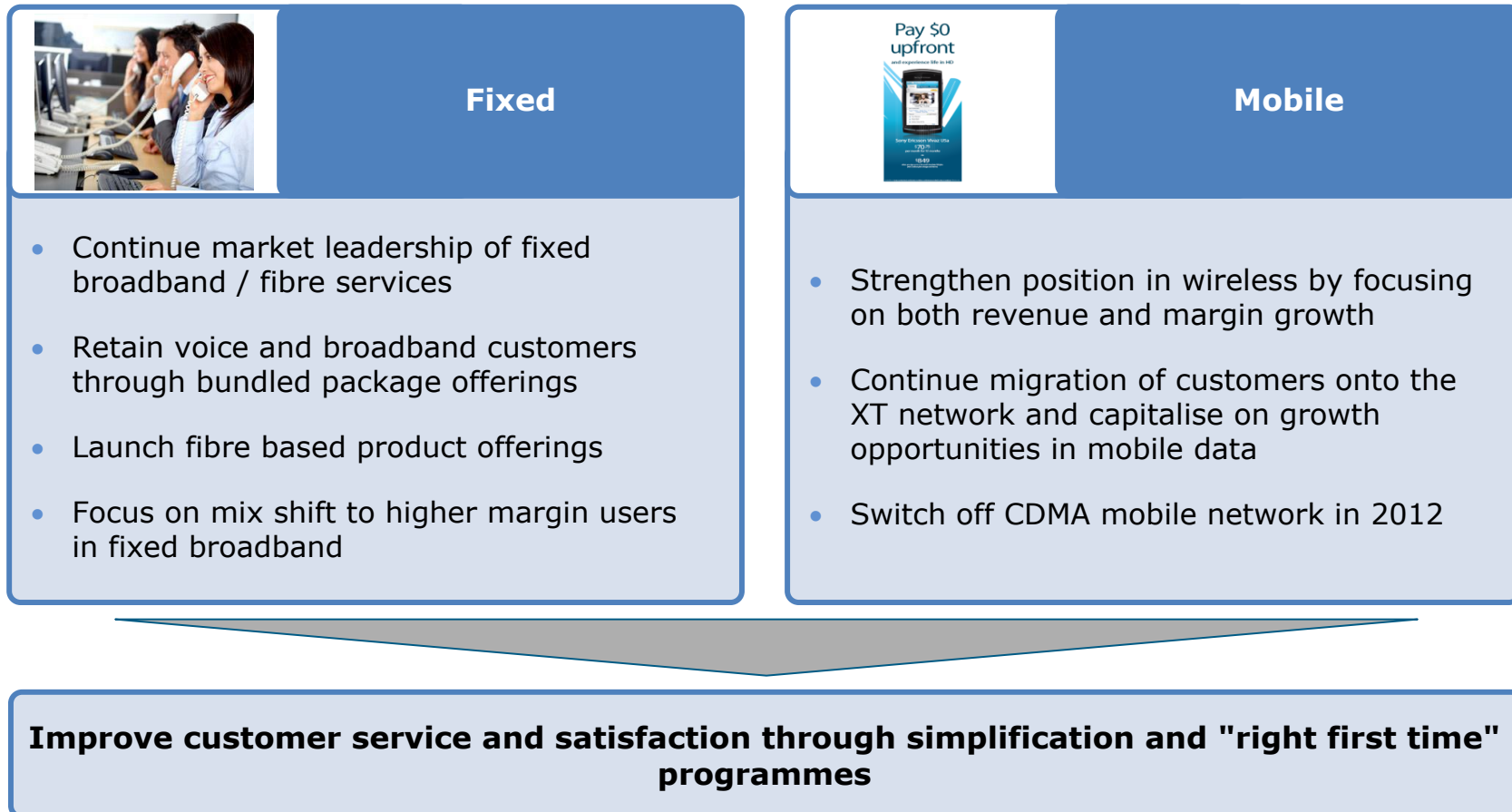
The Vision2013 strategy aims to deliver momentum, sustainability and growth

In 2008, Telecom developed the Vision2013 business strategy. Telecom is well progressed with implementing initiatives for Vision2013 and will remain focused on delivering this strategy post Demerger



Telecom Retail business strategy

Telecom Retail's strategic focus is to grow earnings by strengthening its position as a leading retail services provider



Gen-i business strategy

Gen-i has undertaken a major transformation programme during FY11 to focus on the strategic themes under Vision2013

- Simplify the product offering and value proposition
- Reduce costs and improve performance through cost outs and right first time initiatives
- Retain value in traditional telecommunications business and development of IP based networks
- Target growth in delivering mobile and next generation cloud computing services and growth in trans-Tasman clients



Gen-i has re-organised itself around two distinct customer segments with specific service offerings:

Enterprise Clients

- Require integrated ICT solutions and have complex needs
- Willing to pay for bespoke solutions and differentiated offerings

Corporate / Business Clients

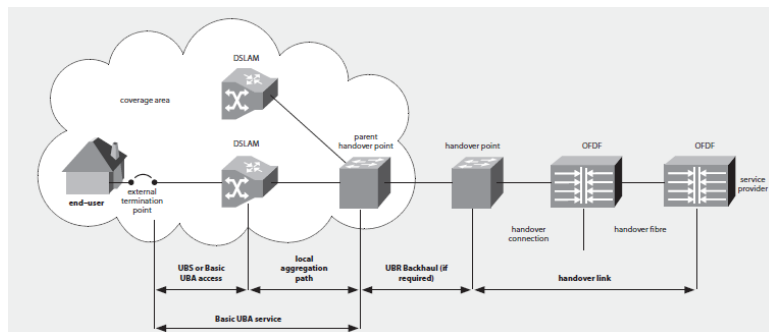
- Require cost effective and more standardised platform based solutions
- Looking for value based solutions including IP based hosted and cloud services

Wholesale and International business strategy

Wholesale

Grow earnings through being the leading national wholesale service provider in the market

- Leverage current broad range of services to address the growing demand for communications traffic
- Proactively meet the needs of customers with new lines of business in the future



International

Grow market share and deliver leading integrated telecommunications services between New Zealand, Australia and the rest of the world

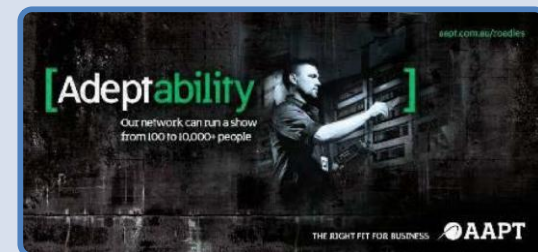
- Enhance product offering and achieve targeted growth on a segment by segment basis across all products and services
- Focus on the shift from voice to data based products and services



AAPT business strategy

AAPT's strategic focus is to deliver revenue growth using its extensive and high-quality IP network capabilities supported by lower cost and online centric customer services and billing capabilities

- Develop new IP-centric business products to support innovative new voice and data solutions
- Continue to rationalise and simplify products, operations and IT platforms
- Develop new IP based product and service offerings supported by efficient back office processes and systems
- Work closely with Gen-i Australia to deliver ICT services to large enterprise clients that operate in New Zealand and Australia
- Deliver growth via 'on-net' strategies which leverage AAPT's proprietary network infrastructure



IV. Financial overview

Financial highlights

Historical trends

- Historical financial performance has been impacted by a tough New Zealand telecommunications market with limited revenue growth as a result of intense price competition and regulation, similar to many other developed countries
- This limited revenue growth has been offset by the growth in customer usage requirements for mobile and fixed broadband communications
- Strong internal focus to deliver significant improvements in cost and capital efficiency via implementation of Vision2013 initiatives
 - Improved free cash flow driven primarily through a reduction in capital expenditure
 - Improved EBITDA margins through cost outs and business transformation

Priorities

- Key performance priorities in the near term:
 - Continue focus on free cash flow through management of capital and operating costs while also continuing to improve customer satisfaction
 - Continue profitable growth in fixed broadband, XT mobile network and ICT

Pro forma financials

P&L and cashflow

Y/E 30 June; NZ\$ million	Pro forma ¹ 2011
Operating revenues and other gains	5,071
Operating expenses	(4,186)
EBITDA	885
Depreciation and amortisation	(707)
EBIT	178
Net financing costs	(38)
Share of associates' net profits/(losses)	1
Income tax expense	(69)
Net earnings	72
EBITDA	885
Less: Gain on sale	(18)
Add: UFB costs	23
Add: asset impairments	215
Add: natural disaster costs	20
Adjusted EBITDA	1,125
Cash flow from operating activities	958
Cash flow from investing activities	(407)
FFO²	1,019

Balance sheet

Y/E 30 June 2011; NZ\$ million	Pro forma 2011
ASSETS	
Cash	324
Receivables and prepayments	767
Total current assets	1,091
Long term investments	125
Long term receivables + derivatives	141
Property, plant, equipment and intangibles	2,676
Total non-current assets	2,942
Total assets	4,033
LIABILITIES AND EQUITY	
Accounts payable, accruals, provisions, short-term derivative liabilities & taxation payable	1,006
Short term debt	540
Total current liabilities	1,546
Deferred tax liability	96
Long-term derivative liabilities	5
Long-term payables and provisions	35
Long-term debt	538
Total non-current liabilities	674
Total liabilities	2,220
Total invested capital	1,813
Total liabilities and equity	4,033

¹ Prepared on an unaudited condensed pro forma basis, under which certain adjustments have been applied to the special purpose historical financial statements of New Telecom and for the financial year ended 30 June 2011 to reflect certain transactions that are expected to take place as a result of or in association with the Demerger. See page 34 for more information regarding the basis of preparation.

² Calculated as adjusted EBITDA less net financing costs plus share of associates' net profits less income tax expense

Solid credit profile and high dividend payout

- S&P expects that Telecom could attain an A-/Stable rating upon Demerger
- Moody's is likely to assign a preliminary rating of A3/Stable upon Demerger
- Targeting net interest bearing debt (inclusive of associated derivatives) to EBITDA ratio of less than 1.1 times on a long run basis¹
- Proposed net debt at demerger: NZ\$750 million to NZ\$950 million²
- Debt allocation process currently underway
 - Repayment of the CHF, CAD and USD EMTNs and novation of GBP EMTNs to Chorus
 - NZ\$541 million Telebonds to remain with Telecom, pending approval from Telebond holders
- Dividend policy for FY12: ~90% of adjusted NPAT
 - Subject to there being no material adverse changes in circumstances or operating outlook
 - Expect to impute dividends to the extent practicable

¹ For credit rating agency purposes, this ratio equates approximately to net interest bearing debt (inclusive of associated derivatives) / EBITDA of 1.5 times. The difference between the two ratios is primarily due to the capitalisation of operating leases.

² The actual net debt figure will vary depending on the amount of Telecom's operating, investing and financing cash flows in the period prior to the Demerger and market rates at that time. The net debt figure reflects net interest bearing debt and includes associated derivatives.

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¹ Telecom pro forma FY11 EBITDA of NZ\$885 million adjusted for one off items of; a gain of NZ\$18 million due to the sale of the consumer division of AAPT's operations to iiNet, costs of NZ\$23 million in relation to Telecom's UFB proposal, one-off costs of NZ\$20 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$215 million recognised on copper-based regulatory assets due to the combined effect of the move to a fibre-oriented world and regulatory developments.

Appendix A: Historical financial information

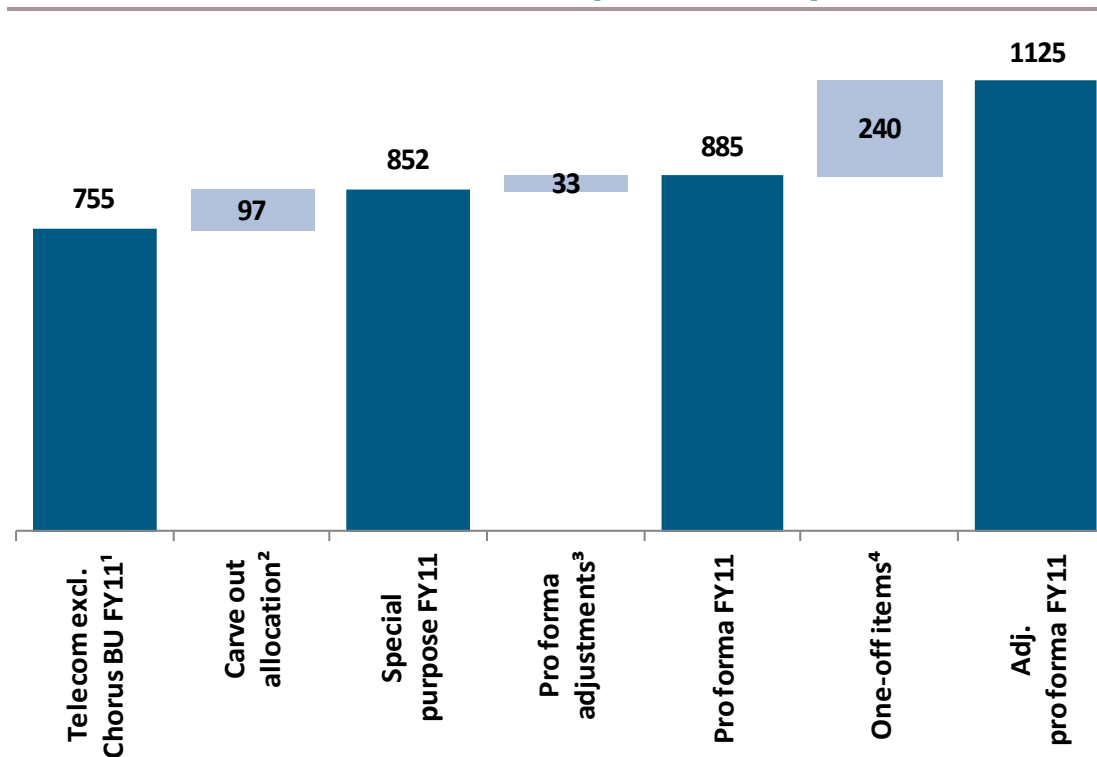
Historical special purpose financials

Y/E 30 June; NZ\$ million	Historical special purpose financials ¹		
	2009	2010	2011
Operating revenues and other gains	5,542	5,150	4,974
Operating expenses	(4,662)	(4,131)	(4,122)
EBITDA	880	1,019	852
Depreciation and amortisation	(726)	(824)	(784)
EBIT	154	195	68
Net financing costs	(201)	(180)	(188)
Share of associates' net profits/(losses)	(1)	1	1
Income tax credit	22	3	9
Net earnings	(26)	19	(110)
EBITDA	880	1,019	852
Less: Gain on sale	-	-	(18)
Add: UFB costs	-	-	23
Add: asset impairments	-	101	215
Add: natural disaster costs	-	-	20
Adjusted EBITDA	880	1,120	1,092
Cash flow from operating activities	1,836	1,982	1,575
Cash flow from investing activities	(949)	(787)	(462)

¹ See page 34 for more information regarding the basis of preparation

Telecom FY11 EBITDA bridge

Telecom EBITDA (NZ\$ million)



- **Special purpose FY11** - Reflects the FY11 EBITDA of the businesses that are expected to be held by Telecom as if it were operated as part of the Telecom Group
- **Pro forma and adjusted pro forma FY11** - Illustrates the estimated effect on the special purpose FY11 EBITDA for the year ended 30 June 2011 of certain aspects of the Demerger as if it had occurred on 1 July 2010
- Special purpose, pro forma and adjusted pro forma FY11 do not represent what the FY11 EBITDA of Telecom may have been had it operated as a separate legal entity⁵

¹ Reported Adjusted EBITDA of NZ\$995 million reduced for one off items of: gain of NZ\$18 million due to the sale of the consumer division of AAPT's operations to iiNet, costs of NZ\$23 million in relation to Telecom's UFB proposal, one-off costs of NZ\$20 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$215 million were recognised on copper-based regulatory assets.

² Adjustment of NZ\$97 million increase due to the allocation of assets and earnings through the carve out process.

³ Adjustment of NZ\$33 million increase from Historical to pro forma EBITDA due to: increase in operating expense as Telecom can no longer allocate certain costs to Chorus, a decrease in expenses as certain high cost legacy products are replaced with regulated products and a further decrease in expenses due to certain co-location services being recognised as finance lease arrangements.

⁴ Adjustments of NZ\$240 million for one off items of: gain of NZ\$18 million due to the sale of the consumer division of AAPT's operations to iiNet, costs of NZ\$23 million in relation to Telecom's UFB proposal, one-off costs of NZ\$20 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$215 million recognised on copper-based regulatory assets.

⁵ See page 34 for more information with respect to the basis of preparation

Additional information regarding financial data

Special purpose historical financial information

The special purpose historical financial statements of Telecom represent the financial records for the businesses that will be held by Telecom at Demerger date. In preparing the special purpose financial statements, management has made a number of assumptions and estimates in order to apportion historical revenues and expenses of Telecom between Chorus and Telecom. The special purpose financial statements reflect the assets, liabilities and results of the businesses that are expected to be held by Telecom as they were operated as part of Telecom. The special purpose financial statements are based on assumptions and estimates and do not represent what the results of operations, cash flows or financial position of Telecom would have been had it not owned Chorus during the years presented.

Pro forma financial information

The Telecom pro forma financial statements have been derived from the Telecom special purpose financial statements and illustrate the estimated effect on the special purpose financial statements as at and for the year ended 30 June 2011 of certain aspects of the Demerger as if it had occurred on 1 July 2010 for the income statement and statement of cash flows, or on 30 June 2011 for the statement of financial position. You should refer to section 8.2 of the Scheme Booklet for information regarding the pro forma adjustments that are reflected in the Telecom pro forma financial statements.

The pro forma financial statements do not represent what the results of operations, cash flows, or financial position of Telecom may have been had not owned Chorus for the periods indicated, and does not project the results of operations, cash flows, or financial position of Telecom in the future.

The pro forma financial statements are not intended to and do not comply with Article 11 of Regulation S-X of the Rules and Regulations of the United States Securities and Exchange Commission in respect of pro forma financial information.

Non GAAP financial measures

This presentation includes the following non-GAAP financial measures:

- EBITDA – EBITDA is earnings before interest, tax, depreciation and amortisation. Telecom calculates EBITDA by adding back/(deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/loss and taxation expense to net earnings/(loss) from continuing operations;
- Adjusted EBITDA – adjusted EBITDA is pro forma EBITDA adjusted to reflect the removal of certain one-off costs. The following one-off gains and costs have been removed to determine adjusted EBITDA:
 - The consumer division of AAPT's operations was sold to iiNet for A\$60 million. This sale resulted in a one-off gain on sale of NZ\$18 million;
 - Costs of NZ\$23 million incurred in relation to Telecom's UFB proposal;
 - One-off costs of NZ\$20 million recognised in relation to the Canterbury earthquakes; and
 - Impairment charges of NZ\$215 million were recognised on copper-based regulatory assets due to the combined effect of the move to a fibre-oriented world and regulatory developments.
- Funds from operations – FFO is adjusted EBITDA less income tax expense and net interest expense