TELECOM NEW ZEALAND

Wholesale & International

Investor Briefing Day – 27 May 2010

Chief Executive Officer Wholesale & International – Matt Crockett

2009/10 Wholesale & International highlights

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Focus on meeting increased wholesale competition, transformation led operational improvements, and cost-out and strategic review in International

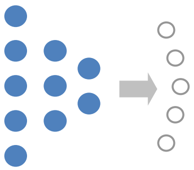
		Q3YTD FY09	Q3YTD FY10
Market performance	• Close to 900k fixed broadband connections		
	• Share of fixed broadband growth up	67%	75%
	• Decline in total lines supplied by Chorus lower than targeted	98%	97%
Customer performance	• Customer satisfaction maintained despite significant operational and business support system changes		
	• High win rate on competitive wholesale bids		
Business performance	• New Wholesale backhaul & MVNO business secured		
	• Underlying profitability of International improved with significant cost out and rationalisation of customer base		
Financial performance	• F10 Q3 YTD EBITDA down 3%	$189m	$183m
	• Strong external Wholesale revenue growth		
	• International profitability improved		
	• Overall decline driven by internal costs for FTTN		
Trans-formation	• EUBA & HSNS enhancements, MVNO, VDSL2 & FTTH (Fibre to the Home) pilots		
	• New fulfil & assure capabilities delivered – step change in B2B customer and end-user experience		
	• All Separation Undertakings milestones met	Met	Met

Wholesale strategic priorities

Taking on new competition, low touch highly automated FMO and targeted new growth

Reduce cost

- Strong focus on reducing end to end Wholesale costs – including power, network management and provisioning
- Aggressive third party supplier management leveraging Group wide scale and procurement synergies



Simplify

- Right First Time, real time, low touch, automated operational fulfil and assure FMO systems & processes
- Consider strategic options for International carrier services business – non core & complex

Retain value

- Pushing for regulatory competition and pricing/economic reviews
- Responding directly to growing fibre and copper competition – pricing, product & service

Targeted growth

- Enhanced / new network services to leverage exponential growth in broadband content
- MVNO
- Outsourced network management services

Wholesale product and network capabilities mean we are well positioned for the future

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Key Products/ Network Capabilities	Focus and Performance	Availability[1] Today	Availability[1] By End 2011
BUBA/ EUBA 0 (Basic/ Enhanced Unbundled Bitstream Access)	Mass market best efforts broadband Up to 24 Mbps down	93% (ADSL) 65% (ADSL2+)	93% (ADSL) 84% (ADSL2+)
EUBA 40, 90, 180 (Enhanced Unbundled Bitstream Access)	Mass market real time broadband Up to 24 Mpbs down with committed voice channel	65% (ADSL2+)	84% (ADSL2+)
VDSL2 based products	Mass Market optimised broadband Up to 50/5 Mbps down / up (Min 15/ 5 Mbps)	15%*	60%
FTTH (Fibre to the Home)	Mass market broadband over fibre Up to 100 Mbps down	Greenfield subdivisions (currently 22)	Unknown
HSNS (High Speed Network Services)	Managed Data; uncontended bandwidth Copper: up to 10Mbps symmetrical Fibre: up to 1Gbps symmetrical	40-50% (est)	80+% (est)

* At mid August 2010 launch
1 - % of lines

Wholesale transformation starting to drive real customer service and cost improvements

Service Performance KPI's	Baseline 2008 CMO (UBS)	Current CMO Performance (xUBA)	FMO Targets (xUBA)
% met completion – complete @ agreed date	73%	88.9%	95%
% met delivery target – WSA SLA's / STD's	63%	90.4%	99%
% rejected	31%	UBS – 32% UBA – 16.2%	5%
Cycle time intact line check	1.5 hours	Near real time	Near real time
Cycle time intact activation	UBS – 1 day	UBS – 1 day UBA – 2 hrs	Hours
Cycle time for BB, PSTN, NCA single service order intact activation	5+ days	1.5 days Best case 1 day	Similar

New strategic direction in International

Voice market

Built strong position, however

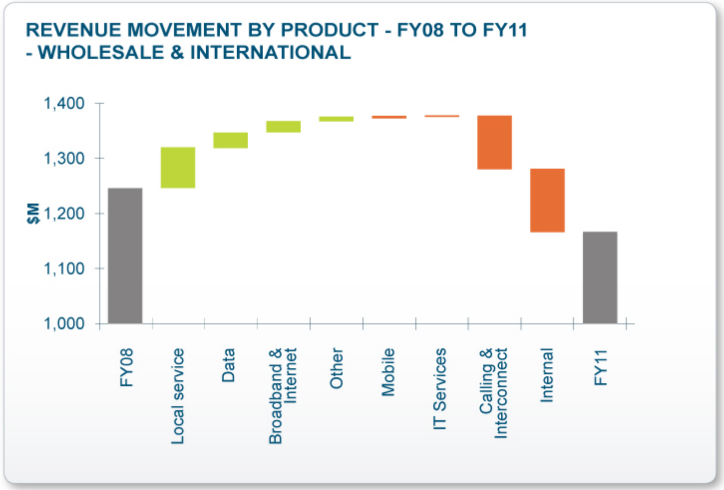
- Commoditisation accelerating
- Increasingly dominated by scale players
- High degree of competition and low margins
- With the exception of relationships, small(er) players will struggle to achieve sustainable competitive advantage

Strategic response

- Separated voice & data business
- Integrated international data with domestic Wholesale data
- Seek partners / divest international voice business

Revenue – FY08 to FY11

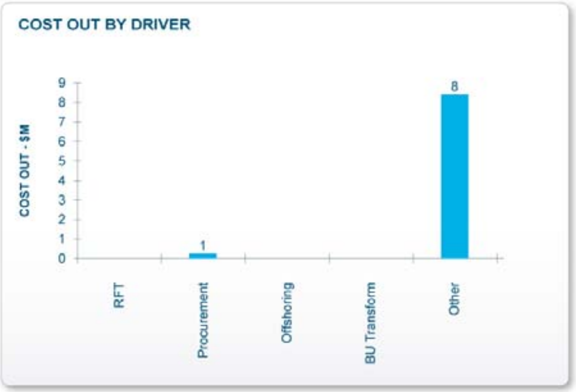
Strong new wave data, broadband & other network services growth offset by lower interconnect and internal revenues

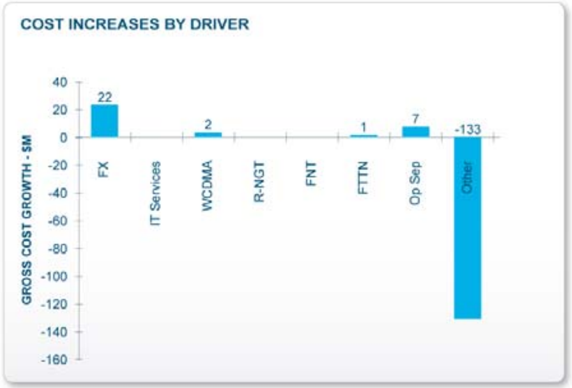


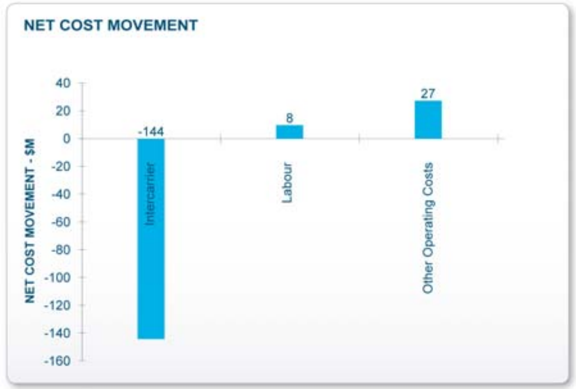
- PSTN, BB & data growth
  - Proactive Wholesale stance
  - More vibrant Wholesale market
  - LLU operators acquiring customers and building scale prior to infrastructure investment
- Lower interconnection – downward MTR glide path
- Lower internal revenues
  - International internet transit pricing
  - Retail international minutes

Cost out – FY08 to FY11

Delivery of cost reductions through rationalisation of International customer base and related reduction in support costs



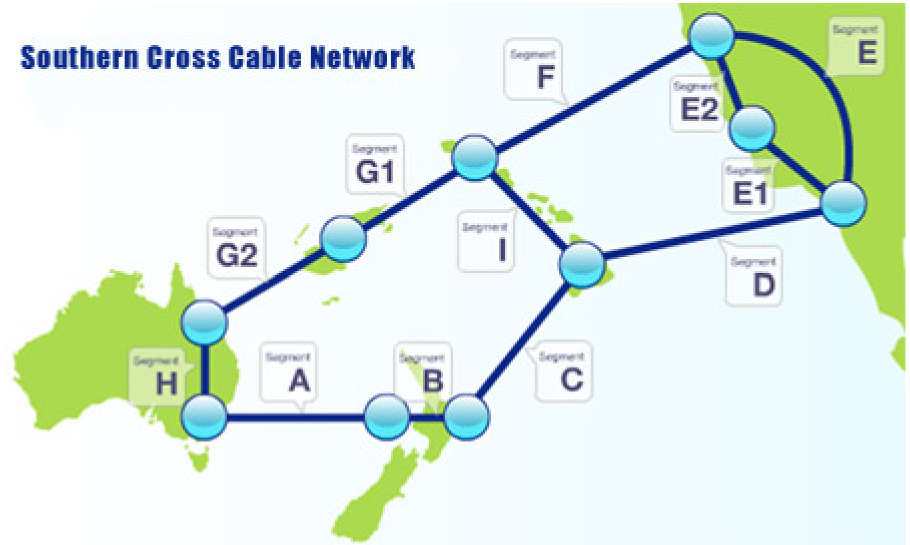




- Cost out driven by:
  - International cost-out program – reduced labour related costs
  - Lower 3rd party supplier costs driven by Group wide procurement initiatives
  - Lower end to end costs with a focus on power, network management and provisioning
- Gross cost movements driven by:
  - Lower Wholesale interconnection costs (SMS & MTR)
  - Lower International carrier costs (rationalisation of low profit business)
  - Weaker NZD and higher USD denominated costs

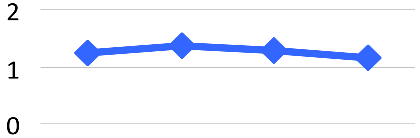
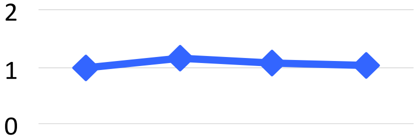
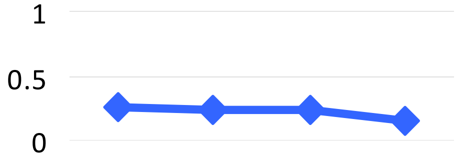
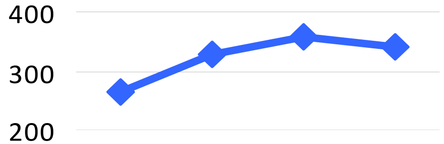
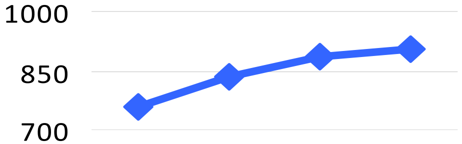
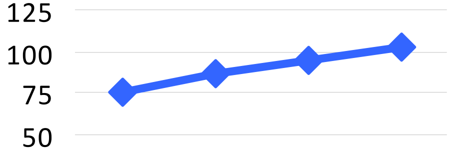
Note – External cost only

Southern Cross Cable Competing Effectively



- Cable commissioned in 2000 with design life to 2025 – operational lead indicators in good shape
- Increased trans-Pacific cable competition, including possible new entrant, Pacific Fibre and Kordia Optikor
- SX is, however, competing very effectively as the highest performing (e.g. lowest latency) and most reliable (only fully redundant) cable network in the market
- Best in market customer satisfaction scores
- Multi-year deals secured from non-owner customers during the last 12 months, supporting healthy dividends over at least the next 2-3 years
- Capacity upgrade completed - future capability indicating no capacity shortages expected during the cable's operating life

Wholesale and International key performance indicators

	2008 2009 2010 2011	CHANGE 2010F	CHANGE 2011F	COMMENTARY
Revenue ($bn)		-6%	-10%	• Lower internal revenues, partially offset by external revenue growth • Lower interconnection revenues (MTR)
Expenses ($bn)		-7%	-4%	• Higher internal costs (FTTN) offset by lower interconnection (MTR/SMS) and international cost-out
EBITDA ($bn)		-2%	-35%	
Fixed lines (000)		10%	-5%	• LLU competition • Fixed to mobile substitution
Broadband connections (000)		6%	2%	• Household penetration 65% • Rate of growth slowing • LLU competition
Data revenues ($m)		11%	9%	• Ethernet backhaul • High speed network services

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  - 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.
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