Telecom New Zealand
FY13 RESULT BRIEFING

Chief Executive – Simon Moutter
Chief Financial Officer – Jolie Hodson

Agenda

- Strategic context
- Strategic priorities
- Product trends
- Group results
- Capital expenditure and capital management
- Outlook

Strategic context

Global Context

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

Local Context

- Unprecedented changes have occurred in local industry structure – market still developing and stabilising

Telecom Context

- Market share still weighted to the fixed line
- Legacy cost-base, product and system challenges
- Committed to growing customer preference in mobile and data

FY13 financial results reflect

- Our strategic decision to hold share in broadband and grow mobile
- Significant restructuring activities to implement new strategy and position ourselves for the future

We have four clear strategic priorities

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

Revolutionise Customer Experiences

FY13 Deliverables

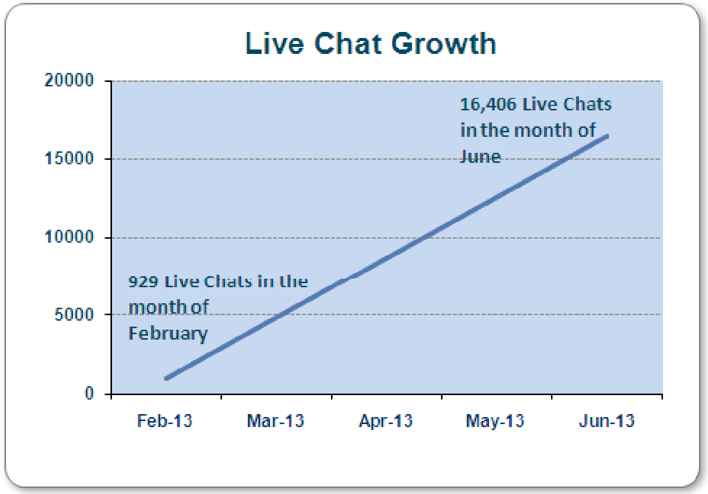
- Revamped and expanded digital service channels
  - **400,000+ "**Tech in a Sec" video views to date
  - **16,000** "Live Chat" experiences in the month of June
  - **130,000** Wi-Fi users, all self-service

- Launched new Broadband VAS product via arrangement to offer Barclays Premier League

- Established a new leadership team to improve Gen-i service to Government customers

- Tripled data roaming usage

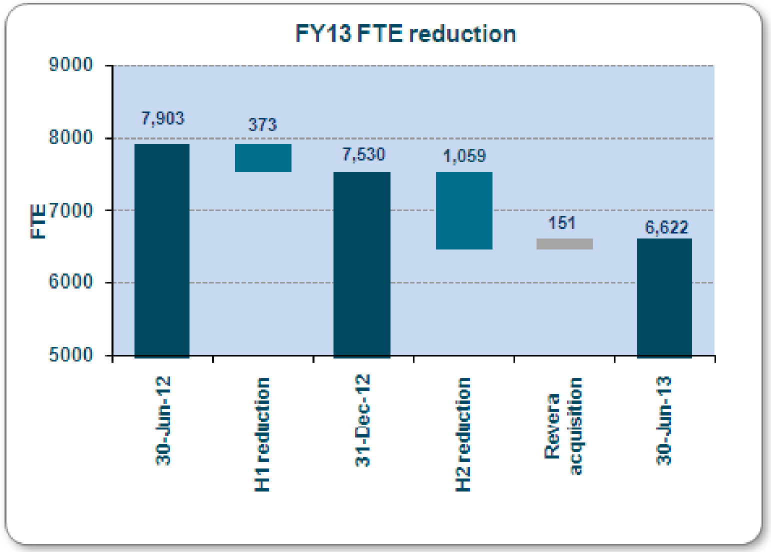
'Tech in a Sec' presenter Matt Gibb



Simplify the Business

FY13 Deliverables

- Reduced FTE to 6,622 at 30 June 2013
- Centralised cost out and simplification programme established
- Commenced major IT re-engineering programme to drive further rationalisation and efficiency
- Streamlined performance and HR systems
- Commenced rationalisation of products and channels, particularly for business customers



- Migrated 60% of broadband customers onto simplified plans
- Gen-i portfolio optimised to focus more on mobility, data and Cloud services

Win Key Markets

FY13 Deliverables

- Strategic decision made to focus on market share ahead of short-term earnings outcomes:
  - Grew mobile service revenues, up 3.5%
  - Held broadband market share at 48%
  - H2 Retail access churn lowest in 5 years
- Launched “Ultra broadband” (VDSL and Fibre) with demand already exceeding supply and positive market response
- Increased brand differentiation, particularly to key market segments like young urban customers
- Continued positive momentum in Skinny
- Embedded a daily sales rhythm culture to increase competitiveness

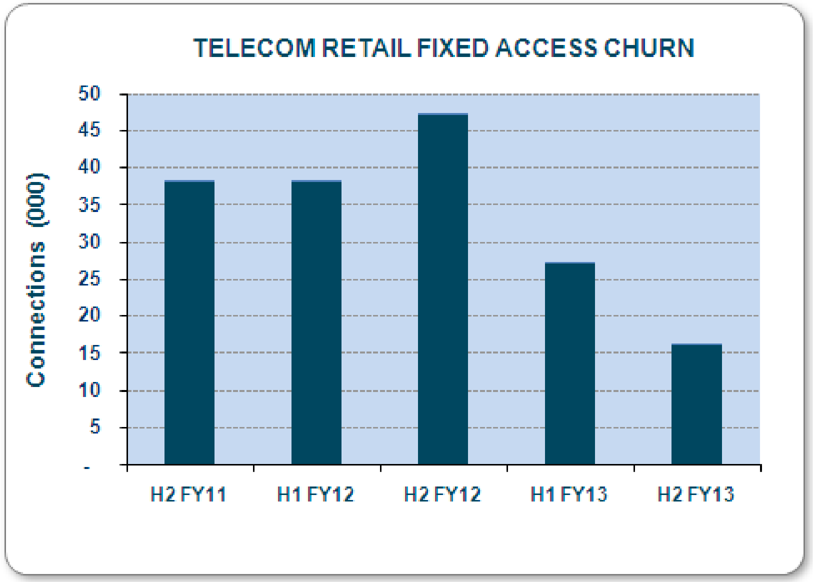
Win the Future

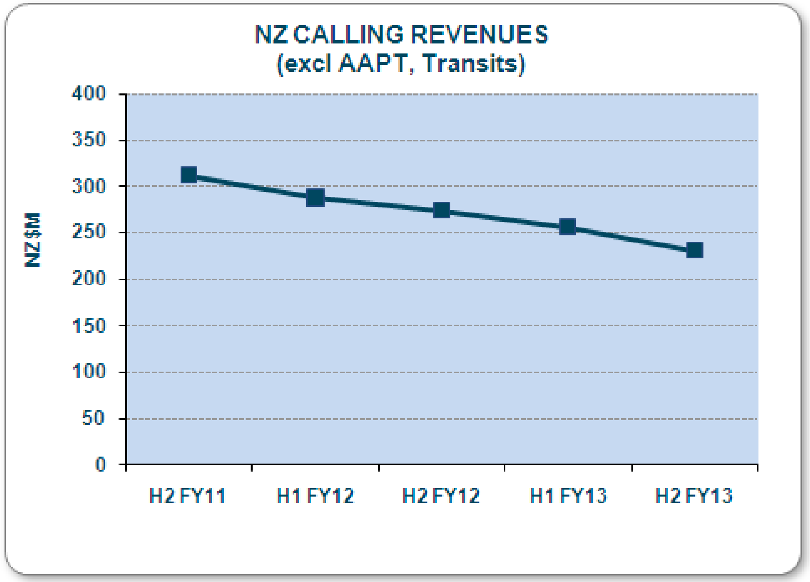
FY13 Deliverables

- Established Telecom Digital Ventures to develop new revenue and new businesses
- Acquired Revera, a market-leading IaaS and Cloud services provider
- Christchurch data centre built, Auckland data centre in advanced planning
- Gen-i partnerships formed with SAP, Flexera, IBM, Microsoft, HP, Samsung and Cisco
- Started next generation 4G LTE network build
- National Wi-Fi footprint significantly expanded
- Selected as IT provider for Network for Learning (N4L)

N4L Chair Helen Robinson and Associate Education Minister Nikki Kaye at launch of N4L initiative

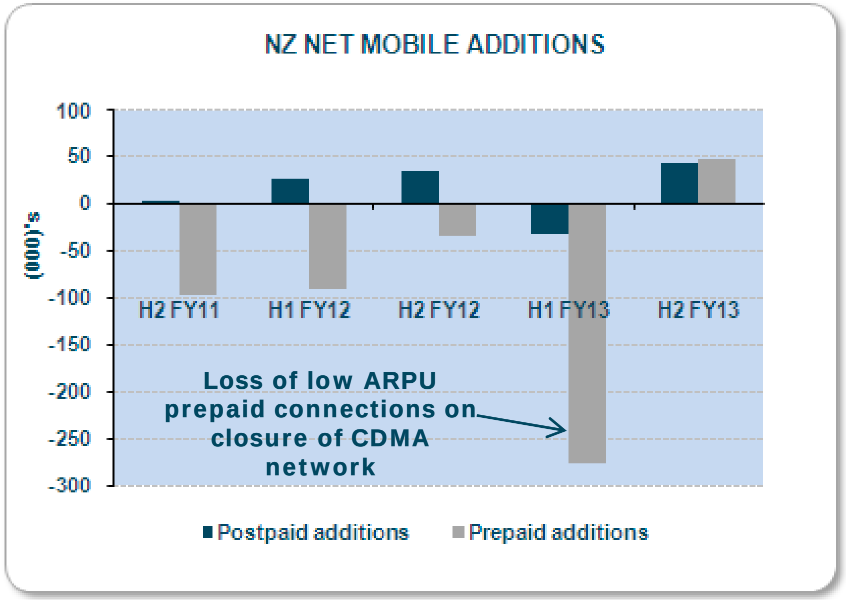
Product trends – Access & Calling

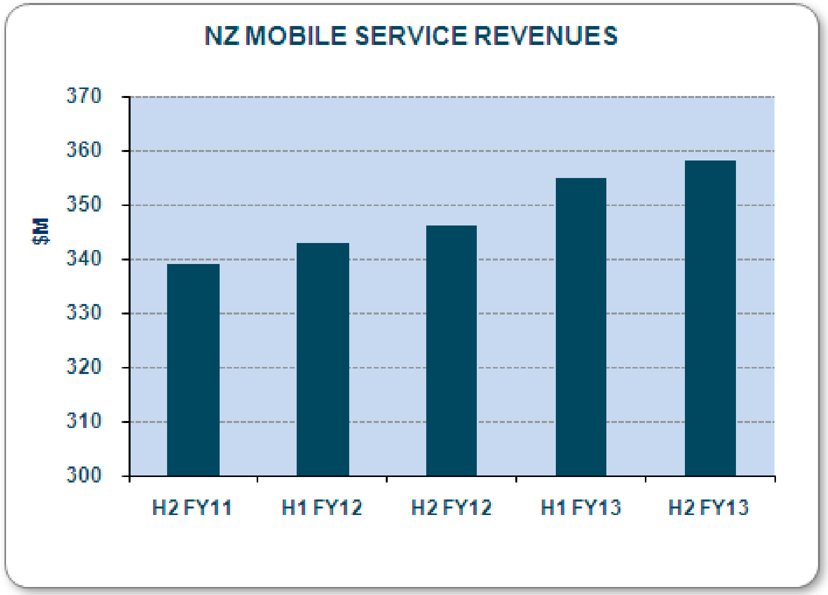




- Rebasing of broadband plans has resulted in lowest Retail access churn in 5 years
- Commercial Wholesale deals will assist in managing rate of PSTN resale decline

Product trends – Mobile

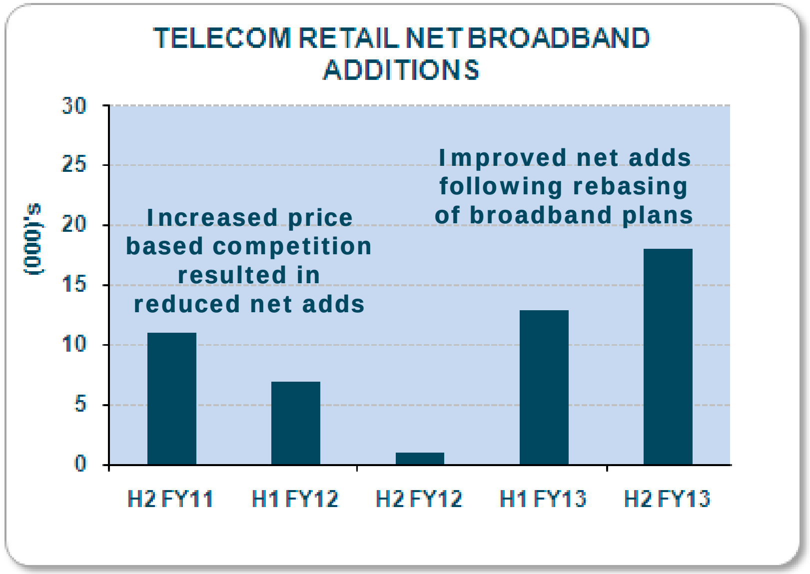


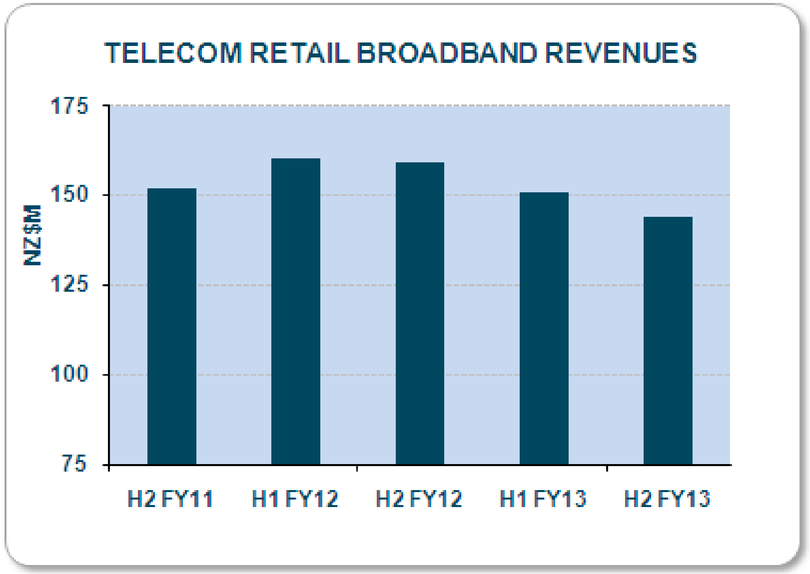


Continued strong performance in mobile

- 92k net additions in H2, 48k prepaid and 44k postpaid
- Mobile service (usage) revenues +3.5%
- SARC/revenue ratio improved a further percentage point in H2

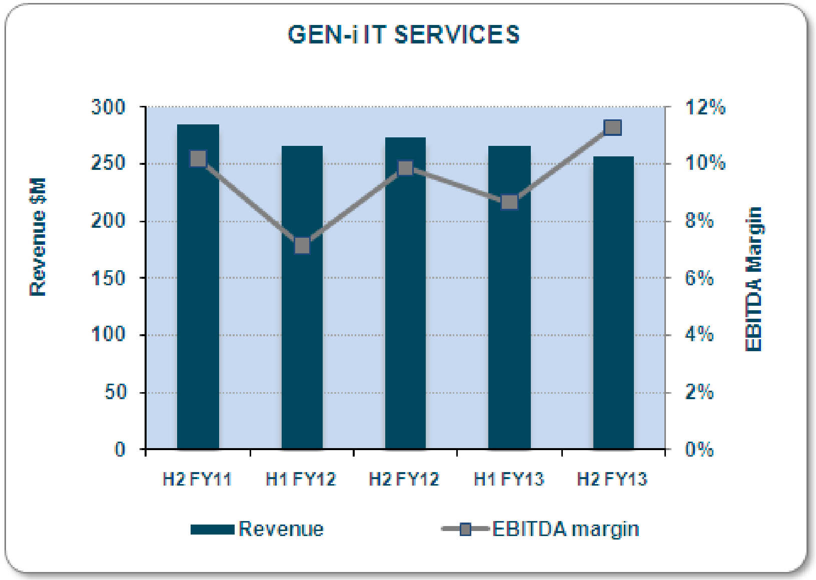
Product trends - Broadband

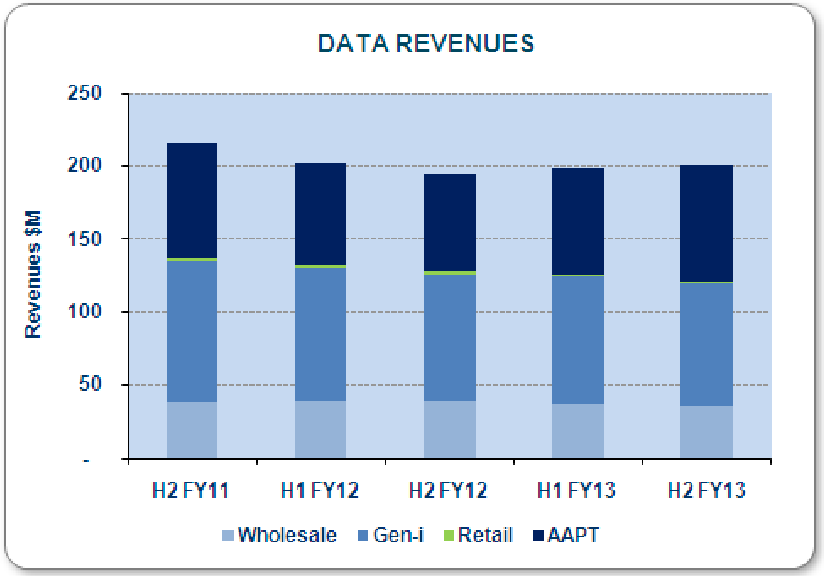




Strategy to hold share successfully executed
- 18k net broadband additions in H2 FY13
- As expected, rebasing of plans has negatively impacted revenues & margins
- 60% of customers are now on simplified, rebased plans
- Ultra Broadband (VDSL & Fibre) products are proving popular up-sell opportunities

Product trends – IT Services & Data





Declines in IT services and NZ data revenues reflect

- Price competition, continued migration away from legacy to new IP-based products
- Repositioning of Gen-i portfolio, towards higher margin business
- Growth in AAPT data revenues following acquisition of Nextep

Group results – full year reported

	2013 $M	2012 $M	CHANGE
Total Revenues	4,189	4,576	-8.5%
Operating Costs	3,267	3,497	-6.6%
EBITDA	922	1,079	-14.6%
D&A	539	576	-6.4%
Net financing costs	42	80	-47.5%
Income tax expense	103	112	-8.0%
Net Earnings	238	311	-23.5%
Capex	465	392	18.6%
EPS (cps)	12.8	16.1	-20.5%

Results from continuing operations

Group results – adjusting items

	2013 $M	2012 $M	CHANGE
Reported Net Earnings	238	311	-23.5%
Restructuring costs	101	-	
Asset impairments	26	-	
Natural disaster costs	9	5	
Insurance proceeds	-15	-8	
Foreign exchange gain	-	-28	
Tax effect of items above	-17	1	
Adjusted Net Earnings	342	281	21.7%

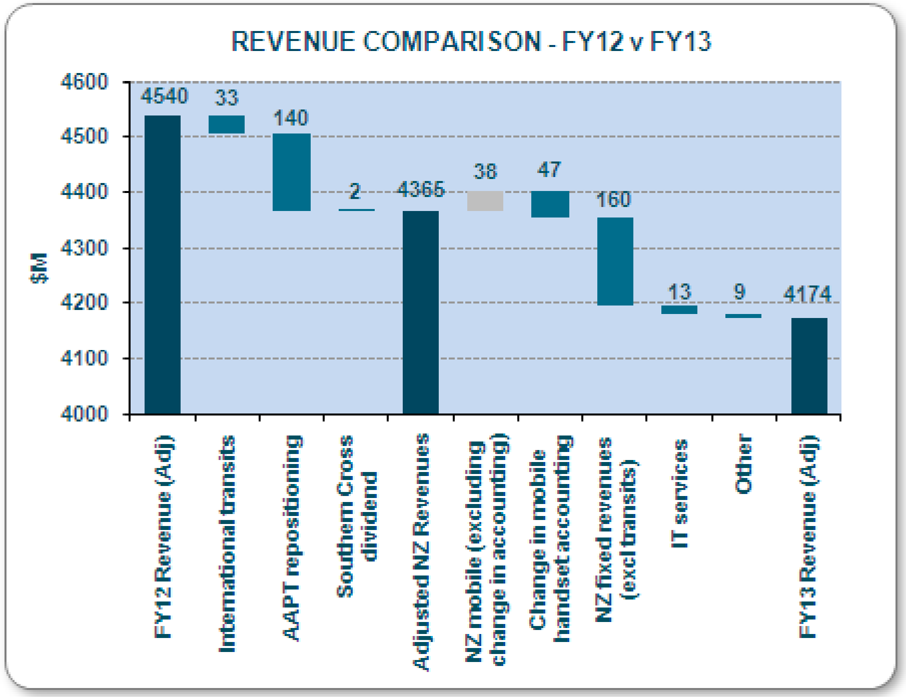
Results from continuing operations

Group results – full year adjusted

	2013 $M	2012 $M	CHANGE
Total Revenues	4,174	4,540	-8.1%
Operating Costs	3,131	3,492	-10.3%
EBITDA	1,043	1,048	-0.5%
D&A	539	576	-6.4%
Net financing costs	42	80	-47.5%
Income tax expense	120	111	-8.1%
Net Earnings	342	281	21.7%
Capex	465	392	18.6%
EPS (cps)	18.4	14.5	26.9%

Results from continuing operations

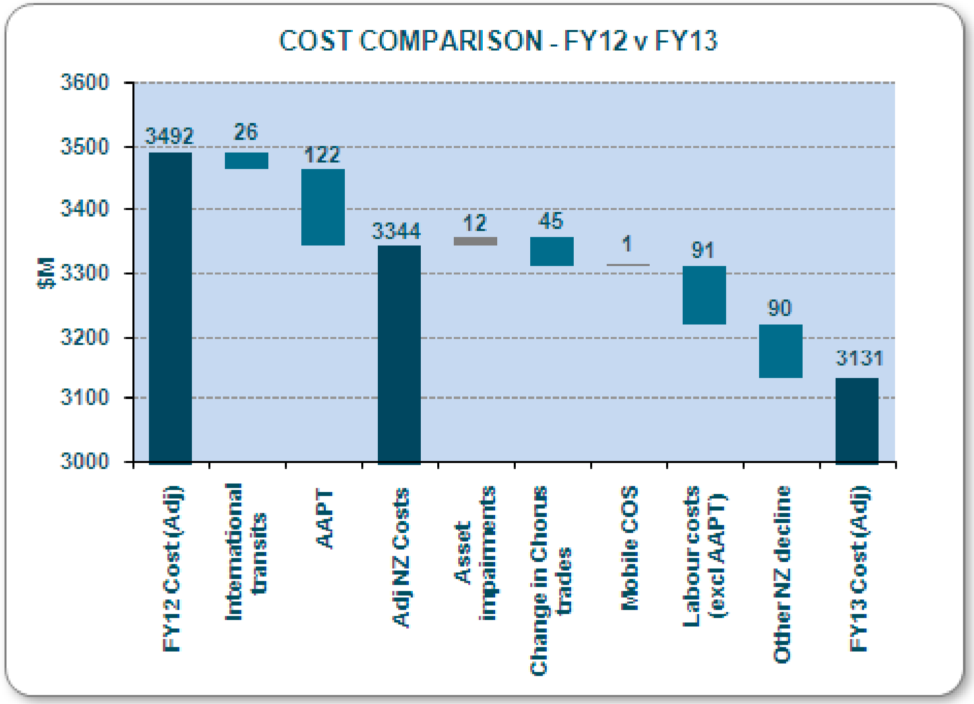
Revenues



Revenue trends reflect:

- Continued declines in AAPT, albeit the rate of decline has slowed in H2
- Reduction in total mobile revenues, due to change in handset accounting offsetting growth in service revenues
- NZ fixed line decline reflects increased price based competition

Costs



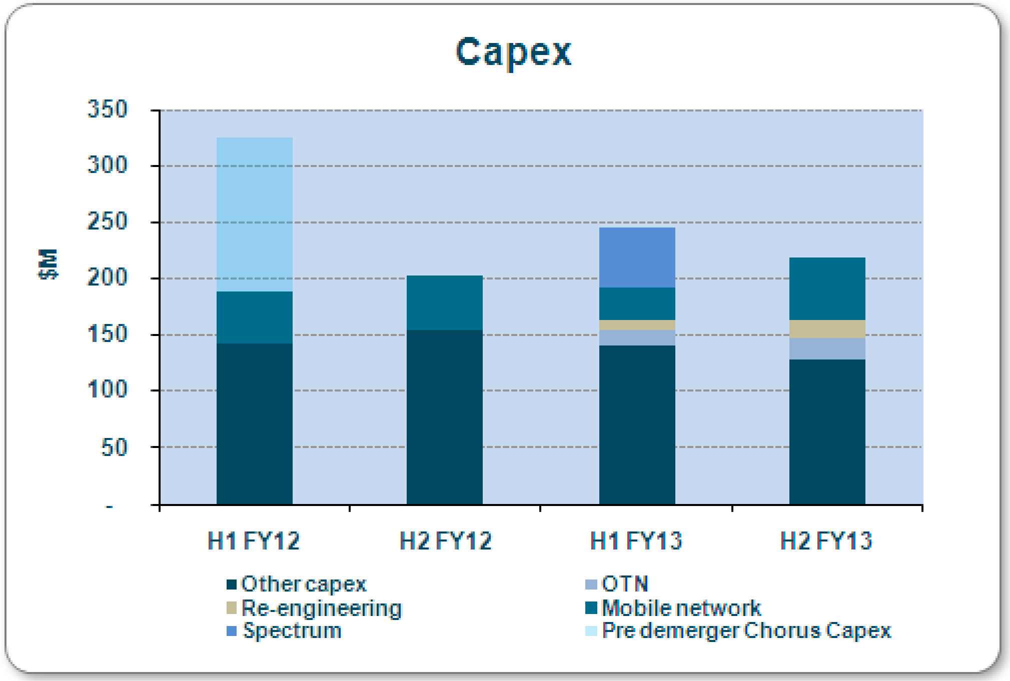
Cost trends reflect:

- Continued declines in AAPT as it exits low margin business
- Changes to Chorus trading arrangements post demerger
- Significant labour cost reductions, reflecting FTE & bonus reductions

Segment view – H2 FY13 adjusted EBITDA

	H2 FY13 $M	H2 FY12 $M	CHANGE
Retail	361	382	-5.5%
Gen-i	184	200	-8.0%
Wholesale & International	111	114	-2.6%
AAPT	38	48	-20.8%
T&SS	-135	-151	+10.6%
Corporate	-22	-33	+33.3%
Adjusted EBITDA	537	560	-4.1%

Capex



- FY13 Capex of $465m in line with guidance
- Disciplined approach to Capex maintained, focus on 3 key strategic programmes
  - Mobile evolution, OTN and re-engineering
- Timing of spectrum auction for 700 MHz uncertain

Capital Management

Committed to conservative capital structure and single A credit rating

Debt

- Net debt (and derivatives) $875m
- Gross debt (and derivatives) $993m
- Ave life of net debt 3.7 years
- Ave cost of debt 5.3%

Equity

FY13 full year dividend 16.0 cps
- H2 dividend 8.0 cps, imputed 75%

FY14 dividend policy
- subject to no adverse change in operating outlook, FY14 dividend payout of 16.0 cps
- Imputation 70 – 90% to enable replenishment of IC account

Intention to deregister ADR programme

Aiming to end FY14 with

A more competitive organisation:

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

Success in the market:

- A 1-2% point increase in mobile market service revenue share – with mobile completely re-platformed, 4G LTE launched
- Greater brand cut-through and preference in key markets
- Stable broadband market connection share - VDSL and fibre products take-up accelerated
- Double digit revenue growth from Gen-i networked ICT – with expanded data, mobility and Cloud capability

Success for the future:

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

First half FY14 delivery focus

Revolutionise the customer experience:

- Expanding and enhancing digital self-service options

Simplifying the business:

- Continuing the re-engineering programme
- Continuing the centralised cost out & simplification programme

Win key markets:

- Re-invigorating our brands, and embedding a winning culture
- Successfully launching 4G mobile in Q2
- Continuing migration of broadband customers to simplified product range
- Continue the up-selling of customers to Ultra Broadband – more reasons to value data

Win the future:

- Leveraging Revera capability via Gen-i channels
- Advancing the Telecom Digital Ventures portfolio
- Integrating Wi-Fi into the mobility proposition
- Leveraging the Government rollouts of UFB and RBI, and auction of 700MHz spectrum

Financial Outlook

Adjusted EBITDA	➢ Formal guidance not provided ➢ Current FY14 market consensus is $1,035m
Capex	➢ FY14 to FY16 envelope of $400m to $500m pa ➢ FY14 currently anticipated to be near the upper end of this range (excluding spectrum) ➢ Timing of spectrum acquisition remains uncertain
Dividend	➢ Subject to no adverse change in operating outlook, FY14 dividend payout of 16 cps

Summary

- As expected, near term revenue trends have been weak, largely driven by our strategic decisions to hold/grow share in the face of price based competition
- Our strategy remains firmly focused on creating long-term shareholder value, through:
  - Near-term focus on market share, margins and costs
  - Longer-term focus aiming to drive market revenue/margin growth with control over unit costs
  - Ongoing disciplined capital management
- We are in the early phases of implementing this strategy and the organisational reset required to drive it – a lot of hard work still to come
- We are committed to the strategy and to the actions needed to achieve success

Disclaimer

Forward-looking statements and disclaimer

This announcement includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of Telecom. Such forward-looking statements are based on the beliefs of management as well as on assumptions made by and information currently available at the time such statements were made.

These forward-looking statements can be identified by words such as ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘will’, ‘plan’, ‘may’, ‘could’ and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Telecom’s control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this release. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Telecom's anticipated growth strategies, Telecom's future results of operations and financial condition, economic conditions in New Zealand and Australia; the regulatory environment in New Zealand; competition in the markets in which Telecom operates; risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Telecom’s financial condition in particular and risks detailed in Telecom's filings with the U.S. Securities and Exchange Commission. Except as required by law or the listing rules of the stock exchanges on which Telecom is listed, Telecom undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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Non-GAAP financial measures

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

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

Telecom believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Telecom, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP financial measures as reported by Telecom may not be comparable to similarly titled amounts reported by other companies.

Appendix

➢ Revenue reclassifications

Changes in revenue classifications

Previous classifications	New classifications: Fixed	Mobile	IT services	Other operating revenues	Other gains	FY13 Reported Revenues
Local service	856	-	7	-	-	863
Calling	622	-	-	-	-	622
Interconnection	65	23	1	4	-	93
Mobile	-	901	-	-	-	901
Data	515	-	1	-	-	516
Broadband and internet	395	-	-	-	-	395
IT services	4	2	512	-	-	518
Resale	72	-	-	-	-	72
Other operating revenues	6	-	9	165	-	180
Other gains	-	-	-	-	14	14
FY13 Reported Revenues	**2,535**	**926**	**530**	**169**	**14**	4,174

- Revenues reclassified to align to internal reporting hierarchy
- Primary change is allocation of interconnection revenues to fixed and mobile