



28 September 2012

MEDIA RELEASE

Telecom Corporation of New Zealand Limited

Chairman's speech delivered at the 2012 Annual Meeting, Telecom Place, Auckland at 10:00am on 28 September 2012:

This is my first annual meeting as Telecom chairman and your first meeting as owners of what is essentially a very different business.

The financial year ended 30 June 2012 was arguably the most pivotal in Telecom's history. As you will be aware, the company demerged as of 1 December 2011, the fixed access network business owned by Chorus Limited being split away following shareholders voting in favour of demerger.

Following demerger the value of both Chorus and Telecom shares has increased which has meant you have enjoyed significant total shareholder returns in the last 12 months.

Throughout the 2012 financial year and subsequently, we have continued to simplify Telecom's offerings, and right-size the business to compete in a challenging market. This continued focus on cost and rationalisation makes sense given the company is now essentially a retail service provider.

To continue to do well for our shareholders, we must focus on winning customers with both service and products.

FY12 review

Looking back at the financial year 12, a rigorous focus on cost management and simplification has delivered a satisfactory financial result.

Although year on year comparisons are difficult given the separation with Chorus, when adjusting for one off items, and despite all the distractions and leadership time dedicated to the UFB and demerger process, the company delivered largely flat EBITDA on a pro forma basis.

Adjusted revenues, allowing for one off changes, declined roughly 9% compared to the prior year. However this decline in revenue was offset by reductions in operating expenses which fell by more than 12% compared to the prior year.

Free cash flow generation of \$656m has improved significantly and the resulting 20c dividend - the same level as last year when we had Chorus on board - is testament to the focus on costs and the commitment of management to our business goals.

At financial year end we had returned \$169m of surplus capital, as part of the ongoing share buyback which we announced at the start of this calendar year.

We sympathise with shareholders seeking to understand the complex financial statements provided to you in the annual report. This was an inevitable consequence of the demerger.

We have endeavoured to provide meaningful adjusted comparisons to the previous year. I can assure you that the results for the current financial year and beyond will be easier to follow.

We have also included a large amount of information in order to be transparent about the matters you should care about as investors. We are happy to answer any questions on the annual report you may have.

Outlook FY13

In the August announcement of our financial results for FY12 we noted our initial views on the outlook for the current financial year.

In this we said the outlook was for a flat to low single digit percentage decline in our EBITDA. This outlook is being driven by our renewed competitive stance in order to hold our broadband market share, which we regard as essential for the long term health and future of our business.

For the current financial year we intend to pay 90% of adjusted net earnings as dividends and expect imputation to be between 70% and 100%.

This view is also prior to Simon completing a strategic review which we have required he deliver to us in the latter part of this year. We expect to be able to talk about this early next year.

Rightsizing the business

A key benefit of the Demerger was that it allowed for a reset of the regulatory environment and the ability to focus the company on reshaping itself to take on the challenges and opportunities of a new operating environment.

Telecom now competes on a more level playing field with other telecommunications providers. Competition is high and the regulatory reset allows us to be more single minded on delivering for customers.

It is this single-mindedness that will deliver the results that shareholders demand and the company will do it as cost efficiently as possible.

New Telecom board

With effectively a new company came a largely new board.

Provided you approve Simon Moutter's executive directorship and re-election of myself and Paul Berriman, we will be at the helm over the coming year with stalwarts Murray Horn and Kevin Roberts and new directors Charles Sitch, Justine Smyth and Maury Leyland.

This is a very strong board. A lot of care and thinking went into ensuring the Board would have the right balance of values and functional expertise, could draw on deep experience in the telecommunications market from both here and overseas, and had a diverse skill-set gained across a range of relevant industries.

We're committed to driving the change necessary to enable Telecom to thrive now and into the future.

During the year we farewelled Wayne Boyd, who chaired and led your company through a difficult period. He left it in very good heart and with a sound platform to move forward- we thank him for his leadership and wisdom.

CEO transition

It would also be remiss of me not to mention Paul Reynolds.

His five years at the helm of Telecom were instrumental in seeing the business through a significant period of change. He came into Telecom at a difficult time, and more recently, along with Wayne Boyd, Paul's commitment to steering Telecom through winning the UFB tender (for Chorus) and through the successful demerger cannot be understated. This led to a substantial uplift in total shareholder returns.

And of course we ushered in the new financial year by welcoming Simon Moutter.

We conducted an exhaustive international search. Simon stood out.

Simon gets Telecom. He understands the demands of our shareholders and that the customer is paramount. He knows the importance of this company to the country.

He is both pragmatic and ambitious in his hopes for Telecom. His passion for this business is clear and you will hear from Simon soon.

Shareholders should feel enthusiastic about having Simon in the driving seat given Simon did an exceptional job at Auckland International Airport Limited. We believe we are due an exciting and rewarding period under his leadership. I hope you have the chance to meet him today.

Conclusion

Customer focus. I mentioned it before and it is key to the success of this business.

The market will continue to be challenging and further industry consolidation will bring increased competition.

The business understands that it must strip out the clutter.

We must maintain a relentless focus on the customer, on Telecom's core products and services in broadband, mobile and ICT, in order to produce the returns you seek and ensure Telecom has a sustainable platform for future growth.

We expect major strides to the development of New Zealand's ultrafast fibre network over the coming year.

Telecom will be prepared. Significant investment has already been made and once network becomes available, Telecom will be in a position to offer competitive products.

We have a strong board, a new CEO in place and a seasoned leadership team. With your support we will continue to deliver shareholder returns and ensure Telecom maintains a position of strength in the market.

Ladies and gentlemen, I would now like to introduce you to Telecom's CEO Simon Moutter.

Thank you.