



# TELECOM NEW ZEALAND

## Technology

Investor Briefing Day – 27 May 2010

Chief Technology Officer – David Havercroft

# FY10 Key Messages

---



## Delivering Operational Efficiency and Transformational Building Blocks

- Thorough remediation of XT as catalyst for driving operational excellence in mobile
- Supporting BU strategic priorities
- On track, comprehensive review of the Technology 'Future Mode of Operation' (FMO)
- Key work underway on customer and cost optimised technology roadmaps/architecture for agility & flexibility

## Delivering Operational Separation

- Fundamentally re-shaped Undertaking delivery programme
  - Improved solution architecture and governance
  - To date all key Undertaking milestones have been met

## Delivering Cost-Out

- On track to achieve FY10 cost-out targets

## XT Network remediation as catalyst to drive operational excellence

---



### Independent audit reported five key findings...

Some network components and operations were not ready to manage rapid pace of acquisition

Software issues had contributed to network instability

Initial configuration of XT resulted in coverage variability

Some aspects of network architecture were overly complex

Immature operational management systems and process failures

### ...for which extensive remedial actions have been taken

Longer-term capacity forecasting and capacity expansion implemented  
Additional RNCs\* now operational, with further planned for 2011

Software upgraded, QoS improved

Additional cell sites and an amplifier programme - improved coverage

Network architecture under review

New governance framework between Telecom and ALU

\*Radio Network Controllers

# Supporting BU strategic priorities

	<b>Reduce cost</b>	<ul style="list-style-type: none"><li>• Technology FMO to drive cost improvement in delivery and services</li><li>• Economically-justified stop to investing in unnecessary technologies</li><li>• Support of cost-out initiatives in all Business Units</li></ul>
	<b>Simplify</b>	<ul style="list-style-type: none"><li>• Pragmatic actions to ensure appropriate investment in lifecycle management – e.g. decommission of PSTN switches to redeploy</li><li>• Review of asset estate including applications and hardware</li></ul>
	<b>Retain value</b>	<ul style="list-style-type: none"><li>• Maximise use of existing assets: reaffirmed extension of PSTN to 2020</li><li>• Detailed technology reviews to establish an economically optimal route through the Undertakings</li></ul>
	<b>Targeted growth</b>	<ul style="list-style-type: none"><li>• Support to deliver to key growth opportunities for Business Units</li><li>• Continued investment in XT, specifically targeting mobile data growth</li><li>• Roll-out of faster copper broadband technologies</li></ul>



## Improving the future Technology Operating Model

### From...

### To...

#### Operational Efficiency

Capex spend led by major programmes in Business Units



Technology division to take more ownership of achievement of outcomes

Distributed vendor relationships and technology choices



Central procurement function with greater span of control and earlier involvement

#### Increasing Capability & Skill

Major outsourcing to ALU and HP



Optimal in-source vs out-source mix review

Some key IP/skills out-sourced due to legacy out-source agreements



Focus on in-house retention of key IP with new fit commercial constructs

#### Appropriate Governance

Immature governance of XT



Stronger governance model



## Major architectural roadmap work underway

---

### Architecture function focused on 5-yr roadmaps in key areas

- Mobile: refresh of architecture and roadmap to 4G to drive right decisions in near term XT upgrade work
- IMS: wide-ranging architecture review & investigation of path to ROI
- CRM: roadmap for flexible, right-cost CRM approach across all units
- Multi services core: building the flexibility for data traffic future
- Business integration middleware: driving cost out through simplification/roadmap to reduction of middleware in use

## Reshaped Undertakings program to manage congestion, efficiency and risk

---



### Continued significant delivery challenge

---

- Resource demand continuing at the same high levels as 2009
- Size and complexity of major programs of work required
- Sequencing challenges in the delivery of key capabilities

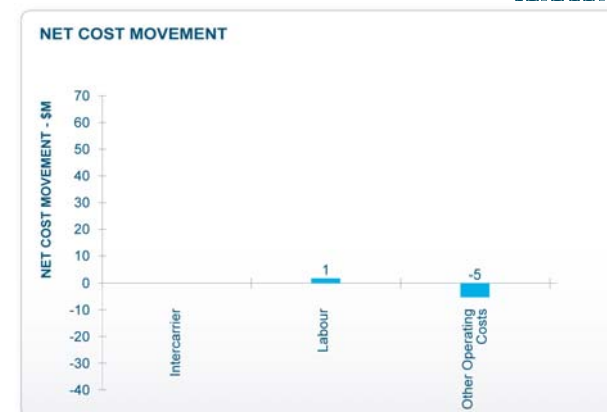
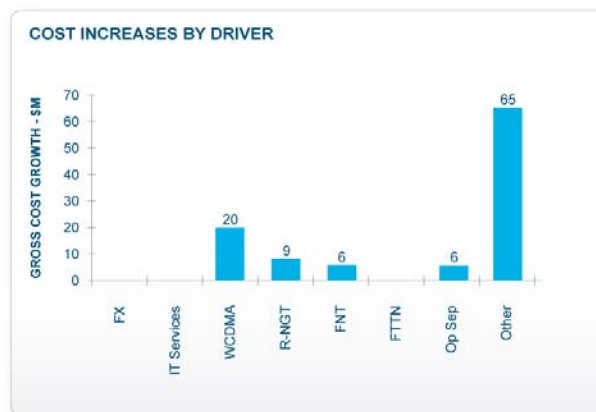
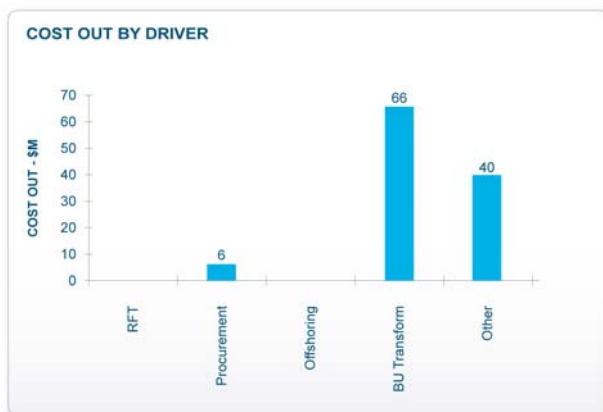


### Undertakings Implementation Programme ("UIP")

---

- Strong governance and single point of ownership across Telecom
- Programme is simplifying the architecture for key Undertakings
- Seeking to mitigate the risk of the Undertakings consuming all activities & resources
- Managing interdependencies for risk management and capex savings

## Cost Out – FY08 to FY11



- Forward-looking cost out through:
  - Changes to the Technology operating model (TechFMO) which are forecast to deliver savings beginning in FY10 onwards
  - Network and IS support cost out including optimised delivery processes and decommissioning/consolidation of platforms
- Historical cost increases driven by:
  - Increased accommodation costs
  - Increased personnel costs through CPI-related salary inflation



## CONCLUSION:

# Steps to simplify current operations, manage congestion and set up for the future

---



### Short term performance

- Delivering to BU strategic priorities
- Pragmatic, efficient Undertakings delivery
- Driving immediate cost-out initiatives across the entire business

### Long-term Health

- Technology operating model aimed to support 3-year plan
- Simplified & rationalised technology architecture & roadmaps underway

# 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.

## Non-GAAP Financial Measures

- Telecom results are reported under International Financial Reporting Standards (IFRS). The non-GAAP financial measures used in this presentation includes, but are not limited to:
  - 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.