



TELECOM NEW ZEALAND

Investor Briefing Day

27 May 2010

Agenda



TIMETABLE

SPEAKER

TOPIC

09.30 – 11.30

PAUL REYNOLDS

STRATEGY UPDATE

RUSS HOULDEN

FINANCIAL UPDATE

DAVID HAVERCROFT

TECHNOLOGY

Q&A

11.30 – 12.00

MARK RATCLIFFE

CHORUS

12.00 – 01.00

LUNCH

01.00 – 01.30

MATT CROCKETT

WHOLESALE & INTERNATIONAL

01.30 – 02.00

ALAN GOURDIE

RETAIL

02.00 – 02.30

CHRIS QUIN

GEN-i

02.30 – 03.00

PAUL BROAD

AAPT

03.00 – 03.05

PAUL REYNOLDS

CLOSE

TELECOM NEW ZEALAND

Strategy Update

Investor Briefing Day – 27 May 2010

Chief Executive Officer – Paul Reynolds

Snapshot

- Successful delivery against Year 2 of plan
- Tougher operating environment and outlook
 - Increasing competition
 - Price pressure
 - New regulation layered on top of existing complex regulation
 - Capex and contention pressure from Op Sep Undertakings
- Government UFB Fibre plan adds industry structure uncertainty
 - Alignment of complex copper centric regulation with future fibre world
- Strategy adjusted:
 - Focus on customer retention and targeted revenue growth
 - Focus on cost reduction and business simplification
 - Focus on reducing the regulatory overhang



2008/2009 Strategy Recap

A bold vision

"With our customers at our heart, we will become New Zealand's most preferred Company"

With a clear mission...

"No.1 in broadband, mobile and ICT"

Delivered through strategies that balance...

1. Near term performance
2. Long term health
3. Meet stakeholder expectations

Year 2 – Another Huge Year



- Financial performance on track, despite economic downturn
 - FY10 EBITDA on track
 - FY10 Capex on track
 - Ambitious \$524m cost out programme on track
- Significant improvements in services offered:
 - XT nationwide 3G mobile
 - FTTN drives increased broadband speeds and penetration
 - Successful fixed line bundles, reducing customer churn
 - Significant growth in ICT services
- Delivery of Operational Separation milestones





We have delivered for customers

Fixed Line & Broadband

- Better value bundles capture 24% of Consumer access base
- 1m+ customers able to access broadband at 10 mbps +
- Retail access churn down to ~7% (8% in FY09)

Mobile

- XT HSPA+ upgrade delivered
- Prepaid mobile broadband launched

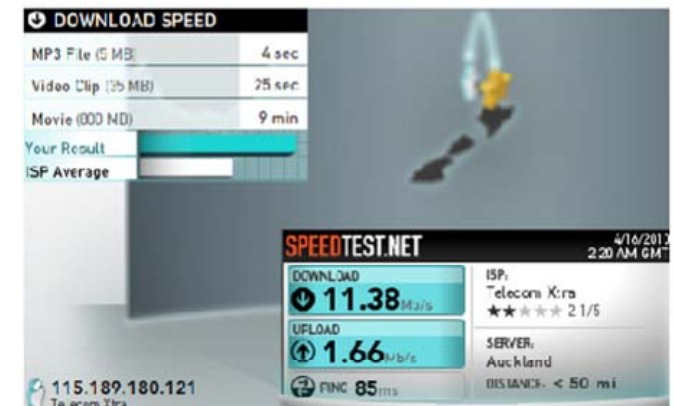
ICT

- Gen-i voted most preferred vendor
- IDC "Market leader in Outsourcing"

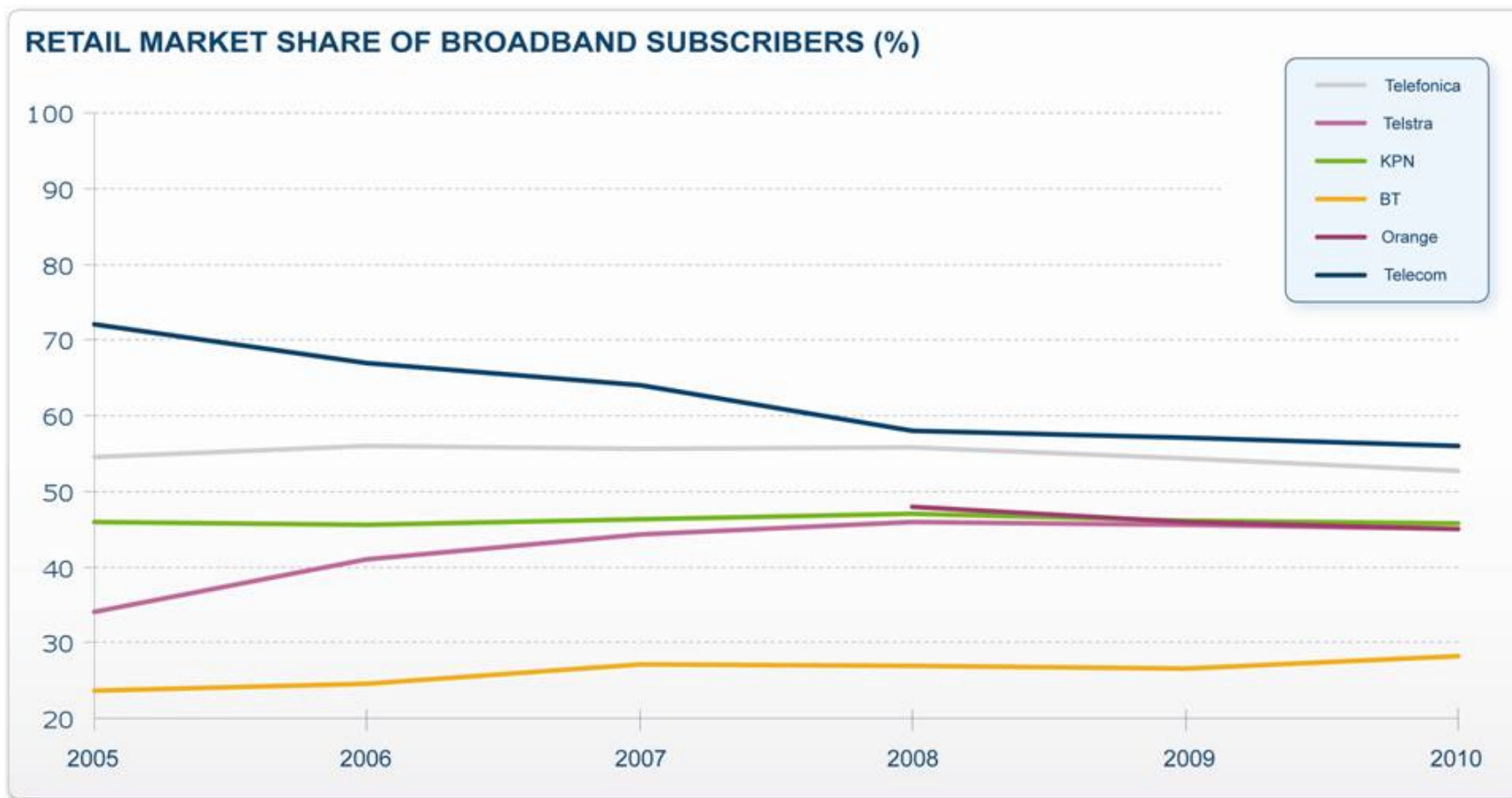
Service

- Chorus new field service model
- Right First Time enhancing customer experience

Guess what? XT's upgrade rocks



Market shares stabilising after rapid adjustment



Unparalleled change program



				
Separation	Yes	No	Yes	No
PSTN Voice Replacement	Yes	No	Yes	No
FTTN	Yes	No	Yes	No
FTTP	No*	No*	No*	Yes
3G Mobile build	Yes	Yes	No	Yes
*Planned				

We remain focused on shareholders



- FCF turnaround delivered
- EBITDA decline halted
- Met guidance through the economic downturn
- Maintained a strong balance sheet
 - No requirement for long term funding during the Global Financial Crisis
- Transparent disclosure

Global operating environment

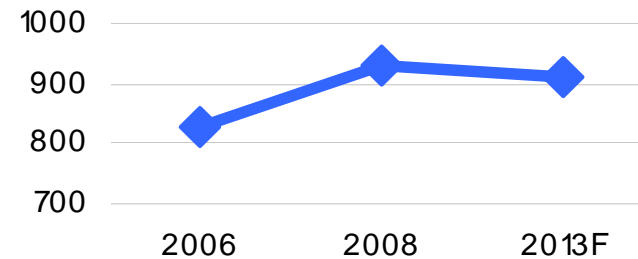
Recession and competition have impacted globally

- **Ongoing global industry trends**
 - Over the top attackers winning share of wallet
 - F2M substitution
 - Commoditisation of International voice
- **Global recession** has permanently reset pricing

Revenues in developed markets are forecast to decline

Telco revenues in developed markets

USD Billions in nominal terms (Constant US\$)



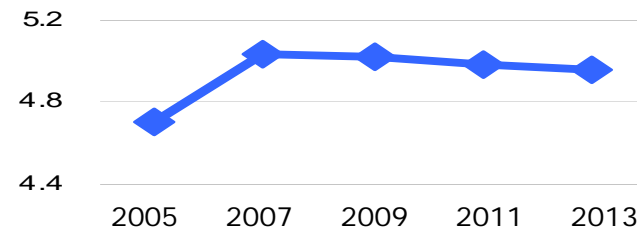
New Zealand operating environment

Increased regulation and competition

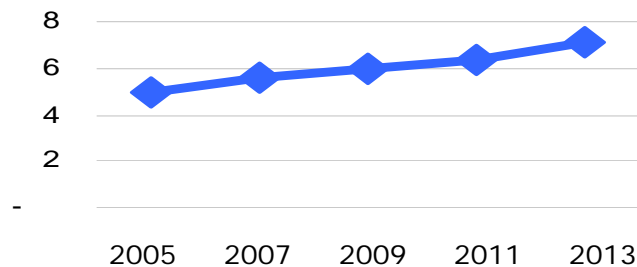
- **Ongoing regulatory pressure** driven by complex regulatory undertakings
- **Further regulatory interventions** layered on top of an already complex regulatory model
- **Local competition driving down price:**
 - LLU enabling access seekers to cherry pick metro profit pools
 - Entry of a 3rd mobile player

NZ communications market forecast to decline, but IT Services will continue to grow

NZ Communications market revenues (\$bn)



NZ IT Services market revenues (\$bn)



Source: IDC

We have retained our customer focus but refreshed our strategy



A bold vision

"With our customers at our heart, we will become New Zealand's most preferred Company"

With a clear mission...

"No.1 in broadband, mobile and ICT"

Delivered through strategies that ...

1. Deliver turnaround in EBITDA
2. Position the business for a UFB world

Strategy refresh, reflects new environment

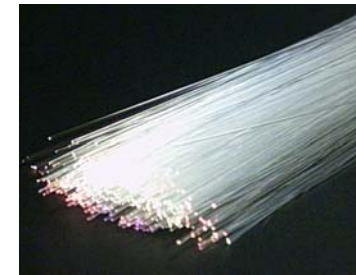


Deliver turnaround in EBITDA




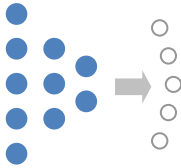


- Reduce cost
- Simplify the business
- Retain value
- Targeted growth

Position business for UFB world

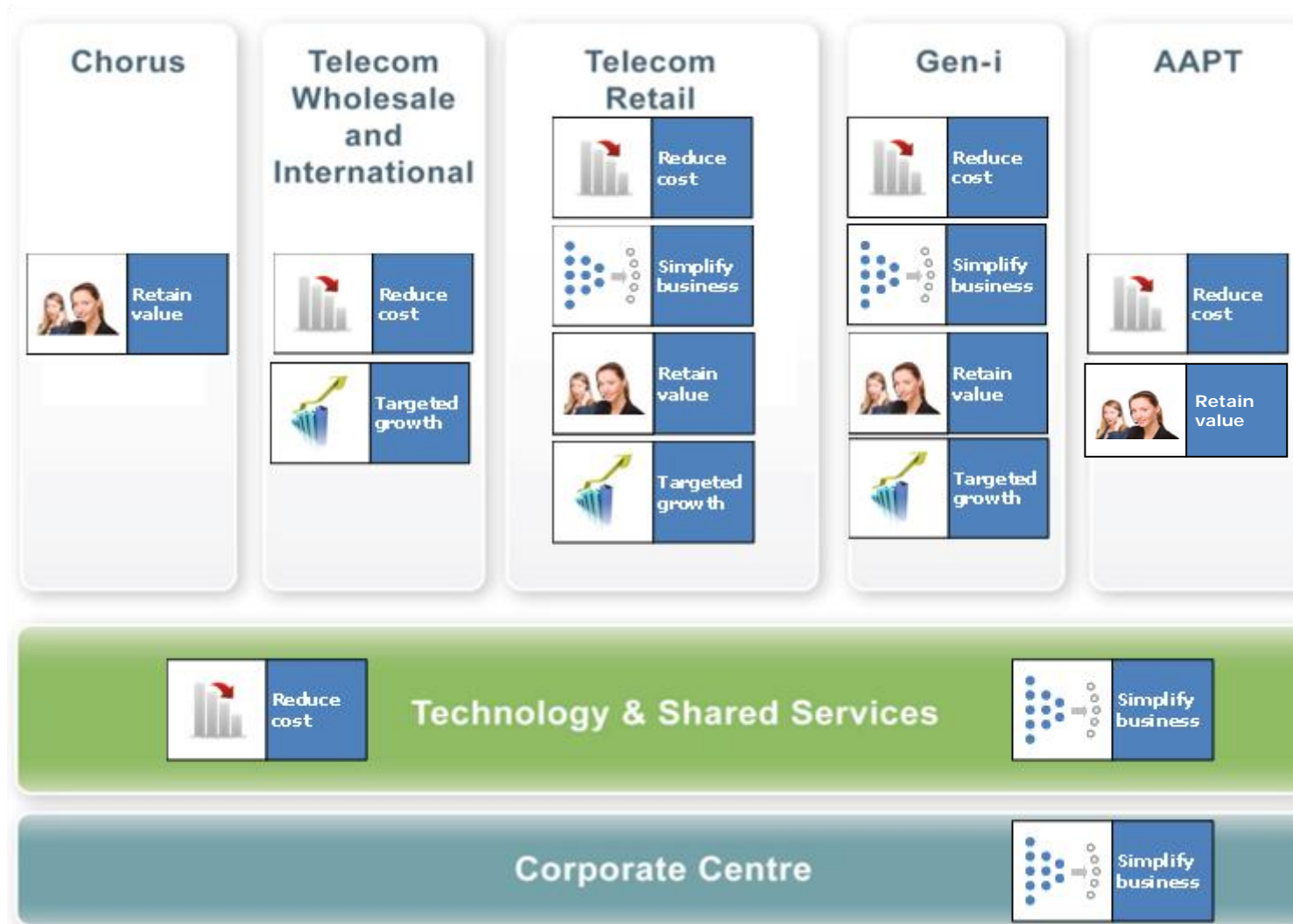


- Open and positive engagement with government on UFB
- Reshape the businesses

Deliver turnaround in EBITDA

	<p>Reduce cost</p>	<ul style="list-style-type: none"> • Lean service provider model in Retail and Gen-i • Optimise procurement processes and reduce spend • Reduce discretionary spend group-wide • Retail NGT and Wholesale FMO • Expand RFT across more products and services
	<p>Simplify business</p>	<ul style="list-style-type: none"> • Restructure Retail & Gen-i • Remove redundancy of activities in support functions • Tech FMO program to simplify T&SS processes and operations
	<p>Retain value</p>	<ul style="list-style-type: none"> • Migrate high value CDMA customers to XT • Deliver compelling Retail bundles • Deliver sales and service excellence to Gen-i customers
	<p>Targeted growth</p>	<ul style="list-style-type: none"> • Capture mobile market share and grow ARPU • Create a platform for cloud success in corporate and enterprise

Structure focused on customers - simplify...reduce overheads...central control



Deliver turnaround in EBITDA

FY11 focus on cost reduction, business simplification, legacy revenue retention and mobile growth

Headwinds from market and regulatory forces...

...Have driven our FY11 focus on cost reduction, simplification, retention and targeted growth

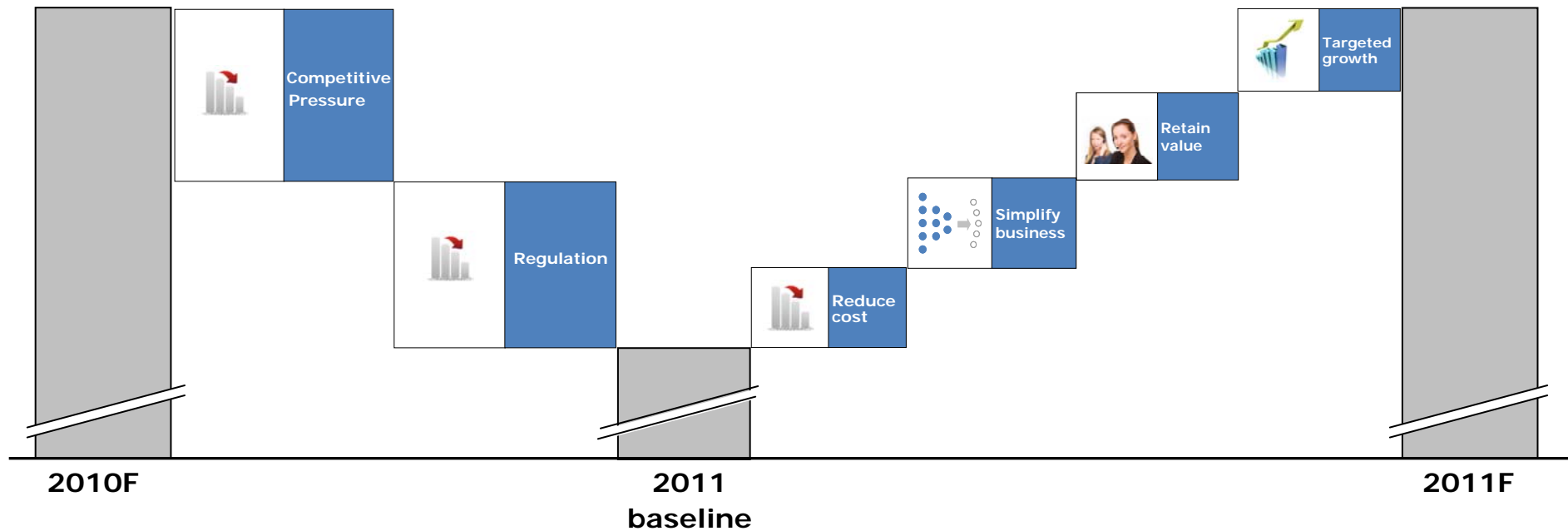


Chart illustrative only



Position the business for a UFB world

Manage highly uncertain regulatory environment

- Telecom is one of the most heavily regulated operators in the world:
 - Outdated resale and price control regulation retained
 - Operational separation added in 2008 to 'optimise' market around copper access bottleneck
 - Op Sep driving cost, congestion, complexity and customer risk
 - Further rural and mobile regulation in 2010
- UFB in 2011 will create fibre access bottleneck market structure
- Drastic regulatory simplification required to fit with a fibre future
- Seeking pause on three operational separation undertakings
 - Bulk migration of existing retail broadband customers to a new copper based platform
 - Migration of 17,000 customers from PSTN to copper based VOIP service
 - Further Wholesale system development

Ultra Fast Broadband (UFB)

A spectrum of outcomes

Participation

- Separation may be required to participate
- Opportunity to align investment incentives of shareholders with Government policy objectives
- Regulatory reset needed to improve economics and optimise policy outcome

Non Participation

- There is life in copper yet (FTTN, VDSL, bonding)
- The economics of widespread investment in fibre remain challenging
- Very significant regulatory burden
- As today – selective investment in fibre to compete in the market

We intend to navigate the best outcome for shareholders

Structural Separation

Benefits would need to outweigh costs

Potential Benefits

- National UFB transaction
 - Align investment incentives
 - Avoid overbuild
- Simplification & management focus for separated entities
- Reset of the regulatory framework
 - Simplified, targeted and best practice regulation of bottleneck assets
 - Removal of regulation from retail businesses

Potential Costs

- Loss of the remaining benefits of vertical integration
 - Duplication of overhead
- Future flexibility
- Implementation costs
 - System separation and asset identification costs
 - Potential tax costs

Various forms of structural separation are possible, including demerger

Separation would likely require both equity and debt holder approval

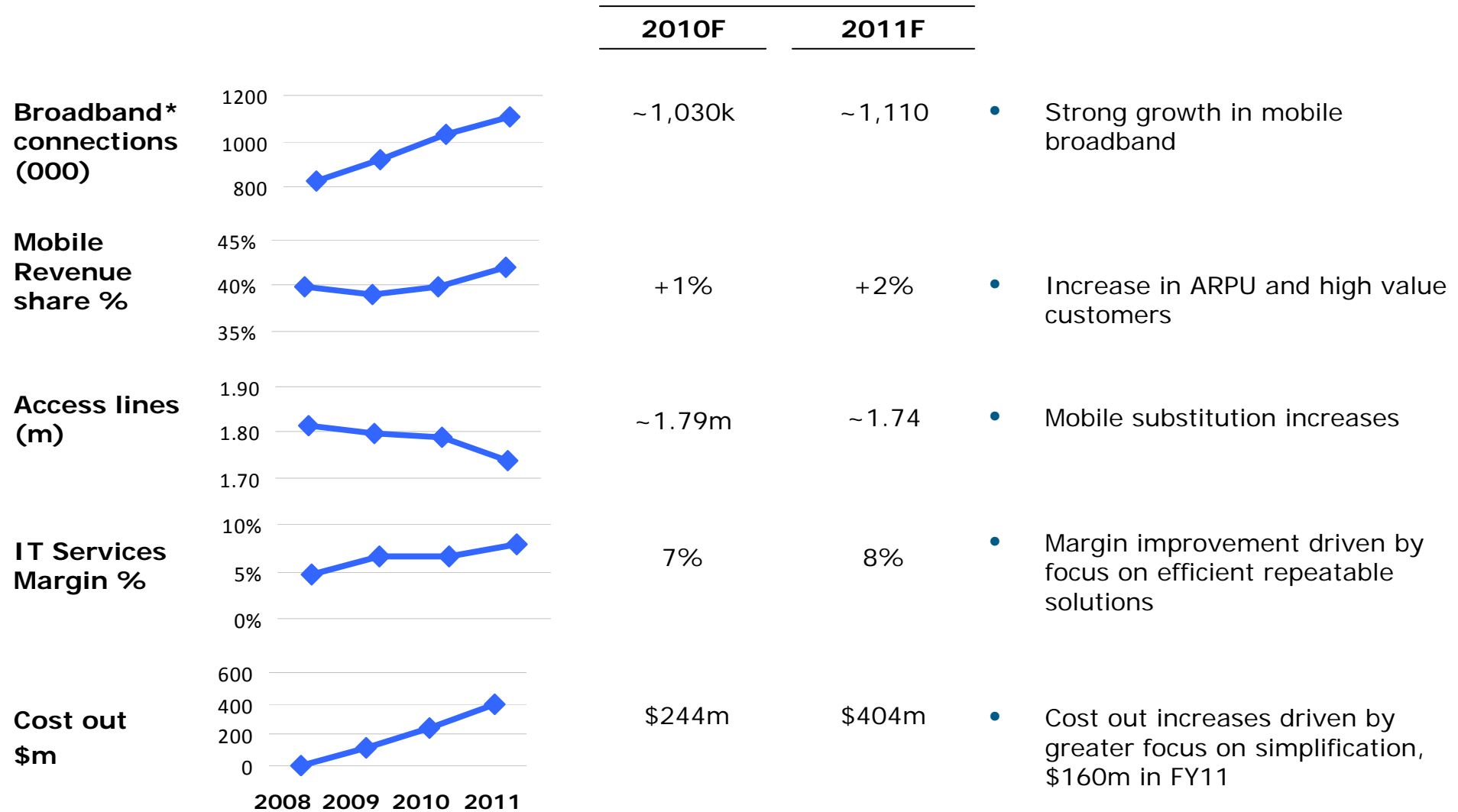


KPI 's: Financial

		CHANGE		
		2010F	2011F	
Revenue	<p>Revenue \$ bn</p>	~-6%	-1% to -2%	• XT and IT Services revenue growth slows rate of decline in FY11
Opex	<p>Opex \$ bn</p>	~-8%	-1.5% to -2.5%	• FY11 cost decline slows as revenue decline slows
EBITDA	<p>EBITDA \$ bn</p>	~-1%	-2% to 2%	• EBITDA expected to be broadly flat
Capex	<p>Capex \$ bn</p>	~-10%	-7% to -15%	• Decline in separation and FNT capex
FCF	<p>FCF \$ bn</p>	~-25%	8% to 35%	• Improves as capex declines



KPI 's: Key earnings drivers



*Includes Retail, Gen-I and Wholesale fixed and mobile broadband connections

Disclaimer



Forward-Looking Statements

- This presentation includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of Telecom. 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 third quarter management commentary and in the risk factors and forward-looking statement disclaimer in Telecom's annual report on Form 20-F for the year ended 30 June 2009 filed with the U.S. Securities and Exchange Commission. 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.

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 - Earnings before interest, tax, depreciation and amortisation ('EBITDA'). Telecom calculates EBITDA by adding back depreciation, amortisation, finance expense, share of associates' losses and taxation expense to net earnings/(loss) from continuing operations less finance income; and
 - Average Revenue per User ('ARPU'). Telecom calculates ARPU as mobile voice and data revenue for the period divided by the average number of customers for the period. This is then divided by the number of months in the period to express the result as a monthly figure.
- Telecom believes that these non-GAAP financial measures provide useful information, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS.