

The Telecom NZ logo features the word "telecom" in a bold, lowercase, sans-serif font, followed by "nz" in a smaller, uppercase, sans-serif font. The background is a solid blue gradient with a white starburst graphic in the upper right corner.

telecom^{nz}

Investor Road Show

Paul Reynolds, Telecom CEO

Agenda

1. The Telecommunications Industry
2. The Demerger Proposal
3. Introducing “New Telecom”
4. Introducing “New Chorus”
5. Boards and Governance

The Telecommunications Industry

1.

The Telecommunications Industry

Telecommunications is changing around the world

- * Customers demand more for less
More speed... more mobility... more flexibility.. everywhere!
- * Little or no growth in revenues in developed countries
- * Increasing levels of investment:
 - Changes to regulation
 - New and more competition
 - Rapidly evolving technology



1.

The Telecommunications Industry

Accelerated in New Zealand

- * Frequent changes to regulation
- * Sustained high levels of investment
- * Rapid increase in competition
- * Major Government interventions

1.

The Telecommunications Industry

Strong operating performance in a tough environment

- * Increase in EBITDA¹
 - * Expenses decreasing faster than revenue
- * Second half NET earnings increased 66%¹
- * Improved dividend in Q4, including special dividend
- * Customer satisfaction improved
- * Overall reputation improved
- * Chosen as the Government's major partner for the Ultra-fast Broadband initiative

¹ On an adjusted basis

1.

The Telecommunications Industry

UFB – a world first

- * Government to invest \$1.35bn alongside the private sector to increase the reach of fibre optic cables to 75% of premises
- * Chorus chosen as the Government's partner for approx 70% of UFB
- * Chorus will have access to over \$900m of Government investment
- * But it must be split from Telecom to be eligible
- * Splitting from Telecom also enables a new industry structure, which we believe will be sustainable



The Demerger Proposal

2.

The Demerger Proposal

The Demerger Proposal

- * Telecom proposes to create two independent listed entities:
 - * **'New Chorus'**
 - * **'New Telecom'**
- * The entire share base of New Chorus will be distributed pro-rata to existing, eligible Telecom Shareholders at no additional cost
- * New Chorus will be created with one-fifth the total number of shares compared to Telecom, in order to achieve an appropriate nominal trading value for New Chorus shares
- * Eligible shareholders will, therefore:
 - * retain all their Telecom shares
 - * Receive **1 Chorus share for every 5 Telecom shares**
- * Shareholders will vote on the Demerger at the annual meeting on 26 October 2011

2.
The Demerger Proposal

What are the benefits?

All Telecom Directors and the Independent Expert are of the view that the Demerger, on balance, is in the best interests of Telecom Shareholders

1. Allows Chorus to take a cornerstone role in UFB
2. Aligns interests of Chorus with the Government's UFB objectives
3. Avoids Telecom competing with Government-backed fibre infrastructure
4. Leads to the introduction of a simplified regulatory regime, with greater certainty, reduced burden and less associated cost

Introducing 'New Telecom'

3.

About “New Telecom”

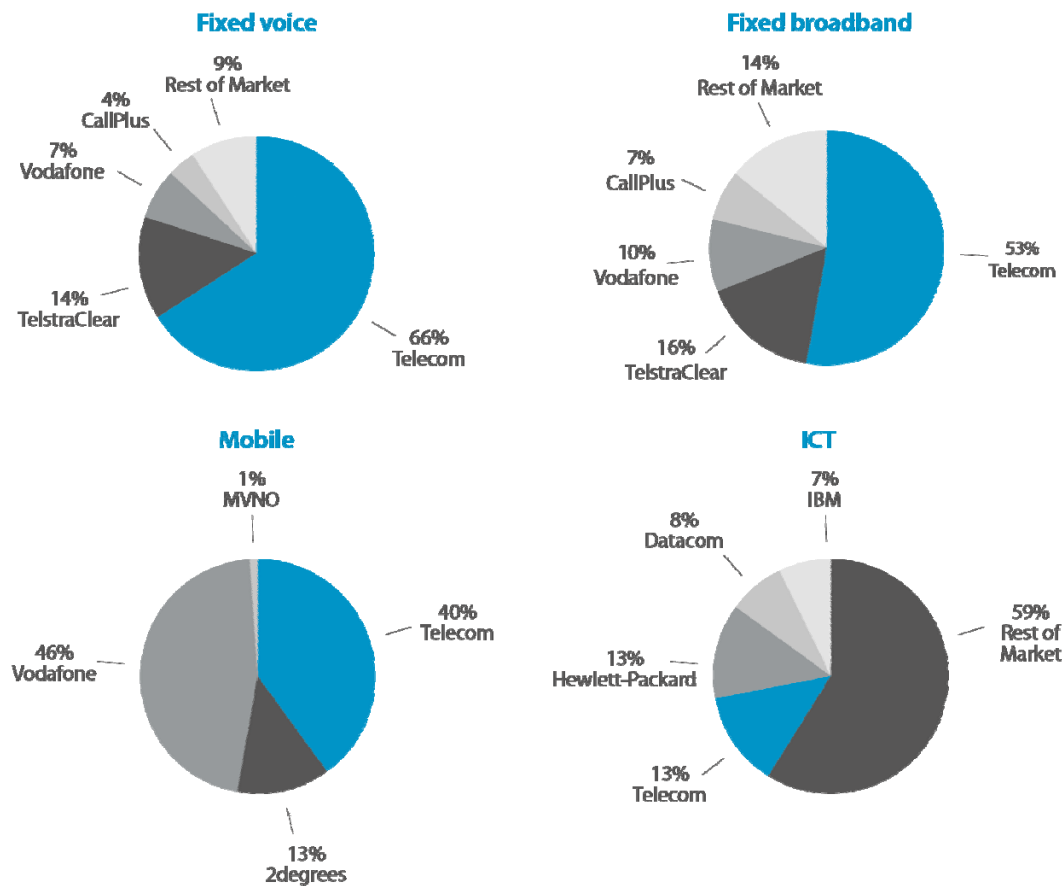
Who are “New Telecom’s” customers?

- * Over **1m** fixed-line residential and business customers
- * Over **2m** mobile connections
- * Over **800,000** mobile internet and broadband customers
- * Over **3,000** business clients using Gen-i’s ICT services
- * Over **6,000** businesses and **300** wholesale customers using AAPT’s services

3.

Introducing 'New Telecom'

Number one or two in all core markets



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

3.

Introducing 'New Telecom'

Significant infrastructure

NZ 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

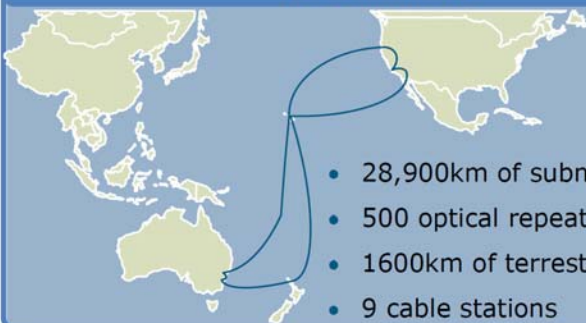


- Significant mobile tower footprint providing coverage to 97% of places where New Zealanders live and work

XT Network
 Good
 Fair
 Limited

International Assets

Southern Cross International Cable Network (50% interest)



- 28,900km of submarine cable
- 500 optical repeaters
- 1600km of terrestrial cable
- 9 cable stations

AAPT IP Network

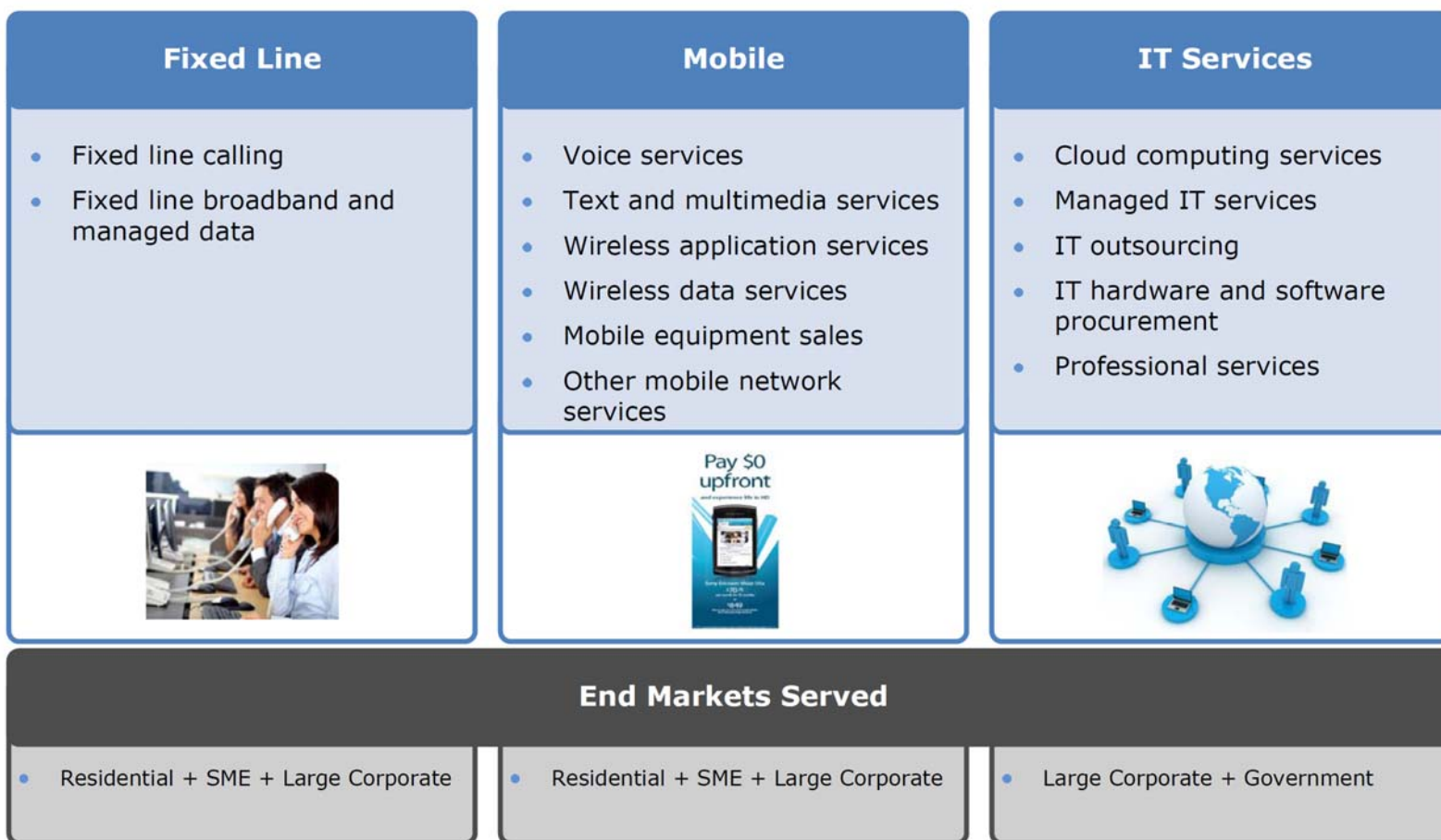


- 11,000km interstate fibre
- Data centres in major capital cities
- Fibre access to 1,300 premises
- Mid-band Ethernet in 180 exchanges

3.

Introducing 'New Telecom'

Comprehensive and diverse products



Introducing 'New Chorus'

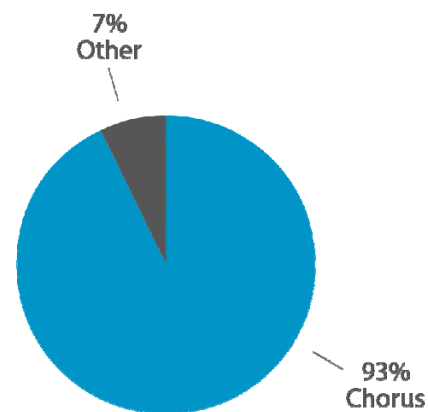
4.

Introducing 'New Chorus'

New Zealand's local fixed line company

- * Chorus' fixed access network is employed by telecommunications service providers to deliver phone and internet services to New Zealanders
- * New Zealand has approximately **1.8m** fixed connections
- * Chorus currently has a market share of approximately **93%** of the New Zealand market

New Zealand fixed line connections



Source: Management estimates

4.

Introducing 'New Chorus'

A trusted partner to the telecommunications industry

- * New Chorus' customer base comprises Retail Service Providers (RSPs) and other access seekers who will consume services such as PSTN resale and wireless radio
- * New Chorus will have approximately **70** customers, approximately 84% of its pro forma revenues in FY11 being derived from the sales of its products and services to Telecom

New Zealand RSPs



Other access network customers

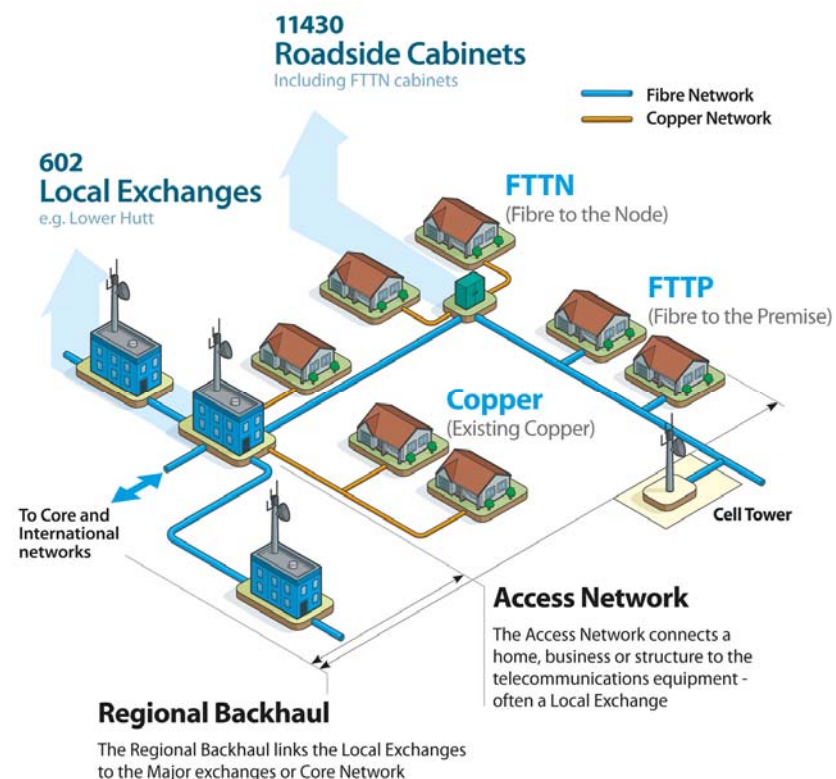


4.

Introducing 'New Chorus'

Extensive local fixed line network assets

- * Chorus' network assets currently include:
 - ✓ **Copper** – 602 telephone exchanges, 11,430 cabinets and approximately 130,000km of copper cables
 - ✓ **Fibre** – approximately 27,600km of fibre optic cable and ~3,600 fibre-fed roadside cabinets
- * Chorus will expand its fibre asset base by an estimated 20,000km through the UFB Initiative and the Rural Broadband Initiative



4.

Introducing 'New Chorus'

Proven track record

Fibre-to-the-node (FTTN) Project

- One of New Zealand's largest telecommunications projects
- 3 year project commenced in March 2008
- Deployment of 2,500km of fibre and installation of 3,600 fibre-fed roadside cabinets
- Approximately 750,000 customers to have ability to connect to faster broadband cabinets by end of 2011
- Deployment of fibre to the premise to around 5,800 sections in new housing developments

Chorus FTTN Project Delivery

- ✓ All objectives to be completed on time by 31 December 2011
- ✓ All objectives to be completed within the budget of NZ\$500m

Boards and Governance

5.

Boards and Governance

Experienced board and management teams

Telecom¹

Directors

| | |
|----------------------|----------------------------------|
| Mark Verbiest | Chairman, Non-Executive Director |
| Paul Berriman | Non-Executive Director |
| Murray Horn | Non-Executive Director |
| Maury Leyland | Non-Executive Director |
| Paul Reynolds | CEO & Executive Director |
| Kevin Roberts | Non-Executive Director |
| Charles Sitch | Non-Executive Director |
| Justine Smyth | Non-Executive Director |

Executives

| | |
|---------------------------|---|
| Paul Reynolds | CEO & Executive Director |
| Tristan Gilbertson | Group General Counsel & Company Secretary |
| Alan Gourdie | Chief Executive Officer, Retail |
| David Havercroft | Group Chief Technology Officer |
| Nick Olson | Chief Financial Officer |
| Chris Quin | Chief Executive Officer, Gen-i |
| Rod Snodgrass | Chief Product Officer |
| Tina Symmans | Corporate Relations Director |
| David Yuile | Chief Executive Officer, APPT |

¹ These appointments are subject to change; in particular if any of the current Directors or members of senior management cease to hold office at Telecom prior to implementation of the Demerger.

5.

Boards and Governance

Experienced board and management teams

Chorus¹

Directors

| | |
|--------------------------|----------------------------------|
| Sue Sheldon CNZM | Chairman, Non-Executive Director |
| Prue Flacks | Non-Executive Director |
| Jon Hartley | Non-Executive Director |
| Keith Turner | Non-Executive Director |
| Anne Urlwin | Non-Executive Director |
| Clayton Wakefield | Non-Executive Director |

Executives

| | |
|------------------------|-------------------------------------|
| Mark Ratcliffe | Chief Executive Officer |
| Ed Beattie | GM Property & Network Operations |
| Sara Broadhurst | GM Human Resources |
| Victoria Crone | GM Sales & Marketing |
| Chris Dyhrberg | GM Network Build |
| Brian Hall | Acting Chief Financial Officer |
| Vanessa Oakley | General Counsel & Company Secretary |
| Ewen Powell | Chief Information Officer |
| Nick Woodward | GM Customer Services |

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5.

Boards and Governance

Capital structure and dividend policy

Each company will have a capital structure and dividend policy reflecting its specific profile

Telecom

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

Dividend policy for FY12:

90% of adjusted net earnings
Intend to impute to the extent possible

Chorus

Chorus intends to target an investment grade credit rating:

- S&P has assigned a preliminary credit rating of BBB/Stable
- Moody's has assigned a preliminary credit rating of Baa2/Stable

Dividend policy for FY12:

25cps pro-rated for seven months
Intend to impute to the extent possible

5.

Boards and Governance

Key dates

- * 25 October – Proxy deadline
- * 26 October – Annual meeting and vote
- * 23 November – New Chorus shares start trading on NZSX
- * 30 November – Demerger enacted

Your questions?

6.

Questions and answers

Hypothetical pricing

- * If: 1 Chorus Share for 1 Telecom Share
- * And: Hypothetical value of Chorus Share 50c
- * Then: 1 Chorus Share for 5 Telecom Share
- * Leads to: Hypothetical value of Chorus Share \$2.50