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PRESENTATION

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Good morning, everyone in the room and online. This our first results since the demerger. It has been an intense and complex period, but I am sure you will be interested to know how the numbers are going.

So what we are going to cover this morning, going to actually take it a bit shorter today. Feedback that we have had from analysts, communities -- try to keep this to about an hour. You will find this a more concise presentation and, hopefully, that is to your liking. Give us feedback please.

So I will cover the highlights. I will do a little bit on the demerger, product trends, how the business units are going. Nick will cover the Group financials; a little bit on strategy and outlook and guidance, and we will take questions after that.

So let us kick straight into it. It is clearly -- in the half the demerger was the biggest thing that happened; one of the biggest things that has happened in Telecom's history, in fact. It was complex. It was time consuming and it was actually very successful. So with respect to the financials today, clearly, the year-on-year financials -- the comparisons are complicated by the separation of the Chorus business from the overall Telecom's Business.

The period contains five months of trading as all Telecom and one month of trading as new Telecom, post-demerger; and that distorts from the numbers. We will do our very best, and I think we have got good clarity through that complexity to show you what is happening in the underlying business.

So the reported net earnings are NZD1,006 million, but the adjusted results give a much better idea of the performance. EBITDA was slightly up -- flat to slightly up, which we think is a strong performance given we, like other telcos around the world, face declining top line revenues. Strong operational improvement going on even through that period of massive attention; attention from management on the demerger; and you can see that on the next line. We have improved half and half. The costs have gone down in the Business by 11%, which is a pretty large achievement; and as part of that head count - excluding Chorus - has gone down by about 5%.

Revenues down about 8.5%, although, as we will cover in a number of points here, there were four substantial items that you would wish to take account of to get - see through to the underlying revenue decline here, which is about 4%, and in line with previous halves.

Free cash flow, something we have really concentrated on, as you know and we are really delighted that that has improved by 25%, half on half. As a result of that focus on the costs and, certainly, a big contribution from CapEx, which is improved, or reduced, by 32%, half-on-half. So the net earnings are up 52% for the business.

That sort of metrics creates the opportunity for a capital return for shareholders, which we will talk about. There are some strong metrics here; good operational improvements and good opportunities to deliver value for shareholders.

The half one dividend will be NZD0.09 per share with full imputation. On that point of a capital return we will execute an on-market buyback of up to NZD300 million of shares during the rest of this calendar year, 2012.

Our guidance for the rest of the year. EBITDA for the second half will be about NZD560 million; adjusted net earnings of between NZD160 million to NZD190 million, and H2 CapEx of approximately NZD190 million to NZD220 million; illustrating the ongoing solid control of our CapEx.

Okay, demerger, what a six months that was. Demerger was a herculean task for this business, for any business. I think it was the most complex corporate transaction in recent New Zealand history, and we were delighted that 99.8% of our shareholders voted in favor. We thought we recommended it, obviously. We thought it would be good, and so it has proven. Chorus is now out there, a completely separate company.

Mark Ratcliffe is no longer with us this morning. He is running his own business. That is very cool, but even more important, the 12 month total shareholder return for Telecom, as measured by Bloomberg, is about 37%, which is good in anybody's book, and especially in these current markets.

We measure ourselves against a basket of 20 major telcos around the world, and the performance over the last period would put us at number two in that basket of 20 over the period. We think we are positioned very well for success, post-demerger. We have number one and number two position in all of our key markets. Crucially, these results and what has been going on has been dominated over the past three or four years by operational separation - UFB potential structural separation.

The management opportunity costs have been taken up in those debates has been, quite simply, colossal, and what we look forward to is a management team that can be normal, can focus itself on running this Business, as opposed to running around and reacting to these big public policy initiatives.

I think we in Telecom - I am sure the whole industry in New Zealand will welcome this new era where things are clearer, more stable and enable us to go on and compete; and we are dying to get on and compete, to win in this market. We do so with a fabulous Company. We not only have great people and millions of customers, but we retain, post the demerger, a very large scale strategic asset; so, obviously, a national phone network --PSTN network and backhaul assets, the national 3G mobile network, national data network, as well as international cable interests. So it is a first in the world, what we have done with the demerger; but we get to a good spot with a much more rational industry structure and a great basis on which to compete.

Let's that -- let us go through the key product areas for the period. Total access in calling revenues -- and I hinted at the first point there are some big unusual items, and they have been impacted by -- we sold the consumer division of AAPT in Australia last year and, clearly, those revenues were in last year and are out of these numbers.

Similarly, we've done a huge job in turning around our international business, which has meant that we have come out of many big international voice contracts overseas that were unprofitable for us. We came out of 30 or 40 of those customers -- reduced the revenues, but improved the profitability.

Thirdly, key is the mobile termination rates. A lot of our revenues are receipts and mobile termination rates -- receipts from other operators, they've gone down, but so have our out-payments.

So these bigger ticket items affect the revenue trends in the half, but are pretty neutral in terms of profitability, or EBITDA, and many of them have been quite deliberate performance improving actions.

Underlying fixed access performance is pretty steady. As before, our connections declining just over 3%. We are seeing a shift from retail to wholesale. We are losing slightly more wholesale picking up - retail picking up at wholesale, and we see that trend continuing in our traditional business and in line with global peers. Retails and Gen-i's fixed access market share running at about 64%.

Total calling revenues are down 18% -- again, that AAPT and the transits issue that I just talked about. Retail, Gen-i and wholesale down about 13%, excluding transits and AAPT, and up a big 37% on volume. That is 6% on price reduction, so a very competitive market; lots of price reductions going on and hitting the numbers there.

Next access and calling. Let us take broadband. Connection growth in broadband in the half 7000 up, in line with our focus on acquiring high value customers. Broadband revenues overall, excluding AAPT, have grown 5%, and that is as a result of both connections and higher ARPUs.

The ARPU growth is driven by two factors. We are seeing customers trade up to higher value plans as BETA use grows, as well as some -- there were a few price increases in this segment during the half on some standalone broadband plans.

We think we offer a very high quality product, and one of the things we are seeing in our verbatim customer feedbacks in here is a rising trend of customers disaffected who have gone over to other networks coming back to Telecom. We do what it says on the tin and we offer a high quality broadband service, and that is paying to us.

Look, bundling has been - bundling, broadband, voice and other services have been a big part of our strategy for some time. I think you would be pleased to know that we now have 92% of our broadband customers in a bundle, and that is up from 80% about six months ago. As a result high quality products, good bundling - the churn levels in this Business are at their lowest for over two years; so good progress in broadband.

Mobile. The market size in New Zealand, we think, is growing at about, in revenue terms, about 2% excluding devices; Telecom's revenue in the half up 12%. On the face of it a very good number but, of course, there are some unusual items in there. The key word is that we have changed the subsidy accounting treatment so that as customers are buying more high value smart phone plans we are amortizing the subsidy over the life of the plan rather than taking it up front.

When you take that effect out of the underlying revenue improvement in mobile is about 6.4%. ARPUs are up 9% compared to the first half, to NZD29. Data ARPU, including text, up 16%; standalone retail data ARPU up 80%, driven by increased penetration of smart phones and increased usage.

The post-pay base, you know the high value post-pay base that we have been targeting is up 27,000 in the half across all markets; really strong growth in the highest ARPU customers, NZD75 a month plus smart phone users. We are seeing a lot of migrations through porting from other networks of those high value customers, attracted by the higher quality network that we believe we offer in the market; and that growth has continued into the New Year.

We've increased our subsidy levels to attract that growth. We think there is good business to be had here right now as New Zealand takes to smart phones and takes to better use in the mobile network; and we aim to capture our share of that market.

At the other end of the scale we also launched, during the period -- right at the very end -- our Skinny youth brand. It will be interesting to see the numbers on Skinny and we will have some meaningful numbers by the next half. It has been up a few weeks, but we know we have already made a strong brand impact on the youth market, as we intended to do.

Look, the third area I want to talk about here is CDMA. We are on track for closure of the CDMA network at the end of July. The numbers we normally report to you are six month usage customers, and the six months you see there would be just over 600,000 on CDMA. On a one month usage at the end of the period it was 300,000 and that's declined quite significantly during January and into February as well.

So we're on track in migrating customers although as I've said before, we expect a substantial number of customers could disconnect. There's a very long tail of almost little or no-use customers, no-calling use customers on the CDMA network. As we see them disconnect actually has pretty little impact on revenues but it's a trend that we'll manage through to the end of July. We have a number of -- we're continually evolving and updating the offers in the market place to make sure that we migrate those customers who do want to move to a new connection rather than just disconnect. So Telecom's overall share of connections in mobile at 37%.

IT Services, another good story, Gen-i IT Services EBITDA is up 27% year on year, versus half one FY11 a margin that has increased from 6% a year ago, to 7%. Clearly this is a low CapEx business and a good opportunity for growth. But a big focus on margins and it's really good to see that come through because it's through a very focused program of operational excellence, cost management and reducing failure costs. We think it's helping improve customer satisfaction continues to go up, our failure costs to come down and our overall cost levels are coming down. So our headcount in this business is down 6% compared to a year ago and that's after adjusting for the sale of the Software Solutions business. Looking forward we think some significant opportunities in hosted services and we continue to expect to see some good growth in this business.

So rounding up on the business units' highlights, you get grains of the story as I've gone through. Retail EBITDA is down to NZD7 million or about 3%, fundamentally because of the increased cost of sales as we capture those high value smartphone customers, increased subsidies of iPhones and Androids and so forth. The cost focus in Retail has been terrific and continues. Half on half labour costs are down 12% and that's really driving the performance in there. Smartphone strategy is delivering good iPhone and Android sales, Skinny launched, broadband up, fibre product advancing, customer satisfaction up across Retail.

Gen-i EBITDA overall up 17%, really good mobile growth and that focus on costs I talked about a minute ago, head count down 9%. Mobile market share Gen-i now has 71% share of the corporate market in mobile and in the last half we won Kiwi Rail, (inaudible) Lines, Harcourts and Mainfreight for example. Really a terrific segment performance in mobile from Gen-i.

Wholesale and International EBITDA up 5% through lower operating costs and the MTR reduction has actually improved things in the international business. One of the things I hinted at on the way through was you know international voice transit worldwide is a commoditizing business with top tier like that in past halves. In the year we decided to really bite the bullet and flagged really very low marginal pricing for voice minutes with a dramatically reduced cost base. That came through ruthlessly looking at our areas of operation, the geographies, the customers. We've taken out the 34% of the customers and the head count is down 33% since last year, therefore operating costs down 40%. We think we're one of the first telcos to really bite the bullet in this area and get the costs in line with the very, very low transit costs, prices that are charged in the market. As a result EBITDA is up 100% and customer satisfaction is up. You can't get better than that.

AAPT EBITDA of NZD31 million, that's down 18%, substantially because of raised wholesale prices in the Australian market. It's a tough operating environment but it's free cashflow which we focus on is up, it's improved, falling CapEx reduction and as we go forward a focus on cost and customer retention in this environment.

To round up, adjusted EBITDA from continuing operations marginally up. We think that's a very solid outcome in a period when we did the demerger and with the top line revenue trends in the industry, so pleased with that. It's only become possible because we've created and we've got real momentum in driving a lower cost base in the business. You see that in the head count reductions, the reductions in discretionary OpEx, insourcing of functions across the business. Really a world class result in terms of capital expenditure. So a good solid improvement in the half, over to Nick.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Well thanks, Paul. It's given an edge and Telecom was consumed by demerger in the first half of the financial year. Despite that we have delivered a really strong financial result. I think the best way to capture that is in a CFO score card.

Revenue, weaker than recent periods driven by Southern Cross dividends, the sale of AAPT consumer, price decreases with mobile, price decreases associated with mobile termination rates and a rationalisation of transit revenues that Paul has discussed.

A change to the accounting of mobile subsidies that spreads more of the subsidy over the life of consumer post-paid contracts helped offset some of those trends. Costs are down over 10% year on year. Head count is down by just under 400 FTEs and we've managed to absorb NZD27 million of additional mobile cost of sales. Adjusted EBITDA flat, which is a good outcome given the revenue and mobile cost of sales trends.

Depreciation and amortisation down 25%, so driving net earnings up 52%. CapEx down 32% and we believe that we will come in below NZD400 million for the full year for the continuing business. This results in free cashflow being up 25% year on year. Net debt at 31 December was NZD755 million. This underpins the NZD300 million of capital management that we've announced.

The results for the period are complicated by demerger of the Chorus business and we just can't capture all that detail in this presentation. So the reality is that we may take -- almost certainly we'll have to take a number of questions offline through the investor relations team. But to provide a quick summary.

EBITDA from continuing operations NZD519 million reported, NZD488 million adjusted. EBITDA from discontinued operations NZD877 million reported -- I'm sorry those figures are actually -- sorry I have got a slide here which is incorrect. I'll start that from the top, sorry.

Okay EBITDA from continuing operations NZD519 million reported, NZD488 million adjusted. EBITDA from discontinued operations NZD1.137 billion on a reported basis, NZD321 million on an adjusted basis. Total EBITDA NZD1.656 billion on a reported basis, NZD809 million on an adjusted basis. Net earnings NZD1.006 million on a reported basis, NZD240 million on an adjusted basis. CapEx NZD325 million on a reported and adjusted basis.

Now we're going to take a look at a few of those items in more detail. Now this slide, we capture the key adjustments that bridge reported results to adjusted results. The first and largest were NZD863 million of non-cash gains arising from the demerger of Chorus. We've also adjusted for NZD28 million of non-cash gains related to the rationalisation of foreign operations which took effect around the demerger date. In addition NZD110 million of debt restructuring costs have been adjusted for, which includes both transaction costs and the costs of restructuring debt related derivatives. This is a mix of cash costs and non-cash accounting expenses.

The NZD47 million of demerger costs are primarily advisory fees and system separation costs incurred in the demerger process. The net effect of these adjusting items was NZD29 million. After these adjustments have been made EBITDA from continuing operations was NZD488 million and adjusted net earnings were NZD240 million for the first half.

Demerger adjustments and costs. The gain on demerger as noted, NZD863 million, consistent to non-cash accounting gains. The first represents the difference between the fair value and the carrying value of the net assets transferred to Chorus. The Chorus assets were carried at historic costs of NZD489 million but we transferred to Chorus at fair value of NZD1.264 million -- sorry, NZD1,264 million giving rise to a gain of NZD775 million. The NZD88 million gain relates to the difference of NPV of lease payments to be received from Chorus and the book value of the exchange buildings being leased to Chorus.

Demerger transaction costs were NZD93 million, that's the best proxy we can give you for a like for like comparison to the Scheme Booklet. Comprising NZD47 million of advisory fees and separation costs, NZD36 million of debt advisory and bondholder consent fees and NZD10 million of financing costs that were met by Chorus.

Pro forma EBITDA. Adjusted EBITDA of NZD488 million was as you can appreciate, based on five months of internal trading with Chorus and one month of external trading following demerger. To provide insight into Telecom's performance we have provided pro forma adjusted EBITDA for the first half of FY12, which overlays the external trading arrangements with Chorus. You should treat this as your best guide to essentially calibrate the models that you use.

Proforma adjusted EBITDA for the first half was NZD533 million. EBITDA's guidance for the second half is around NZD560 million. On that basis FY12 proforma EBITDA will be around NZD1,093 million. We know from the Scheme Booklet last year pro forma EBITDA for FY11 was estimated at NZD1,125 million. FY12 pro forma EBITDA is lower than in FY11 due to changes in the basis of preparation, which results in more costs being allocated to Telecom.

Revenue trends. Adjusted revenue for the first half was down 9% however the underlying trend was considerably better. The decline is exaggerated by a number of one-off step changes which include, the sale of the AAPT consumer business , mobile termination rates, price reductions and rationalising low margin international transit business. These changes reduced revenues by over NZD120 million compared to the first half of FY11, yet had no, minimal impact on EBITDA. Revenue was also impacted by lower Southern Cross dividends, which tend to be lumpy, and the change to handset mobile subsidy accounting.

The underlying revenue decline was around 4% and is in line with previous trends. This reflects growth in mobile broadband and ICT, offset by declines in access calling and legacy data products.

I won't dwell on CapEx but it has been another outstanding performance and we continue to optimise capital spend at levels appropriate for this business. CapEx of NZD325 million is down 32% compared to the prior period and has been a major driver of the improvement in free cash flow. This includes approximately NZD150 million of Chorus related CapEx, therefore CapEx from continuing operations was NZD175 million for the half.

The key reductions in CapEx during the period were in Mobile following significant investment in prior periods, fibre to the node that's the project was completed and an operational separation as milestones were met. Offsetting these declines was NZD43 million of new spend preparing for ultrafast broadband and the rural broadband initiative, but primarily in Chorus. CapEx is expected to remain at significantly lower levels than prior periods, and as a guide we expect to spend between NZD190 and NZD220 million in the second half of this year, or as noted, NZD400 million on a pro-forma basis for Telecom. As CapEx decreases we also expect depreciation and amortisation to continue to decrease which will ultimately flow through to earnings per share growth.

Finally, capital management. It's a very strong statement, Telecom is committed to maintaining A-band credit ratings from Moody's and Standard and Poor's. On that basis net interest bearing debt to EBITDA should not be greater than 1.1 times on a long run basis. This equates to approximately 1.5 times on a rating agency basis which capitalises operating leases, both on the relatively low leverage and the strength of the cash flow generated by the business we have announced an on market buyback of up to NZD300 million. The buyback will take place during the remainder of this calendar year.

For the first half of FY12 we have declared a dividend of NZD0.09 per share. The dividend will be fully imputed at a rate of 28 over 72. The dividend reinvestment plan will be restored and we will conduct an on market buyback to neutralise the dilutionary impacts of any shares issued.

It is currently anticipated that the second half dividend will be imputed in the range of 70% to 100% as the implication credit balance is low due to a number of demerger related tax deductions. Following demerger the average cost of debt has fallen to below 6% and this is likely to increase to about 6.5% over time as we raise further term debt.

Look, apologies for the mistake in the slide. That was my cheat sheet so I could actually manage without my glasses but that went off the rails.

Now, Paul, over to you.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Nick and we'll just round up before we go to questions.

Look, our strategy remains unchanged and very focused on Vision 2013, that we're going to continue to improve customer satisfaction as we have been. It's been really great to see customer sat go up across every line of business over the last period and we think we still have some substantial gains to be made.

Focus on being number one in mobile, broadband and ICT, and mobile, look, lots of work to do. No question. But the lead indicators are good, as you can see in these results. In broadband we continue to do well, bundling and upgrading to higher value plans coming through. In ICT, a great EBITDA growth and continued opportunity to improve margins in that low CapEx business.

Look, cost reduction, we see many, many other opportunities for reducing costs in the business. We're restructuring and centralising to remove the sorts of duplications that arose under operational separation and we're creating -- we're looking very hard at our processes and creating a lower cost base that removes failure cost. That's where you really get the virtuous cycle of lower cost, less mistakes and better customer satisfaction.

Innovation's key. It's a new world and we stand ready to devote all our energies exploiting this market. What's immediately on the horizon clearly is fibre product. Gen-i, in the corporate market are leading the way, as with the government's priorities for ultrafast broadband, but you will also see consumer prototype products are underway and you will see some action there in the coming period.

LTE, 4-G is also on our radar. We run our first demonstration. We will be participating in the government's 700 megahertz process and expect to see some further market activity in LTE as we go through this year. I think 2013 and 2014 will be the big years, but 2012 is going to be the year where we, and probably other players in the marketplace, start to develop product on LTE.

Based on this momentum we see solid outlook for the second half. As a business we are clearly aiming at that low single digit EBITDA growth. Very ruthless focus on cash and on raising customer satisfaction, to repeat.

Finally to look at the guidance, NZD560 million EBITDA for the second half. Net earnings NZD160 million to NZD190 million. CapEx of approximately NZD190 million to NZD220 million.

So thanks for listening. First I'm going to take some questions in the room and then we'll go to those online. Just to keep it under some time control, could we please limit yourselves to two questions, starting with Tristran.

QUESTION AND ANSWER

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

I'm sorry, I've got the microphone.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Who's got the mike? Oh, Zame's trumped you.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Geoff Zame, Deutsche Bank, Craigs. Sorry Tristram.

I just had a few questions I wanted to cover off. One, just on the CapEx. Looking forward into FY13, and it looks like your run rate's around 400, can you give us a little bit of colour on where the -- in terms of the to-do list and what the upside and downside might be to that number? Also I just want to talk in terms of the balance sheet. Can you just give a little bit more colour on why you're choosing to maintain the A-rating? It's obviously a very strong balance sheet but just whether -- how the Board thinks about that. Also on the imputation credit side of things. What -- where we are at the moment in terms of the balance and what's driving that uncertainty. Is that just a timing of depreciation or something? I have a couple of issues on Mobile if we could cover those first.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

So that sounded like four under two headings there Geoff, you know?

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Sorry.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

The first question was on CapEx. Look, we're -- no one around the world's been in the position we're in of a demerged, non-access network telco. So what the CapEx comps for a business like this is -- we're kind of -- I think we're writing the book. We estimated, as we did the road show, that under 10% would a good number, 10% CapEx to sales. I think the number's in here, about 8.3%. I think our range of 8% to 10% is a good one to expect going forward.

We still think there's opportunity to be lean -- leaner in what we do. But we also acknowledge, and I've said it consistently, that from time to time you'll need to spend a wee bit more if there's a big product development push. So, Geoff, we've given you a very clear number for the next half because we've got line of sight to that. 8% to 10% is my view of where this business can land and I think the comfort that the market should take is that I think we've taught the machine to be very, very focused on CapEx projects that earn a good rate of return. So the control mechanisms are better than they've ever been and that's a good basis on which, both to maintain your existing systems and bring through projects that innovate, 8% to 10% being the ratio. Balance sheet stuff I think.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

The second question. I think -- was the second question, why maintain the rating?

We've had a long history of trying to maintain stable credit ratings. We actually do genuinely believe that A-band credit ratings is the right space for Telecom on a long run basis. We've made that commitment to our debt holders, to the rating agencies. So in the context of we think it's the optimal rating for us, and we've made a commitment that we want to keep, the intention is to actually maintain that rating.

I think the next question was IC's.

Imputation credit account, I won't give you a balance but we're close to the wire when we look at the full year dividend and close enough so we don't have absolute confidence that we can fully impute. That is simply driven by demerger transaction costs that are deductible. Some a deductible; some are not. But we are close to the wire.

It's also complicated by the level of income that we get, of course, through particularly Southern Cross because that drives ultimately EBITDA and NPAT but it isn't taxed at its full value. So those are the things that complicate the overall picture Geoff.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Thanks for that. Let me just--

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

We'll do the Mobile ones later Geoff and give someone else a go. We'll come back round to you.

Tristan Joll *- UBS - Analyst*

Tristan Joll, UBS. I just want to drill down on that CapEx point a little bit more. So you're saying, Paul, 8% to 10% would be your view on normalised underlying CapEx, so that excludes lumpy stuff like LTE, for example.

Paul Reynolds *- Telecom Corporation of New Zealand Limited - CEO*

No, it includes it.

Tristan Joll *- UBS - Analyst*

Okay. Have you got some idea of -- we sort of know what the timing is but what would you be budgeting in terms of spectrum and licence fees as well as build out right now? Is that sort of NZD200 million, NZD300 million or--

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Paul Reynolds *- Telecom Corporation of New Zealand Limited - CEO*

Look, I'm not going to give a number on that. It's up the government how it runs its auction process. I think one of the key things though, Tristan, is what does the build profile look like. As you can see in markets around the world, LTE is being used for data infill in over utilised 3-G networks in town centres. That's going to be the initial usage. The fact of the matter is that our mobile networks in towns is working fantastically well at the moment. So I think the budget for build is something you can flex quite quickly in the other time and based on the capacity requirements. Quite frankly, right now we don't need the capacity. But of course with the smartphone growth we're seeing and the corporate usage we're seeing we expect to see the day. Exactly how much in 2013 I don't know at the moment.

Tristan Joll *- UBS - Analyst*

Okay. That envelope would suggest that you could spend another NZD100 million, NZD300 million through that period so it's -- probably NZD200 million to NZD300 million wouldn't be a bad assumption?

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

Look, the reality is the range isn't trying to give you guidance on what we expect to spend. It's just simply the range that we would expect to run this business on on a long run basis.

Tristan Joll *- UBS - Analyst*

Okay. All right. In terms of Mobile, 6.4% underlying I think is a little bit misleading in some ways because your service revenues are actually up 1%.

Paul Reynolds *- Telecom Corporation of New Zealand Limited - CEO*

Yeah, yeah.

Tristan Joll *- UBS - Analyst*

I just wonder if you could comment on what your long run assumptions are around that, given that you did say the market's going at 2%, and are we going to see, I suppose, higher end attempts to test elasticity, so I suppose it's going to be in the higher end of the market. Are we going to see more bundling with flex now you've got less regulatory pressures? Can you talk a bit about the Mobile strategy?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Look, we're going to have a strategy day in the next couple of months. The date's still to be confirmed but the lads will give you that. That will be our opportunity to set out some of those issues Tristan.

But suffice to say that we do see very clear green shoots in here. We're getting great customer feedback and we're getting good customer numbers. We will be testing, if you like, the business model on handset subsidies at the top end, what works well, what doesn't. We're already doing that, and Skinny is a big test at the youth market. But I'm not going to give you any numbers on that, but we will give a lot more detail when we come round to strategy day.

Tristan Joll - ***UBS - Analyst***

Okay. If I could just ask one more. Just Gen-i, noted that you had a good EBITDA improvement. The revenue's aren't looking so good, especially not in the telco space. In fact I think they went backwards about 4% or 5%. How much of that would you say is cyclical as structural?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Chris do you want to talk to that. You on line?

Chris Quin - ***Telecom Corporation of New Zealand Limited - CEO Gen-i***

Thanks Tristan look the mobile revenues are up about 13%. Data revenues were back about NZD29 million. The bulk of that is in Australia and reflects the first full six month period after exiting a large Australian financial institutions network. So I think if you looked at it -- purely New Zealand Telco revenues you would see they're pretty flat.

Tristan Joll - ***UBS - Analyst***

Okay that's great thanks.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Just to the gentleman in the blue shirt down here. Followed by Guy and then back up to Geoff.

Adrian Jones - ***Goldman Sachs - Analyst***

Adrian from Goldman Sachs. Can I ask a couple of questions? Firstly just in the back of the mobile space can you give us some more color on is there any cost benefits as you shut CDMA?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

I think most of that cost benefit has already been yielded. I'm looking at Dave Havercroft yes it's maybe in the small millions but not substantial operating costs of CDMA have already been run out so don't expect (inaudible).

Adrian Jones - ***Goldman Sachs - Analyst***

Okay and can you just give us a little bit more color as to what sort of progress you're seeing at the moment on Skinny?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

No it's too early. I mean Skinny has been -- look I approached the Skinny's brand dubbing. You know we've been at all of the cool, rhythm and vines and events in the summer around New Zealand. We've been talking to kids and we've been getting the brand known. We have not gone into full launch yet. Alan do you want to talk more about when we get to that full launch, about Skinny?

Alan Gourdie - ***Telecom Corporation of New Zealand Limited - CEO Telecom Retail***

Sure. Yes, so we launched on 6 January and that was what we call a soft launch. We want to make sure that all of our systems and our campaigns are right before we go at scale. So over the next four weeks we will start to ramp up to scale and build off the back of that good start we've had from a marketing point of view with a more of a roll out into a wider distribution footprint into retail and the launch of a fully functioning and I must say having seen the prototype a very strong portal online site. So that's all ahead of us in the next four to six weeks.

Adrian Jones - ***Goldman Sachs - Analyst***

Okay thank you.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Okay and...

Adrian Jones - ***Goldman Sachs - Analyst***

Just a question for Nick. In terms of the adjustor numbers are we -- is it reliable to use the adjustor number for FY11 in the Scheme Booklet as a useful comparison as to what you're predicting forward in terms of your guidance or if not can you provided us like a rebased FY11?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No look we won't provide a rebased FY11 and that's why we've given you pro forma for FY12. So the best lead I can give you is rebase your model around the pro formas for FY12. That's the best information we can give you.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

I think we'll hand over to Guy and we'll come back around to you if we get time.

Unidentified Participant

One of my questions was kind of around that too. Actually you've probably answered it which is that there are some changes obviously versus what was in position in the scheme booklets -- certainly on the pro forma anyway but you're not going to rework FY11 on the new basis?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No we're not.

Unidentified Participant

Okay so well can I ask you there have been some costs -- you mentioned costs that have been assumed in Chorus which are now going to be in Telecom. Can you give some more detail around that?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

It relates primarily to wholesale FTEs that remained with Telecom and some corporate overhead that was retained within Telecom. Those are the two big components of it. And at the margin obviously the negotiation on trade has continued post the date of the scheme booklet not material changes but that also has an impact.

Unidentified Participant

Okay thanks. All right and back on mobile you said it's too early for Skinny. You've also mentioned that handset subsidies have increased. How do you see that -- does this flag in intention to get more aggressive on subsidies going forward?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Look we are testing that. We're testing the business case by the week. Maybe Alan could make a few comments but we're seeing good success at the top end of the market and I think if that continues and we continue to see like a two year payback within the year the sales growth will reflect that through on cost of sales. Alan?

Alan Gourdie - ***Telecom Corporation of New Zealand Limited - CEO Telecom Retail***

Thanks Paul. Yes this has been quite a highlight of the first half and in particular in the months of November and December as we really ramped up that smart phone strategy and of course introduced iPhone to our mix. And so we've seen our post page growth really accelerate from about that point. Of course with that your cost of sale and subsidies goes up.

What we're seeing though to offset those subsidies is the usage revenues coming in to support that cost of sale. The profile of the customers then is the next thing you look at. What we see is a very strong migration of 75 plus ARPU customers. Now these are the big data users and so with that you're seeing your ARPUs go up. So the returns that we're seeing from that migration consistent with that subsidy strategy is good and that's what Paul's referring to. We want to see that play out, get some more data and then make some decisions as to how much we continue to invest in that subsidy model.

Unidentified Participant

Thanks. Same subject but just you gave us the adjustment of revenues for the changed policy on handset subsidies capitalization effectively. What would the EBITDA impact have been?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Well NZD22 million is the impact.

Unidentified Participant

EBITDA?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes there was no -- essentially it just goes straight to EBITDA from revenue.

Unidentified Participant

Okay right thanks.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Okay so final one from Geoff and then we'll go on line. I'm sure there are a lot of people on line waiting.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Thanks Paul. Thanks -- mostly been answered I'm just trying to understand from Guy's earlier question I'm sorry. Obviously the mobile revenues went up a lot and I think Tristan alluded to the other mobile revenue which is particularly from the handsets more than the roaming that's going up. But there's almost the corresponding increase in the cost of sale and yet the policy has changed. So you're saying that there's NZD22 million sitting on the balance sheet that's going to be released?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No, no it's not. It's actually -- that's brought forward revenue by NZD22 million.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Right, right --

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

So I'm not sure I can explain that -- no. We'll take it off line.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

We'll take it off line.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Just on another issue I just wanted to just ask it's probably in there somewhere but just around Chorus what the annualized revenues -- the run rate on the annualized revenues from Chorus are. Can you talk a little bit about that and the stability of that revenue line in terms of agreements you had at the merger date thanks?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Nice try Geoff but we can't talk about Chorus revenues they're a different company.

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

But they're your revenues.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

What do you mean?

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

This is the revenue you received from Chorus?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

The past five months you mean?

Geoff Zame - ***Deutsche Bank Craigs - Analyst***

Yes in respect of the services you provide -- their operating costs?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

I think we'll pass on that. I'll help you off line if we can. But clearly today we're being very circumspect. Let's take the question on line.

Operator

The first question comes from Sameer Chopra of Merrill Lynch. Please go ahead Sameer.

Sameer Chopra - ***Merrill Lynch - Analyst***

Morning. Congratulations on a strong result.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Sameer.

Sameer Chopra - ***Merrill Lynch - Analyst***

I had just one question. You had a NZD300 million buyback. Now I'm looking at this it gets your net debt to EBITDA to 0.95. That's assuming your net debt goes up by NZD300 million and your annualised EBITDA is NZD1,093 million. You're at the mid-point of your target ratio. I wondered why you didn't stretch it all the way up to its 1.1 time.

Nick Olsen

When we model out the year we want to make sure that we don't exceed 1.1 times any time in the period. So that actually is that and we would have a peak of leverage particularly around the full year dividend in September.

Sameer Chopra - ***Merrill Lynch - Analyst***

Great and given that CapEx trend rate from 8% it means that the business is generating a lot of free cash again next year so the gearing will fall straight back down to probably that 0.8 time. Does that mean that this capital management becomes almost ongoing?

Nick Olsen

THOMSON REUTERS

I think I'll just answer that question by saying that that's a valid observation but no decision has been made.

Sameer Chopra - ***Merrill Lynch - Analyst***

Great thank you so much. Congratulations.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Sameer. Another question on line.

Operator

Your next question comes from Laurent Horrut of JP Morgan. Go ahead please Lawrence.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Hello Laurent.

Laurent Horrut - ***JP Morgan - Analyst***

Hi good morning to you. Just two questions from me. Just on the cost side I was wondering if you could help us get a detail of what the underlying cost efforts are. If you adjust for the AAPT deconsolidation in the half and the currency effect what sort of year-on-year run rate are we on? That's my first question. The second question is on the guidance. Do you assume a Southern Cross (inaudible) in the second half to get to that NZD560 million? And also just I'm not sure if I've missed the explanation but what's this NZD45 million for former adjustment that you outlined there?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Laurent. I don't think we're going to give you a normalized cost run rate. That's a bit tricky but you want to take the other two Alan.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes so the guidance -- I think the guidance was mixed up with a request about what our forecast for a Southern Cross dividend for the second half. But I'll answer the question very simply. We don't provide Southern Cross -- guidance to Southern Cross dividends and the guidance does include our expectation of Southern Cross performance in the second half.

Laurent Horrut - ***JP Morgan - Analyst***

It does include yes?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

It does include yes.

Laurent Horrut - ***JP Morgan - Analyst***

Yes okay.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Sorry the last question I didn't quite get?

Laurent Horrut - ***JP Morgan - Analyst***

Yes with the NZD45 million you know how you give a pro forma adjustment of NZD45 million to get to your pro forma FY12 guidance what's the NZD45 million again?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

The NZD45 million is the benefit of the Chorus trading relative -- we used to have internally traded prices with Chorus. So what we're saying is the NZD45 million benefit -- the NZD45 million benefit going to the new traded regime with Chorus so new regulated prices essentially.

Laurent Horrut - ***JP Morgan - Analyst***

Yes look Nick in the prospectus there was a forecast a few mentioned of 1125 or 1150 something like that. So my thinking is that the comparable number to that one is now more like 1050?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Look I'm not going to comment on that but I think the best thing I can give you is I believe 1093 is just slightly better than flat on a year-on-year basis. I'm sorry to give you a little bit of uncertainty around that but it's actually not a trivial exercise to produce a year-on-year comparison even the room full of PhDs we have can only get within a small variance anyway.

Laurent Horrut - ***JP Morgan - Analyst***

Okay no that's fine. Just on the cost side I appreciate you don't want to give us but is it -- are we looking at beyond mid-single-digit cost reduction underlying to the kind of number that --

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Well Laurent, I'm not going to give you it. But I will tell you we see substantial continuing opportunities for cost reduction. It's one of the key drivers of the business. I think we've built up good momentum and a good track record. There will be different programs in different periods and we'll just keep going after it relentlessly but I can't give you a forecast number. Thanks a lot Laurent we'll take another question please.

Operator

The next question comes from Andrew Levy of Macquarie Securities . Please go ahead Andrew.

Andrew Levy - ***Macquarie Securities - Analyst***

Thanks guys. Congratulations on the result.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Andrew.

Andrew Levy - ***Macquarie Securities - Analyst***

I just had a question on mobile termination rates and the impact. If I'm looking at your service revenues it does look like they're up by 1.5% but should I be adding NZD40 million to that to normalize it -- or NZD44 million for the termination rate?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

No. The PhDs in the room are saying no. I'm sure if you talk to the investor relations guys they'll give you a more detailed answer off line.

Andrew Levy - ***Macquarie Securities - Analyst***

Okay thank you.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thank you. Another question please.

Operator

Your next question comes from Richard Eary of UBS. Go ahead please Richard.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Hi Richard.

Richard Eary - ***UBS - Analyst***

Hi Paul. Just a couple of questions. The first one just relates to sort of labour costs. Just looking through the KPIs that have been given out, I mean Retail is down 240. [P&I] is down sort of 500, which sort of explains the bounce of the Gen-i margins, Corporate is plus 400 and [TSS] plus 230.

So given that, as we look forward for the business how should we think about sort of headcount within the business? And as a result whether the sort of lifts in things like Gen-i and some of the benefits inside Retail from a cost outside can continue. That's the first question. The second question is, I didn't really hear Nick say something about -- I don't know whether it was a NZD22 million benefit from amortisation handset costs over a two year period. So I presume that if we analyse that the actual guidance, the pro forma number has stepped up because of that change in accounting policy. So I'll just get some clarity on that. Then the last question on D&A, I know Nick, if there's any sort of guidance that you can give us for full year pro forma numbers for 2012, just given the moving parts in the business.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Well I'll take the headcount one if you like, and it's kind of related to the previous cost structure. I'm not going to give you a forecast, but we still see further opportunities from centralisation. Further we -- by centralising we can take out further duplication and overlap in the business. But you know the main costs in the business are more widespread service delivery. We -- the big opportunity is in rationalising and fulfilling the shared processes. We're working very hard in that, analysing that now. We think there is a lot of simplification we can do that will really speed things up for customers, get it right more accurately for them, and take out some of the costs in there.

But look, I'm not going to give you a percentage number, a reduction, or a figure. It's just - it's something we're just very, very, very focused on and we'll - I think we can continue to do well on.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Okay, the subsidy, spreading of subsidy. Look technically it's actually not a change of accounting policy. We've changed our terms with customers which allows us to spread the subsidy that we provide them. I think you actually have to look at that exercise and link it entirely with the mobile cost of sales. That's the way to look at it; one is driven by the other. So, as Alan said, now we're driving post-paid acquisition that's driving large mobile cost of sales and that activity, of course, is driving the subsidy that we account for in this way. So I think probably best to actually dig under the covers on that one over the next couple of days.

No, we haven't given you a forecast on depreciation and amortisation, and we hope that you will be able to back solve that and form your own view.

Richard Eary - ***UBS - Analyst***

Can I just ask, just some follow ups on today's -- those answers? In terms of just the mobile side is there actually a positive EBITDA impact from the change, in terms of the mobile subsidy? So yes or no.

And in terms of just looking at the headcount numbers, particularly around Gen-i where obviously headcount has gone backwards 500 which has driven the margin expansion. Is part of that headcount reduction a consequence of sorting of exiting the CBA contract for AAPT?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

I'll ask Chris to take that now if you can. Did you get the question Chris?

Chris Quin - ***Telecom Corporation of New Zealand Limited - CEO Gen-i***

Yes.

Operator

Your next question comes from Justin Diddams of Citi. Go ahead please Justin.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Justin, just hold on a minute, while we answer the last of Richard's questions and we'll take - Chris will do the Gen-i headcount and Nick will do the other.

Chris Quin - ***Telecom Corporation of New Zealand Limited - CEO Gen-i***

So just to explain the headcount number, we're around 500 down 125 of those centralised into our corporate Groups as part of the changes we made; finance, legal, HR. And about 118 heads were transferred as part of the sale of the business to Infosys and Software Solutions. So the net of those numbers was the actual net headcount reduction if you like. And yes, you know sort of 40 -- probably 30%, 40% of that showed up in IT services cost and the rest would have shown up in our overhead and telecommunications costs.

So whilst it is correct that contributed to the EBITDA increase, also the fact that we had a slight rise in New Zealand telco revenues, 6% in IT services, and 13% in mobile revenues all really did build EBITDA result for the six months.

Richard Eary - ***UBS - Analyst***

Okay.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Chris.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

And the question, Richard taken in isolation, yes, the spreading of the subsidy over the life of post-paid contracts has a positive impact on EBITDA.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Okay, thank you.

Richard Eary - ***UBS - Analyst***

Thanks guys.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

So now Justin, was it, online?

Justin Diddams - ***Citi - Analyst***

Yes, hi guys. Just two questions for me. First just on the inter-carrier charges, is the decline across that those costs purely related to the decline in revenues or are you getting some contract efficiencies and better pricing out there? I'm just trying to gauge what the driver is there on the decline first.

And then second question, just on the EBITDA guidance of NZD560 million, just trying to get a run rate on - so the proforma in the first half was NZD533 million. For the second half you know I would have expected that number to be higher on the basis that you are cutting costs out. Yet if you look at the sort of half year splits in prior years it seems to be just comparable with a first half/second half split. So really just wanted to get a gauge of why that NZD560 million isn't higher? Why the cost savings aren't coming through stronger.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

So I'll ask Nick to take that second question. The first question on inter-carrier costs, I will put that into offline Justin. You know there's definitely a significant change due to the MTR rates, whether there are -- whether there's significant other price changes that impact it's - or volume changes I think we could probably talk to you offline about.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Okay.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Can you take the second half?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Second half. Your right, I mean the second half is normally about NZD30 million stronger than the first half. It can be anywhere in between sort of low NZD20 million and about NZD40 million stronger than the second half.

In this case we've had a couple of costs and one-offs in the first half; sale of Software Solutions and the sale of some Southern Cross capacity and that won't be repeated in the second half. So we think our proforma of NZD560 million is a good measure.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Okay, thanks Nick. Another question online?

Justin Diddams - ***Citi - Analyst***

Cheers.

Operator

The next question comes from Mark McDonnell of BBY, go ahead please Mark.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Hi Mark, good morning.

Mark McDonnell - ***BBY - Analyst***

Good morning Paul and Nick. Look, just two from me. Firstly on the observation you're getting about 37% in mobile connections, I seem to recall you had a target that you announced some time ago of trying to get back to 50% there. I'm wondering whether you still have that aspiration or any sense that there's any prospect of material market share improvement in mobiles over the next year to two years.

Secondly, in respect to AAPT, I noticed that Michael Malone's been talking up his share of business customers and it sounds like it's almost towards another transaction there. But are you still potentially interested in selling the remnants of AAPT?

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

So, on the second point, we do not have AAPT up for sale at the moment Mark. And on the first point, look I think I'm going to take that into strategy day. And I'll repeat what I've said already this morning, we see some good signs of you know how volume growth in mobile. I think one of the strategic choices is how hard we push that and that you know that depends on many factors; the nature of the market here in New Zealand and subsidies and so forth. So if we've got that through in our plans will give you guys a clearer view.

Suffice to say, we're feeling quite good. There's a lot to be done, but you know you can see the green shifts here and the ways that we've hoped for, and there is an opportunity to build on it and we'll talk about it at strategy day.

Mark McDonnell - ***BBY - Analyst***

Okay.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Okay? Thank you. Another question online?

Operator

The next question comes from Greg Main from First New Zealand Capital, please go ahead Greg.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Hi Greg.

Greg Main - ***First New Zealand Capital - Analyst***

Good morning. Well done.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thank you.

Greg Main - ***First New Zealand Capital - Analyst***

Just a quick question from me. The first half proforma number does that include some of the - what I'd classify as adjusting items; things like the income from the Canterbury earthquake and the one-off FX gain?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No. The earthquakes were adjusted for. Now the FX gain, I'm not sure which one you're specifically talking about because there are a couple floating through the management commentary.

Greg Main - ***First New Zealand Capital - Analyst***

The NZD28 million.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No, it doesn't include that.

Greg Main - ***First New Zealand Capital - Analyst***

Right. Thank you.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Greg. I think there's one other online and if there's another in the room we'll take that before we close. So online first, is Richard.

Operator

Richard Eary, go ahead please Richard.

Richard Eary - ***UBS - Analyst***

Thanks. Just a follow up for Nick on the net debt number; NZD755 million at 31 December, could you Nick based on obviously the sort of the guidance that you've given around CapEx, EBITDA and sort of net income you know can we assume pre the buyback that will drop down to sort of circa NZD550 million to NZD600 million at year end, or am I missing something?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No, look I don't think you should make that assumption because there's unders and overs. And I think probably the thrust of your question is you may have expected debt to come in lower, the thing that you need to remember is that we restructured a whole range of derivatives when we actually restructured our debt and that had the impact of increasing the amount of debt on issue, but reducing the applied interest rate. So economically neutral, but has a positive impact on the business going forward from an interest cost perspective.

Richard Eary - ***UBS - Analyst***

So from an end '12 number, I mean can you give us an indication or a steer in terms of where you think that net debt number will be pre the buyback.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No, look I'd prefer not to do that Richard.

Paul Reynolds - ***Telecom Corporation of New Zealand Limited - CEO***

Thanks Richard. Okay, look any final questions in the room? Okay, thank you very much ladies and gentlemen.