Telecom New Zealand

H1 FY13 RESULT BRIEFING

Chief Executive Officer – Simon Moutter
Chief Financial Officer – Nick Olson

Agenda

- ➢ Initial Observations
- ➢ Strategy Overview & Initial Interventions
- ➢ Group Result
- ➢ Capital Management
- ➢ Guidance

Initial Observations

- In best shape to compete since 2004, particularly in mobile
- We have some great assets (technology, products, people)
- Our brands are strong and can further broaden their appeal
- Our people want us to be more competitive and ambitious

Initial Observations

- Little management time is spent on regulation
- Real opportunity to focus resources on what matters most, our customers
- Anywhere, anytime broadband connectivity to applications hosted within our network or the cloud is now a real prospect

Telecom Post Demerger

T2 does not = T1 – C2

T1	T2
Customer service	Customer intimate
Vertically integrated returns	Reseller margins in fixed
Fixed line centric	Increasingly mobile centric
Regulatory obligations	Lead the market
Legacy cost base	Simplification required
Walk backwards slowly	Compete to grow sensibly

Our Strategic Shift

FROM a traditional fixed and mobile infrastructure company ...

TO a future-oriented, competitive provider of communication, entertainment and IT services delivered over our networks and the Cloud

Emerging Strategic Priorities

Revolutionise Customer Experiences

Simplify The Business

Win Key Markets

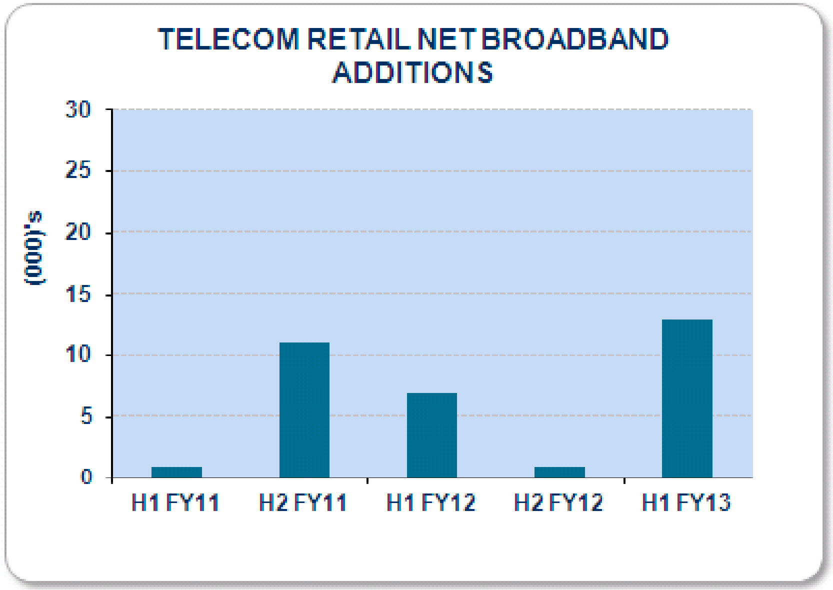
Win The Future

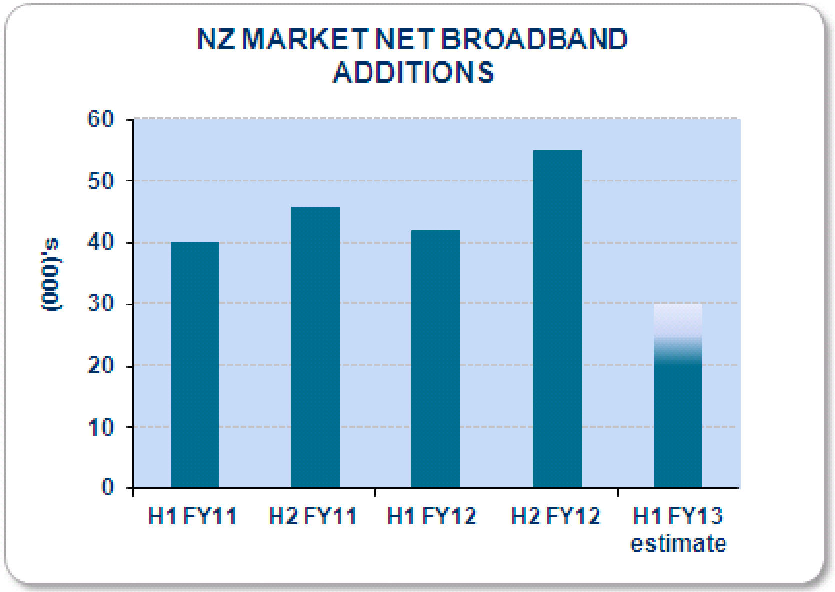
Initial Strategic Interventions

Initial Objectives	Actions Taken	Results to date
➢ Build new strategy	➢ Strategy built	➢ Now moving to implementation planning
➢ Stabilise share in broadband	➢ Rebased broadband plans ➢ Re-orientated the organisation to sell	➢ On track to holding broadband share
➢ Grow share in mobile and stimulate usage revenues	➢ Rebased mobile plans ➢ Re-orientated the organisation to sell	➢ Growing market share and value post closure of CDMA
➢ Maintain cost out momentum	➢ Granular SARC Management	➢ SARC/Rev ratio improved 6% points
	➢ Further simplification	➢ 7% reduction in labour costs
	➢ Review Chorus trades	➢ More efficient consumption of inputs

Demonstrating we will offer value at competitive prices

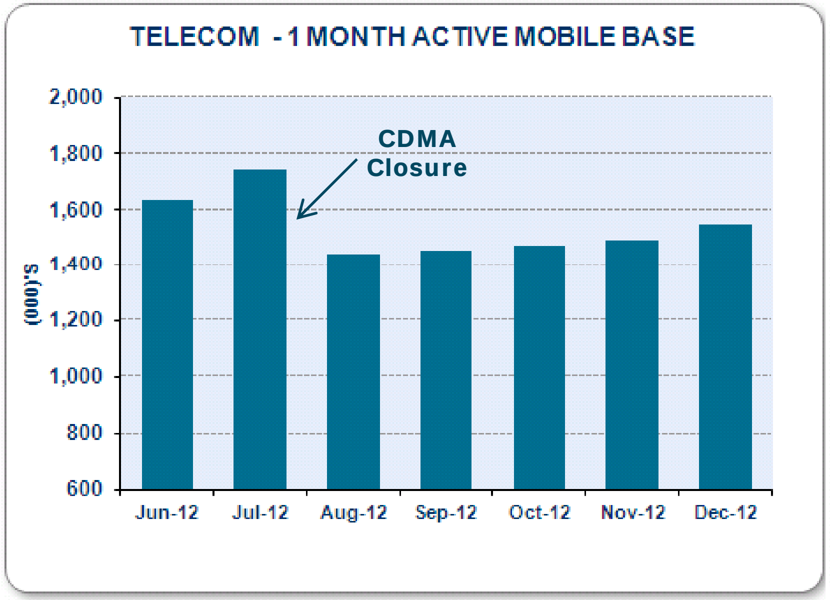
Stabilise share in Broadband

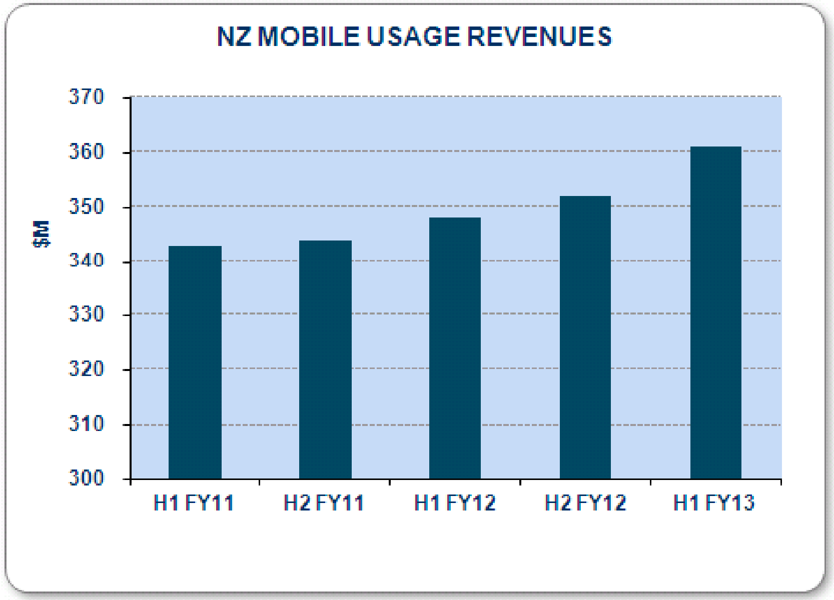




13k net additions, improved access churn
Rebasing of plans having negative impact on revenues

Grow share in Mobile & stimulate Usage Revenues





4 consecutive months of base growth following closure of CDMA network on 31 July

Some lead indicators are encouraging

Strong growth in mobile connections, 103k net adds since closure of CDMA

Mobile usage revenues up 4% in H1, 5% in Q2

Postpaid SARC/Rev ratio improved 6% points

13k net broadband adds in H1

Retail access churn slowing, 5% in H1

21% growth in Gen-i IT Solutions EBITDA

7% reduction in labour costs, 5% excl AAPT

Further platform and product rationalisation 4,500 spot codes removed from system

[1] SARC/Rev = subscriber acquisition and retention costs / expected customer usage revenues

But still areas of concern

NZ fixed calling declining at 12%

Gen-i market evolving rapidly, with increased competitive intensity

Low margins on entry level broadband plans

AAPT faces a tough operating environment

Despite cost out activity to date, cost base remains uncompetitive

Wholesale revenues at risk as customers seek network cost savings

We must realign & simplify our business

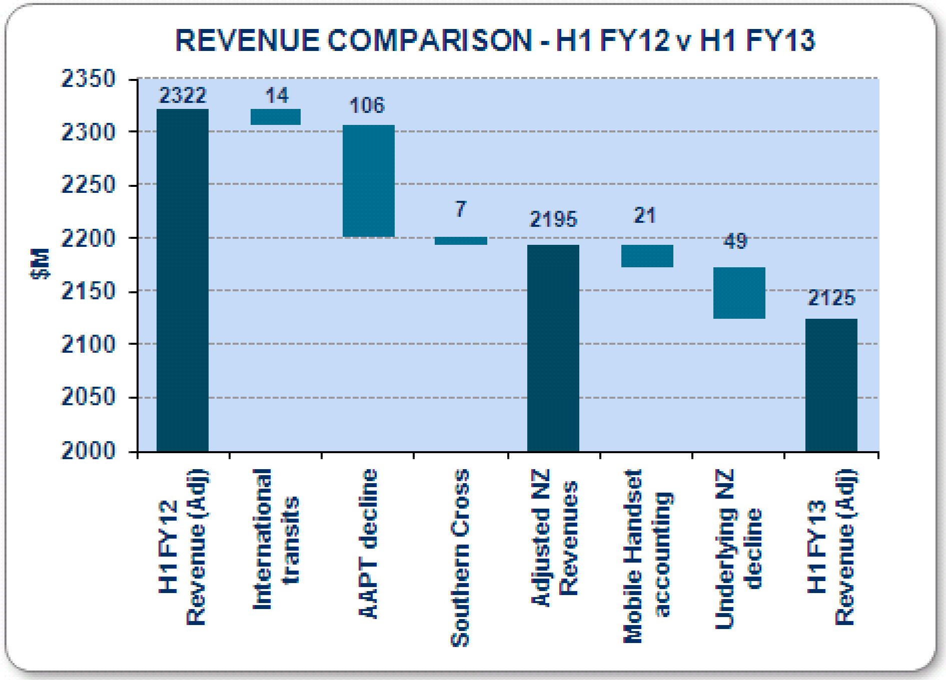
- Previous initiatives over recent years have had an impact
- Still have a highly complex business
- Our operating costs are higher than our industry peers
- We must have a competitive cost base to succeed in fast-changing marketplace
- Imperative we move quickly to execute new strategy
- Expect material one off costs in H2 associated with strategy implementation

Group results

	REPORTED	ADJUSTED	ADJUSTED[1]	
	H1 FY13 $M	H1 FY13 $M	H1 FY12 $M	CHANGE
Total Revenues	2,135	2,125	2,322	-8.5%
Operating Costs	1,619	1,619	1,834	-11.7%
EBITDA	516	506	488	3.7%
Net Earnings	163	156	99	57.6%
Capex	246	246	189	30.2%
Free Cash flow	270	260	299	-13.0%
EPS (cps)	8.8	8.4	5.1	64.7%

[1] Results from continuing operations

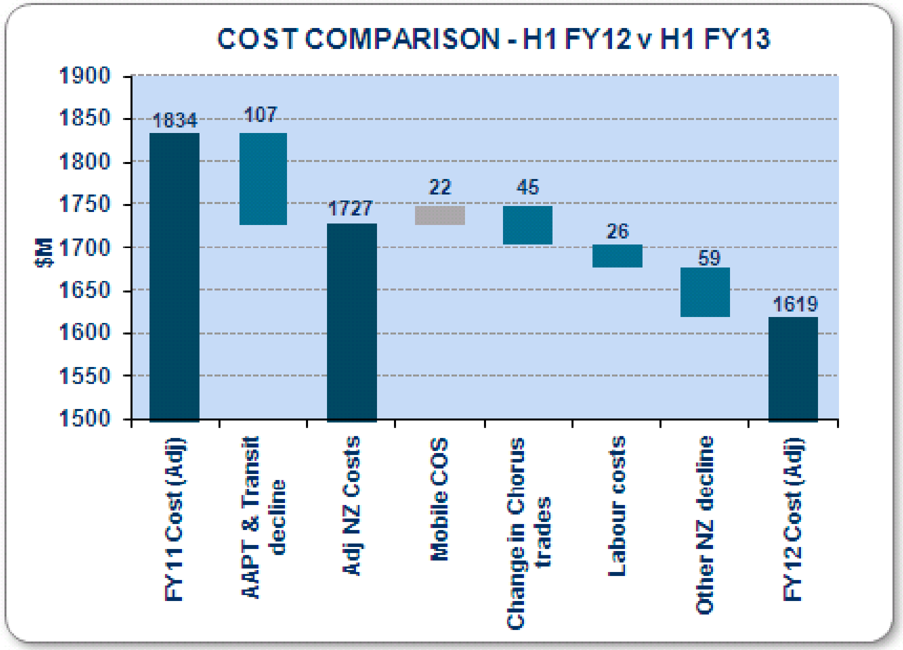
Revenues



- **Top line decline 8.5%**
- **Underlying NZ revenue decline 2%**
- **$106m decline in AAPT - rationalisation of low margin customers**
- **$21m negative impact from change in handset accounting**

Underlying NZ decline more modest than top line decline

Costs



- Significant reductions in AAPT cost base
- Increased mobile COS, due to higher acquisition rate
- Change in Chorus trading arrangements
- Labour costs excl AAPT, down 5%

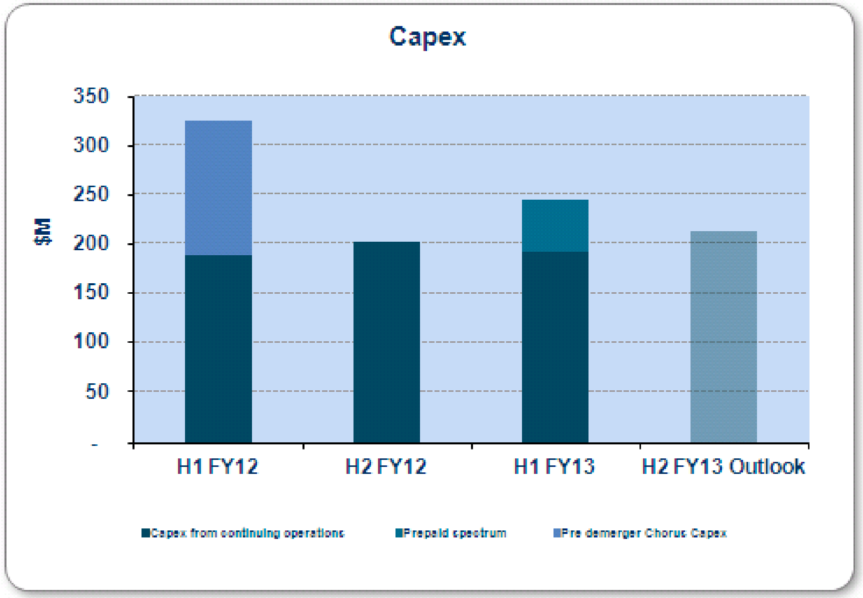
Maintaining a disciplined approach to costs

Segment Results – EBITDA

	H1 FY13 $M	H1 FY12 $M	CHANGE
Retail	357	346	3.2%
Gen-i	186	189	-1.6%
Wholesale & International	113	107	5.6%
AAPT	36	40	-10.0%
T&SS	-152	-155	1.9%
Corporate	-34	-39	12.8%
Adjusted EBITDA	**506**	**488**	**3.7%**
Pro forma adjustments		45	
Pro forma EBITDA	**506**	**533**	**-5.1%**

BU EBITDA result comparators are complicated by demerger

Capex



FY13 Capex Guidance remains ~$460m

Strategic investments in:

- **850 MHz spectrum**
- **Dual-carrier**
- **LTE trials**
- **Optical Transport Network**
- **Data centres (re-phased)**

H1 FY13 Capex of $246m includes $55m of spectrum prepaid in prior year

Capital Management

Committed to conservative capital structure and single A credit rating

Debt	Equity
$919m net debt	$283m share buyback complete
$250m 7 year notes issued	8.0cps H1 dividend, imputed 75%
Ave life of debt 3.3 years	Intention to deregister ADR programme
Ave cost of funds 5.8%	

No further share buybacks currently planned, other than to neutralise DRP

Guidance

	FY12[1]	FY13
Adjusted EBITDA	$1,092m	$1,040m to $1,060m[2]
Capex	$392m	~$460m
Dividend	90% payout	90% payout

[1] Pro-forma results from continuing operations

[2] Previously flat to low single digit percentage decline
Excludes one off costs in H2 associated with strategy implementation

Summary

- Strategy developed & being implemented, more detail in May
- Results reflect rebasing of broadband and mobile pricing
- Some lead indicators are encouraging
- Brands are gaining market traction
- Moving quickly to execute against new strategy

Investor Day 16 May, in Auckland

Disclaimer

Forward-looking statements and disclaimer

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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. Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.
6. Adjusted free cash flow. Adjusted free cash flow utilises adjusted EBITDA rather than underlying EBITDA defined above.
7. Adjusted operating revenue. Adjusted operating revenue excludes significant one-off gains.
8. Adjusted net earnings. Adjusted net earnings are net earnings for the year adjusted by the same items to determine adjusted EBITDA, together with any adjustments to depreciation, amortisation and financing costs, whilst also allowing for any tax impact of those items.
9. Pro-forma EBITDA. EBITDA adjusted to reflect changes in Chorus trades upon demerger

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

- Business Unit performance
- Restatements – partial cost allocation

Retail Performance

	H1 FY13 $M	H1 FY12 $M	CHANGE
External Revenues	927	962	-3.6%
EBITDA	357	346	3.2%

- **Customer satisfaction measures remain high**
- **Heavy price based competition in fixed**
- **Net broadband additions and reduced access churn following rebasing of plans**
- **Strong performance in mobile**
  - **usage revenues up 6%**
  - **strong connection growth following the closure of CDMA**
  - **improved SARC management**
- **Labour costs down 8%**
- **Reduced Chorus costs following change in trades**

Gen-i Performance

	H1 FY13 $M	H1 FY12 $M	CHANGE
External Revenues	618	647	-4.5%
Telco EBITDA	163	170	-4.1%
IT Solutions EBITDA	23	19	21.1%

- **Price based competition across fixed voice & data, mobile & IT**
- **Mobile usage revenues down 2%, impacted by closure of CDMA**
- **Focus on growing margin & profitability**
- **Labour costs down 8%**
- **Reduced Chorus costs following change in trades**

Wholesale & International performance

	H1 FY13 $M	H1 FY12 $M	CHANGE
External Revenues	280	297	-5.7%
EBITDA	113	107	5.6%

- **Revenue declines reflect exit of low margin transit revenues**
- **Wholesale access revenues remain strong, albeit risks exist as customers seek network cost savings**
- **Reduced inter-carrier costs due to price reductions and changes in Chorus trades**

AAPT Performance

	H1 FY13 $M	H1 FY12 $M	CHANGE
External Revenues	242	348	-30.5%
EBITDA	36	40	-10.0%

- **Continued price pressure & industry consolidation prior to NBN**
- **Migration of final Consumer services to purchaser of consumer business**
- **Focused on cost management and customer retention**
- **Completed acquisition of Nextep in December, expected to be EBITDA neutral in FY13 and accretive thereafter**

Shift to partial cost allocation

	FULL COST ALLOCATION	PARTIAL COST ALLOCATION
Adjusted EBITDA	**H1 FY12 $M**	**H1 FY12 $M**
Retail	233	346
Gen-i	123	189
Wholesale & International	79	107
AAPT	40	40
T&SS	1	-155
Corporate	12	-39
Total EBITDA	488	488
Pro-forma adjustments	45	45
Pro-forma EBITDA	533	533

For H1 FY13 Telecom has shifted from full cost allocation to partial cost allocation. Comparative financials for H1 FY12 have been represented as above