



TELECOM NEW ZEALAND

AAPT

Investor Briefing Day – 27 May 2010

Chief Executive Officer AAPT – Paul Broad

2009/10 AAPT highlights


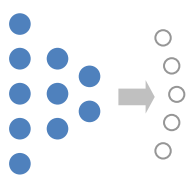




Focus on profitable on-net sales

		AUD FY09	AUD FY10(F)
EBITDA	<ul style="list-style-type: none">EBITDA growth despite declining revenue	\$93.5m	\$101.3m
Gross Margin %	<ul style="list-style-type: none">Gross Margin improvement as a result of our focus on more profitable market segments ie data and internet	37.0%	42.2%
Investment	<ul style="list-style-type: none">Investment in next generation networks starting to pay-off with significant new business sales – Austar, Rio Tinto and Specialty Fashion GroupBuilt platform for Cloud computing and executed partnership with EdgeCast to deliver an Australia wide competitive Content Delivery Network		
Cost Management	<ul style="list-style-type: none">Billing system rationalisation programme on track for completion in late 2010Completed initial call centre offshoring process to the Philippines with further opportunities identified		

Strategic priorities

Deliver turnaround in EBITDA through cost reduction and simplification and high value customer retention

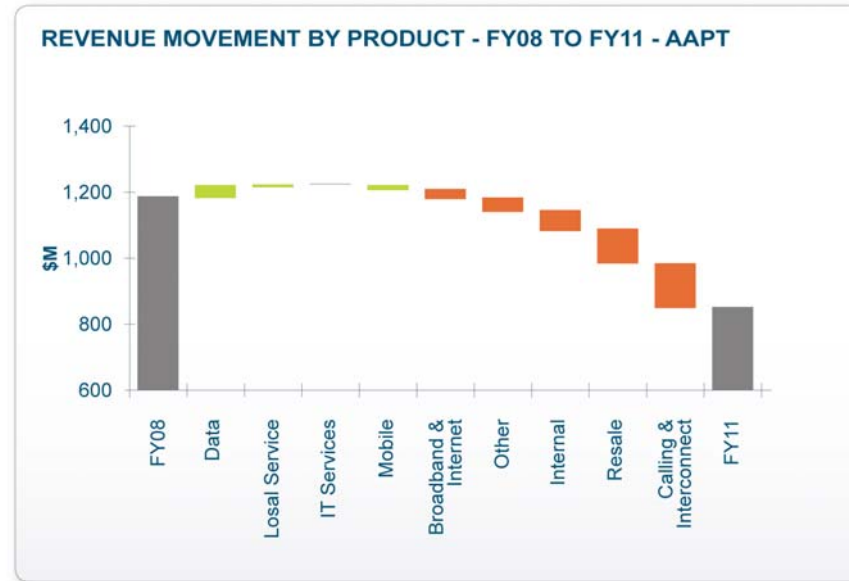
	Reduce cost	<ul style="list-style-type: none"> • The original offshoring project has been completed. Additional functions are now in scope which will deliver further saving from FY11 • Mainframe billing costs reduced by 50% so far with further savings forecast as a result of the billing system rationalisation programme • Ongoing focus on cost control • Server virtualisation project
	Simplify	<ul style="list-style-type: none"> • Investing in system and process improvement - reduce billing complexity by reducing billing systems from 14 to 2. Hyperbaric cutover for Consumer completed • Kenan for Wholesale and Business in 2011
	Retain value	<ul style="list-style-type: none"> • Business and Wholesale continue to build on recent sales wins with focus on higher margin data and IP products • Consumer stabilisation and continued focus on increasing the base on contract
	Targeted growth	<ul style="list-style-type: none"> • All divisions forecast to be growing revenue by the end of FY11 • Content delivery / Cloud computing

Key Market Segments – Achievements YTD



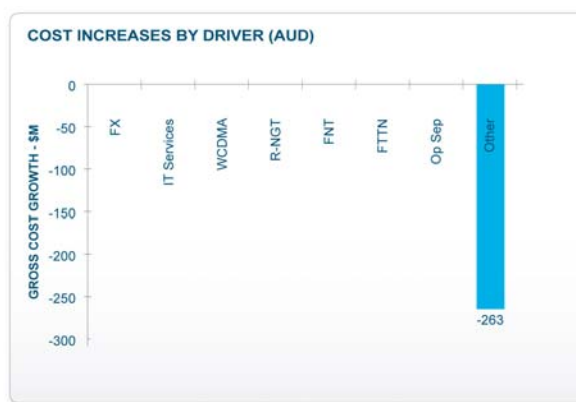
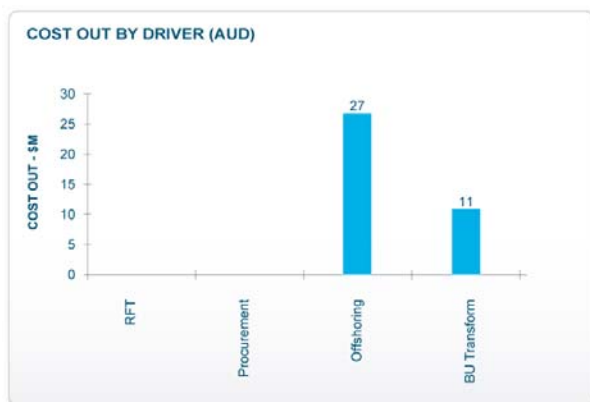
Wholesale	Business	Consumer
<ul style="list-style-type: none">• Leveraging our Tier 1 network to grow data and internet services through our channel• Growth through targeted product offerings such as MBE and VPN• Aligning customer strategy to 3 key channels:<ul style="list-style-type: none">• Carrier• Reseller• Partner	<ul style="list-style-type: none">• Focused on Ethernet and IPVPN sales to targeted, on net customers. Launch of Google Apps in Q3• Key sales to SA Dept of Transport, Specialty Fashion Group, Rio Tinto, Austar and WPP Holdings• Restructuring of sales team complete. New team beginning to show results	<ul style="list-style-type: none">• Completion of Hyperbaric migration allowing focus on sales going forward• Further offshoring opportunities identified to capture further cost savings• Successful implementation of Contract the Base strategy with c50% of customers in contract• Customer base forecast to grow from Q4 FY11

Revenue – FY08 to FY11



- Revenue decline of 28%, declines in all divisions but primarily driven by Consumer services decline. The rate of revenue decline is forecast to slow in FY11
- Consumer services have dropped by over 50% between FY08 and the FY11 forecast. Offsetting this impact is the improved profitability of the customer base and slowing churn rates through the contracting strategy
- Business and Wholesale have been impacted by the loss of low margin voice and rebill customers but expect to improve overall profitability through a focus on data and internet growth

Cost Movement FY08 – FY11 AUD\$302m



- Cost reduction of 30% driven by:
 - Reduced intercarrier costs of \$212m due to lower volumes, price reductions, improved product mix and movement of services on-net
 - Reduced personnel cost of \$32m due to forecast headcount reduction of 36% from 1,637 in the beginning of FY08 to a forecast of 1,044 in FY13
 - Offshoring of consumer call centre functions are forecast to reduce call centre costs by \$27m by FY11
 - Costs have also been reduced through billing system rationalisation, vendor negotiations, network and system costs

National Broadband Network

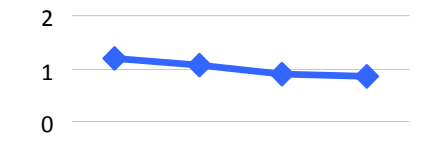



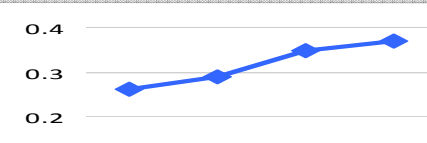

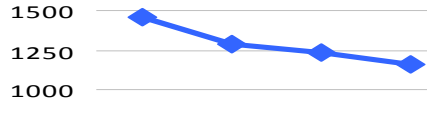



AAPT's key value driver, the core IP/MPLS network and associated fibre access assets, will continue to position the company for success in winning data/internet opportunities post NBN

- NBN decision to restrict its service offerings to Layer 2 creates an opportunity for AAPT
- NBN build offers potential to economically increase AAPT's geographic reach
- The stated intention to purchase backhaul capacity in competitive markets creates opportunity for AAPT to sell capacity to NBN
- Opportunity for AAPT to provide value added services
- NBN provides AAPT the opportunity to leverage its brand

Key performance indicators



		Change to prior year		COMMENTARY	
		2010 F	2011 F		
Revenue AUD		-15.6%	-3.4%	• All divisions forecast to exit FY11 growing	
Gross Profit AUD		-3.8%	-7.3%	• Improving customer and product mix	
Opex AUD		-7.7%	-10.1%	• Ongoing cost optimisation	
EBITDA AUD		8.4%	0.8%	• Stable despite revenue decline	
Data and Internet % revenue		20.3%	6.4%	• Key growth focus	
Margin %		14%	-3.6%	• Profitable selling	
Headcount		-4.1%	-6.3%	• Offshoring and further simplification	
Free Cash Flow AUD		61.3%	11.4%	• Driven by capex reduction	
		2008	2009	2010	2011

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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.
- 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.