Telecom New Zealand

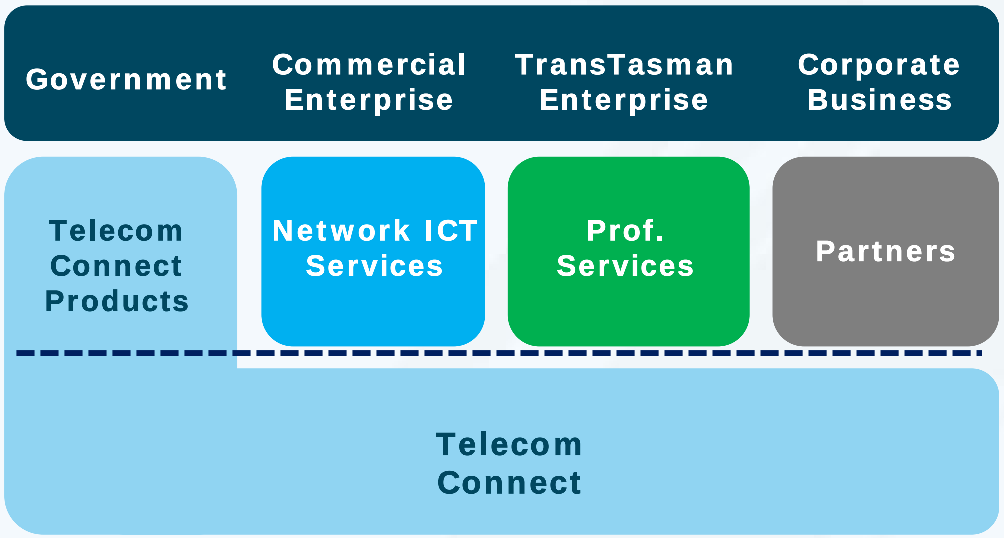
Strategy Update

16 May 2013

Gen-i – Tim Miles

Gen-i

Gen-i is Telecom Group's channel to the Business and Government markets, using converged ICT solutions to differentiate in market.



- #1 in business voice, mobile and data
- Deepest set of IT capability and infrastructure assets
- Client intimacy and value through converged ICT approach
- Over 4,000 public and private sector clients on both sides of the Tasman
- Over $1bn revenue

Observations

Our clients and our market are going through fundamental changes – driving opportunity for converged telco and IT players

Client Demands

Competitive cost driven market. Agility, flexibility and value drives clients future business models. They need to **focus** on their own core business

Enterprise Mobility

"**Anytime, anywhere, anything**" approach to business radically changes enterprise IT

Converged ICT is crucial to **enabling our clients'** future business models and delivering **our own growth ambitions**

X-as-a-Service

Maturity of **cloud services** drives real uptake in managed, hosted ICT services

Data explosion

Exponential increases in the **creation, transport and analysis of data** driving real-time decision making

Strategic Shift

These fundamental changes accelerate the Gen-i journey

From	To
A provider of telecommunication services and IT services	A **converged** ICT proposition with competitive **differentiation**
A defensive mindset	**Pro-active profitable growth**
A provider of telco or IT “inputs” to our clients	Providing **managed ICT services** to enable broader client CXO outcomes
Owning all the parts of a solution	A **partnering approach** to clients, each playing to **appropriate strengths**

1. Revolutionise Customer Experiences

We are a relationship-led business - ICT creates a culture of client-centricity
We will make it easier to deal with us through those relationships

Recent Actions

- Re-oriented our sales and delivery teams around our clients and their unique industries
- Dramatically increased our Wellington and Government relationships
- Brought support functions closer to the "frontline"

Focus for FY14

- Challenging legacy processes to up the tempo
- Propositions aligned to customer needs – not one size fits all
- Proactively leading clients' journey to the future through our thought leadership
- Leveraging partners to enhance our proposition

2. Simplify the Business

Our scale and scope has driven complexity and cost into our business. To be cost competitive and agile for our clients, we are moving quickly to address this

Recent Actions

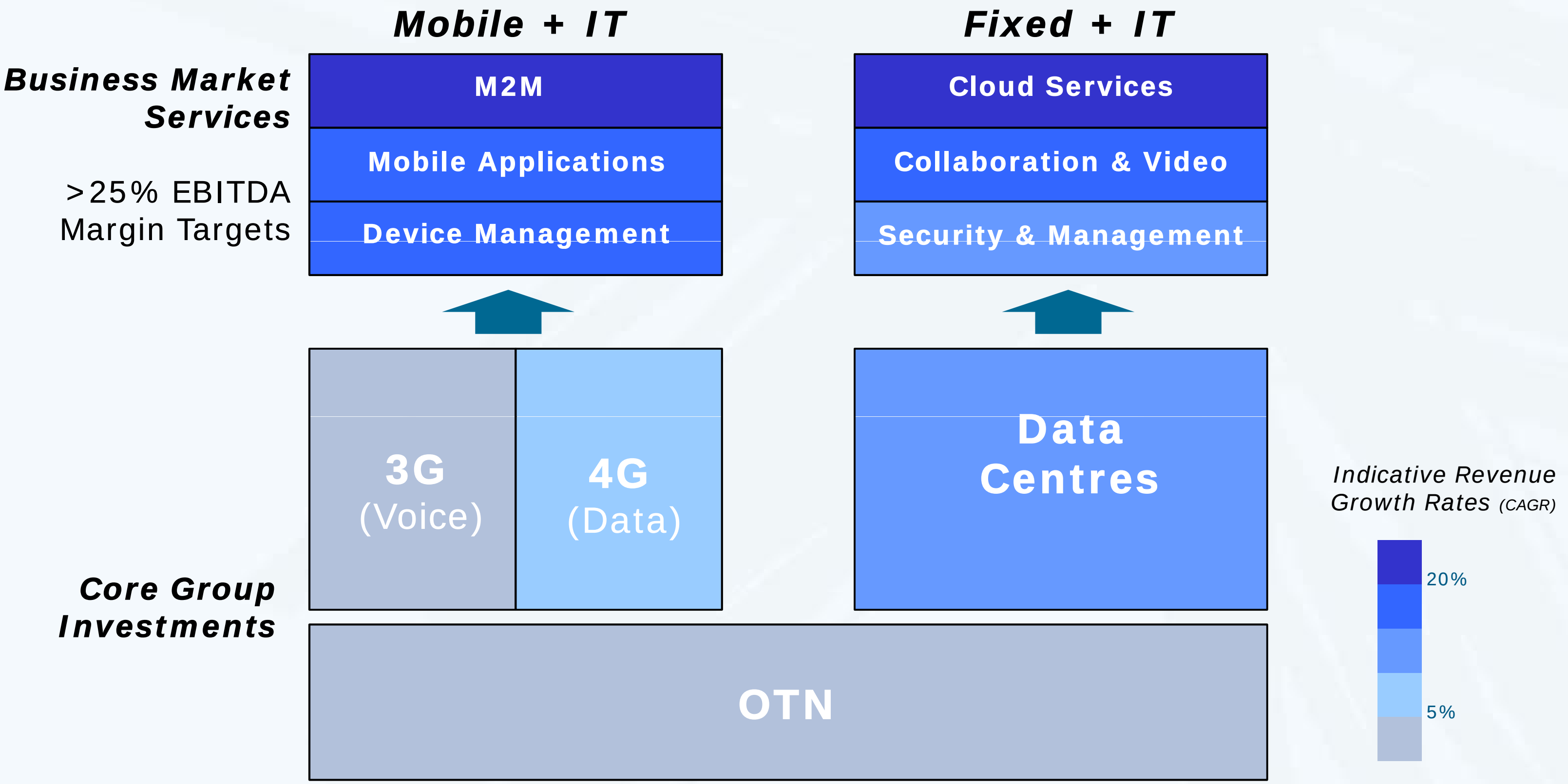
- Changed our cost model - delivering the client experience at an acceptable market cost
- Created the Gen-i ServCo, bringing pricing, finance and commercial capabilities into Gen-i to streamline the commercial engine
- Refocused our Australian operations on Trans-Tasman

Focus for FY14

- Reduce focus on mature / lower margin portfolios
- Simplifying what we sell to whom
- Partnering to access the capability clients need and manage risk

3. Win Key Markets

We're investing or partnering in high-growth services that make the major Group investments relevant and valuable to our client base



4. Win the Future

Unrivalled depth of expertise
Ourselves
Partners

+

Leading ICT infrastructure

+

Forward facing portfolio

+

Moving faster than the market

From provider of inputs to enabler of business outcomes

Key success criteria - to deliver shareholder value

Area of Critical Focus	FY14 Outcome
IT Margin Improvement	4% point increase through cost transformation, improving cost to serve and portfolio focus
Networked ICT Growth	Deliver $15m IaaS EBITDA through Revera acquisition Commission Christchurch Data Centre Pre-sell initial build in Auckland Data Centre
Mobile Market Share	Maintain strong current market share position
Data Market Share	Grow share in the Corporate segment through launch of two specific offerings
Client perception	Improve client ratings in surveyed metrics

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Telecom Connect – David Havercroft

The simplification agenda

Network Economics

OUTCOMES

1. **Mobile Evolution**
2. **Optical Transport Network (OTN)**

- Better network economics
- Better network experience
- Better network features

Simplifying our business

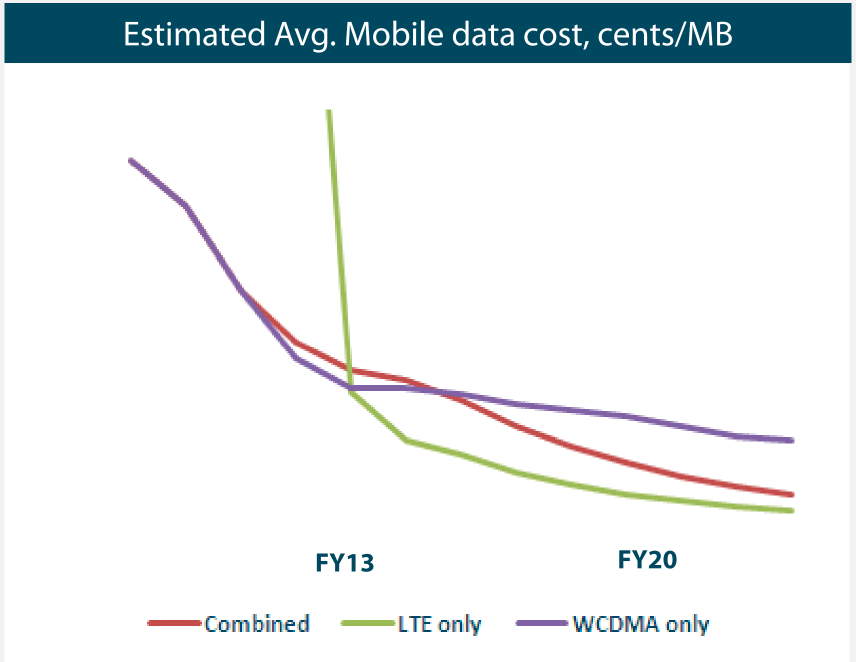
3. **Re-engineering**

- Agility in market
- Effortless customer experiences
- Lower cost architecture for the business

Mobile evolution

Two year programme to deliver better network economics and better network capabilities

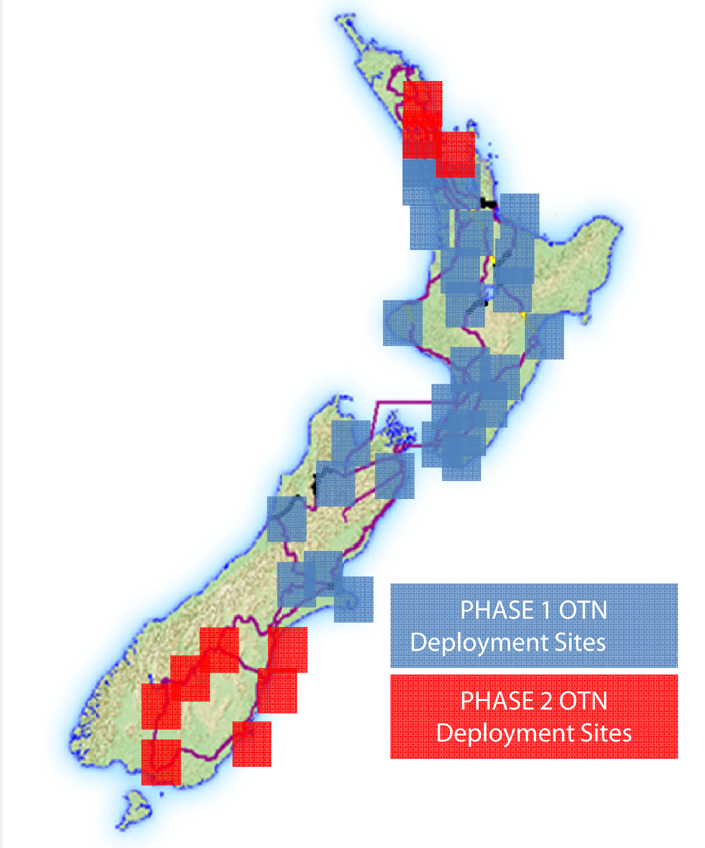
- Spectrum optimisation
  - maximise the use of all existing spectrum
  - prepare to take advantage of the digital dividend at 700 MHz
  - Spectrum allocation needs to be fair and economic
- Optimise 3G network for "best network" service and economics
- New packet core / HSS - 4G enabled
- New LTE 4G RAN



Optical Transport Network

Two year programme to deliver very high speeds ranging up to 100 Gb/s with guaranteed bit rates, improved levels of resiliency and industry leading cost per Gigabyte

- Augmenting and upgrading fibre sections with national fibre routes
- Deploying a new optical transport network
- Carrier ethernet edge and application assurance across the network
- Removes existing end of life high cost transport network and positions for future data growth at lowest cost
- Provides a cost effective backhaul



Re-engineering overview

- Investing $150m to $200m over three years to deliver re-engineering of products, processes and BSS/OSS platforms
  - Simplified customer experiences
  - Re-usable building blocks and agile architecture
  - Limited need for new technology investments
- Approach leverages existing investments in world class components (e.g. Siebel, Singl.eView) and re-architects to deliver simplified end state
  - Most of the new base capabilities delivered in the first 18 months
  - Mobile will be the first portfolio to transition
- Targeting $100m to $200m of ongoing annualised benefits
  - Benefits driven from business simplification, rationalisation of in market offers and products, not just technology
  - Benefit realisation predominantly from FY15

Re-engineering outcomes

Customer interaction	Telecom defined	Customer defined
Product	Multiple, duplicate, overlapping products	Simple portfolio approach
Process	100,000+ processes	Enhanced manual and automated processes
Application	1,423 applications	Consolidated: c.20 core apps and 2-300 supplementary
Integration	17 integration layers, 100s of business services	Single high availability integration platform
Data	Proliferation of data defined	Quality data sources
Network	25+ networks	Leveraged common elements
Supplier	Telecom as an integrated business	Defined operational boundaries for new operating model

Investment profile

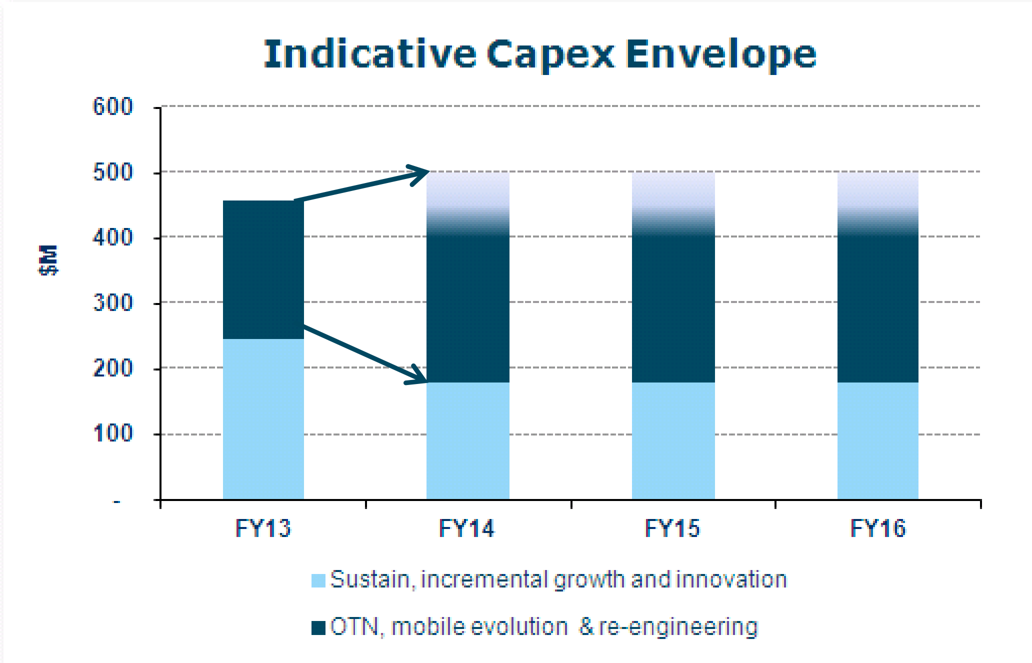
Average capital envelope of $400m to $500m per year for the next 3 years (phasing could vary)

Major Programmes - 60%

- OTN
- Mobile Evolution
- Re-engineering

Sustain, incremental growth and innovation - 40%

- Capacity management
- Legacy network, IT and facilities sustain
- Target innovations (refer to Digital Ventures)



60% of the capital investment will focus on the outcomes delivered by the three key programmes

Key success criteria – to deliver shareholder value

Key outcomes to look for in 12 months time

Mobile evolution	Fixed evolution
LTE launch – 4G live	**Fibre** launch **– LFC pilots**
Mobile completely **re-platformed** * New on line channel * New CRM * New billing & pricing compatibility	VDSL in market

Simplified bill format to **enhance customer experience**

100 Gb/s transport launch

Enhanced services, at lower cost per Gb/s

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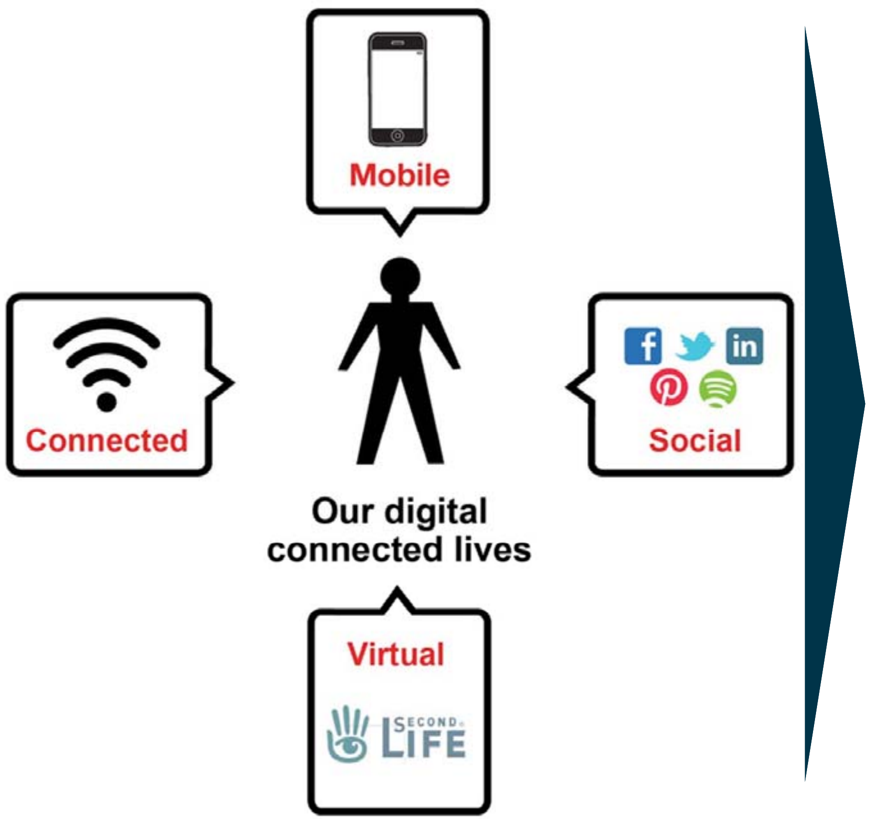
Telecom Digital Ventures – Rod Snodgrass

Consumer macro trends are creating growth opportunities



Digital Life growth opportunities include:

- Mobility
- m-Commerce
- Digital Advertising
- Digital Media
- Cloud Services
- OTT Services
- Smart Living
- e-Verticals
- Applications

Source: Graphic from Telecity Presentation (UK 2013)

A bold aspiration and new approach is being adopted

A Bold Aspiration

- Delivering new Digital Life services
- 5+ new businesses
- $300m of new revenue; 20+% EBITDA
- ROI hurdles met
- New capability and culture
- Strategic optionality

A New Approach

- Dedicated Business Unit reporting to CEO
- Clear mandate
- Start small and scale with growth
- Operating at arms length
- Bias for action; fail fast, fail cheap
- Agile processes; open partnering

With a clear and focussed approach to market selection

Market Filters

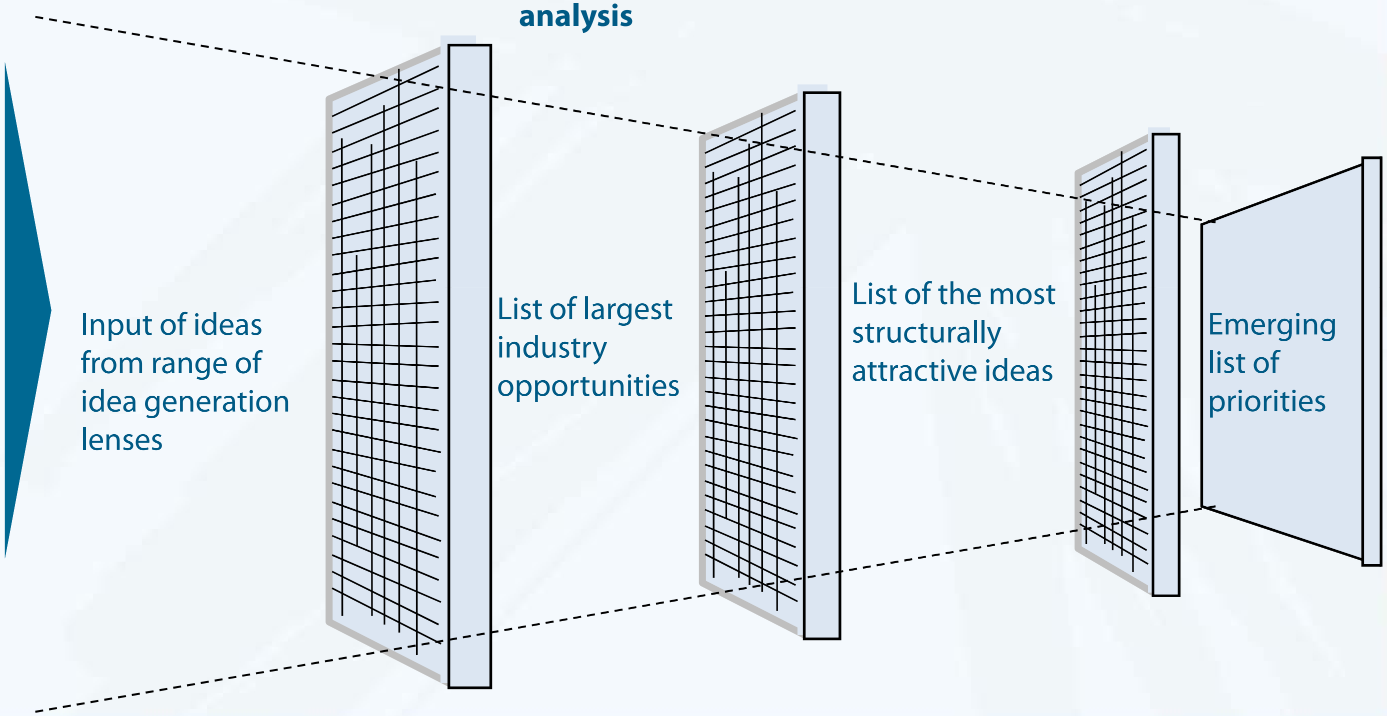
- NZ mass market focus
- Under-served core or adjacent markets
- Growing markets
- Right to play/natural advantage

Market selection, validation and prioritisation

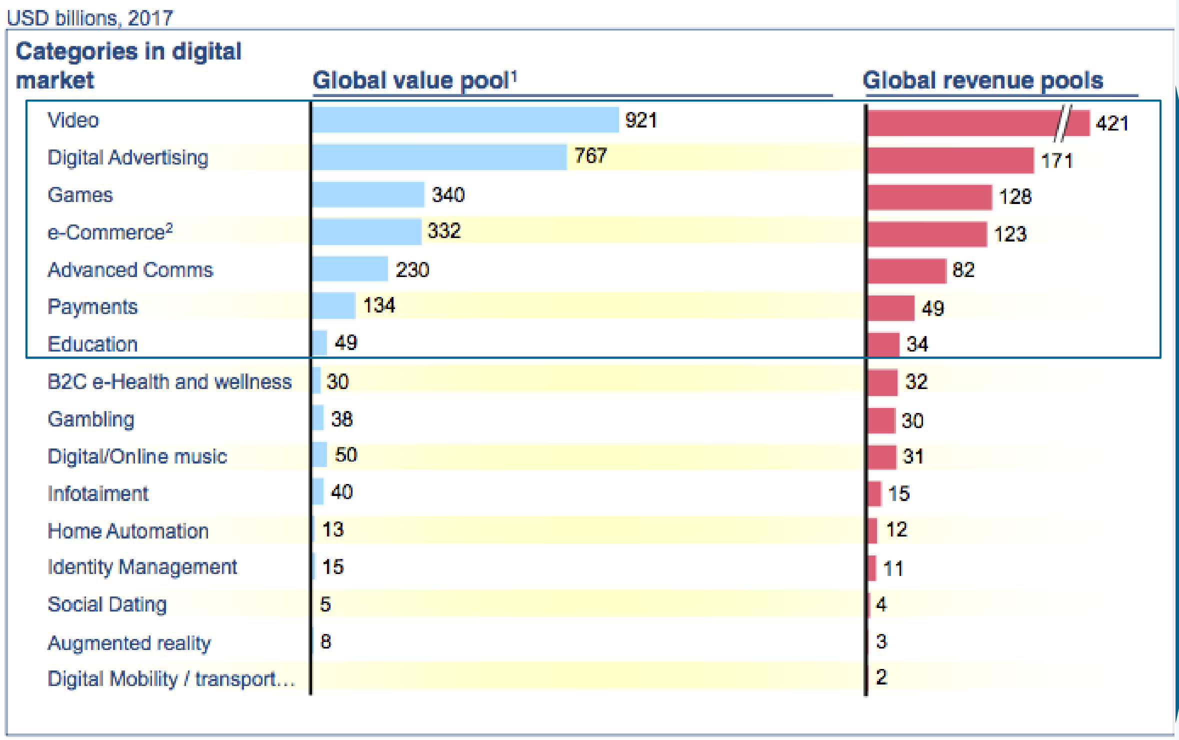
(A) **Profit pool sizing and trajectory**

(B) **Structural attractiveness analysis**

(C) **Capabilities and capacity assessment**



Significant opportunity exists in adjacent markets



1) EV/Rev multiples benchmarked using companies that operate primarily in that segment. Mean multiples is used to calculate value pool
2) Not included 1.5 trillion of additional ecommerce of physical goods
SOURCE: PWC, Goldman Sachs, Pyramid, Gartner, IDC, McKinsey Global Banking pools database, Capital IQ, Press search

SingTel Investor Day Extract: March 2013

Emerging Focus Areas

- Mobility
- mCommerce
- Digital Advertising
- Video, Media & Cloud Services
- Smart Living
- e-Verticals
- Applications

To deliver new consumer experiences and businesses

Examples

Mobility	Extending mobility to support ubiquitous connectivity and reach under served segments
mCommerce	Mobilising the wallet to deliver a range of services including credit cards, vouchers, etc
Digital Advertising	Delivery of a digital platform to enable highly targeted and relevant marketing to consumers
Video, Media & Cloud Services	Delivery of rich OTT consumer experiences anywhere, anytime and on any device
Smart Living	Delivery of trusted home services including storage, automation and management
e-Verticals	Delivery of technology, information and services into verticals to improve outcomes
Applications	Delivery of an API platform to help developers take apps and web services to market

Growth portfolio is developing quickly to address opportunities

Concept → Feasibility → Build → Launch → In Life

Mobility	Wi-Fi Phase 3	Wi-Fi Phase 2	Wi-Fi Hotspots	Skinny
mCommerce	mCommerce - Next Phase	m-Wallet	TSM - JV	
Digital Advertising	Platform Exploration	Partnering Opportunity		
Video, Media & Cloud Services	OTT Service 2	OTT Service 1		
Smart Living	Concept Development			
e-verticals	Key vertical concepts			
Applications	App Platform Scoping			

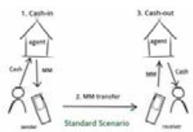
Example: mCommerce through industry collaboration

Low cost ubiquitous utility, leveraging existing assets and relationships…

* NZ TSM Joint Venture

* mCommerce MNO Partnership

* Cashless Payment Services



* Mobile Money Services

* Business Services

…delivering a seamless customer experience

"Mobilise My Wallet"

* Everywhere
* Simple to use
* Value for money
* Integrated with eCommerce
* Consistent across networks & services

Update: Extending Skinny to address a wider opportunity

* Expanding the brand and proposition

* Preparing the platform for next growth phase

* Accelerating customer growth; continuing ARPU growth

* Shift and extend go-to-market and service model

"Living Skinny"

* Edgy
* Beyond Youth
* Auckland
* Simple
* Value
* Digital
* Self Service

What's next – to create shareholder value

- Mobility
- mCommerce
- Digital Advertising
- Video, Media & Cloud Services
- Smart Living
- e-verticals
- Applications

EXTEND

BUILD OUT

CREATE CASE

BUILD PLATFORM

BUILD OUT

SmartHome

CREATE CASE

CREATE CASE

BUILD TALENT

Telecom New Zealand

Strategy Update – Concluding Comments

16 May 2013

Chief Executive – Simon Moutter
Chairman – Mark Verbiest

FY13 guidance reiterated, expecting to be near lower end of EBITDA range

	FY13
Adjusted EBITDA	$1,040m to $1,060m[1]
Capex	~$460m
Dividend	90% payout

[1] Excludes one off costs in H2 associated with strategy implementation, estimated to be between $100m and $130m

FY14 dividend policy to be provided at full year profit announcement in August

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

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)

Four clear strategic priorities

1. Revolutionise Customer Experiences
2. Simplify the Business
3. Win Key Markets
4. Win the Future

Aiming to end FY14 with

Competitive Organisation

- A new winning culture which is performance driven, agile and competitive
- On track to crystallising $100-$200m of annualised benefits from re-engineering, cost out and simplification programmes (relative to FY14)

Market Success

- 1-2% point increase in mobile market revenue share
  - Mobile completely re-platformed, 4G launched
- Stable broadband market connection share
  - VDSL and fibre products launched
- Double digit revenue growth from Gen-i networked ICT

Future Success

- At least four new highly differentiated offers to consumer & SME customers
- Clear path forward for Australia
- Digital Ventures having launched a portfolio of new products and services

Summary

- Our strategy is focused firmly on creating long-term shareholder value
  - near term focus on stabilising revenue/margin and reducing costs
  - longer term focus aiming to drive market revenue/margin growth with control over unit costs
- We are executing against this strategy and will update you on progress

Disclaimer

Forward-looking statements and disclaimer

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Non-GAAP financial measures

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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