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## Conference Call Transcript

NZT - Telecom Corporation Of New Zealand Ltd Annual General Meeting and Webcast

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## CORPORATE PARTICIPANTS

**Wayne Boyd**

*Telecom Corporation of New Zealand - Chairman*

**Paul Reynolds**

*Telecom Corporation of New Zealand - CEO*

**Murray Horn**

*Telecom Corporation of New Zealand - Director*

**Susan Sheldon**

*Telecom Corporation of New Zealand - Director*

## PRESENTATION

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**Wayne Boyd - Telecom Corporation of New Zealand - Chairman**

Good morning, ladies and gentlemen, and welcome to Telecom's Annual Meeting for 2010. My name is Wayne Boyd and I'm Telecom's Chairman and I declare the meeting open. I would like to introduce the others with me on the stage. To my immediate right is Craig Mulholland, Telecom's Group Company Secretary. To my far right is Tristan Gilbertson, Telecom's Group General Counsel; and then to my far left is Russ Houlden, Telecom's Chief Financial Officer; and Nick Olsen, who will be taking over from Russ as Chief Financial Officer from 1 October.

While many of you will be familiar with the background of our directors, for the benefit of everyone present I would like to introduce them to you. To Craig's right is Sue Sheldon. Sue was appointed during the year to fill a casual vacancy on the Board; accordingly she is required to stand for election at this meeting.

Sue is a professional company director based here in Christchurch sitting on the Boards of many New Zealand companies including Contact Energy Limited, Freightways Limited and the Reserve Bank of New Zealand. Sue is a qualified chartered accountant, a former president of the New Zealand Institute of Chartered Accountants, and was made a Companion of the New Zealand Order of Merit for Services to Business. You will be hearing from Sue later in the meeting.

Sitting next to Sue is Ron Spithill. Ron Spithill, Ron joined the Board in November 2006. Ron has an extensive background in the telecommunications industry having held a number of senior roles in Australia, Asia and Paris with Paris based Alcatel Group. He has been an adviser to a number of governments on telecommunications issues including the governments of Malaysia, China and Singapore. In 2003 Ron was made a Distinguished Fellow of the Telecommunications Society of Australia.

Sitting next to Ron is Sachio Semmoto. Sachio joined the Board in March 2009. Sachio is an entrepreneur in the telecommunications industry having spent 30 years in senior management positions and companies including Nippon, Telephone and Telegraph and Kyocera, and DDI Corporation. Sachio founded leading Japanese broadband operator eAccess Ltd. And Japanese mobile telecommunications carrier EMOBILE and is currently Chairman and representative director of both of those companies.

To my immediate left is Paul Reynolds. Paul is Telecom's Chief Executive Officer. He was appointed in September 2007 and Paul joined Telecom from BT one of the world's largest telecommunications companies. Paul has served on a number of boards including BT and eAccess, the leading telecommunications company in Japan. You will hear from Paul shortly.

Sitting next to Paul is Murray Horn. Murray was appointed to the Board in July 2007. Murray has had a number of senior executive roles with ANZ Banking Group. He has also served as Secretary to the Treasury and served on several boards. He has represented New Zealand at the OECD as a Governor at the World Bank and as an alternate director of the International Monetary Fund. Murray is standing for re-election at this meeting so you will be hearing from him later on.

Sitting next to Murray is Rod McGeoch. Rod is retiring at this meeting after more than nine years as a Director of Telecom and is not seeking re-election. Rod has been a steady and consistent presence on the Telecom Board throughout some of the most far reaching and transformational change any major business is likely to experience.



I would like to take this opportunity to thank Rod for his enormous contribution to Telecom and to wish him all the very best for the future. Thank you, Rod.

Sitting next to Rod is Kevin Roberts. Kevin has world class experience in brand, marketing and customer understanding. Kevin is currently head of the advertising agency Saatchi & Saatchi. He also served as Chief Operating Officer at Lion Nathan for seven years during which time he oversaw the transformation of Lion Nathan from a large New Zealand brewer to a significant force in the Asia Pacific beverage industry.

Senior executives and the auditors are seated in front of me. Now the Company Secretary has confirmed to me that the notice of meeting has been sent to shareholders and other persons entitled to receive it. The company's constitution prescribes a quorum requirement of two shareholders. As you can see this requirement has been met.

Proxies have been appointed for the purposes of this meeting in respect of approximately 1.3 billion shares representing approximately 67% of the total shares. This represents participation by a significant portion of shareholders and I would like to thank all shareholders for their level of participation in today's meeting. As indicated on the proxy form I intend to vote all undirected proxies I have received in favour of resolutions 1, 2 and 3.

The financial statements for the 12 month period to 30 June 2010 together with the Auditors' Report are set out in the Company's Annual Report. The Annual Report was made available on Telecom's website on 20 August. Spare hard copies of the Annual Report are available in the registration area.

Now ladies and gentlemen, the financial year ended 30 June 2010 was yet another year of enormous change for Telecom. Paul Reynolds and his team of 8000 are now close to half way through the delivery of the five year strategy to transform your company. That was first outlined in detail to investors in 2008. The execution of this strategy remains firmly on track, despite significant challenges, and this is very satisfying.

The core of the strategy was to transform Telecom by investing for the long term health of the organisation. As a result of this investment and transformation, your company is in a much stronger position to thrive over the long term than it was three years ago. I am very pleased that we have delivered an increase in free cash flow during the year for the first time since 2006.

This is due to a combination of two factors, both of which were expected and signalled when the strategy was outlined in 2008. Earnings before interest, taxation, depreciation and amortisation were flat, year on year, in line with our guidance. This is due in large part to robust cost control that has seen our costs decline faster than revenues.

Credit to management is due here, as agility has been shown in taking cost out of the business quickly during a significant worsening of the broader operating environment. We have also seen a reduction in capital expenditure, which while still high, has reduced from the peak of the previous financial year.

The Board's confidence in Telecom's management, along with recognition of the importance of certainty to our investors during a period of extremely heavy investment, was demonstrated by the dividend floor of NZD0.24 per share annually that was put in place two years ago.

Having come through the peak of the investment, your Board has elected to institute a revised dividend policy, and from first quarter of this financial year, we move to a targeted pay-out ratio of around 90% of our adjusted net earnings. The dividend is expected to be fully imputed and we will also re-introduce the on-market buy back of the shares issued under the dividend re-investment plan.

This dividend policy was selected for several reasons. First, it is consistent with maintaining single A credit ratings with Standard & Poor's and Moody's. Second, we believe it can be fully imputed, subject to normal sensitivities around imputation credit modelling. Third, it provides a shareholder dividend yield for financial year 11 which should be roughly consistent with financial year 10 for New Zealand's shareholders after allowing for nil imputation in the 10/11 financial year. Fourthly, it achieves an appropriately managed reduction in the leverage of the business.

This is a prudent policy that represents appropriate stewardship of your assets in uncertain times. Consistent delivery in line with strategy, despite a significant worsening of the operating environment, is a testament to high quality management, which deserves appropriate recognition in this forum.

The subject of executive remuneration has once again been raised by some shareholders, and I would like to take a moment to address it up front. The level of change and the challenges Telecom has faced, and continues to face, requires world class management. Paul Reynolds and his team

have delivered another year of positive outcomes amid an extremely challenging operating environment and for that he and his team of 8000 deserve a great deal of credit.

However, the Board and Paul were in agreement that given the reality of our challenging environment, it was not appropriate for Paul to receive the full amount of short term incentive which he was entitled under the key performance indicators established for the year. This decision reflects a shared desire to act responsibly in challenging times for many of us.

The Board too has seen further changes and is in good shape to navigate the next year. Our Board is fresh; the latest changes will leave me as the longest serving board member, having been appointed Chairman in 2006. All other Board members are new since late 2006.

The Board regularly reviews the make-up of the Board in light of the expertise and skills already on the Board and those other areas identified as important to Telecom at the time. Further changes are likely however, given the level of uncertainty it is challenging to assess the skills and expertise required by you Board in the future.

Now this brings me neatly to the future of Telecom. We are looking at yet another year of tumultuous change, which will again require a high level of management skill to navigate. Just two years in to the establishment of an industry structure that is shaped by the operational separation of Telecom, a new government brought us a new initiative that will again radically reshape our industry.

The Government's Ultra-fast Broadband initiative envisions fibre optics available at the premises of 75% of New Zealanders by 2019. These fibre optic connections have the potential to deliver broadband speeds that are yet another step change ahead of where virtually all developed countries, including New Zealand, are today.

Telecom supports this vision and believes it has a critical role to play in ensuring its success. However, demand for such astronomical speeds is currently uncertain, as countries where the fibre leap has been taken, such as France to a limited extent and Singapore, already show us.

In part, that is why this initiative includes up to NZD1.5bn of taxpayer funding to stimulate the building of this infrastructure ahead of demand. Independent reports have calculated that the total cost of achieving 75% coverage vision as between NZD6 billion and NZD8 billion. So private investment will be required to bridge this funding gap.

We believe the best solution for Telecom, for the telecommunications industry, and New Zealand as a whole, is for Telecom to be at the heart of Ultra-fast Broadband. Telecom already has more than 25,000km of fibre optics in operation today. That is roughly half of the total required to extend fibre to 75% of New Zealand.

Frankly, wasting taxpayer funding and private investment on duplicating a network that is half way complete is economic madness. However, the tender process that is being run by Crown Fibre Holdings, the arm of the Government that has been established to agree the commercials for building fibre in 33 localised regions, precludes any telecommunications company that both owns infrastructure and sells services to end users such as you, from taking an ownership stake in any fibre that gets built.

This essentially prohibits much of the current telecommunications industry in New Zealand from participating, unless sweeping changes to the industry structure occur. As such, on 2 August Telecom submitted a detailed proposal that is a package containing several components.

Splitting Telecom into two entirely separate companies - one that builds and maintains infrastructure and another that sells services to end users; co-investing with the Crown to deliver a national fibre to the home network that meets the 75% coverage objective, and beyond.

Integrating the separate Rural Broadband Initiative to deliver fibre to hard to reach rural areas too and regulatory and legislative reform. For Telecom, much more than any other participant, involved in UFB it is complex. But the potential rewards are also so much higher for all concerned.

By extending, rather than replicating, our 25,000km of fibre Telecom can deliver more fibre, further and faster than any other participant. Working with Telecom will also ensure the entire industry is focused on delivering New Zealand's fibre future as efficiently as possible, rather than having one of the largest private sector investors in competition with state-funded infrastructure.

In addition, splitting Telecom into two companies requires far reaching changes to the regulatory landscape and there are significant potential benefits for both companies through regulatory simplification. But let me be clear, splitting Telecom to allow for its involvement in UFB will require your approval, so there is no question of giving value away through this process.



We know that you, our shareholders, will not vote to approve that. So we must develop a scenario for involvement that meets the Government's objectives, delivers for New Zealand and generates the return for our shareholders that is better than non-participation all at the same time.

Given this challenge, Telecom has been working incredibly hard to find a solution that aligns that incentive and meets everyone's needs. We have had a team of more than 100, including three executives full time, working on our proposal. We believe we have put forward a compelling proposal that achieves all of the Government's objectives and more.

It redefines the telecommunications industry in New Zealand to deliver a world first regulatory environment that is focused on fibre, and is beneficial to you, our shareholders. We have previously said that, if approved by our shareholders, a split could be enacted by July next year.

Telecom will need appropriate engagement with the whole of government in order to meet this challenging timeframe. I am aware that there has been some conjecture in the media that Telecom may be doing a deal on UFB behind the scenes. We all know we should not believe everything we read in the newspapers - especially when it comes to Telecom.

Here, for the purpose of setting the record straight, is exactly where we are up to. We have, and we will continue to comply absolutely with the Government's process. We submitted our revised proposal on 2 August, which contained the components I mentioned earlier.

Three weeks ago Crown Fibre Holdings announced that it is to commence negotiations with lines companies in three regions. We have had formal feedback on our proposals from the Ministry of Economic Development and Crown Fibre Holdings over the past two weeks, in line with the government's high level of focus on probity.

This focus is entirely understandable from the government's perspective. The extent to which media does seem to rely on Telecom to provide context and interpretation is interesting. However, given the commercial sensitivity of these discussions, we are not always going to be able to comment in public and explain what's going on.

We remain open to partnership with other public and private sector owners of fibre assets, including the three parties prioritised for negotiation, where partnership can improve the overall economics of a national solution to deliver fibre further and faster for New Zealand. But be assured, that should Telecom not be successful in agreeing an appropriate package with your Government, your company is well positioned to co-exist with state infrastructure too.

We have an extensive fibre infrastructure and are adding more every day. We have invested in the very latest broadband electronics and we have existing relationships, either directly through Telecom Retail and Gen-i or indirectly through Telecom Wholesale or Chorus with more than 90% of telecommunications users in New Zealand.

The heavy investment we kicked off a little over two years ago, long before the Ultra-fast Broadband initiative was commenced, has given us a very solid foundation for either co-operation with the Government, or co-existing.

Ladies and gentlemen, a strong Telecom is critical not only to you as our investors, but to New Zealand as a whole. We matter to the people of New Zealand and we matter because we are a massive attractor of inbound investment and we are central to the flow of commerce.

Where Telecom goes, New Zealand's economy goes too. Telecom has changed, and is willing to change so fundamentally that it becomes two separate companies, to ensure it, and New Zealand as a whole, stays healthy. Now, ladies and gentlemen, I will shortly hand over to Paul Reynolds, but let me first say this.

Your company has made enormous strides over the past three years. We still face enormous change in a very challenging environment, but I believe we have the solid platform and the team with the skills and the commitment to meet the challenges ahead. Thank you for your investment and your support.

(video playing)

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**Paul Reynolds - Telecom Corporation of New Zealand - CEO**



Telecom shareholders, ladies and gentlemen, good morning, kia ora. I can tell you it is marvelous to be holding our annual general meeting here in Christchurch. A day or so after the quake, colleagues wondered if it would be possible to have this event in Christchurch given the huge damage that had been caused. That discussion lasted about two and a half seconds. This is the right place to be and we'd have had the AGM in a marquee if we had to.

You see, Telecom has 1500 people working here in Christchurch and across Canterbury. So our presence on the mainland is a strong one and it will remain so. A few blocks away from here in Hereford Street, for example, we run a large contact centre where we deal with all manner of customer enquiries. As we saw in the video, one of our 111 answer services, answer centres, is there and it was staffed when the big one hit.

Too right the switchboards lit up immediately; and the passion, the passion of our people there to serve and to get it right has been absolutely amazing. It is wider than that though. Our corporate and enterprise business Gen-I has a very large presence here, serving customers in the South Island and the North Island and increasingly in Australia too, from here in Christchurch. We've got deep technology skills here in areas such as the design and the build of our mobile and our fixed networks.

Every one of our people, our 1500 people here in Christchurch, has their own story about how the earthquake affected them and their families. But what struck me forcibly over the last few weeks has been the courage and the community spirit shown in the face of what was and what continues to be an extremely traumatic and disruptive event.

Our people and their families have many, many, many personal issues and problems to deal with, as people have right across Canterbury. But they've also taken their responsibility to provide the community with vital communication services extremely seriously too. It's been humbling to work with Telecom people who came to work sometimes for 24 hours at a time right through, to get the region up and running again, when perhaps they had more pressing matters to sort out back at home and with their families. That, I think, is dedication to service; and I hope you had a feel from that from the wee film there. Service like that never matters more than it does in the aftermath of a disaster.

Our networks - whether it be copper, mobile, optical fiber - they showed incredible resilience, even through the widespread power outages that happened. We've got generators. We've got really big batteries. We flew in, we helicoptered in portable generators to keep the people of the region, the emergency services, businesses, connected after the quake and throughout the many, many aftershocks.

Our customers told us that stuff worked. The XT network stayed up and running particularly well and for many it was the lifeline in the immediate aftermath. Telecom mobilised I think like a fourth emergency service. That's in our DNA; it's our instinct to get to it and to get it fixed and to meet the issues, whatever they are, and that was certainly the case with the quake.

We flew people from Canterbury and the region to other parts in New Zealand so they could carry out vital work from buildings that were safe, and we brought people into the region - over 100 contractors, for example, and technicians, technical experts - to work with our networks business Chorus. Their job was to inspect and, if necessary, fix over 1300 individual network sites across Canterbury. That's a huge undertaking on its own.

Our retail business made the payphones, over 300 payphones, available free of charge, and we also made WiFi - so your computers and broadband works - free of charge. We funded the cell phones of emergency workers to keep things flowing.

The Gen-I business, as you saw in the video, worked hard to make sure that their key clients, such as the Ministry of Social Development and the City Council, could stay up and running at a time when their services were likely to be in very, very high demand. Gen-I also helped Westpac's contact centre move to another location, from an unsafe building to a safe building. We mobilised as a business to ensure that the EQC could take the sudden and massive influx of calls, and we set up temporary cell sites in key locations such as outside the art gallery for Civil Defence at its quake base.

We're proud - I'm very proud of the efforts of Telecom people across New Zealand, but particularly in Canterbury, to get things up and running again. What we do matters. What we do matters. That's what it's about for us.

All in all, here was a story of resilience, I think, in the face of massive challenge -- resilient networks, resilient people and a resilient take on life as well. That's an image that fits well with Telecom as a whole over these past three years.

Our 2010 annual report shows that Telecom finished the last financial year on a turning point. We stopped, we arrested, two years of decline in profit, and we grew free cash by 28%. Those are good signs of resiliency. But is it enough? To answer that question, to take stock on how your Company is doing, I think we need to briefly remind ourselves of the regulatory landscape that faced our Company back in 2007. That was a



backdrop against which we set out our five year plan. We faced massive challenges on a scale that few other companies in New Zealand have ever faced, actually, few telecommunications companies around the world have ever faced - essentially, regulatory challenges. Challenges we have met that came from a legacy of poor reputation amongst the New Zealand public and other stakeholders. Challenges also, though, of rapidly evolving technology and competitive pressures.

We faced back in 2007 the challenge of changing the mindset, changing the culture within Telecom, and it's been a revolution. I'll cut to the chase. Telecom has gone through a revolution over these past three years. The storming of Telecom's ramparts, if you like, came in the form of the 2006 Telecommunications Act, which was passed with near unanimous support of Parliament and delivered the operational separation of Telecom and associated changes.

Now, as you know, operational separation is a euphemism for splitting out the network and giving access to our network to all comers, equal access to our network; and that's access to our network to Vodafone, to Telstra, to Orcon and others. That's part of what we've been doing over the past while.

The massive revision to the Telecommunications Act was passed into law, and that opened up the industry to new levels of competition. The finishing touches were put on an incredibly detailed roadmap of undertakings that Telecom had to deliver, that flowed from the legislative change. These undertakings encompassed virtually our entire business, including the establishment of new operationally separated business units. Chorus we've heard about this morning - the lines business - and Telecom Wholesale, who both provide services to the entire industry in New Zealand on a totally equivalent basis to the services they provide to Telecom Retail. This gives industry access to Telecom's fixed line fibre and copper infrastructure on exactly the same commercial and technical terms as a retail business.

There are only two countries in the world that I'm aware of that have opened up their telcos, the incumbent telcos' network, to competition in this way; and that's New Zealand and the UK.

The legislation that was passed also included obligations to invest in broadband services. Actually, far ahead of the trend in other advanced countries, certainly far ahead of Australia or the UK, by laying thousands of kilometres of optical fiber much closer to customers. It also - you might not realise - included an obligation to build a replacement for New Zealand's extremely trustworthy public switch telephone network - again, ahead of virtually every other country in the world - so that we could replace it with an internet based IP voice service. Those obligations have been underpinned by the largest and most complex IT program that New Zealand has ever seen.

By the way, there were also multi-million dollar financial penalties if we missed any one of the steps or obligations along the way. That's what the 2006 Telecommunications Act meant.

Now, shareholders, you would be right to ask if those obligations were legal. We checked, of course we did, and there was no available route to challenge in New Zealand law. So your company had a decision to make. Do we go forward begrudgingly, or do we take on the challenge and use the regulatory intervention as a catalyst to transform the Company, to start the revolution? Do we stay on the back foot, or do we invest for the future and change the DNA of Telecom to put customers at our heart? To put customers at our heart. We chose that; we chose the latter.

We've made enormous progress since then, not just on the investment front but culturally and attitudinally too. We're thinking differently. I hope we're behaving differently. We're more motivated and we're more up for it than ever before. Our customer satisfaction is up. Our staff motivation and engagement is up. We've delivered the most incredibly complex program of investment and change; 150 detailed operational separation milestones have been delivered, involving the almost complete rebuild of our IT systems.

Our focus on costs has been laser-like. We've seen NZD249 million of costs taken out of the business in two years, directly as a result of management action. We've built a nationwide, all 3G, mobile network. You know it. It's called XT, and it provides some of the very fastest mobile data speeds in the world. Our nationwide program on fibre is now over 50% complete - bang, bang, on time, on time, on schedule.

Our Australian business is part of the story too. AAPT has improved strongly after several years in the doldrums. Last year profit, EBITDA, grew 16% to over AUD100 million.

By the way, you may have seen that we reached an agreement in July to sell AAPT's consumer business for AUD60 million while returning the bulk of the business and the earnings. That's a good deal for shareholders.



But by no means has the financial picture since 2007, by no means has it been plain sailing. Those plans to build fibre to the node, to rebuild a mobile network, to replace and retire the public switch telephone network that was built over decades and deliver massive systems changes, all at once -- those things required much, much higher capital expenditure than we'd ever invested before.

At the same time, it was clear that as the network opened up to competition and more regulation came in place, profits would fall as the competition gained access to our network and the regulator forced through significant price cuts. So rising investments and a period of falling profit as your assets are opened up, that's inevitably a poor prognosis for shareholders. So we felt strongly, as the Chairman said, that if we were unlikely to be able to reward you with growth over this past couple of years, we should do so with dividends.

We published a detailed plan - an uncommonly detailed plan - forward looking, five year plan, in 2008. It had a five year forecast of earnings and CapEx and two years of committed fixed high dividend payments; two years of earnings decline, before reaching turnaround in 2010; and a dividend set at NZD0.24 a share, which effectively is a dividend payout of more than 100% of earnings.

Meantime, the worst global recession in living memory hit our markets. So that's a very, very challenging set of circumstances, and I am particularly pleased, I'm delighted, that in the financial year just ended we turned the corner bang on schedule. We hit our milestones. We hit our guidance right on the money. Free cash flow, last year, rose for the first time since 2006, by 28%. EBITDA declines have been halted and every business unit in Telecom has substantially improved its trajectory.

So we're in good shape right now. Telecom's in good shape, I think, much better shape for whatever an uncertain future might bring. We now have choices available to us precisely because of the resilience that we've shown over the past three years, and the changes and the progress were made as part of that plan.

So, having reached the turning point on time, we naturally have refreshed our strategy this year. It's got four key strands. We are continuing to reduce costs and moving to a much leaner business, a much leaner service provider model, particularly in our retail and our Gen-i business. This will become leaner. It's going to be much more important to remain competitive over the coming years.

Secondly, we have simplified our organisation by restructuring, particularly in AAPT and Telecom Retail and Gen-i and in our shared services business.

The third part of the strategy -- retail in particular is focused very hard, in a much more competitive world, on retaining high value customers, loyal customers, by offering much more attractive bundles of service -- broadband, voice, fixed and mobile services.

The fourth part of the strategy-- we are aggressively targeting growth opportunities in corporate enterprise and government markets. Now, we're doing that and remaining - and retain an objective to be number one in broadband and mobile and ICT. How are we doing in mobile, broadband and ICT?

The XT mobile network is more resilient and stronger shape than it was before the service issues that hit us between December and February. XT is now performing at world class level - the level it was designed to achieve. At the last count we had 700,000 connections, customers on the network, and well over 80% of the cell sites that deliver that network are hooked up to optical fiber for high speed mobile broadband. That means more and better services delivered at speeds and a level of performance that would have been inconceivable a few years ago.

We've enhanced the technology to offer download speeds of up to 21 megabits per second on our mobile network on XT. That is, trust me, up there with the very, very best in the world; certainly by far the best in New Zealand.

Now, according to the Global Mobile Association, there are only 16 networks out of 325 mobile networks in the world that have any of this 21 meg service. We have it right across New Zealand. It doesn't really get any better than that in this industry.

On ICT, I'm delighted that our corporate services business, Gen-i, was confirmed in 2010 as New Zealand's most preferred vendor. They have the highest customer satisfaction, the highest customer preference, in a market where we're competing against the global names like IBM and HP. In essence, Gen-i is in the business of helping businesses to do business better. Its client roster in New Zealand and Australia now covers 3000 private and public sector organisations. Significant new client wins in the past year have included Air New Zealand, Foodstuffs, New Zealand Lotteries, Fleet Partners and Ticketek. Wait for it -- during 2010 Gen-i signed close to NZD1.4 billion of new business and new contracts. It's a success story.



On broadband, the third of our key product areas, Telecom's fibre to the node program is well past the halfway mark, as I said. As of today, Chorus has installed 2200 mini exchanges in the street roadside cabinets that have optical fiber going into them. In those cabinets are the sophisticated electronics that bring New Zealand faster broadband.

That program - fiber to the node program - is streets ahead of most of the world. It's already delivering a demonstrably better broadband experience to New Zealanders, whether they are Telecom Retail or whether they're the rest of the industry. More than 400,000 customers are now directly connected to fibre based cabinets, and average broadband speeds have gone up as a result. Customers served off these cabinets get 17.7 megabyte speeds on average, and that's up there with the country that leads in the world - Korea. So a big change for New Zealand.

There are now more than a million of Chorus's access lines already in reach of high speed broadband. We've been making progress. We've been making progress on products, progress on technology. But progress on the people front - I hope you've seen we've made some strides in transforming the approach and the culture of the Company to a more open, a more transparent organization; a company we hope you can trust. We're thinking and we're acting differently. I hope this change was on full display, for example, in the recent issues in Christchurch, but also, perhaps, when we faced our difficulties with XT service disruptions.

That was a really bad time for our company. There's no question that our reputational stock took a dive. It hurt us. It hurt Telecom's people that we had let down so many customers. I can tell you, it made me sick as a dog.

So we worked ferociously hard as a team to put things right as fast as possible. Hopefully that spirit of resilience again, aligned with a desire to get it right for our customers. And our customers responded; they kept signing up to XT throughout that period.

So we have some momentum, some achievement, focus. Telecom is in a good place right now. We're very proud of what we've achieved. But as much as we've changed over the last couple of years, the biggest challenges are still to come. We've come through storms and squalls, but it's certainly not plain sailing ahead.

For a global context, our industry - the global telecommunications industry - does actually face tough times and profound challenges. Revenue growth, the total market revenue growth, has stopped for telcos in mature markets and in mature economies. There's no growth in Australia and Europe or the US or in New Zealand at the moment.

In fact, I saw a story last week from Statistics New Zealand that GDP growth, as measured in New Zealand, has been significantly affected by the reduction in the growth profile of the whole industry. I'm not just talking about Telecom here - the whole industry.

In New Zealand total revenues haven't grown for a couple of years and analysts do predict that situation will remain over the next three. Competition, fierce competition and price cuts, are causing revenues in traditional voice and data to decline, and growth areas like mobile and broadband and ICT are struggling to catch up. That's the dynamic of the industry in New Zealand and across the piece.

Yet customers - and we're all customers in the room - their appetite for new services continues unabated. It's exciting stuff. Mobile data, even faster broadband, ICT services, your business being managed from services that are in the clouds -- it's all new, exciting stuff that's possible from the technology. But these new next generation services are capital intensive - they need investment - yet asset lives are shorter. The technologies change very two or three years. It used to be 10 years; it's now three.

And actually, the margins available are less than the traditional services they replace, and they're certainly less than the margins that were available in the past. So that's a challenge for us. It clearly calls for a huge focus on costs. It clearly calls for a huge focus on costs. It calls for imaginative investment. It means that we have to think extremely hard about where to get adequate returns. Every invested dollar now carries proportionately higher risk than it did in the past.

Now, we've got - we have built momentum here. As the Chairman said and as I have mentioned, we shrunk costs last year significantly. Over 200 middle and senior managers left the Telecom business as we eliminated duplication and simplified. But we will need to do much more, because the public appetite for faster, cheaper and further reaching broadband and other services grows exponentially.

New Zealand has become from the back foot to the front foot. We're actually ahead of many OECD countries. We're actually now ahead of many OECD countries in terms of broadband, in terms of mobile. But nevertheless, the government shares with some other countries a desire to see fibre delivered all the way to the home.



Now, the economics of delivering that fibre are extremely challenging, which is why across the world the competitive market has only delivered a small proportion of fibre to the home lines. The competitive market has only done a little bit. There are very few examples yet of fibre to the home providing any sort of return to investors. Something has to give if we're to meet society's aspirations and [earn] a return. That's the thing that policy makers are struggling with - solutions to bridge the gap.

Now, there's been some creative ideas. In the US, telcos have been let off regulation - given regulatory holidays - to build fibre to the home. In the UK, the last Labour Government proposed a broadband tax in order to bridge the economic gap and get it built. But we here in New Zealand and in Australia are way out in front in policy terms of the rest of the world. It's only here that we've taken this step further and proposed massive taxpayer investment in fibre to the home infrastructure. That's for the NBN - the National Broadband Network - in Australia, and the UFB - the Ultra Fast Broadband program - in New Zealand. In both cases, this will create an enormous change in the market structure, and both aim to create new infrastructure in advance of economic demand by subsidising the build with taxpayer funds.

So the telco world is watching us, watching our story unfold with great interest. We're not copying anybody. We're inventing the world story here, just as the world did watch our progress over the last two years with operational separation. So, we have to get ready for that fibre future. Telecom is up for fibre big time. Our fibre to the node - these cabinets in the streets - program shows that, but UFB will be a further step change well beyond FTTN. We have to seize the opportunity and take the next leap forward and combine available public money with private capital in the most efficient way possible to get more fibre built.

Now, I believe we can solve the associated economic, financial, public policy challenges through genuine and open public-private dialogue, a willingness on both sides of the equation to consider new ways of doing things without wasting or duplicating what's already been built. In a world where it's difficult to make an economic case, doing it twice would be madness.

Telecom's plan is essentially national. It's a national plan. Nothing less makes sense for a business like ours. But although it's national, it does cater for partnerships. It does allow for local and community sources of capital to be included. The plan proposes also that we should include rural New Zealand. It's a hugely important part of our economy. The rural broadband plan should be incorporated since we firmly believe that a coherent extension of proposed broadband services into rural New Zealand will be quicker and cheaper than thinking somehow separately about urban and rural.

We have offered, as the Chairman said, structural separation, to meet the government's key requirements; and we, in doing so, would remove once and for all the lingering perception that persists of unfair advantage between the network and the retail business. This is a huge step to take. No telco in the world has hived off its access network or been put in a position where it has to. It's probably more straightforward for us than others because we've already invested massively in the systems and processes and changes through operational separation, but it's still huge.

We think partnering with the government on UFB and structural separation is definitely worth considering, provided we can agree a better regulatory framework with lower ongoing investment costs, less wasted regulatory investment and less strangling regulation of our retail business. If we can agree those things, it's definitely worth considering.

That's the nub of it. Structural separation has been talked about a lot here and around the world, but it can only happen if the business case makes sense, the shareholders vote for it; and you will only vote, I am sure, for something that's in your interests. All of this has to work for you, the owners of our company.

So, to conclude, the future's always uncertain. That's what we're here to manage, especially I find in the telco business, but what is certain is that here and now Telecom is in good shape. Whether we are a central and key partner to government on Ultra Fast Broadband or whether we co-exist with the new network that will be built over the next 10 years or so, we're in good shape. Ten years is a very long time in politics and a very long time in telecommunications too. Right now Telecom is in good shape, we're in good heart and up for it, because of the changes and plans we've executed over the past two or three years.

As we've seen in the last few weeks here in Canterbury, we've shown we're a company with a very big heart and we will get on with it. Because of that strategy, because of the plans we've stuck to, because of the financial targets we've met, because we've achieved for our customers in the core areas of broadband and mobile and ICT against that backdrop of rapid competitive and technological change. We are in one of the world's most heavily regulated landscapes but we have come through to the changes we wanted. We have shown in Telecom a resilience; and resilience matters, as the people in Canterbury have shown to us in spades.

Thank you very much.



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**Wayne Boyd - Telecom Corporation of New Zealand - Chairman**

Thank you Paul. Ladies and gentlemen, we now come to the matters requiring resolution, which were outlined in the Notice of Meeting. There will be an opportunity to ask questions on each matter being put to shareholders. When I call for questions, can I please ask that any person wishing to ask a question move to the microphone nearest to them and hand their admission card to the Telecom staff member so they can read out your name prior to you asking your question.

I ask that in the interests of fairness to all shareholders attending the meeting that anyone wishing to speak should be as concise as possible and be considerate to other shareholders wishing to ask questions.

The formalities of the meeting dictate that shareholders are permitted to speak only once on a matter being put, and the questions raised must relate directly to the matter being considered.

Following these formal matters, I will address some of the more common questions that shareholders have sent us. I will then open the floor for other questions. Please remember that this meeting is being webcast, so you will also be heard by an audience outside of this room.

Now moving to the resolutions, I propose to call a poll on each of these resolutions. The polls will be conducted at the end of formal business.

Now, first resolution we turn to relates to the Company's auditors. The company's Act sets out a procedure for reappointment of auditors. Under that procedure the auditors are automatically reappointed. The motion concerns the fixing of the auditors remuneration and seeks shareholder approval that Directors be authorised to fix the auditors remuneration.

Telecom's statutory audit fees for the financial year ended 30 June 2010 were NZD3.3 million plus disbursements for its New Zealand and Australian operations. The fee for this year's statutory audit is yet to be finalised with the auditors - KPMG - however it is anticipated that the fee should be no greater than the fee paid for the year ended 30 June 2010.

I now propose that Directors are authorised to fix the remuneration of the auditors KPMG. Are there any questions for the Board concerning the motion?

The poll on Directors' ability to fix the auditors remuneration will be conducted at the end of formal business.

The next two resolutions relate to the appointment of Directors. Murray is retiring by rotation in accordance with the listing rules and offers himself for re-election. The Board recommends Murray to you as a Telecom Director and unanimously supports his re-election.

I invite Murray to address the meeting on his proposed re-election.

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**Murray Horn - Telecom Corporation of New Zealand - Director**

Thank you Wayne and good morning ladies and gentlemen.

It's been a privilege to serve on the Telecom Board for the past three years. The company has faced and continues to face significant challenges and opportunities. I have been pleased to play a part in shaping Telecom's transformation.

During my career I have had a number of senior executive roles with ANZ Banking Group, including leading the Group's New Zealand operations. I was Secretary to the New Zealand Treasury and have served on a number of other boards, including the New Zealand Tourism Board. I currently chair the government's National Health Board and its Capital Investment Committee.

In the international arena I represented New Zealand at the OECD as a Governor at the World Bank and as an alternate Governor at the International Monetary Fund.

My background in government and banking and my extensive financial and management experience allow me bring a depth of understanding for the economic, financial, management and government related issues that bear so heavily on the performance of our company and the returns to our shareholders.

My financial experience and economic training allow me to contribute meaningfully to Telecom's financial and risk management. I have taken a particularly active role in this regard as Chairman of the Audit and Risk Management Committee.

My work with government at the most senior level over many years gives me a unique insight into how government works, both at the political and administrative level. This insight is particularly beneficial to Telecom given the highly regulated environment in which Telecom operates and the frequent interactions our business continues to have with central government. The relationship with government is even more important as the UFB process advances.

My experience at the helm of ANZ in New Zealand and as head of the bank's global institutional business, has given me an understanding of the pressures faced by Paul and the rest of the executive team as well as an appreciation of the importance of maintaining an unwavering customer focus.

I remain dedicated to serving Telecom. I assure you that I will continue to devote whatever time, energy and imagination it takes to improve our performance and the returns to shareholders.

With your support I look forward to having the opportunity to continue to contribute to Telecom at this pivotal moment in our history.

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**Wayne Boyd - Telecom Corporation of New Zealand - Chairman**

Thanks very much Murray. I now propose that Murray Horn be re-elected as a Director of the Company. Are there matters for discussions or questions concerning the motion relating to Murray's re-election?

Ladies and gentlemen the poll on the re-election of Murray Horn will be conducted at the end of formal business.

The next resolution concerns the election of Sue Sheldon as a Director of the Company. Sue was appointed to the Board in June 2010 to fill a casual vacancy. Accordingly, she is required to stand for election at this meeting.

The Board recommends Sue to you as a Telecom Director and unanimously supports her election. Sue has an impressive record of directorships with successful businesses from the State sector through to the commercial sector, both large and small. She brings renowned governance expertise, focusing on finance, strategy and risk management.

I invite Sue to address the meeting on her proposed election.

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**Susan Sheldon - Telecom Corporation of New Zealand - Director**

Good morning shareholders and guests, and thank you Wayne.

I am pleased to be here today to seek your support for my election as an independent Director of Telecom. I have been working with New Zealand company boards since 1997. This last 24 months has been a turbulent time for most companies as we have had to manage our way through some very challenging market conditions and the worst recession the world has seen in decades.

As well as testing companies, the global financial crisis has impacted on investors the world over as share markets have responded to the failure of some finance markets and major financial institutions and the prospect of prolonged recession.

For Telecom this turbulence has been exacerbated by significant changes to its regulatory and competitive environment. The government's Ultra Fast Broadband initiative adds further uncertainty to the way forward.

My observation in the time I have been a Director is that the Board has taken a very concerted approach to decision making and focused on acting in shareholders' best interests in this environment.

I believe in the importance of robust governance in any market and welcome the opportunity to serve as an Independent Director on the Board of Telecom.



As a Chartered Accountant and an experienced company director, with both private and public sector directorships, I believe that I have the skills to add value to your investment.

I am currently a Director of Contact Energy, Safeway's and the Reserve Bank of New Zealand and have previously completed roles as the Chairman of the Board of Trustees of the National Provident Fund and Deputy Chairman of Christchurch International Airport and Meridian Energy.

I have recently adjusted my portfolio to ensure sufficient time availability for this role.

I bring a deep understanding of business in New Zealand to the Telecom Board as well as the thoroughness and attention to detail that you would expect from a Chartered Accountant.

I have a strong appreciation of the operation of the New Zealand economy and a commitment to companies like Telecom chasing a leadership role in helping to deliver increased prosperity and economic growth.

I believe that part of the success of any board lies in the mix of skills around the table. It is important to refresh this mix by the addition of new skill sets from time to time.

From my short experience as a Director on the Telecom Board I see significant challenge in delivering the potential of your company in a rapidly developing telecommunications market and seek your support to make a contribution to seeing this potential realised.

Thank you.

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**Wayne Boyd - Telecom Corporation of New Zealand - Chairman**

Thank you Sue. I now propose that Sue Sheldon be elected a Director of the Company. Are there matters for discussion or questions concerns the motion relating to Sue's election?

Ladies and gentlemen, the poll on the election of Sue Sheldon will be conducted at the end of formal business.

## QUESTION AND ANSWER

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**Wayne Boyd - Telecom Corporation of New Zealand - Chairman**

Ladies and gentlemen we now turn to the part of the meeting where shareholders have the opportunity to raise questions. Shortly I will invite shareholders to raise any questions, comments or discussion, whether related to any of the presentations, the financial statements, or concerning the management of the Company.

Before then I would like to acknowledge the questions submitted by shareholders prior to the meeting. Most of these questions related to the UFB process and the possibility of de-merger, as well as executive remuneration and the regulatory landscape. Paul and I have already addressed those issues in today's presentation.

While it's not possible to answer every question at this meeting, we have reviewed them all and we have taken them into consideration in planning for this meeting and our Company Secretary Craig Mulholland has also responded by letter to each shareholder who has submitted a question.

I would now like to give any other shareholder present today the opportunity to ask questions of the Board, management or the auditors and I suggest that if you do have a personal customer matter to discuss that you speak with one of our customer service representatives at the customer service desk in the registration area after the meeting. They will be happy to assist you with your questions.

The Directors will also be happy to answer questions from shareholders during the refreshments to be held at the end of this meeting.



Any person wishing to speak should move to the microphone nearest to them, hand their admission card to the Telecom staff member so they can read out your name prior to you asking your question, and I ask that in the interests of fairness to all shareholders attending the meeting that anyone wishing to speak should be as concise as possible and be considerate to other shareholders wishing to ask questions.

Shareholders are asked that they only speak once to give other shareholders a reasonable opportunity to raise any questions they may have.

The floor is open - shareholders.

No questions today? We will be available over refreshments and we would welcome interaction with you.

Ladies and gentlemen, there being no questions, we will now conduct the polls on the matters described in the Notice of Meeting. The company's auditors will act as scrutineers for the polls. Please use the voting paper on your admission card or if you are a proxy or corporate representative, the voting paper you were given as you entered the meeting. Please complete your voting paper by ticking For, Against, or Abstain in the appropriate place on the form in each resolution and sign the form. Do not tick the Proxy Discretion box. If you have any difficulty please raise your hand and someone will assist you. Ballot boxes are situated at the back of the room at the end of each aisle. Voting papers should be placed in the ballot boxes on your way out of this room.

Ladies and gentlemen, thank you for your attendance at Telecom's annual meeting. We will be announcing the results of the polls to the Stock Exchange and media this afternoon. If any of you have any questions about Telecom's products or services, then as I said, please feel free to talk a Telecom customer service representative at the service desk. If you prefer, you can complete the query form that was given to you when you registered this morning; then leave it with the customer service staff and a Telecom person will contact you to go over any questions you have.

Additional information request forms are available at the customer service desk. So thank you for your attendance. I now invite you to meet the directors, senior executives and auditors and to partake of refreshments, just take place in the foyer at the back of the hall.

Once again, can I remind you, please put your voting papers in the ballot boxes on your way out of the room.

Thank you. The meeting in fact will close on completion of the voting procedures.

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