

**Thomson StreetEvents<sup>SM</sup>**



## Conference Call Transcript

TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

Event Date/Time: Oct 26, 2011 / 10:00PM NZT



Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

## CORPORATE PARTICIPANTS

### **Wayne Boyd**

*Telecom Corporation of New Zealand Limited - Chairman*

### **Paul Reynolds**

*Telecom Corporation of New Zealand Limited - CEO*

### **Murray Horn**

*Telecom Corporation of New Zealand Limited - Director*

### **Kevin Roberts**

*Telecom Corporation of New Zealand Limited - Director*

## CONFERENCE CALL PARTICIPANTS

### **John Hawkins**

*Shareholder*

## PRESENTATION

---

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

Good morning, everybody. This is a really good turnout. I want to welcome you all to Telecom's annual meeting for 2011. It has been quite a week, I think, for New Zealand as a nation. It was fantastic to win that Rugby World Cup. It has been amazing to see the response of New Zealanders to the team as they've taken it into Auckland and then down to Christchurch. They are in Wellington today. I think, in time, there has been quite a lot of nation building occurring amongst us as New Zealanders as a result of the way we embrace the Cup. I'm delighted we've got a big crowd here today.

So I am able to declare the meeting open. I'd like to introduce the others with me on stage. To my immediate right is Tristan Gilbertson. He is Telecom's Group General Counsel and Company Secretary. To my far left is Nick Olson, Telecom's Chief Financial Officer.

While many of you will be familiar with the backgrounds of our Directors, for the benefit of everyone present I would like to introduce them to you. To Tristan's right is Sue Sheldon. Sue joined the Board in June 2010. Sue is a professional company director, sitting on the Boards of many New Zealand companies, including Contact Energy Limited, Freightways Limited, Paymark Limited and the Reserve Bank of New Zealand.

Before moving into the professional director role Sue practised as a chartered accountant. She is 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.

Sitting next to Sue is 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 the Alcatel Group. He has been an advisor 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.

To my immediate left is Paul Reynolds. Paul is Telecom's Chief Executive Officer. He was appointed in September 2007. 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, a leading public telecommunications company in Japan. You will hear from Paul shortly.

Sitting next to Paul is Kevin Roberts. Kevin has an extensive international experience in brand, marketing and customer satisfaction. Kevin is currently worldwide CEO of the advertising agency Saatchi & Saatchi. Previously, Kevin held senior management and marketing positions with Proctor and Gamble, Pepsi Cola and Lion Nathan. He oversaw the transformation of Lion Nathan from a large New Zealand brewer to a significant force in the Asia Pacific beverage industry. Kevin is standing for re-election at this meeting, so you will be hearing from him later on.

Sitting next to Kevin is Murray Horn. Murray was appointed to the Board in July 2007. Murray chairs the Government's National Health Board and has held a number of senior executive roles with the ANZ Banking Group. He has also served as Secretary to the New Zealand Treasury and

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

served on a number of boards, including the New Zealand Tourism Board. He has represented New Zealand at the OECD as a Governor of the World Bank and as an alternate director of the International Monetary Fund. Murray is also standing for re-election at this meeting, so you will be hearing from him later.

Senior executives and auditors are seated in front of me. I would just ask Mark Ratcliffe just to stand. Mark Ratcliffe is the designate CEO for Chorus.

The Group General Counsel and 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 66% of the total number of shares. This represents participation by a significant portion of our shareholders. I would like to thank shareholders for their level of participation in today's meeting. I intend to vote all undirected proxies I have received in favour of resolutions 1, 2, 3 and 4.

The financial statements for the 12 month period to 30 June 2011, together with the auditor's report, are set out in the Company's annual report. The annual report was made available on Telecom's website on 13 September. Spare hard copies of the annual report are available in the registration area. Spare copies of the demerger booklet are also available there.

The financial year ended 30 June 2011 has been one of the most pivotal in Telecom's history. When adjusting for one-off items the Company has delivered EBITDA growth and significantly improved its cash generation, allowing the payment of a special dividend. This comes despite an operating environment that remains highly challenging and a global telecommunications industry that has not seen any growth in mature markets.

The improvement is evidence of the success of management decisions and actions that have focused the business on cash generation and efficiency following a period of intense investment. It is delivering this through better processes, robust assessment of further investment and an unrelenting focus on cost.

We like to talk about these initiatives as getting things right first time; taking out the complexity, errors and rework that absorb cost and frustrate customers. So I am pleased to say that this focus on getting it right first time has also delivered for our customers with improvements in customer satisfaction recorded across all segments.

The pivotal year was also marked by Chorus's success in winning the lion's share of the ultra fast broadband initiative, along with partnering with Vodafone to be selected to deliver the rural broadband initiative. Chorus, our fixed line infrastructure business, has been operating at arm's length from other parts of Telecom since 2008, providing access to Chorus infrastructure to all industry participants on an entirely equal footing.

The significance of these agreements must not be understated; nor should the merits of aligning the interests of Chorus with those of the government. Reaching agreement with the government on these matters has been no simple task. It was extremely challenging to find a way in which Telecom could participate in these government initiatives, at the same time as acting in our shareholders' best interests.

One of the most significant challenges to overcome was the government's requirement that no company selected through the tender process could both own infrastructure and sell services to residential and business customers directly, as Telecom does today. So Telecom had a choice -- do we separate Chorus into an entirely stand alone business to allow it to participate in the government's initiative? If so, how do we make the stack-up for our shareholders?

I am delighted to say that after a lot of very hard work, and even harder negotiation, we have arrived at a solution that your Board unanimously supports. As such, the Board recommends that you vote in favour of demerging Chorus. Shortly Paul will provide you with more detail and the supporting rationale for this proposal. On a personal level I am also very pleased to say that not only do I believe the demerger proposal is the right solution for Telecom and its shareholders; I firmly believe that it is in the best interests of New Zealand as a whole.

Should the proposal be approved you will see a substantially new Board for Telecom and an entirely new Board for Chorus. I will be stepping down from my position as Chairman. The Board has recommended that Mark Verbiest replace me as the new Chairman of Telecom. The Board believes that Mark is the right man to lead the stewardship of the interests of shareholders as Telecom addresses the opportunities and challenges after a demerger.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

He has a solid background in telecommunications and corporate governance, combining institutional knowledge with significant experience gained from a wide range of sectors, including the private sector, government bodies and SOEs. If you approve their re-election today, Mark will be joined by Murray and Kevin, along with new Directors Charles Sitch, Justine Smythe, Maury Leyland and Paul Berriman, and of course our CEO Paul Reynolds.

When recruiting new Telecom Directors there has been a strong focus on ensuring the right mix of skills and diversity. This will be a very strong Board. It provides the right balance of value chain and functional expertise, and has an exceptional depth and breadth of experience, both in New Zealand and overseas.

The Chorus Board will be chaired by Sue Sheldon, who will step down from her role on the Telecom Board. She will be joined Anne Urlwin, Clayton Wakefield, Jon Hartley, Keith Turner and Prue Flacks. Again, I am extremely pleased with the calibre of the new Chorus Board. It brings a wide range of skills, experience and perspectives for the governance of what will be New Zealand's largest telecommunications utility.

It was also very pleasing to note the female representation on both Boards, which has been the result of a robust recruitment process that ensured the Boards had the appropriate mix of skills and diversity of experience and thinking.

Having considered the potential new Board members, it is appropriate to take a moment to thank Sachio Semmoto, who stepped down during the year. Sachio retired due to ill health, which meant he was unable to travel from Japan to the Telecom Board meetings. Sachio's tenure was short but he offered valuable perspectives and also made a meaningful contribution to Telecom.

If demerger is approved, Sue Sheldon and Ron Spithill have signalled their intention to step down. In Sue's case, as I said, it will be to take up the chairmanship of Chorus. However Ron will not be taking a role on either Board. Ron has been on the Telecom Board since 2006 and Sue joined the Board in 2010. While demerger remains to be approved I think it is appropriate to recognize them now and take the opportunity to say thank you for their respective roles in helping Telecom navigate some of the most challenging years in its history. Thank you both.

Recently Paul Reynolds reaffirmed his commitment to seeing Telecom through the transition period following the proposed demerger, but also signalled that he intends to leave office once the transition is complete. I would like to thank Paul for seeing the job through and the stability this will provide during this period of immense change. The job of recruiting Paul's successor will fall to the new Board and it is currently expected that a new CEO will be in place for the next financial year. In the meantime, Paul has his hands firmly on the steering wheel and has the continued support of the Board as Telecom navigates yet another radical shift in its operating environment.

At the start of my address I described the last financial year as pivotal, and it is an apposite word. Not only have we seen significant events that are likely to shape the future of the telecommunications industry, and indeed deliver high quality fibre optic infrastructure throughout New Zealand, the performance of the Company has also seen a significant positive change.

When taking into account both the increase in share price and the dividends paid, Telecom has outperformed the NZX50 by more than 30% over the last 12 months. The Telecom team has turned this business around despite very challenging headwinds and they deserve full credit for that achievement.

As I mentioned earlier, if the demerger goes ahead, I will be stepping down from my role as Chairman. I have been on the Board - the Telecom Board since 2004 and Chairman since 2006. It has been a privilege to act as a steward of your investment during a period of enormous and ongoing change. The business has the opportunity to change trajectory and I believe Chorus and a new Telecom will be well set up for the new operating environment. With your consent, Telecom will move forward to that new environment, an environment we believe will be sustainable, effective and deliver for our shareholders, the industry and the people of New Zealand.

Ladies and gentlemen I now hand over to Paul Reynolds.

---

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

Thank you, Chairman. Telecom shareholders, ladies and gentlemen, kia ora tatou. Good morning and welcome. This is a historic day for Telecom, even by the standards of the last few tumultuous years. Even by what we've gotten used to. A simply massive year of change for Telecom culminates in today's proceedings, just as it does for the whole industry in New Zealand and for New Zealand as a whole.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

Throughout these 12 months I know that the very best qualities of Telecom and its people have been on display. Through the good times, like I guess the magnificent efforts of the All Blacks on Saturday night - on Sunday night; and through the challenging times, the times of enormous tragedy for the people of Christchurch, Canterbury and indeed for the West Coasters. For Telecom, in serving these communities, it's been a year of renewed focus, of resilience, of negotiation, reorganization and of preparation for the future that's before us.

A year of strong results based on good choices and, I think, yes, some hard decisions as well. And a year of building the sort of confidence that comes from being more in charge of our own destiny than we have been for some time.

All of which brings us to today's votes on the demerger of Telecom by you, the owners of our Company. In recent weeks I've been fortunate to have the opportunity to talk to large groups of our shareholders up and down New Zealand. We clocked up some pretty big miles, from Dunedin to Christchurch, Auckland, Hamilton, Tauranga, Wellington, Hastings. In fact we gave presentations around the world - Sydney, London, San Diego, LA, Boston, Hong Kong, Singapore, Edinburgh, many other cities where our institutional investors are based. Well over 150 presentations in total. The discussions at those sessions were very positive and engaged. Shareholders throughout New Zealand and across the world have grasped the importance and the radical nature of the demerger proposals that are before you. And today we complete that very extensive process of dialogue and consultation with you.

This morning I want to say something about the environment Telecom operates in and about how we have responded, about the changes we've made and had to make in anticipation of a world dominated by optical fibre, by ultrafast broadband, and where it leaves us for the future if you vote yes to the proposal on the demerger of Telecom and Chorus. Ours has been a pretty amazing story, sort of plot twists that few observers could have forecast and with, I think, many chapters still to be written.

So let's start by taking a look at the changing landscape for telecommunications. The telecommunications industry around the world is changing at a sometimes bewildering pace, with huge implications for every telco whether it be Telecom here in New Zealand or the guys that run networks in Europe, the USA or in Australia. We all face similar challenges.

Telecommunications - our industry - is becoming ever more central to daily life. The internet, email, text, calling, listening to music, watching movies. Customers want more and more services. They want better connections. They want them faster and they want them everywhere. They want them on their smartphone and they want them at home. They want them at work and in the car. They want them at the [batch] and they want them overseas.

Customers are demanding ubiquitous, fast connectivity, wherever they are, on their own terms. But they don't want to pay any more money for it. So mobile and broadband are replacing more traditional phone services and they require huge capital investments to provide. In fact, total telecommunications industry revenues in developed markets are not growing at all, despite this massive increase in usage. They remain flat - revenues remain flat as customers get more for lower prices every year.

So in terms of financial performance, most telcos find that they have to run faster and faster and faster just to stand still, and all against a backdrop of changing regulation and new technologies, and not to mention the impacts of the current financial crisis affecting international markets.

That's the story worldwide. Here in New Zealand we are no different really. If anything we have an intensification of those issues here in New Zealand. That's certainly been the case in the area of regulation. Telecom has been subject to regulation that's been more intensive, more prescriptive and more detailed than in any other market or country in the world. We've had three revised industry structures in the last five years with far reaching consequences for Telecom and you, our shareholders, in terms of the mandated requirements to invest substantially and beyond what we would do through commercial logic, through the diversification of - the diversion of substantial management time away from competition and towards compliance, and in the inevitable and regulatorily managed loss of market value.

So, for example, in the area of operational separation between 2008 and 2010, Telecom's rate of capital investment was nearly double that of compatible telcos overseas, nearly double. If the cloud has a silver lining, it's that we have built here in New Zealand broadband and mobile networks that are really impressive by any international standard. We've moved a hell of a long way in the last three or four years.

But the influence of regulation, inevitably on our Company, has been a key part of our story over those years, and in many ways has brought us to the decision that shareholders are making today. Not just because of regulation, per se, but rather because of the positive way, I think, we have proposed to manage and reduce this unique regulatory burden and the myriad other technology and competitive factors shaping our business.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

So more about that in a minute. But let's note first then, as Wayne commented, that in the financial year ended in June, Telecom delivered, I think, pretty strong financial and operating performance against that challenging backdrop, through very tight control of our costs we improved our profitability despite reductions in revenue.

Free cash flow in the business was up 53% compared to the 2010 financial year, 53%. Capital expenditure reduced in the year by 23%. So reflecting the much improved cash position that the Company found itself in and our confidence in the business and the future we were able to pay a NZD0.02 a share special dividend on top. In the last year Telecom delivered shareholder return over the year of more than 40%. That's an extremely respectable outcome by comparison with any telco in the world.

I'm particularly pleased to say that we achieved that whilst keeping customers at our heart. Customer satisfaction, and indeed the overall favourability ratings for the Company have risen to the highest position for many years.

We delivered those results because I think we have the right plan in place and the collective will across the Company to deliver it. This stuff doesn't happen just by accident. We call our plan Vision 2013. It's a three year program launched in late 2010 that aims to make Telecom one of the fittest telcos in the world - a Company in a strong position to continue to compete in the ultrafast broadband world that is before us.

Vision 2013 has been key to what we achieved in 2011 and I thank all Telecom people for pitching in their professionalism and sheer effort in delivering it. Vision 2013 hasn't changed the fundamental goals of the Company. We still aim to be New Zealand's most preferred company. We still aim to be number one in broadband, in mobile and in ICT. But I think it has transformed the execution of that vision, enabling us to front up to the really big question. We know what we want, but do we know how to get there? Although there remains a lot to be done in your company, I think we've made a really good start in answering that question and we can be confident that there's momentum that will enable us to go on delivering.

We've managed to reduce our spending and yet still improve customer service by getting smarter about what we do and how we do it. We focused hard, as Wayne said, on getting it right first time for customers making sure that we've improved substantially every year, in meeting the promises that we make to customers. For example, in installing and fixing a customer's line first time so there's no need for a re-visit, and turning up to the house when we promise when someone's in, and putting clear instructions so that people can install broadband themselves and there's no need for unnecessary calls to a call centre, and these simple ways getting it right first time, customers are getting a much better service and Telecom's costs are reducing. It's a win-win.

We've also taken significant action to embed lower operational costs, including the in-sourcing of technical support that was previously done by external agents and that initiative alone has brought us savings worth many millions of dollars annually. We travel less as Telecom employees by using, for example, video conferencing instead of flying to meetings. We've taken decisive cost action across the Tasman too in our AAPT business and this included the sale of AAPT's consumer business last September. AAPT is now a successful, profitable Telco in Australia serving the Australian wholesale and enterprise markets. We've embedded this by changing the incentive plans for Telecom people to make this focus on saving cash, on getting value for money, a permanent part of our way of doing business and I think that will continue to have a positive effect in the months and years to come.

So that's our focus on costs. How did we do in our key growth areas of mobile and broadband and ICT? The number of connections on our XT mobile network now runs at well over one million. We are seeing significant growth in higher revenue smartphone users as they take advantage of the superior performance capabilities of XT. For example, throughout the Rugby World Cup, XT performed as solidly as the All Blacks scrum. It stood up to whatever was thrown at it, indeed sometimes I had the impression at Eden Park that people in the stadium were spending as much time sending texts and taking pictures, 60,000 at once, maybe on the phones as there were watching the actual game. XT stood up.

On the ICT front in 2011, our Gen-i business has had some great successes landing major ICT and mobile contracts with, for example, Air New Zealand, Fletchers, Westpac, and Fonterra, New Zealand's blue chip. Gen-i has really been helping in growing and helping our customers to do business.

In broadband the total number of customers served by our products has now grown to close on 1.1 million. Our huge investments in broadband have greatly enhanced the speed and experience of New Zealanders and our central role in this new era of UFB broadband will ensure, I think, continued progress. So UFB, ultra fast broadband, over and above the business results, those operational achievements, I believe Telecom's signal achievement in the last financial year was success in being chosen as the government's preferred partner in the role out of its UFB scheme over the next 10 years.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

U, F, and B, is a set of three initials that weren't on anybody's radar certainly when I started at Telecom in 2007, but they've come to dominate our industry. In essence UFB - this scheme involves the government in investing NZD1.35 billion alongside private sector investment to increase the reach of fibre-optic cables to 75% of premises in New Zealand by 2019, and so dramatically improve further broadband speeds in New Zealand. As you know, after tough negotiations Chorus was chosen as the government partner for about 70% of the ultra fast broadband areas, and that gives Chorus access to over NZD900 million of government co-investment.

This breadth of vision, and I think its potential, this scheme is akin to the construction of New Zealand's railways and motorways, the reticulation of electricity in the past. This is key national infrastructure for the future. It's big and with effects that will unfold over the coming years and even decades. So we want to be part of it, provided the terms are right for shareholders.

UFB is a vision that Telecom has consistently supported, even if the realities of how we might partner with the government were immensely complex. One of the biggest challenges for us in getting to this point was the government's requirement that it would not partner with any company that sold telecommunication services direct to the public; it would not partner with any company that sold services direct to the public. It wanted wholesale only infrastructure partners, and therefore Telecom, as we know it today, as we have come to know it, was effectively barred from the scheme.

Some time ago we proposed to deal with this by splitting in two, structural separation, and that means two completely independent publicly listed entities, new Telecom and new Chorus. If the merger proceeds we would be the first encumbered Telco in the world to take this major step. I assure you the rest of the world is watching us with great interest and intensity, as other countries grapple with similar issues. We are in New Zealand significantly ahead of most of the world in this key policy area.

So we said out on our recent investor road shows around New Zealand and across the world, that Telecom firmly believes this proposed split is the right model for our future and for the industry, for shareholders and for New Zealand as a whole. The directors on Telecom's Board of Directors are unanimous that on-balance the proposal to demerge is in your best interests. Grant Samuel Limited, an independent expert that we engaged to go through the proposal with a fine-tooth comb, agrees too.

So, why is the demerger the right course of action? Well, one, it allows Chorus to take a cornerstone role in UFB. Fibre, optical fibre, ultra fast broadband is the future; the industry across the world knows that. But it's very expensive technology and partnering with government enables Chorus to access funds that de-risk the business case.

Second, because it aligns the interests of Chorus with the government's UFB objectives. For far too long Telecom has seemed at odds with government. This proposal creates alignment in our mutual objectives that we believe provides the best opportunity to optimise shareholder value.

Thirdly, it's because the proposal avoids Telecom competing with government-backed fibre infrastructure. If we don't partner with government, if we don't make this move, someone else will and that inevitably will mean the loss of market share for Telecom.

Fourthly, we believe we should do this because it leads to the introduction of a significantly simplified regulatory regime with greater certainty, reduced burden, and less associated costs, and all of that matters hugely given the way that regulation and shifting industry structures has effected Telecom and you as shareholders in recent years. With a simplified regulatory regime on top of the organizational and financial benefits that we've already delivered, Telecom can go into the new area, this new era, unleashed. Management can focus on what they should do, competing rather than compliance.

So that's a necessarily quick overview of the scheme. The full story is told in our scheme booklet which you will have already seen and the fact that so many of you have read that book in detail has been evidenced by some pretty high-calibre questions, that we fielded at recent investor road shows. Look, your patience and your tolerance in the face of a pretty daunting document has been very much appreciated. It's somewhat encyclopaedic, it has to be, but thank you for going through it and giving us such great feedback.

So we talk about new Telecom coming through this, but it's certainly not new in the sense of starting from scratch. What will Telecom look like post demerger? You could say we'll be the same but only different, and I think better. What I mean by that, if the demerger proceeds, Telecom will be very well positioned to succeed in the new environment.

First and foremost, because of the customer relationships that we have and already have millions of customers and many, many millions of services that they buy from Telecom, the cash flow, the dividends, and ultimately our jobs have come from those customers and it's an unrivalled position for Telecom to be in. We have over one million fixed line residential and business customers in New Zealand, over two million mobile

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

connections, over 800,000 mobile internet and broadband customers, 3000 business clients for Gen-i, and 6000 businesses across in Australia for AAPT's services.

Telecom will be a very significant company indeed and in all of our core markets we are - will be in the starting gates in number one or number two position. Number one in the fixed voice market, number one in broadband. Number two in the ultra competitive mobile market, where you know we have three networks in a little country of four million people.

But our advantages extend beyond those extensive customer relationships and market positioning. New Telecom will also retain significant infrastructure here in New Zealand and in Australia. For example, it will own the mobile network, the XT network, the national fibre backhaul network, sub-marine cables, data centres, major exchanges, all of the rich technology that underpins and powers the services, the products and the advice that our customers already get - they will be in new Telecom.

So what will new Chorus look like? Chorus will be the preeminent local lines company in New Zealand with very strong customer relationships and an existing strong track record of delivery and significant infrastructure across New Zealand. Chorus can hit the ground running in the event of demerger. You see Chorus's vans, the white vans, right across the country from Queen Street to Lambton Quay, from the West Coast to the Far North. The professional men and women in those vans are building, maintaining and servicing a world class fixed line access infrastructure on which we and the whole telecommunications industry in New Zealand all rely.

New Zealand has about 1.8 million fixed line connections and of that amount Chorus has a market share of around 93%. Chorus is already a trusted partner to the whole industry - has about 70 industry customers from Vodafone to TEAMtalk, from TelstraClear to Woosh - and it treats all of those customers, from the big players like the Telecom to the small retail service providers, it treats them all equally. The local fixed line assets of Chorus are extensive, combining the traditional world of copper connections with the relatively new technology of optical fibre, and some of the statistics on that latter point are very impressive indeed.

Chorus has 602 telephone exchanges and has proposed 11,000 street cabinets; 130,000 kilometres of copper already in New Zealand and 27,000 kilometres of fibre. That's already been bringing, as I've said, much faster broadband across the country. Chorus will expand this already substantial fibre asset base by a further 20,000 kilometres through the UFB scheme and the rural broadband initiative too. We can have real confidence, I think, in Chorus's ability to deliver as the government's partner and we can do so from the example of the delivery over the past three years of the fibre to the node project which is due to complete in the next few months.

FTTM, cabinetisation, the green cabinets that you might have seen coming up in your street, has been one of New Zealand's largest ever telecommunications builds. It's involved the deployment of 2500 kilometres of fibre and the installation of 3600 of those mini exchanges in the street. That rollout gives 750,000 customers across New Zealand access to much faster broadband speeds.

Chorus have delivered this mammoth project consistently on time and under budget. The project management is terrific and those are skills that we will need in the new UFB world. As part of that same project, Chorus has delivered fibre already into the homes of 6000 sections in new subdivisions across New Zealand. So new Telecom and new Chorus, very substantial organisations in the New Zealand landscape - we believe strongly positioned to succeed in the new world.

So as we move into that new world, who will be in charge? Wayne has already spoken about the governance arrangements in the event of demerger. The proposed boards of New Telecom and New Chorus are an impressive array of talent and experience that's appropriate to this new era, but also alongside me on the Telecom executive team, I already have a very strong team of people who have driven the turnaround in Telecom's results as I outlined earlier. They have demonstrated they have what it takes and are part of the reason we should be confident about Telecom's future. The same can be said from Chorus. We've handpicked a management team from within Telecom. Mark Ratcliffe and his team will lead Chorus into an era for which they are already very well prepared.

My own intentions are to see through this period of enormous change for your company, to shepherd Telecom into the new era. The new Board will in time select my successor, but that's a wee bit down the track, sometime in 2012. Right now I can tell you that I love this job and I deeply appreciate the opportunity to lead Telecom's transition into an ultra fast broadband world.

Both organisations, New Chorus and New Telecom, go into the new era with confidence and with real excitement about what a properly mandated Chorus and an unleashed Telecom are ready to deliver, organisations that are demonstrably in better shape than for many years, a new Telecom that will no longer be shackled by the overly restrictive regulatory environment.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

Telecom as we know it is a great company full of great people who collectively contribute in profound ways to the advancement of New Zealand. That won't change in the UFB era given the capabilities, the track record that a demerged Telecom and new Chorus will bring. Ladies and gentlemen, thank you for your support and for coming along and joining us today, on what is I think a historic occasion for the Company. Thank you.

---

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

Thank you Paul. Well, ladies and gentlemen, we now come to the matters requiring resolution which are 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 this meeting, 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 only permitted to speak once on a matter being put and that the questions raised relate directly to the matter being considered.

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

So if I can move to resolution one, I propose to call a poll on each of these resolutions. The polls will be conducted at the end of formal business. So we will start with a special resolution. This resolution relates to the proposed demerger of Telecom and is displayed on the screen in front of you.

A copy of the constitution referred to that resolution is available for inspection at this meeting and for the demerger to proceed, the resolution must be approved by 75% of the votes cast by shareholders entitled to vote and voting on the resolution.

## QUESTION AND ANSWER

---

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

Now are there any matters for discussion or questions concerning this resolution? Probably indicative of a lot of good work. I think the fact that we ran our roadshows through the country has been well received and I'm delighted that so many of you agreed to attend those. Yes?

---

**Unidentified Audience Member**

(Inaudible question - microphone inaccessible).

---

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

I've already done that, Sir. It is 1.3 billion shareholders voted, 66% of the shareholding.

## PRESENTATION

---

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

Ladies and gentlemen, the poll on the demerger resolution will be conducted at the end of formal business. I can move then to the ordinary business. We will now move to the ordinary business - the first two ordinary resolutions relate to the appointment of directors.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

Murray Horn 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. Murray brings to the Board vast experience at the highest level in both the public and private sectors and I invite Murray to address the meeting on his proposed re-election. Murray.

---

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

Thank you Wayne and good morning fellow shareholders. It's been a privilege to serve on the Telecom Board for the last four years, during a period of unprecedented change for Telecom. During my career I've 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 served on a number of other boards including the New Zealand Tourism Board. In the international arena I represented New Zealand at the OECD as a governor of 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 to bring a depth of understanding to 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've taken a particularly active role in this regard as Chairman of the Audit and Risk Management Committee, which has played an important role in the analysis of the demerger proposal.

My work with government at the most senior level over many years gives me an insight into how government works, both at the political and administrative level. My experience at the helm of ANZ in New Zealand and as head of the bank's global institutional business out of Sydney 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, while ensuring continuity on the Board as we move to the next phase.

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

---

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

Thanks very much Murray. I now propose that Murray Horn be re-elected as a director of the Company. Are there any matters for discussion 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.

Resolution for Kevin -- Kevin Roberts is retiring by rotation in accordance with the listing rules and offers himself for re-election. The Board recommends Kevin to you as a Telecom director and unanimously supports his re-election. Kevin brings to the Board world-class marketing, branding and customer satisfaction expertise, skills vital to Telecom post demerger.

Kevin has experience across many industries and has a worldwide reputation for his successful and innovative approach. He understands the challenges faced by a large consumer-driven company such as Telecom and which operates in a fast changing environment. I invite Kevin to address the meeting on his proposed re-election. Kevin.

---

**Kevin Roberts - Telecom Corporation of New Zealand Limited - Director**

Thank you very much, Wayne. Good morning. I was born in Lancashire and I've always been a lifelong Manchester City fan. It's been a wonderful weekend for us. We scored almost as many as France.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

So I've worked in management, marketing and sales all my life in many countries in many continents and I came here in 1989 to run Lion Nathan for Doug Myers. I became a New Zealand citizen as soon as I could and brought my kids up here. We've had a wonderful, wonderful time. Seven years after that we sold Lion to Kirin and I became the worldwide CEO of Saatchi and Saatchi. I live in Auckland. I live in New York. Actually I live in an aeroplane or wherever the All Blacks are playing.

I've been on the Telecom Board since 2008 and I've been delighted to serve on the Nominations Committee and on the HR Committee. We have some real talented people across this Company.

I'm passionate about a bunch of things. Like you probably, I'm passionate about kids and youth, which is our future. I'm passionate about rugby. I'm passionate about learning and leadership and I'm passionate about creativity.

In terms of kids I'm a trustee of a charity I founded some years ago called TYLA - the Turn Your Life Around trust for at-risk kids in Auckland. We've had a tremendous success in helping these kids find a new future in New Zealand.

In rugby I'm a passionate All Blacks fan and I'm the chairman of USA Rugby, which is growing fast. That would be great for New Zealand because we need to open up that market for New Zealand. We need to bring new investment, new money into the game.

I'm passionate about learning and leadership. So I'm a professor at the Business School of Creativity and Innovation at Auckland and in my home town of Lancaster. And I'm passionate about creativity. I believe in the unreasonable power of creativity. I believe we live in the age of the idea and what's exciting for me about our new future is this is going to be an ideas-led business and we have fantastic ideas people in New Zealand. It's what gives us competitive advantage.

I can help, I think, with customers. I can help with branding. I can help with leadership and I'd love to continue to help take us forward into this new, unleashed future.

Thank you very much.

---

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

Thank you, Kevin. I now propose that Kevin Roberts be re-elected as a Director of the Company. Are there any matters for discussion or questions concerning the motion relating to Kevin's re-election?

---

**Kevin Roberts - Telecom Corporation of New Zealand Limited - Director**

Lucky there's no Manchester United fans in the audience, Wayne.

---

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

Well it wasn't lost on me, the 6-1, Kevin. Ladies and gentlemen, the poll on the re-election of Kevin Roberts will be conducted at the end of formal business.

I can turn then to the auditors. That's the final matter and it's relating to the auditors of the Company. The Companies Act sets out a procedure for the re-appointment of auditors. Under that procedure the auditors are automatically re-appointed.

This motion concerns the fixing of the auditor's remuneration and seeks shareholder approval that Directors be authorised to fix the auditor's remuneration. Telecom's statutory audit fees for the financial year ended 30 June 2011 were \$3.1 million plus disbursements for its New Zealand and Australian operations. The fee for this year's statutory audit is yet to be finalised with our auditors KPMG. However, it is anticipated that the fee should be no greater than the fee paid for the year ended 30 June 2011.

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

The poll on authorizing the Directors to fix the auditor's remuneration will be conducted at the end of formal business.

Oct 25, 2011 / 09:00PM GMT, TEL.NZ - Telecom Corp Of New Zealand Ltd Annual General Meeting

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 the presentations, the financial statements or indeed, concerning the management of the Company.

Before then, I would like to address the question submitted by shareholders prior to the meeting. We received far fewer questions this year and I think again, it was due to the extensive road shows and the amount of information contained in this scheme booklet. And while it's still not possible to address every question here, we have reviewed all the questions received and I'll now address the two key things that haven't already been addressed today, before inviting questions from the floor.

So the two common things related to executive remuneration and the size of the scheme booklet. Dealing first with executive remuneration, we compete for executive talent in a highly competitive global market and it is essential that our remuneration is competitive to attract and retain top executives who have the expertise to lead our business through this challenging period.

Telecom regularly conducts benchmarking with similar positions and comparable companies to ensure remuneration packages are competitive and appropriate and that they reflect the future of the international market for their skills and experience.

A large portion of executives' remuneration is at risk, performance-based pay closely tied to how we perform as a company. This means their remuneration will vary year on year based on the annual performance against our critical performance objectives and our longer term share price performance. So it's covered in more detail in the speeches.

You will have seen Telecom has delivered a strong performance in year 11 against an increasingly competitive environment and we have met the key objectives in our strategy for this critical period.

With the query about the scheme booklet length, we were constrained in this area due to current legal requirements. We had to meet the technical and disclosure requirements of all three exchanges which we are listed on and also the legal disclosure requirements of the wide range of territories in which our eligible shareholders are based. By law we were required to include all material information to enable shareholders to make a decision on a very complex transaction.

Now, our Group General Counsel and Company Secretary Tristan Gilbertson has also responded by letter to each shareholder who had submitted a question. I'd now like to give any other shareholders present today the opportunity to ask questions of the Board management of the auditors.

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 end of 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. Again any person wishing to speak should 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.

Again I ask that in the interest of fairness to all shareholders attending this 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. Are there any questions? Number five.

## QUESTION AND ANSWER

---

### Unidentified Company Representative

Mr Chairman, John Hawkins has a question.

---

### Wayne Boyd - Telecom Corporation of New Zealand Limited - Chairman

Morning John.

---

**John Hawkins - Shareholder**

Morning Wayne. Not only am I a shareholder, I'm also a proxy holder for the Shareholders' Association and I am chairman of the Shareholders' Association. I don't so much have a question as a couple of little statements I'd like to make. I think first of all that while there's no doubt that the Company has made progress over the last year or two, despite our very difficult and complex regulatory environment, shareholders are all acutely aware that some of this is off a low starting point and a relatively high cost base. So I think there is still some way to go and we will all be expecting the new companies - and I'm sure there will be two new companies after this meeting - to build on the progress that has been made.

Also notwithstanding the comments you made, Mr Chairman, we hope that the new boards of Telecom and Chorus will take note of the groundswell of opinion amongst the shareholder owners of the companies that rewards for executives and directors must be very closely aligned to the performance of the companies and the outcome for shareholders.

On a personal note I'd like to make particular mention of Wayne Boyd for the wisdom and the guidance he has provided during his tenure as Chairman. During this time we have seen, in my opinion, a sea change in the attitude and focus of Telecom from the highest levels. A change for the better and one I know that has weighed very heavily on Wayne. So to you Wayne as outgoing Chairman, I say thank you.

## PRESENTATION

---

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

Thank you very much. Are there any other questions? Well, ladies and gentleman, as there are no further 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. If you are a proxy or corporate representative the voting paper you were given as you entered the meeting, please complete that voting paper by ticking for or against or abstain in the appropriate place on the form for each resolution and sign the form. Please do not tick the proxy discretion box. If you have any difficulty please raise your hand and someone will assist you. Ballot boxes and collectors will be available to you at the conclusion of the meeting and are situated at the back of the room and to the side of the aisles. 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 exchanges and the media this afternoon. Now, if you have parked a car in SkyCity car park please exchange your ticket for a pre-paid parking ticket at the registration desk so that you get free parking.

If you have any questions about Telecom products or services, please feel free to talk to the Telecom customer service representatives at the customer service desk out in the registration area. If you prefer, you can complete the query form that is available at the customer services desk, then leave it with the customer services staff and a Telecom person will contact you to go over any questions you have.

Thank you for your attendance today and I now invite you to meet the directors, senior executives and auditors and to take refreshments. This will take place in the foyer through the doors at the back of the hall and once again I remind you to put your voting papers in the ballot box on your way out of the room. Thank you and the meeting will close on completion of the voting procedures.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2011 Thomson Reuters. All Rights Reserved.