



TELECOM NEW ZEALAND

Gen-i Update

Update to Investors – May 2010

Chief Executive Officer Gen-i – Chris Quin

2009/10 Gen-i overview



Focus on retaining market leadership in ICT while driving cost efficiencies and margin improvement

		FY 2009	FY 2010f
Market performance	• Significant transformation to what clients value now		
	• Managed challenging fixed voice and data decline	(5)%	(9)%
	• Achieved strong YOY growth in corporate in Australia	5%	26%
	• Maintained IT market share in a declining market ¹	13.0%	13.4%
Client performance	• CVM on positive trajectory and rated "Most Preferred Vendor"		
	• IDC Market leader in Outsourcing		
Business performance	• Achieved strong mobile revenue growth	(6)%	2%
	• Drove cost efficiencies and maintained IT margin	7%	7%
	• Tangible success and cost out in Right First Time ²	55%	88%
Financial performance	• Significantly Slowed EBITDA decline	(15)%	(1)%
	• Transforming the business to remove cost	\$20m	\$39m
Trans-formation	• Launched ReadyCloud Services (IaaS)		
	• Major business simplification underway to lean service provider		
	• Regulatory outcomes delivered, clients transitioned		

¹ Market share figures for calendar years 2008 and 2009

² Measure is truck rolls at end of FY09 and latest figure for FY10

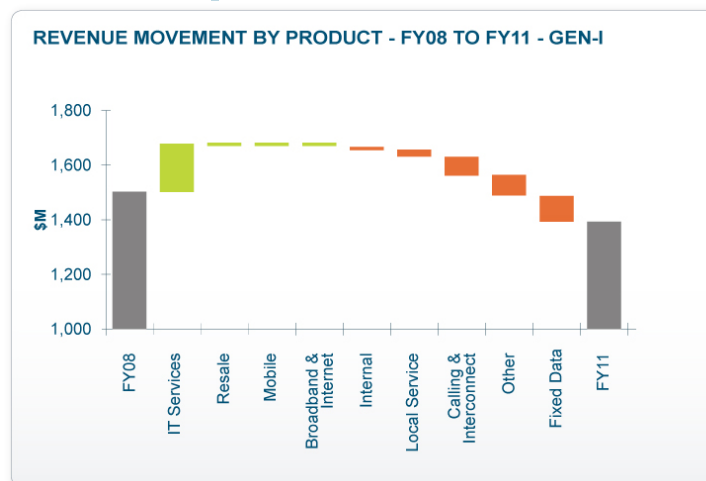
Strategic priorities for FY11

Turnaround in EBITDA leveraging our scale, channel and integrated ICT competitive advantages

 Simplify	<ul style="list-style-type: none"> • Simplify our client propositions and create focused delivery models – Utility Services and Integration • Remove all services no longer valued by clients
 Reduce cost	<ul style="list-style-type: none"> • Leverage Right First Time and End-to-End to optimise and automate our delivery to reduce rework • Drive cost out through suppliers and overhead efficiencies management
 Retain value	<ul style="list-style-type: none"> • Optimise the traditional business by enhancing client experience and delivering service excellence • Differentiate Telco products with value add ICT services
 Targeted growth	<ul style="list-style-type: none"> • Focus on delivering the right growth in Mobile, Cloud services, Trans Tasman and Australia • Grow share of ICT Spend in high value Clients

Revenue – FY08 to FY11

Deliver \$90m new revenue in FY11 from IT Services and Australia Corporate clients whilst minimising declines across the rest of the portfolio



- Traditional revenues continue their decline, driven by consolidation, price competition and substitution, as per global players
- Mobile revenue remains flat as the network rebuilds to growth
- IT Service revenues grow consistently through the planning horizon, driven by Cloud and Managed Services
- Corporate growth accelerates in Gen-i Australia whilst CBA revenue declines to a sustainable point

Portfolio Simplification

Simplifying our portfolio to free up resources for growth

Focus Areas:

- **Rationalising the product portfolio**
 - Exiting products which are no longer relevant or valuable to Clients
 - Divesting products to partners where the additional value we add is low
- **Optimising the focus on traditional versus new products**
 - Reducing ambiguity and complexity
 - Encouraging innovation and improving commercial agility
- **Implementing best practice Product Management Disciplines to increase visibility and speed to market**

Outcomes:

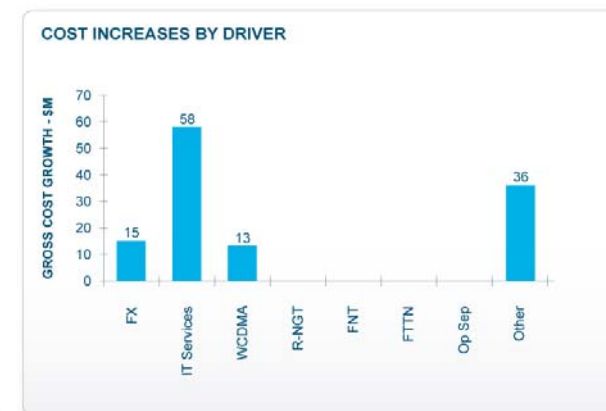
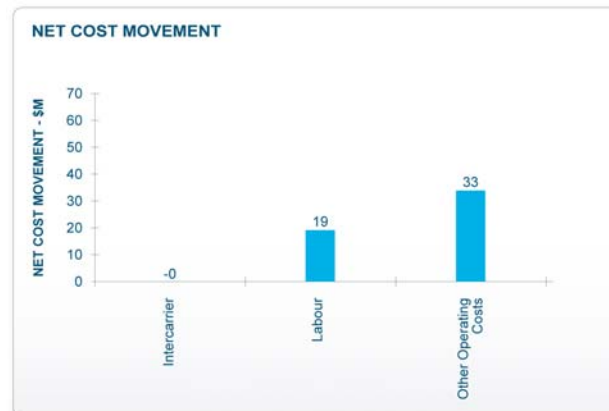
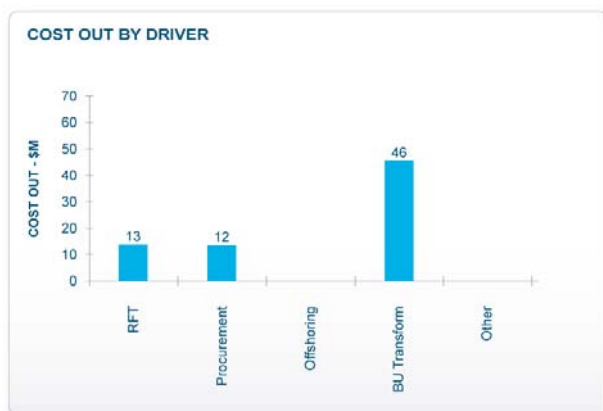
- Exit or divestment of over 20% of the product portfolio
- Drive cost out and focus to further improve margin

This is a key element of our wider transformation journey, as we become a lean provider of utility solutions with an integration service for those clients who value it

Cost Out – FY08 to FY11



Deliver \$70m cost out through simplification, automation and focused cost out programmes



- **Cost out driven by:**

- Direct cost out via Right First Time, supplier management efficiencies, overhead management and transformation
- Cost avoidance through process efficiencies and automation
- Cost avoidance through product simplification including platform based cloud services and standardisation of product portfolio
- Active management of transfer cost drivers

- **Cost increases driven by:**

- Increased cost of sales and personnel costs in IT Services and Gen-i Australia as we grow these businesses

Note – External cost only

Fixed Voice and Data Retention

Optimise fixed voice and data revenue and enhance client experience

Focus Areas:

- **Developing the end to end client experience**
 - Improving billing systems and processes
 - Enhancing fulfil and assure systems
- **Delivering better cost predictability**
 - Introducing more bundled offers building on successful *Optimise* product
 - Enhancing existing management and reporting tools
- **Demonstrating value adding capability**
 - Establishing Centre of Excellence around contact centres
 - Delivering integrated data network management and Cloud services

Outcomes

- Revenue decline in FY11 limited to 9.5% across voice and data
- Enhanced Client relationships demonstrated by CVM and preference

Recent Evidence: The New Zealand Fire Service has signed multi-year contracts for Wide Area Network (WAN), internet, voice and mobile services and the Department of Conservation (DoC) has signed a two year contract for voice, mobile and paging services.



Department of Conservation
Te Papa Atawhai

IT Services Growth

Investing in ICT platforms within growing markets, and focusing on growing with our existing clients

Focus Areas:

- **Investing in Cloud platforms that are in the growth phase of the product life cycle**
 - Leveraging managed data as a platform for cloud
 - Taking 'Enterprise grade' ICT to the Corporate market
- **Leveraging Cloud platforms and Partnerships to provide focused solutions for:**
 - Industry verticals e.g. Health and Rural
 - Australia Corporate and Trans-Tasman
- **Increasing share of wallet in existing high value and outsource clients based on service excellence**



ReadyCloud Server

Outcomes

- Increase share of wallet in high value clients by 10%
- Increase penetration of ICT in Corporate market
- Grow Cloud Services market share

Recent Evidence: HW Richardson Group and Wild Bamboo are currently trialling Gen-i's ReadyCloud Server service

HW Richardson
GROUP LIMITED

wild bamboo
smart information systems

Mobile Growth

Building momentum on our XT network

Focus Areas:

- **Demonstrating the value of mobile data**
 - Creating propositions focused on the applications and services that drive the core mobile product
 - Increasing penetration of data services on Smartphones and PDAs
- **Developing the end to end client experience**
 - Improving the effectiveness of systems and processes
 - Delivering online mobile service management
- **Managing the decline in mobile voice**
 - Revising rate-cards to focus on adding ICT value
 - Introducing new pricing structures as a result of MTR reduction

Outcomes

- Forecast FY11 connection growth of 4%
- Increased penetration of mobile solutions
- Client self-service capability

Recent Evidence: McCain Foods (NZ) Ltd has renewed its entire mobile and voice services. Mike Greer Homes has brought its mobile business from Vodafone and fixed voice services from TelstraClear.



Australia Growth

Accelerate growth in Australia by leveraging New Zealand capability and focused Cloud platform investments

Focus Areas:

- **Growing ICT services in the Corporate market** (65% Managed Services)
 - Prime focus on Trans-Tasman businesses and managed ICT propositions based on Cloud services
- **Transitioning CBA, while retaining profitable services and growing new business in the Bank**
- **Developing unique propositions in key industry sectors**
 - Use our challenger position to disrupt the market and accelerate growth
- **Strict alignment of investment and costs to growth**

Outcomes:

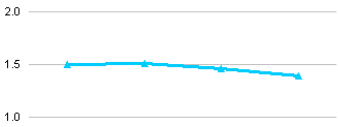
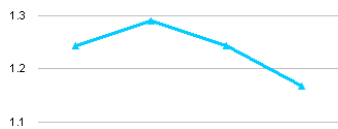
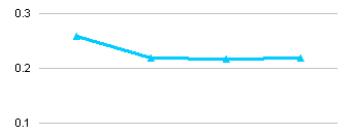
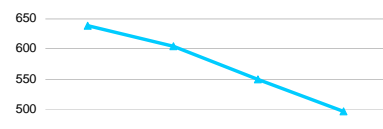
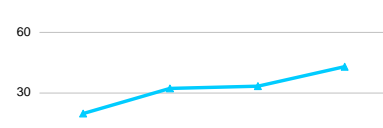

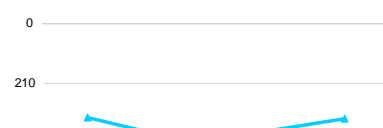
- Corporate revenue growth of 36% in FY11
- Profitable transition of Telco - Retain and grow CBA utility services

Recent Evidence: FleetPartners, based in Melbourne with offices in New Zealand, has renewed and extended the outsource of its Trans-Tasman ICT services.



Key performance indicators

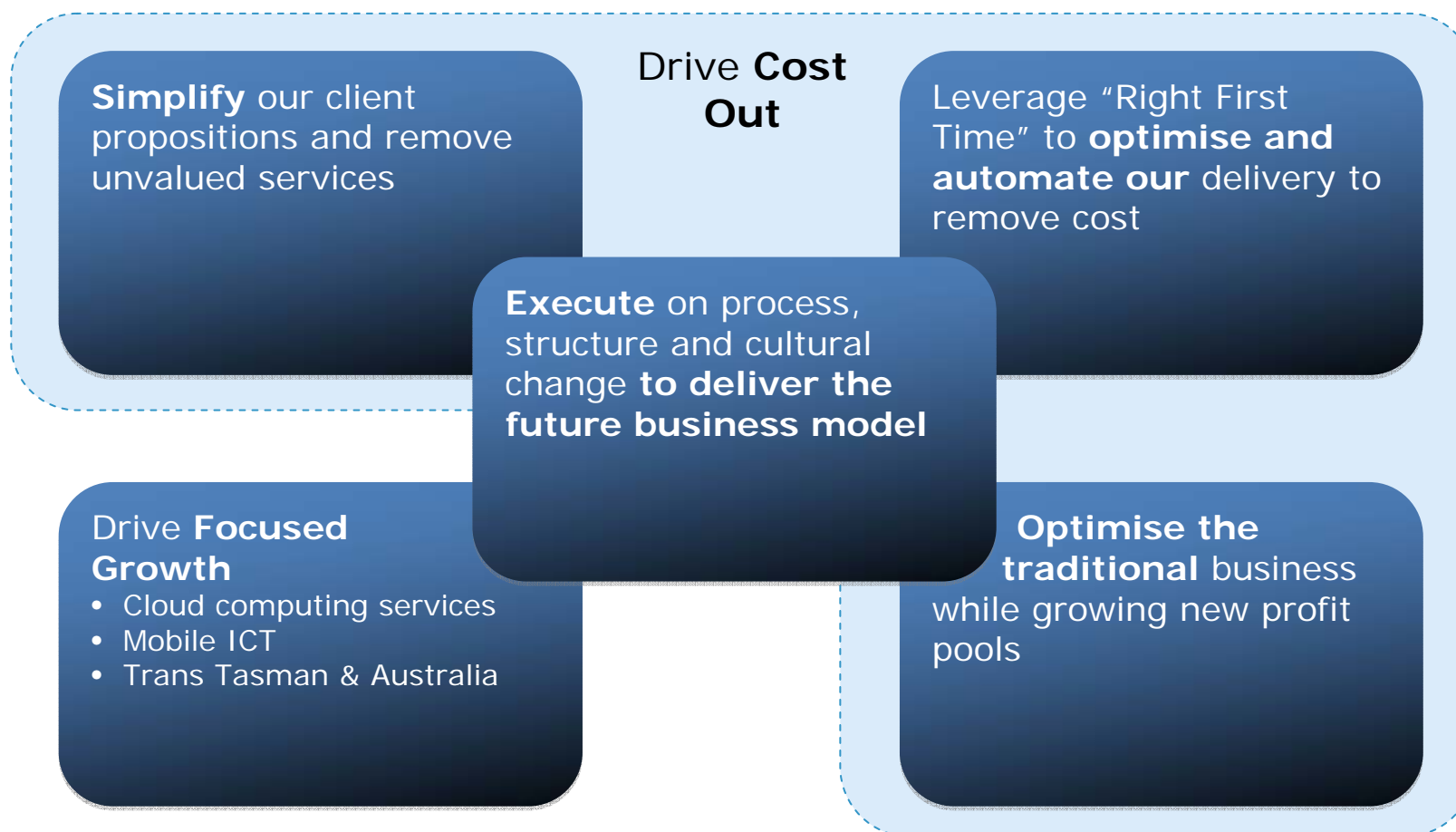


		CHANGE		COMMENTARY
	08 09 10 11	2010F	2011F	
Revenue (\$bn)		(3.2%)	(5.0%)	<ul style="list-style-type: none"> Price and volume pressures due to increased competition and the continuing impact of legislation
Expenses (\$bn)		(3.5%)	(6.2%)	<ul style="list-style-type: none"> Tight focus on driving cost out of the organisation
EBITDA (\$bn)		(1.3%)	1.4%	<ul style="list-style-type: none"> EBITDA decline is reversed into 2010/2011
Fixed Voice and Data Revenue (\$m)		(9.2%)	(9.5%)	<ul style="list-style-type: none"> There is continued decline in traditional voice revenues through increased competition forcing prices down
IT Service Margin Growth (%)		6.5% ¹	7.8% ¹	<ul style="list-style-type: none"> Transforming the Gen-i business will drive increasing margins out of the IT Services part of the business
Australia Corporate Growth (A\$m)		26%	36%	<ul style="list-style-type: none"> Significant growth in the Corporate market in Australia as Gen-i cements its position in this market
Mobile Revenue Growth (\$m)		1.7%	4.4%	<ul style="list-style-type: none"> Mobile revenues continue to develop and grow as XT becomes more established and new services are added to the network

¹ Percentage margin achieved in each FY

Gen-i Client Value Proposition Transformation

Deliver business transformation to meet client requirements and drive focused growth



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.