



Telecom New Zealand New Zealand business strategy update

16 May 2013

Chief Executive – Simon Moutter

Agenda

- * Strategy Overview – Simon Moutter
- * Telecom Retail – Chris Quin
- * Q&A

- * Gen-i – Tim Miles
- * Telecom Connect – David Havercroft
- * Telecom Digital Ventures – Rod Snodgrass
- * Q&A

- * Concluding comments – Simon Moutter & Mark Verbiest



The journey so far – getting focused

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Strategic Planning	Global Learnings		Strategic Options Considered			Strategy Finalised			Strategy Implementation Underway		
	Local Reality										

Operational Actions	Leadership Team Evaluation		New Leadership Team in Place		
	Cost Competitive Analysis		Cost Strategy • Staff • COS • Chorus	Re-org including cost reduction	Revisiting Rem Structure
	Competitiveness Analysis	Improved daily rhythm. No longer prepared to shed market share			
	Customer Value Analysis	Rebasing and simplifying broadband and mobile plans Refocusing Gen-i around what matters most (data, cloud and mobility)			
	Customer Future Needs	Investing in LTE, OTN, Tasman cable, launched Digital Ventures and acquired Revera			

We operate in a growth industry,
monetising growth is the challenge



Internet Penetration

2000

~350m

Now

~2,700m

Increase

8x



Fixed Broadband Subscribers

~50m

~700m

14x



Mobile Subscribers

~1 billion

~7 billion

7x



Mobile Broadband Subscribers

<10m

~2 billion

200x

Macro trends are creating new growth opportunities

Consumer

- * Broadband
- * Mobile
- * mCommerce
- * Digital Advertising
- * Digital Media
- * OTT Services
- * Smart Living
- * Cloud
- * e-Vertical
- * Applications



Mobility

Data

Apps

Cloud



Business

- * IP & Data
- * Mobile
- * ICT Services
- * Collaboration
- * UCS
- * Big Data
- * Data Centres
- * Hosted cloud services
- * Security
- * M2M
- * e-Verticals
- * Applications

Global context - incumbent learnings (Telstra, TDC, KPN, Verizon)

- * Tough choices need to be made especially around legacy products and cost out programmes, but growth is ultimately required
- * Moving quickly on the changes delivers better long-term value uplift
- * Customer preference ultimately determines an organisation's success
- * Investing wisely but boldly in growth areas (such as mobile) can create significant competitive advantage
- * It's important to invest hard in building a differentiated brand and proposition to compete on value not price
- * In most cases it takes 3-4 concerted years of precise, consistent execution to deliver strong market and financial results

Local context - unprecedented changes have occurred in our market

Demerger of Chorus

Structural separation of access network and reset of regulatory environment

Two of top 3 players have merged

Vodafone
acquisition of
TelstraClear

Telstra
exited NZ
market

Mobile market

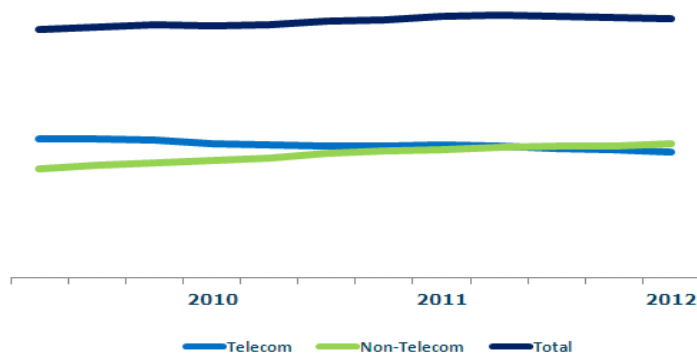
is growing

Broadband prices

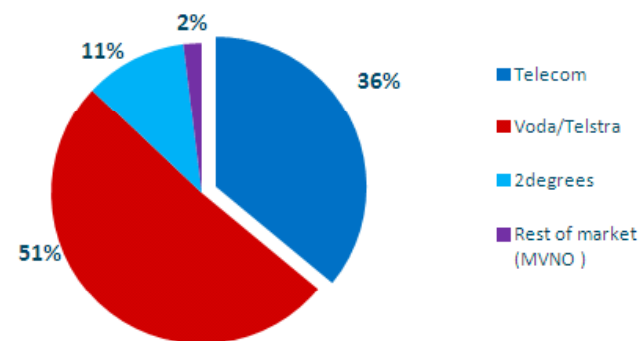
Broadband "resellers pricing floor"

Telecom context - market share still weighted to the fixed line

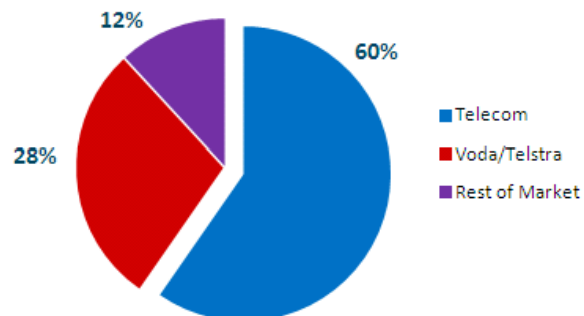
NZ Telco Revenues



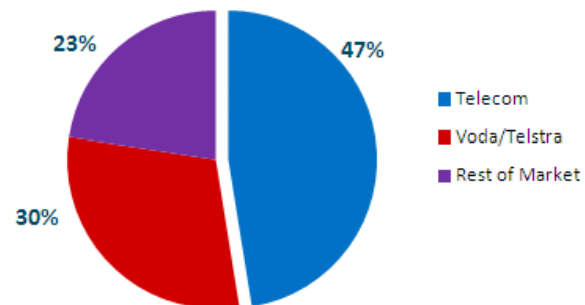
Mobile Revenue Share (Est)



Fixed Voice Connection Share (Est)

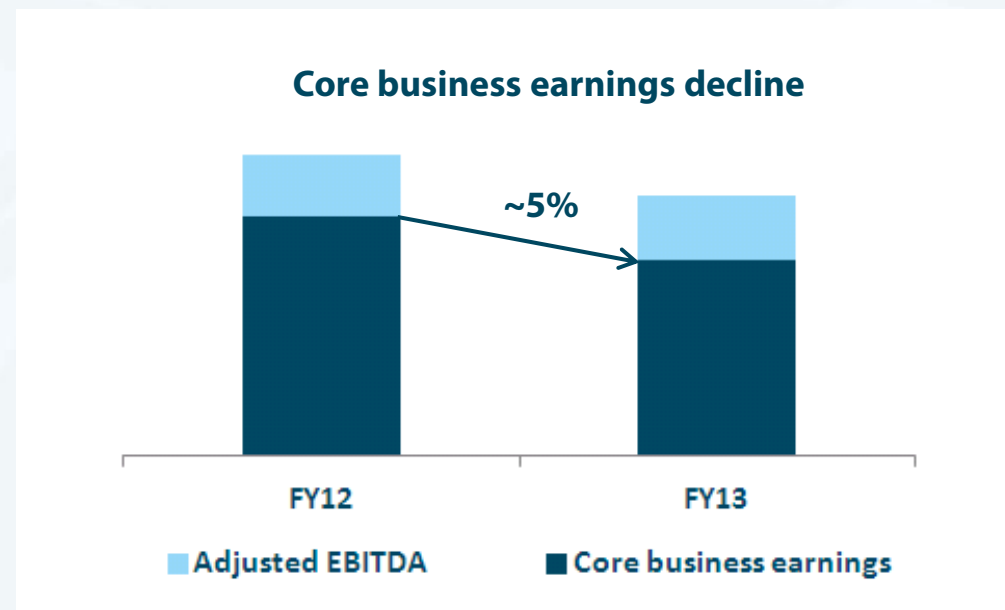


Broadband Connection Share (Est)

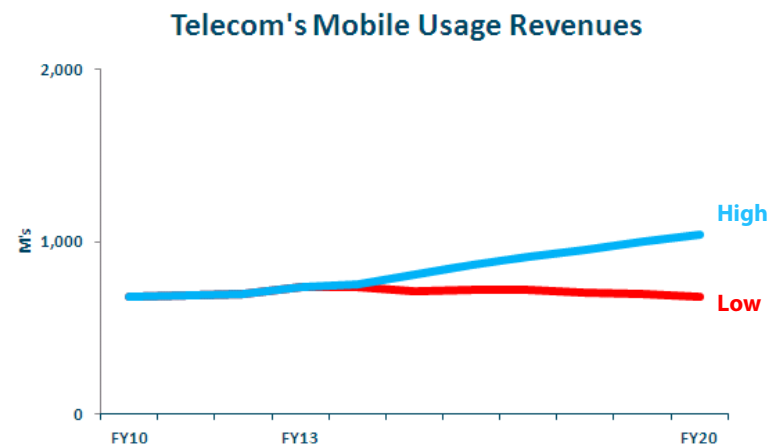
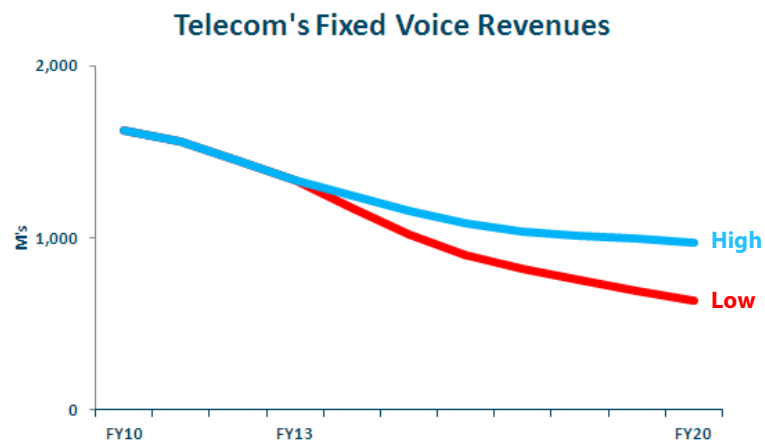


Competitive intensity impacting near term earnings and margins

- * Now expect FY13 adjusted EBITDA to be near the lower end of the \$1,040m to \$1,060m guidance range, reflecting:
- * Decision to hold broadband share
- * Further market price-downs by a major competitor
- * Continued margin pressure in Gen-i
- * Real rate of core business earnings decline, excluding accounting changes, changes in trades, incentive payments, SX etc, currently around ~5%

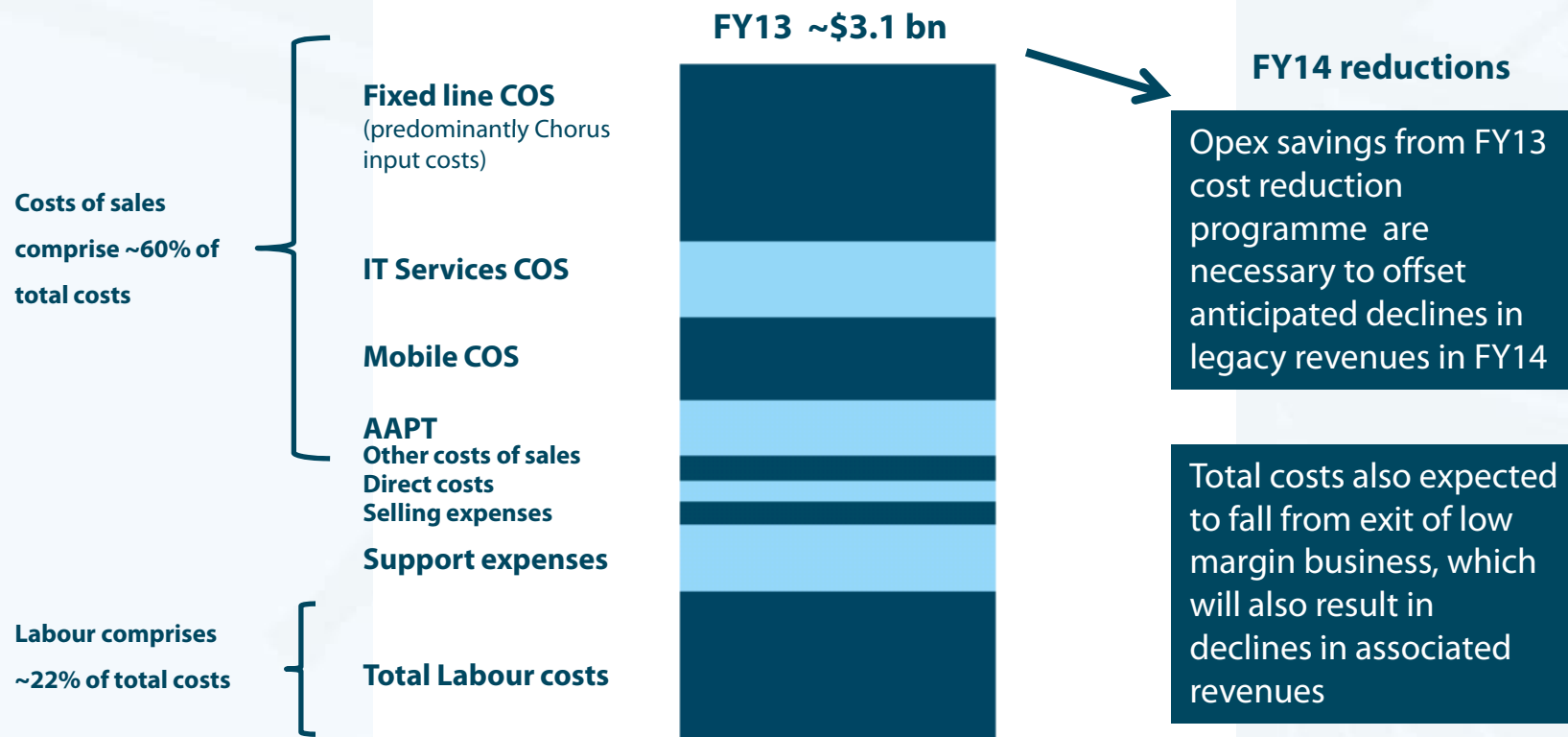


Both cost out and growth required to offset fixed voice declines



- ✦ Based on current trends, cost out in conjunction with growth in mobile and other revenues, will be required to offset the decline in fixed voice revenues

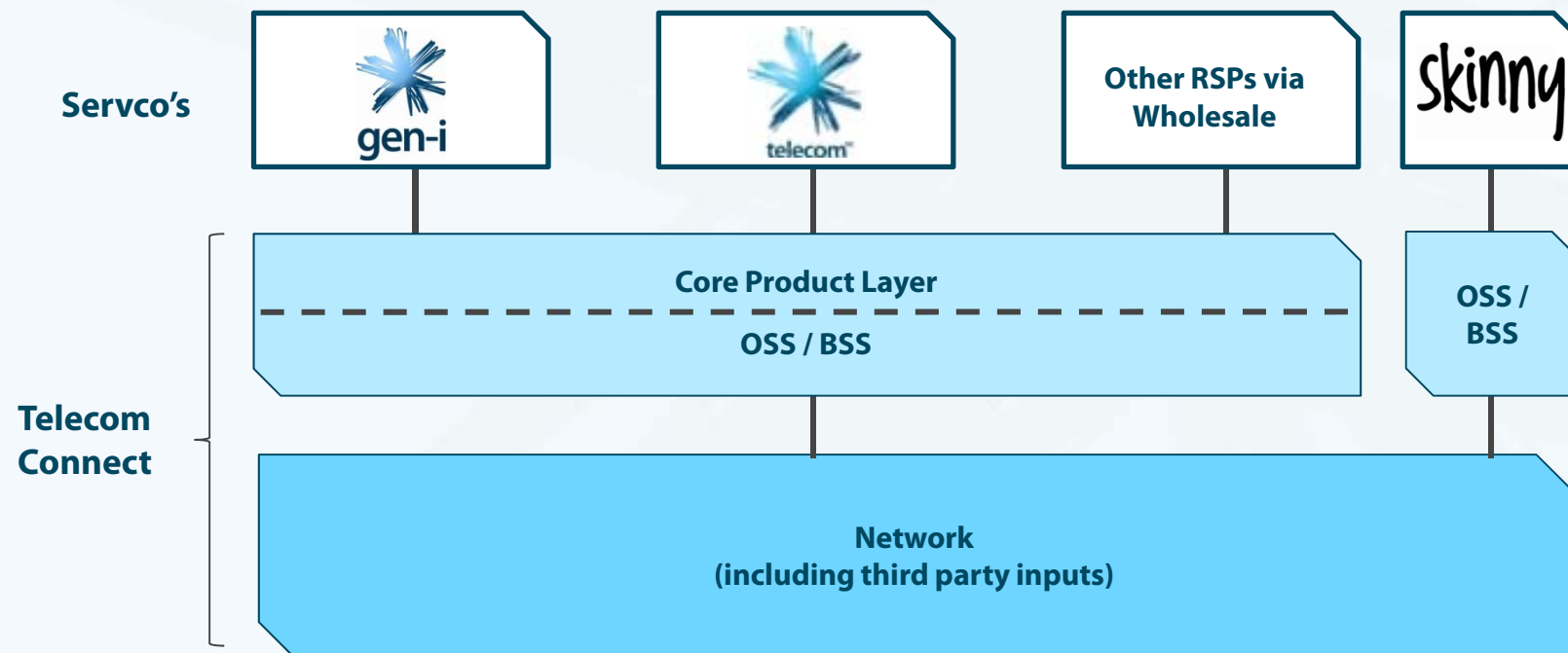
More variable nature of cost base enables further cost reduction



Ongoing cost out and simplification, through a centrally led and resourced process

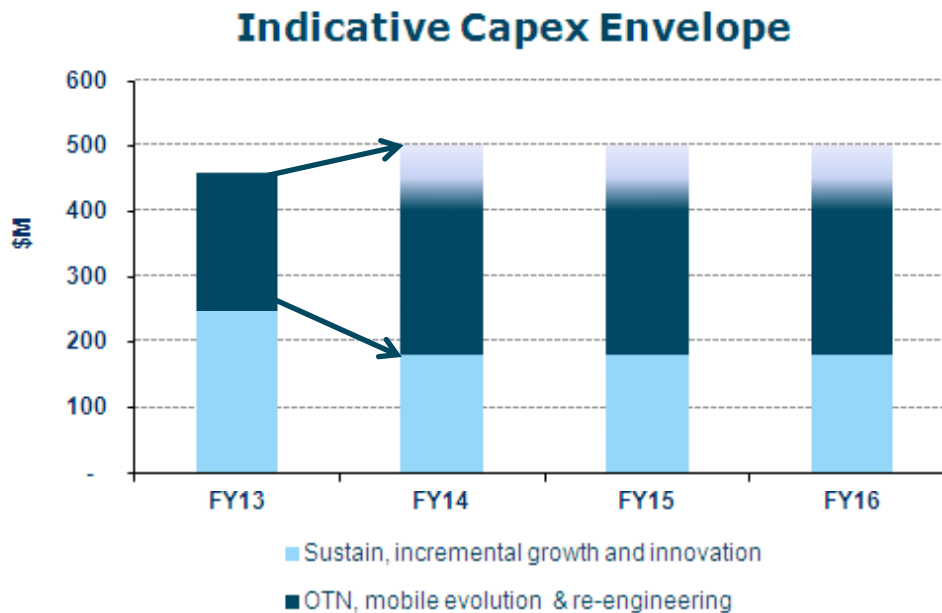
	Results to date	Next
Org re-set	Downsizing programme expected to result in: * one off costs of \$100m to \$130m in FY13, ~50% non-cash * FTE's reducing to approx 6,300 to 6,600 by middle of year * annualised payroll cost (Capex and Opex) reductions of \$100m to \$120m (excludes addition of ~140 Revera employees)	* Simplify remuneration structure, align incentives to shareholder value * Focus resource and skills around strategy execution * Simplification and rationalisation programme * Re-engineering of processes (BSS & OSS) * Portfolio decisions
Chorus input costs	* Review of Chorus trades has resulted in a more efficient consumption of inputs * Net ~\$20m of annualised savings	* Target further cost reduction opportunities * Develop new sourcing strategy
Other COS	* SARC/Rev ratio improved 6% points * ~\$15m savings from lower network support and IT operating costs	* SARC strategy phase II * Focus on margin improvement in Gen-i * Continue to migrate customers off legacy plans

Fit for purpose operating model to
deliver lowest cost, simplicity and agility



Supported by a lean corporate centre

Disciplined approach to capital management to be maintained



**Indicative envelope
\$400m - \$500m pa,
profile may vary year
to year**

- * Average Capex envelope of \$400m to \$500m pa over next 3 years
 - * 60 % focussed towards OTN, mobile evolution & re-engineering
 - * Timing and value of spectrum purchases is uncertain
- * Continued commitment to single A credit rating

Changing environment creates challenges and opportunities

Challenge	Opportunity
Market revenues have been flat, Telecom's share has been declining	Stabilise fixed, grow mobile share
Telecom's revenues and earnings still weighted to the fixed line	Invest more in mobile growth
More variable cost nature of fixed business in the future	Clearer market dynamics
Change in economics of fixed vs mobile	Drive substitution where appropriate
Changing regulation has complicated previous simplification efforts	Clean run to step-change of IT stack
Cost base remains uncompetitive	Major cost-out programme
Big strategy and culture change necessary	Leaner, faster, bolder organisation

Our aspiration

We will be a growing New Zealand company,
winning by customers choosing us
to connect them at the speed of life!

#1 in mobile

#1 in data

#1 in effortless service & cost



Strategic shift

FROM a **traditional fixed and mobile**
infrastructure company ...

TO a future-oriented, competitive provider of
communication, entertainment and IT services
delivered over our networks and the Cloud

Everything's easier @MYTELECOM

Discover the new one-stop-shop to stay on top of
everything Telecom



Portfolio shift required

Focused on fixed and mobile data connectivity and services
with overall EBITDA margins >25%

Less emphasis	More emphasis
Fixed	Mobility
Yesterday's products (PSTN Wholesale, international minutes, legacy data)	Data connectivity (4G mobile, Tasman Cable, OTN, managed services)
Low margin & bespoke IT (e.g. Gen-i Australia)	Data centres & hosting (Revera & Gen-i Cloud applications)
Consulting (Davanti)	Applications & services (Digital Ventures)

Heavy emphasis on sustainable mobile market revenue and margin growth

Growing the mobile market

- * Increasing the relevance and value of wireless data services in people's lives
- * Expanding the product range through device proliferation and M2M
- * Encouraging substitution of fixed voice

Adding value to customers

- * Investing in 4G network with differentiated premium products and services
- * Increasing education on usage, benefits, tips....
- * Stimulating data roaming usage

Reducing costs

- * Promoting BYO device plans as the lead offer
- * Driving transparent device subsidy constructs to shift consumer preference to BYO
- * Shifting device support online
- * Shifting service to on-device



Four clear strategic priorities

1. Revolutionise Customer Experiences

2. Simplify the Business

3. Win Key Markets

4. Win the Future

1. Revolutionise Customer Experiences

Aspiration	Next 12 months
* Deliver simple, effortless experiences that are demonstrably and consistently better than our competitors' and that generate extraordinary customer advocacy * Deeply understand New Zealanders' increasing drive to be connected and act quickly on these insights to create distinctive solutions for everyone we choose to serve * Satisfy customers' appetite for simplicity and digital self-service	Significant moves to digital self service Take customer focus and service to the next level, with 80% of Telecom interactions rated effortless Gen-i proactively leading clients' journey through thought leadership

2. Simplify the Business

Aspiration

- * Radically simplify current platforms, products, offers, channels and supporting processes to immediately reduce cost and complexity and improve speed to market
- * Design and build new platforms, products, offers, channels and supporting end-to-end process capabilities that support winning in key markets at lowest cost to market, sell and serve per customer
- * Create a best practice, performance driven, lean and agile organisation supported with the right skills, processes, risk appetite and incentives to support an increased desire to win

Next 12 months

Ongoing cost out & simplification, through a **centrally led** & resourced **process**

Radically **rationalise** and simplify existing **platforms & products**

Deliver **re-engineering** programme

Execute **portfolio shifts** in Gen-i

Implement **agile**, fit for purpose **operating model**

Manage **capital** in a **disciplined** manner

3. Win Key Markets

Aspiration

- * Maximise opportunities from major shifts in industry structure resulting from Government fibre investment, industry M&A and continued evolution of IP applications and services
- * Deliver a granular and focussed market strategy by creating a competitive multi-brand (Gen-i, Telecom, Skinny) capability to win key future markets (mobile and data) while optimising value of existing markets (fixed access and calling)
- * Realign resources, sales and marketing approach to step-shift performance in the key markets of the future
- * Support the market strategy with leading data network capability, products and processes at lowest cost per Gigabyte (GB)

Next 12 months

Adopt granular **segmental marketing approach**

Re-invigorate the Telecom **brands**

Launch **LTE, OTN** and voice over **fibre**

Hold share in **Broadband** and **Grow** usage revenue and market share in **Mobile**

4. Win the Future

Aspiration

- * Earn new revenues and margins by investing in and winning key future markets in Cloud, Network Delivered Services, Digital Services & Mobile Commerce
- * Build market leadership, brand preference and revenues through demonstrating the benefits of our technology and services to distinct customer segments
- * Ensure success through committed substantive resourcing and an open approach to build, buy and partner options, that balance execution risk and cost with agility and speed

Next 12 months

Strengthen **Cloud & Network Delivered** Services

Digital Ventures unit to deliver **future** mass market **revenues**

Explore and develop industry **partnerships**

Summary

FY14 & FY15: Stabilise revenue/margin and reduce costs

FY16 & beyond: Drive market revenue/margin growth with continuing improvement in unit costs





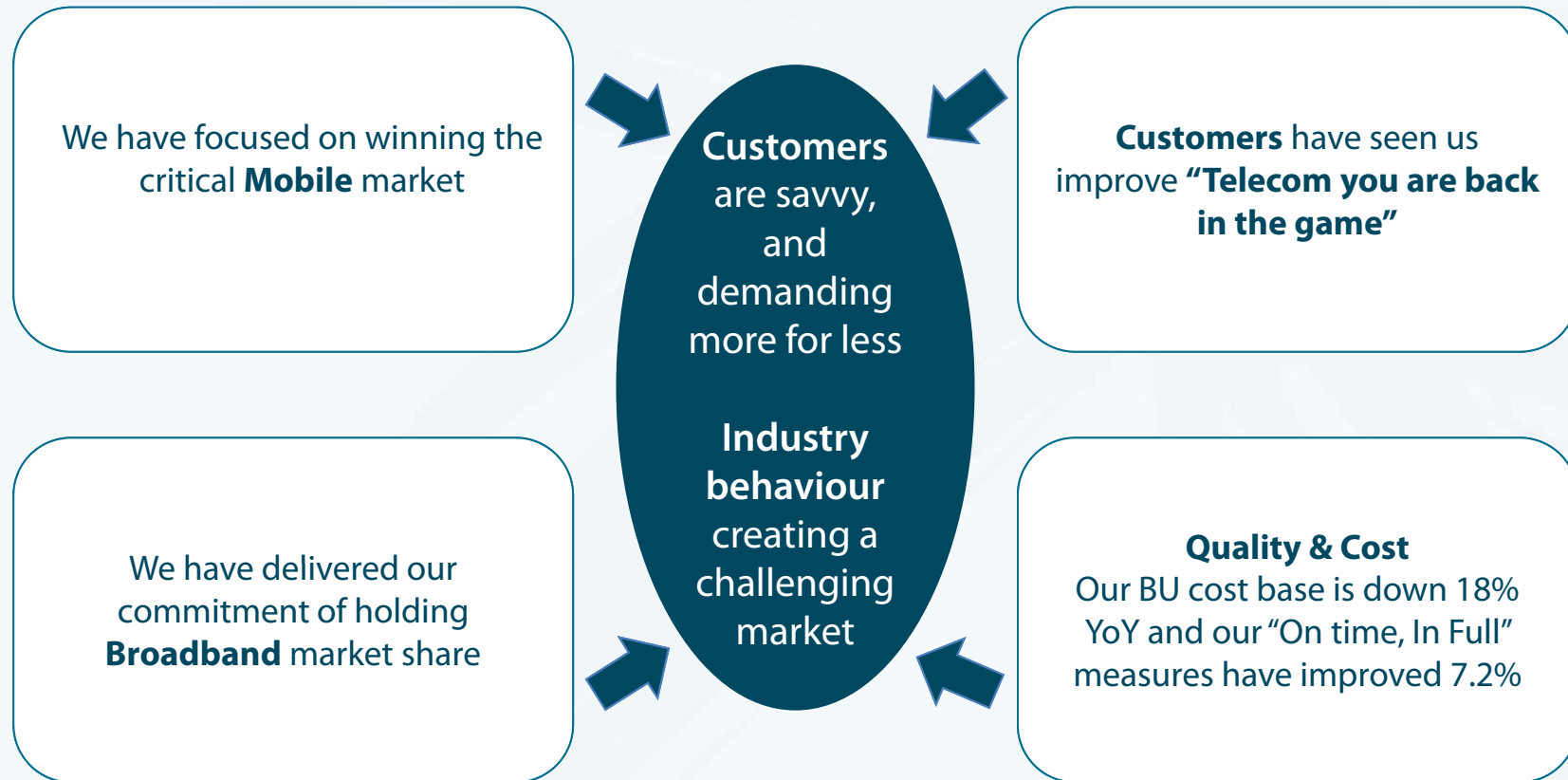
Telecom New Zealand Strategy Update

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Telecom Retail – Chris Quin

Observations

Telecom has changed rapidly to be a focused competitor in a challenging market environment



Strategic shift

New Zealand's preferred
mobility solution



Deeply knowing what customers value
and delivering simple relevant services
and partnerships that match



Effortless experience for
simple and relevant digital
customer solutions

Daily competitive rhythm
and action



Winning where it matters in Auckland,
Mobile, Broadband, Rural and Telecom
Business with best value solutions

Customer experience aspiration



"I have a local Telecom business hub owned by people like me, who **understand what I need**, bring me great offers, and just make it easy to get on with my business-better connected"

"I feel that they **value me** as a customer and treat me how I deserve to be treated. They make me look good by providing me the ultimate connected experience"



"Now Telecom have worked it out, they are listening and understand that I add value, and can be part of new creations and they are **surprising me** with new innovations."

"Now they have plans that are simple to understand, **relevant** to me, and competitive on price"



1. Revolutionise Customer Experiences

	FY13	FY14
Effortless customer journeys	Commenced a programme of product simplification, customer journey re-engineering and added digital channels.	Digital channel available for any interaction and entirely new mobile product infrastructure. Re-engineer five customer journeys: enquire, buy, change, pay and resolve
Digital sales & service	Live chat, Telecommunity and MyTelecom launched	85% of service interactions are digital

1. Revolutionise Customer Experiences

	FY13	FY14
Enabling customers to get the best out of their technology	Using our channel, delivered over 350k video learning sessions for customers 	Excellent online sales and service, embracing a digital relationship with our customers and live chat experiences
Right channel for the right customer	Focus on channel strategy and Productivity	Channel strategy implemented and customers engaging with their preferred channel

2. Simplify the Business

	FY13	FY14
Broadband plan simplification	58 Broadband plans commenced migration to a simple set of 9	Complete customer migration to simple plan set
Mobile plan simplification	Launched new plan line up 50 mobile plans to 18	Less than 10 mobile plans

2. Simplify the Business

	FY13	FY14
Simplified acquisition process and plans	SARC/Rev ratio improved 6% points	SARC reduced further
Simple lean operating model	Labour costs reduced 13%	Labour costs reduced further

3. Win Key Markets

FY13



Staying competitive

Big deal, daily rhythm,
competitive price

FY14

Granular segmental
approach to win key
markets



Auckland

Spent time
understanding the
market, our position
and what customers
want. Grew One World
channel

Price, agility, ease
of customer
buy journey,
relevant targeted
propositions and brand
valued by "new
Auckland" customers

3. Win Key Markets

FY13

FY14



Mobile

Changed the game, putting value back into roaming, prepaid and open smart phone plans. Channel focus enabled us to win again

Competitive plans, smartphone, WiFi and LTE/4G network, strong channels and a differentiated customer value proposition



Broadband

Competitive pricing, new industry model and Ultra Fibre Launch

Differentiate through real world speed, customer service and value added services (Fibre & VDSL)



Telecom Business

Delivered segmentation between Telecom and Gen-i to best serve customers with new propositions

Focused "local like you" Business Hubs with relevant and competitive business solutions

4. Win the Future

	FY13	FY14
Fast mobility services	WiFi and LTE/4G trialed	LTE/4G commercially available and strong coverage footprint WiFi service added to mobile network
Ultra Fibre services	Chorus supplied Ultra Fibre launched	National Fibre coverage, Voice over Fibre, Business and Consumer value added services
Leadership and relevance	Customer segmentation and personalised automated marketing core capability in place	Marketing targeted to customer need and proactive recommendations based on what customers value

Key success criteria - to deliver shareholder value

Area of Critical Focus	FY14 Outcome
Mobile market share	Continued rate of growth
Broadband market share	Hold market share
Support cost per revenue dollar	2% point improvement
Business market revenue	Return to growth
Effortless Experience	80% of interactions are rated effortless
Digital transactions	85% of service interactions are digital
Customer preference	New preference measure in place

A driven competitor...

A driven competitor winning by.....

- * Being the easiest way to buy with great people and capability
- * Our products will give the best real world experience for New Zealanders
- * Our customers will get the best combination of service, value, price and new products people will love
- * Customers see the changes we have made, and will make, to be relevant to their future

New Zealand wants to join in not just join up, and they want technology to enable them to discover by doing, and we are committed to win and have them better connected in their homes and businesses

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Telecom results are reported under IFRS. This release includes non-GAAP financial measures which are not prepared in accordance with IFRS. The non-GAAP financial measures used in this presentation include:

1. EBITDA. Telecom calculates EBITDA by adding back (or deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/losses and taxation expense to net earnings/(loss) from continuing operations.
2. Adjusted EBITDA. Adjusted EBITDA excludes significant one-off gains, expenses and impairments.
3. Capital expenditure. Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill and other non-cash additions that may be required by IFRS such as decommissioning costs.
4. ARPU. Telecom calculates ARPU as revenue for the period (for mobile this is only voice and data) divided by an average number of customers.
5. Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.
6. Adjusted free cash flow. Adjusted free cash flow utilises adjusted EBITDA rather than underlying EBITDA defined above.
7. Adjusted operating revenue. Adjusted operating revenue excludes significant one-off gains.
8. Adjusted net earnings. Adjusted net earnings are net earnings for the year adjusted by the same items to determine adjusted EBITDA, together with any adjustments to depreciation, amortisation and financing costs, whilst also allowing for any tax impact of those items.
9. Pro-forma EBITDA. EBITDA adjusted to reflect changes in Chorus trades upon demerger

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