



TELECOM NEW ZEALAND

Chorus Update

Update to Investors – May 2010

Chief Executive Officer – Mark Ratcliffe



2009/10 Chorus highlights



Drive business transformation while maintaining world-class network performance and outstanding customer service

		FY2009	FY2010 F
Market performance	<ul style="list-style-type: none"> Minimal decline in number of access lines despite substitution 	1.797m	1.789m
Customer performance	<ul style="list-style-type: none"> New service company model delivering highest ever performance levels High customer satisfaction in general 	93%	95%*
Business performance	<ul style="list-style-type: none"> UCLL progressing well with six customers Stable cashflows 	37k UCLL lines 64 exchanges	~ 65k ~ 76
Financial performance	<ul style="list-style-type: none"> Maintain EBITDA 	\$750m	~ \$750m
Trans-formation	<ul style="list-style-type: none"> Fibre to the Node programme past halfway point Increase in national fibre footprint Undertakings requirements met 	780 cabinets 23k fibre	1960 ~ 25k

The Chorus business



BUSINESS DEVELOPMENT & CUSTOMER SERVICES

TECHNOLOGY SERVICES

ACCESS

Unbundled services
& related products

Network planning &
investment

**FIELD
SERVICES**

Phone & broadband
installation or repair

Network build

Home wiring
services

**PROPERTY &
NETWORK**

Co-location (fixed
and mobile)


Property
maintenance &
operations

CORPORATE FUNCTIONS

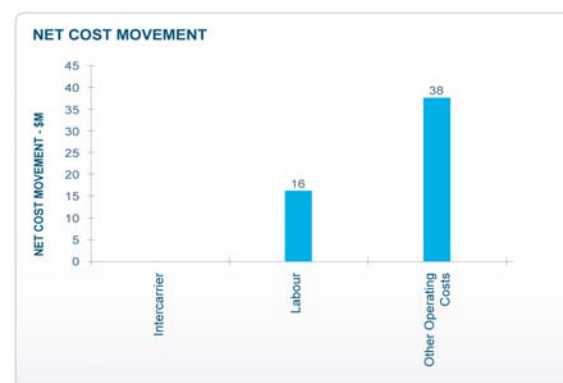
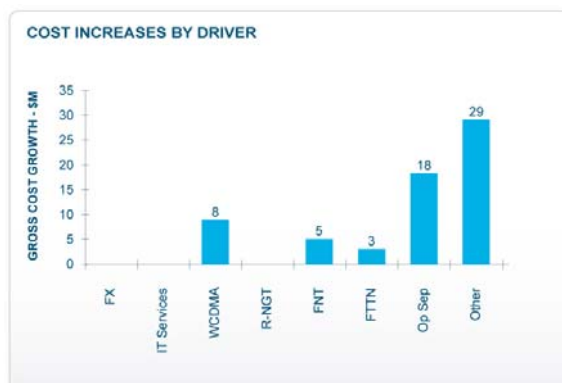
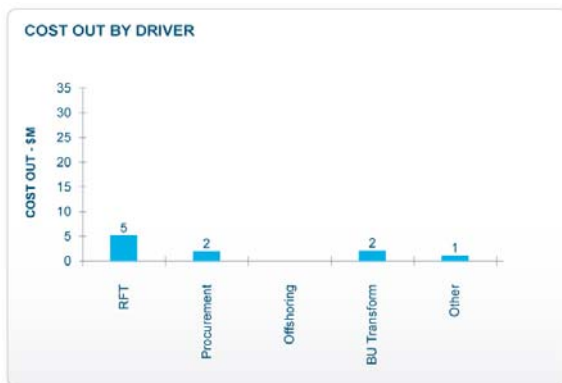
(Legal, HR, Finance & Communications)

Strategic priorities

Sustain financial and business performance through operational excellence and the migration to a fibre world

	Reduce cost	<ul style="list-style-type: none"> • Right First Time initiatives to reduce truck rolls • Reduce restoration costs through targeted investment and pro-active maintenance
	Simplify	<ul style="list-style-type: none"> • Meet our Undertakings requirements to develop the systems that make it easier for us to do business • On-going operational improvements through transformation
	Retain value	<ul style="list-style-type: none"> • Continued support of UCLL • Drive customer satisfaction • Leverage the copper network and develop an easy migration path to fibre
	Targeted growth	<ul style="list-style-type: none"> • Launch of new field services and property products • Chorus brand awareness campaign

Cost Out – FY08 to FY11



- Cost out driven by:
 - RFT – the reduction of avoidable truck rolls
 - Supplier management for field service materials & workforce management system efficiencies
- Cost increases driven by:
 - Operational separation & improvements to customer service and field services to support UCLL growth
 - Operating costs for FTTN, WCDMA, FTN, higher restoration & property maintenance

Note – External costs only

Cost reduction

Reduce cost by focusing on operational excellence and efficiencies

- Reduction of unnecessary truck rolls through service company processes improvements
- Decrease restoration costs through proactive maintenance and efficient capital planning



Network performance

Build and maintain a world-class network to drive performance and customer satisfaction



- Fibre to the node to shorten the local loop
 - 50% of cabinetised lines within 500m
 - 90% of cabinetised lines within 1km
 - Supports VDSL
- Support customer plans for UCLL
- Extending the fibre network (+ ~3,000km in FY11)
 - 2,000 fibre to the home lots in progress
 - On-going fibre deployments to communities
 - Fibre to support mobile sites

Copper to fibre transition

Give customers an easy road to a fibre world

- Network migration
 - Micro-ducting and hybrid cabinet trial
- Home wiring products and services
 - New homes built to TCF wiring standards
 - Products to bridge the wiring divide
- Services to encourage the use of a high capacity fibre network



Products for the future

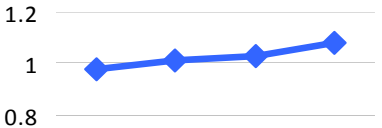






Focus on delivering commercial products and a seamless path to a fibre world

- Field services products
 - Enhanced services for business customers
 - Home services to make premises fibre-ready
- Leveraging opportunities in our property portfolio
- Simpler processes or automation to support regulated products
- Be competitive by knowing what our customers want and getting the job done



Key performance indicators

		CHANGE		COMMENTARY
		2010F	2011F	
Revenue (\$bn)		1.8%	5.4%	<ul style="list-style-type: none"> Growth in external local service and internal revenues (backhaul and co-location, FTTN related) Primarily driven by additional operating costs for FTTN, WCDMA & internal charges
Expenses (\$ bn)		6.9%	6.5%	
EBITDA (\$bn)		0.1%	4.9%	
Fixed lines (m)		-3.7%	-0.3%	<ul style="list-style-type: none"> Decline as a result of migration to mobile and other networks
Cost Out \$m		N/M	N/M	<ul style="list-style-type: none"> Right First Time initiatives to reduce truck rolls Reduce restoration costs through transformation investment and proactive maintenance

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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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