

## **Minutes of the 2012 Annual Meeting of Shareholders of Telecom Corporation of New Zealand Limited**

<b>Date:</b>	28 September 2012
<b>Time:</b>	10.00am
<b>Venue:</b>	The Conference Centre, Level 2 Telecom Place, 167 Victoria Street West, Auckland
<b>Apologies:</b>	None

### **Preliminary**

The Chairman, Mr Mark Verbiest:

- welcomed shareholders to the meeting and declared the meeting open;
- introduced the Group General Counsel & Company Secretary, Chief Financial Officer, Chief Executive Officer and Directors;
- advised that the Group General Counsel & Company Secretary had confirmed the notice of the meeting had been duly sent to all shareholders and other persons entitled to receive it;
- confirmed that the quorum required for the meeting (of at least two shareholders) was met;
- reported that proxies had been received in respect of approximately 1.2 billion shares, representing approximately 63% of total votes;
- noted that the Chairman would vote proxies for which he was given discretion in favour of resolutions 1 to 6; and
- noted that the financial statements for the 12 month period to 30 June 2012, together with the auditors' report, were set out in the company's annual report, which was made available electronically to all shareholders on 24 August 2012.

### **Chairman's Speech**

The Chairman remarked that this was his first annual meeting as Telecom's chairman, and Telecom's first meeting of shareholders post the Chorus demerger on 1 December 2011.

He stated that, to continue to perform for shareholders, the company would focus on winning customers by focussing on both services and products.

With reference to the 2012 financial year, the Chairman observed that the company's rigorous focus on cost management and simplification had delivered a satisfactory financial result. He summarised the FY12 results and noted that, although the demerger made year-on-year comparisons difficult, the company delivered largely flat EBITDA on a pro forma basis.

The Chairman reiterated remarks made by the company in August, when the results of the 2012 financial year were announced, that the outlook for FY13 is for flat to low single digit percentage decline in Telecom's EBITDA. He stated that, for the current financial year, Telecom intends to pay 90% of adjusted net earnings as dividends and expects imputation to be between 70% and 100%.

The Chairman said that the demerger had allowed for a reset of the regulatory environment, which meant that Telecom was now competing on a more level playing field with other telecommunications providers. This regulatory reset allows Telecom to be more single-minded on delivering for customers.

The Chairman discussed the composition of the new Board, and noted that a lot of care had gone into ensuring the Board had the right balance of values and functional expertise. He paid tribute to the previous Chairman, Mr Wayne Boyd, and to former CEO, Dr Paul Reynolds, who led Telecom through the winning UFB tender and successful demerger. The Chairman then mentioned the recent appointment of Mr Simon Moutter as Telecom's new CEO. He stated that Mr Moutter understood the demands of shareholders and the importance of Telecom to the country.

### **CEO's Speech**

The CEO, Mr Moutter, opened by saying that it was his seventh week as CEO of Telecom. He remarked that there was enormous opportunity to reshape Telecom by delivering for customers.

The CEO outlined the competitive environment in which Telecom was operating, and stated that Telecom's ability to win would be underpinned by its ability to provide compelling products and services to its customers more effectively than Telecom's competitors.

The CEO addressed the need for a clear strategic plan that will put Telecom back on the path to growth. He noted that he expects to deliver this new plan to the market early next calendar year and that, while the detail is still being worked on, some of the steps that Telecom needs to take to achieve its goals include:

- transforming Telecom's staff culture to become more customer-focussed and agile;
- tightly managing the company's cost base through simplified processes; and
- having an ambitious plan for long term growth.

He added that he is also focussed on ensuring that the organisation has the right leadership capability.

The CEO noted that there was an enormous opportunity ahead to completely reshape Telecom and re-forge its deep links with the country.

He concluded by acknowledging the efforts of the Telecom team through the recent separation process, noting that customer satisfaction had increased during that period. He also welcomed Mr Chris Quin to his new role as head of Telecom Retail, and acknowledged the outgoing head of Retail, Mr Alan Gourdie.

## **Resolutions**

The Chairman then moved to address each of the resolutions, and declared that a poll on each resolution would be conducted at the conclusion of the meeting.

### ***Resolution 1: That the directors are authorised to fix the Auditors' remuneration.***

The Chairman briefly outlined the statutory audit fees for the 2012 financial year. The Chairman put the resolution that the directors be authorised to fix the auditors' remuneration to the meeting. There were no matters for discussion or questions raised.

### ***Resolution 2: That Mr Mark Verbiest is re-elected as a director of the Company.***

As this resolution concerned his own re-election, Mr Verbiest asked Dr Murray Horn to Chair this part of the meeting.

Dr Horn stated that the Board unanimously supported the re-election of Mr Verbiest, and Mr Verbiest addressed the meeting in support of his proposed re-election.

Dr Horn put the resolution to the meeting and asked whether there were any matters for discussion concerning the resolution.

Mr Nagel from BNV Associates asked Mr Verbiest whether Telecom International included Telecom's Australian operations and asked Mr Verbiest to comment on the sale of Yellow Pages. He also asked Mr Verbiest to confirm the number of shares he held in Telecom.

Mr Verbiest confirmed that Telecom International does not include the business' Australian operations; it is responsible for the international wholesale business and holds Telecom's interest in the Southern Cross cable. He understood that the value of the Yellow Pages business had decreased since its sale by Telecom, and noted the advantages to Telecom of selling the asset when it did. Mr Verbiest confirmed that the number of shares he holds in Telecom is accurately recorded in the company's annual report.

There being no further questions, Dr Horn advised that a poll on the resolution would be held at the conclusion of the meeting. Mr Verbiest then reassumed the chair.

### ***Resolution 3: That Mr Paul Berriman is re-elected as a director of the Company.***

The Chairman advised that the Board unanimously supported the re-election of Mr Berriman, and Mr Berriman addressed the meeting in support of his proposed re-election.

The Chairman put the resolution to the meeting. There were no matters for discussion or questions raised.

**Resolution 4: That Mr Simon Moutter is elected as a Director of Telecom.**

The Chairman advised that the Board unanimously supported the election of Mr Moutter, and Mr Moutter addressed the meeting in support of his proposed election.

The Chairman put the resolution to the meeting and asked whether there were any matters for discussion.

Mr Hawkins from the New Zealand Shareholders' Association addressed the meeting. He stated that the Association is not opposed to managing directors *per se*, and noted that managing directors are subject to the constraints of the Companies Act in the same way other directors are. He then noted it was the Association's preference that CEOs serve at least a year with a company before they join the Board. However, as the Chairman and CEO have worked together extensively before, in this particular case, the Association was not opposed to Mr Moutter's appointment as a managing director at this time.

Mr Verbiest thanked Mr Hawkins for his comments. He advised the meeting that at every Board meeting the directors have a non-executive session without the managing director present, which served as an appropriate check. He also noted that it was apparent to the Board that Mr Moutter clearly understood the difference in his roles as an executive of the company and as a director.

**Resolutions 5 and 6**

Before putting resolutions 5 and 6 (which related to Mr Moutter's remuneration arrangements) to the meeting, the Chairman spoke to the CEO's overall remuneration package. He noted that the Board aimed to create an appropriate balance between fixed and variable components, ensuring that a substantial portion of the CEO's remuneration is subject to Mr Moutter's and Telecom's performance; and that the revised incentive mix had enhanced alignment to shareholder interests by delivering a greater proportion of the remuneration in equity than previous CEO packages.

The Chairman said that it was the Board's recommendation that shareholders vote in favour of both these resolutions.

***Resolution 5: That approval is given for the issue by Telecom's Board of Directors to Mr Simon Moutter (Telecom's Chief Executive Officer) during the period to 27 September 2015 of in total up to 1,000,000 shares in Telecom under the Performance Equity Scheme (comprising redeemable ordinary shares and, where contemplated by the scheme, ordinary shares), on the terms set out in the Explanatory Notes accompanying the 2012 Notice of Annual Meeting.***

The Chairman put the resolution to the meeting. He noted that neither Mr Moutter nor any of his Associated Persons may vote on the resolution. There were no matters for discussion or questions raised.

***Resolution 6: That approval is given for the issue by Telecom's Board of Directors to Mr Simon Moutter (Telecom's Chief Executive Officer) during the period to 27 September 2015 of in total up to 2,500,000 share rights to acquire Telecom ordinary shares under the Performance Rights Scheme on the terms set out in the Explanatory Notes accompanying the 2012 Notice of Annual Meeting.***

The Chairman put the resolution to the meeting and asked whether there were any matters for discussion concerning the resolution.

Mr Hawkins of the New Zealand Shareholders' Association addressed the meeting. He acknowledged positive moves made by the company in structuring the long term incentive scheme, by reducing the amount of shares vesting at the 50th percentile from 50% of the incentive available (as most companies do) to 40%, with a straight line run up to the 85th percentile of the comparative group before full vesting (which is also at a higher level than most companies). Mr Hawkins noted that the Association has some reservations about the use of Total Shareholder Returns as the only measure, and asked the Board to revisit this in due course, suggesting the Board adopt a package of measures including comparative TSR.

Mr Hawkins also noted that the Association was opposed to the concept of re-testing if the incentive is not met in the first instance, and he asked the Board to reconsider that particular aspect going forward.

The Chairman thanked Mr Hawkins for his comments on the hurdles and said that it was a signal that the Board would not give excessive awards for ordinary performance. He acknowledged that TSR was not a perfect measure, but noted that Mr Moutter was being asked to re-set strategy this year and other hurdles for a long term incentive did not necessarily make sense in the absence of a clear strategy. He confirmed that Mr Hawkins' comments would be taken into consideration for the following two years, in respect of which hurdles have not yet been set.

The Chairman noted that re-testing hurdles was not uncommon, but that the Board would take Mr Hawkins' comments into consideration. The Chairman added that the Board continues to have the issue of Telecom remuneration structures under active consideration.

There being no further questions from the floor, the Chairman noted that neither Mr Moutter nor any of his Associated Persons may vote on the resolution.

### **Shareholder Discussion**

The Chairman invited general questions from the floor. Mrs Baragwanath raised the issue of CEO remuneration and incentive schemes, noting the low average income in New Zealand and the recent international protests about bonuses. She asked Telecom to take the lead on this issue in New Zealand.

The Chairman assured the meeting that Telecom is attuned to this issue and that the Board has a number of matters related to remuneration under consideration. He reiterated that the CEO's package now has a greater equity component for better shareholder alignment and stated that, in order to attract the highest calibre candidates, Telecom must offer what is regarded in the market as competitive.

Mr Kennerley asked about Telecom's point of difference to its competitors, noting that earnings would not grow if Telecom simply imitated its competitors.

The Chairman concurred and said that Telecom's platform must be absolutely first rate. He expects that Mr Moutter's new strategy, to be communicated early next year, will address some of those issues.

Mr Kennerley asked whether Telecom would act as a distribution point for content, or whether it would develop its own offerings.

The Chairman agreed that this was one of the key strategic decisions that Mr Moutter would make a recommendation to the Board on. He informed the meeting that Telecom has the network capability on both fixed and mobile networks to be able to deliver whatever content is made available to New Zealanders and that Telecom's network superiority would show through.

Mr Kennerley then asked about Telecom's strategy for the youth market. He remarked that the absence of figures disclosed about Skinny suggested the business was less than successful.

The Chairman advised that Skinny had seen increased uptake in recent months. He noted that there were competitive reasons for not divulging specific details of Skinny's mobile connections. Mr Moutter commented generally on the youth market, noting that Skinny is a very deliberate attempt for Telecom to present itself to the youth customer base in a different way. He said that so far it was going well, and that efforts to reach the youth market are increasing.

Mr Jamieson referred to a recent fine imposed on the company and asked about the company's efforts to improve compliance under relevant legislation.

The Chairman stated that Telecom has a zero tolerance policy in relation to breaches of statutes such as the Commerce Act. He noted that the matter referred to by Mr Jamieson was a legacy matter (over 10 years old), which the court has only just given judgment on. Legislative compliance remains a key focus for management going forward.

Mr Nagel enquired about appropriate Board size and queried whether the Annual Meeting would be better attended by young people if the time was moved outside of work hours.

The Chairman stated that an extensive exercise had been undertaken to shape the new Board and that he believed the current composition was right. He agreed to look into the issue of meeting times for next year, but noted that participation by younger shareholders was not driven by time alone and that further consideration needed to be given to online participation in meetings.

There were no further questions

## **Polls**

The Chairman asked for the polls on all resolutions to proceed, with the company's auditors, KPMG, acting as scrutineers. The Chairman announced that the meeting would be closed following the completion of the voting procedures.

The meeting (except for the vote counting and scrutineering) finished at approximately 11.20am.

The results of the polls were announced to the Exchanges later that day. Resolutions 1 through to 6 were passed.

**Details of the total number of votes cast in person or by the proxy on the poll were:**

<b>Resolution</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1. Fix auditors' remuneration	1,155,272,118 (99.5%)	5,751,041 (0.5%)	4,998,890
2. Re-election of Mark Verbiest	1,156,394,780 (99.75%)	2,872,256 (0.25%)	5,789,813
3. Re-election of Paul Berriman	1,152,283,033 (99.18%)	9,562,743 (0.82%)	3,289,178
4. Election of Simon Moutter	1,158,088,524 (99.7%)	3,437,610 (0.3%)	3,460,165
5. Approval for the issue of up to 1,000,000 shares to Simon Moutter, under the Performance Equity Scheme during the period to 27 September 2015.	1,135,302,892 (97.74%)	26,270,429 (2.26%)	4,526,393
6. Approval for the issue of up to 2,500,000 share rights to Simon Moutter, under the Performance Rights Scheme during the period to 27 September 2015.	1,125,711,706 (97.17%)	32,785,298 (2.83%)	6,618,330

**Details of the manner in which shareholders directed the proxy to vote at proxy close (and included above):**

<b>For</b>	<b>Discretionary Board proxies</b>	<b>Discretionary other proxies</b>	<b>Against</b>	<b>Abstain</b>
1. Fix auditors' remuneration				
1,145,801,126	1,472,650	7,176,071	5,742,329	4,959,308
2. Re-election of Mark Verbiest				
1,146,884,337	1,495,211	7,179,588	2,871,100	5,756,048
3. Re-election of Paul Berriman				
1,142,748,163	1,518,482	7,179,588	9,562,743	3,255,413
4. Election of Simon Moutter				
1,148,541,276	1,548,862	7,172,386	3,426,810	3,426,400

<b>For</b>	<b>Discretionary Board proxies</b>	<b>Discretionary other proxies</b>	<b>Against</b>	<b>Abstain</b>
5. Approval for the issue of up to 1,000,000 shares to Simon Moutter, under the Performance Equity Scheme during the period to 27 September 2015.				
1,125,842,427	1,663,738	7,151,009	26,132,013	4,439,962
6. Approval for the issue of up to 2,500,000 share rights to Simon Moutter, under the Performance Rights Scheme during the period to 27 September 2015.				
1,116,197,528	1,733,041	7,151,009	32,645,957	6,517,234

Confirmed as a correct record

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Mr M Verbiest – Chairman of the Meeting

Dated: 2012