Telecom H1 FY14 Financial Results

Mark Verbiest Chairman
Simon Moutter Chief Executive
Chris Quin Retail CEO
Tim Miles Gen-i CEO
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telecom

AGENDA

- H1 Snapshot
- Delivering on our Strategy
- Key BU Snapshots
- Key Financial Results
- Looking Ahead

H1 SNAPSHOT

- **Executing quickly and decisively against a clear strategy**
  - Momentum building with number of significant moves made during the six month period and with more to come this year
  - Growing confidence our strategy will deliver intended long-term benefits
- **Group operating earnings maintained**
  - Improved performance by AAPT pivotal to excellent sale price
  - NZ earnings down as expected, reflecting ongoing legacy decline and impact of strategic choices made in FY13 to put market share outcomes ahead of near-term financial results
- **Improving outlook for H2 and FY15**
  - Lead indicators encouraging, particularly in mobile
  - Turnaround Programme of over 200 business improvement initiatives lifting confidence in projected free cash flow improvement ($200-300m of benefits)
  - Successful sales and marketing tactics expected to moderate the rate of decline of legacy fixed revenues
  - Capital expenditure envelope being tightened for FY15-16

H1 SNAPSHOT CONTINUED

- **Continued rapid strategic repositioning of the Group**
  - Sale of AAPT to focus on New Zealand customers
  - Huge investment in New Zealand's digital future – all data network now a reality, underpinning superior anytime anywhere connectivity for customers, backed by 700MHz spectrum investment
  - Re-engineering programme on track to deliver enhanced customer service capability and efficiencies, with first release in April
  - Selected investment in growth initiatives, including pending launch of new internet TV business to enter the online entertainment market
  - Success of brand makeovers to date has advanced the intention to change company name and core trading brands to Spark
  - Continued major strategic shift of Gen-i business portfolio towards data, mobility, managed ICT, Cloud infrastructure and platform as a service
- **Dividend policy to be reviewed at full year**
  - Aspiration to sustainably increase ordinary dividends over time as improved cash flow performance materialises

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DELIVERING ON OUR STRATEGY

Ambition

A growing New Zealand business, winning by customers choosing us to connect them at the "speed of life"

Goals

#1 in mobility
#1 in data
#1 in effortless service and cost

Strategic priorities

- Revolutionise customer experiences
- Simplify the business
- Win key markets
- Win the future

Foundations

People, Brands, All Data Network, Turnaround Programme

REVOLUTIONISING CUSTOMER EXPERIENCES: KEY WINS

Rapid expansion and take-up of digital customer self-service options across Group	• Telecom Smartphone App launched Sep 2013, over 60k downloads by end Dec 2013 • 'My Telecom' usage grown from 130k to 254k • E-Bill uptake from 100k to 287k in 6 months • Bigpipe broadband trialled and soft-launched with online only service model
National WiFi network growing quickly	• Over 900 hotspots, over 300k registered, over 115k active users • Partnership strategy expanding • A powerful competitive differentiator
Invested in world-class data network	• 3G, 4G, WiFi, ADSL, VDSL and Fibre backed up by 5Tbps OTN • OTN deployed across 66 sites nationally • Underpins 24/7 anytime anywhere connectivity
Optimised Gen-i service models for key customers	• Transitioned 1,350 ME clients to a Dealer managed model within Gen-i • Reoriented sales and client delivery functions more tightly around our customers • Renewed our focus on Wellington clients, in particular Central Government
Business Hubs relaunched	• New SME experience for business customers

REVOLUTIONISING CUSTOMER EXPERIENCES: DIGITAL SERVICES

100,000

Tech in a Sec comments

60,000

Smartphone App users

7M Digital Self Service Transactions Monthly

800,000

Unique Visits Online Monthly

SIMPLIFYING THE BUSINESS: KEY WINS

Turnaround Programme broadened in scope and impact	• Increase in projected benefits • Building performance management capability
IT stack re-engineering 1st major release on target for Q3	• Focus on pre-paid in 1st drop • On time and on budget • From 'Green screen' to modern 'CRM'
Simplification of broadband and mobile plans helping drive sales	• 78% of broadband customers on latest plans • From 126 to 38 post-paid plans within 6-9 months • Re-eng will deliver pre-paid reduction from 3 to 1 core plans
Ongoing simplification of organisational processes	• HR and remuneration processes overhauled • Staff level continuing to decline
Gen-i continuing its strategic shift	• IT Services strategy refocused around network and infrastructure core • Divestment of Auldhouse following earlier divestment of Davanti • Simplified Voice & Data pricing
Sale of AAPT in line with strategic focus on NZ customers	• Sold for A$450m • Settlement due late Feb

SIMPLIFYING THE BUSINESS: TURNAROUND PROGRAMME

IDEAS QUANTIFIED	PLANNED INITIATIVE	DELIVERY	FULL P&L & BALANCE SHEET RECONCILIATION

Enhanced cross-sell
Improved customer retention practices
Pricing optimisation

Procurement improvements
Network sourcing and management enhancements
Call centre efficiencies
Operational process efficiencies
Additional labour reductions

Procurement improvements
Re-eng enabled systems simplification
Tight discretionary capex management

Enhanced performance management
Removal of process pain points
Building business improvement capabilities

REVENUE INCREASES

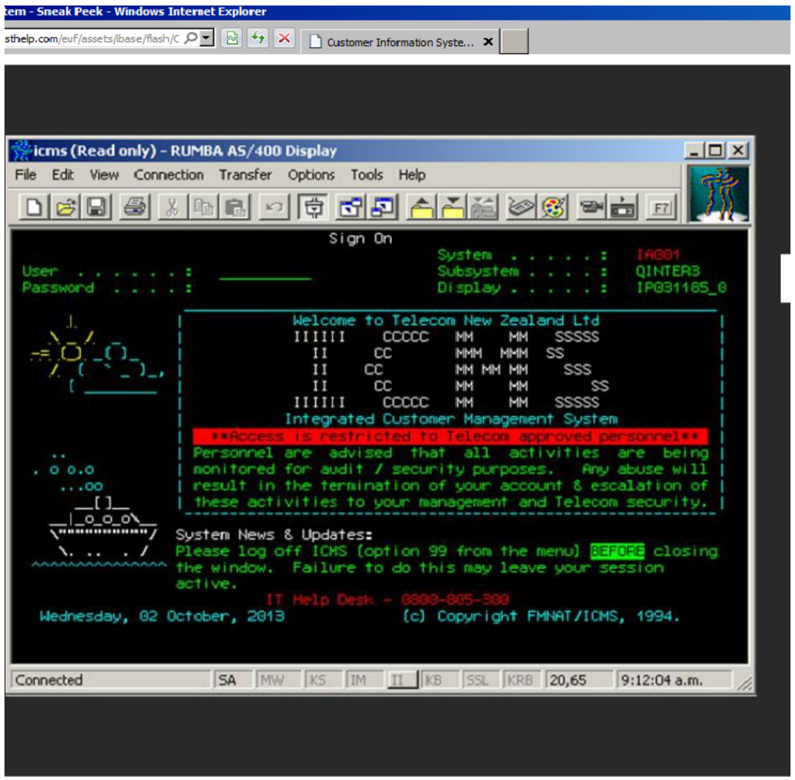
COST SAVINGS

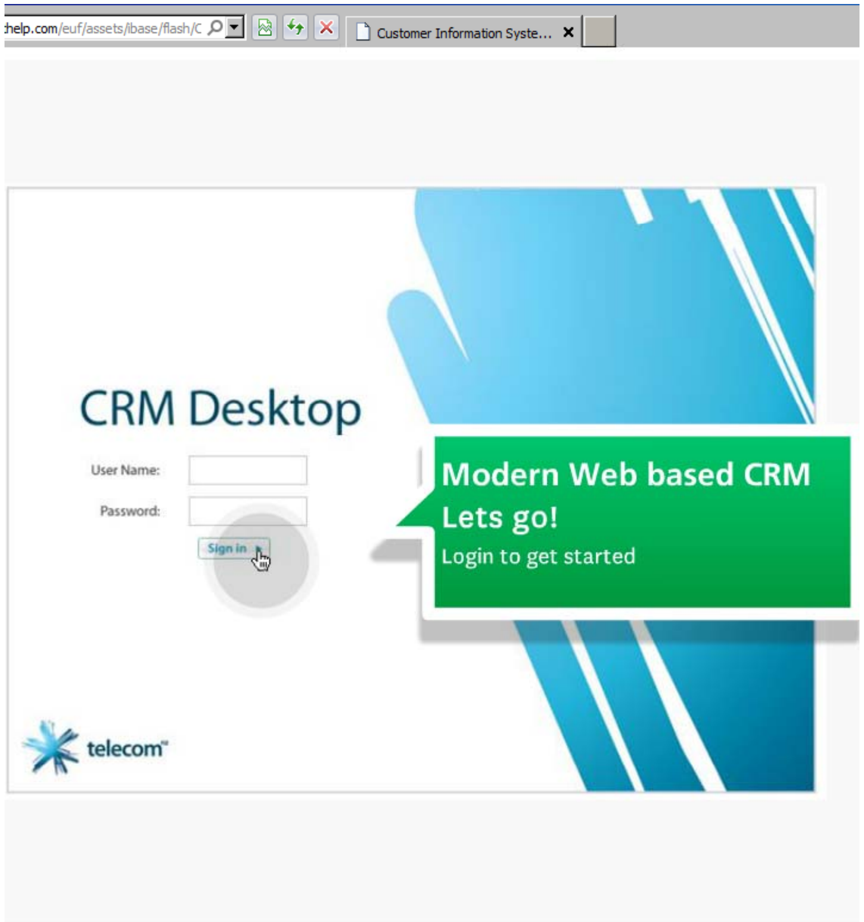
CAPEX REDUCTIONS

ORG HEALTH IMPROVEMENTS

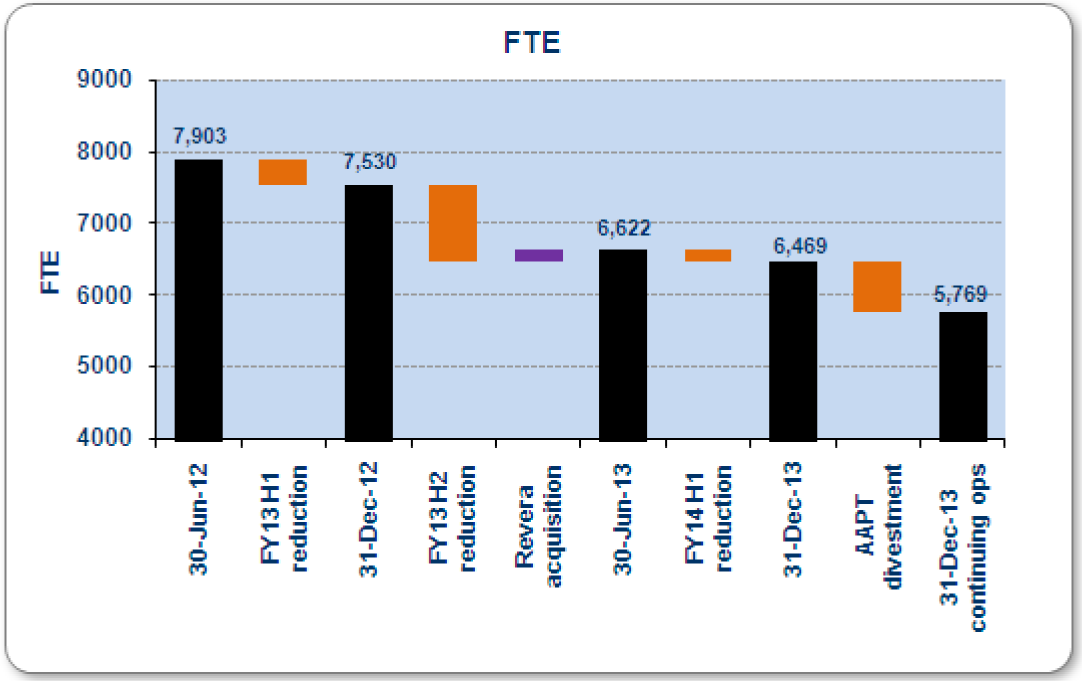
Turnaround initiatives implemented in FY14 and through FY15 to deliver $200-$300m of annualised sustainable cash benefits (previously $100-$200m)

SIMPLIFYING THE BUSINESS: RE-ENGINEERING





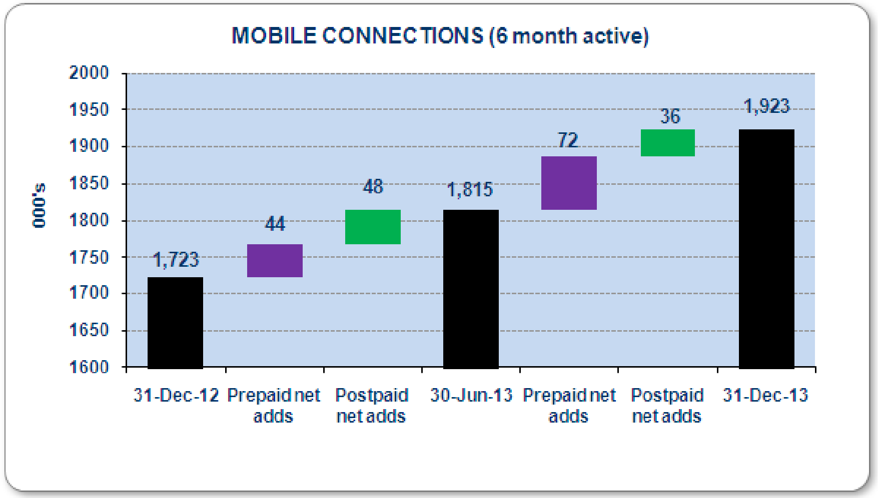
SIMPLIFYING THE BUSINESS: GETTING MORE COST COMPETITIVE

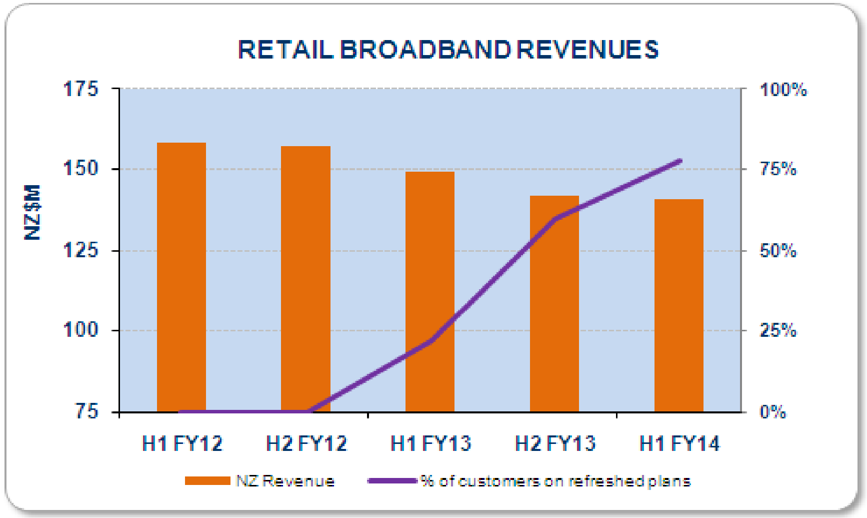


WIN KEY MARKETS: KEY WINS

Retail brand refresh in H1 driving confidence in brand	• 6 percentage point increase in brand preference with Auckland u35 • Increased foot traffic in stores by 14% in Auckland
Skinny and Bigpipe value brands in mobile and broadband	• Skinny brand refreshed in October, driving good pre-paid growth • Bigpipe launched and billing in Feb 2014
Encouraging growth signals showing in mobile market	• Overall mobile connections up 108k • New value-adds coming
Ultra Broadband (VDSL, Fibre) numbers growing well	• Ultra Broadband (VDSL and Fibre) going well, with 20k connections as at 31 Dec 2013
Enabling the education sector as Network for Learning technology partner	• Launched in August 2013 • 239 schools signed up by 28 Jan 2014 • 700+ schools targeted by end 2014
Telecom SME business market growing	• Revenue and margin growth achieved • Mobile market share increased

WIN KEY MARKETS: MOBILE AND BROADBAND





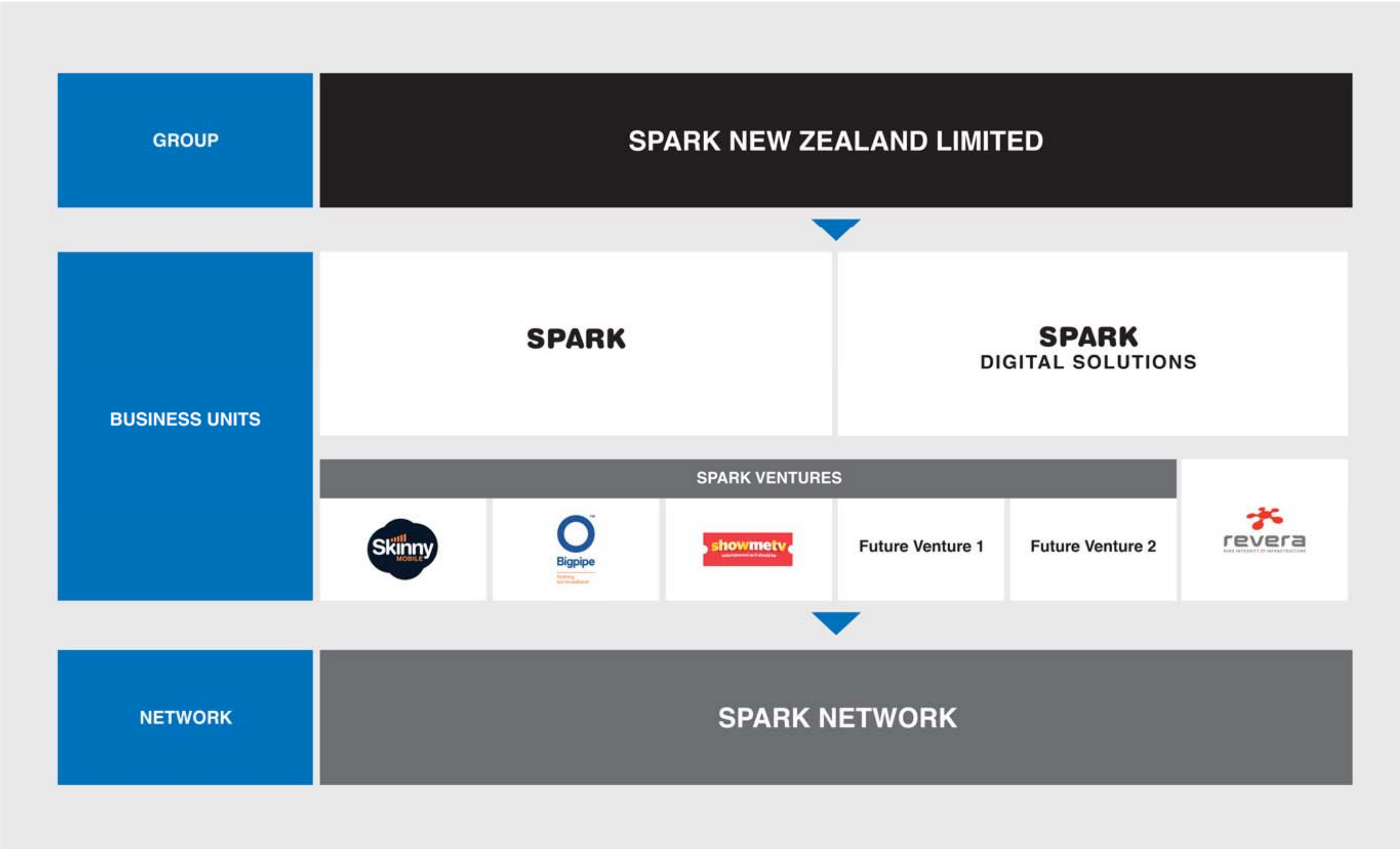
Mobile

- Sustained mobile connection growth, with 108,000 net additions in the half
- Total mobile base has grown 12% in last 12 months
- Pre-paid ARPU up 6% YOY, reflecting popularity of monthly prepaid packs
- Post-paid ARPU down 4.5% YOY, reflecting change in mix towards more profitable open term plans
- Devices providing additional source of revenue and margin
- Flanking brand strategy (Skinny) proving effective

Broadband

- 12,000 net broadband additions (Retail & Gen-i) in the half
- Average data usage up 89% in last year to 34GB per month
- Close to holding connection share
- Intense competition and growth in naked broadband category
- Close to half of Telecom broadband customers on higher grade plans, with Fibre and VDSL providing good up sell opportunity
- Progressively filling product gaps

WIN KEY MARKETS: BRAND STRATEGY NOW CLEAR



WIN THE FUTURE: KEY WINS

Digital Ventures making good progress on portfolio	• Announcement of internet TV • National WiFi going very well • Bigpipe trialled and soft-launched • Other moves being made in m-commerce, smart living, smart data, and health • Vigil investment just a part of a growing Group wide opportunity we see in health sector
Spectrum Auction and 4G launch demonstrates commitment to future of mobile	• $149m investment in 4 lots (2x 20MHz) of 700 MHz spectrum • 4th lot subject to Commerce Commission approval • Price favourable v global benchmarks • 4G LTE launched in main centres
Investment in TGA trans-Tasman cable	• Planning for project progressing well • Partners working through respective approval processes over coming months
Further refocusing of Gen-i towards Cloud, converged ICT, Data Centres and Mobility	• Leveraging Revera capability with Government • Leading local Data Centre portfolio – AKL, WLG, CHC backbone with regional facilities including Dunedin • Mobility Practice established • Partner collaborations – SAP, Cisco, Samsung • Health sector a key sector priority, with rural and education also being developed

WIN THE FUTURE: INTERNET TV MARKET ENTRY

- Video is migrating to the internet
- Episodic TV series binge viewing is the big trend globally, driving demand for freedom and choice
- Telecom has decided to enter, with a world-leading OTT platform in build and content deals under negotiation
- Mid year launch of ShowmeTV will provide more choice for NZ consumers of TV and movies
- Consumer centric - watch what you want, when you want, where you want
- More than 5,000 hours of content at launch, across all key genres, including local
- Available to all New Zealanders not just Telecom customers
- Initially accessible on web and tablet – will be coming to all screens soon

showmetv
entertainment as it should be

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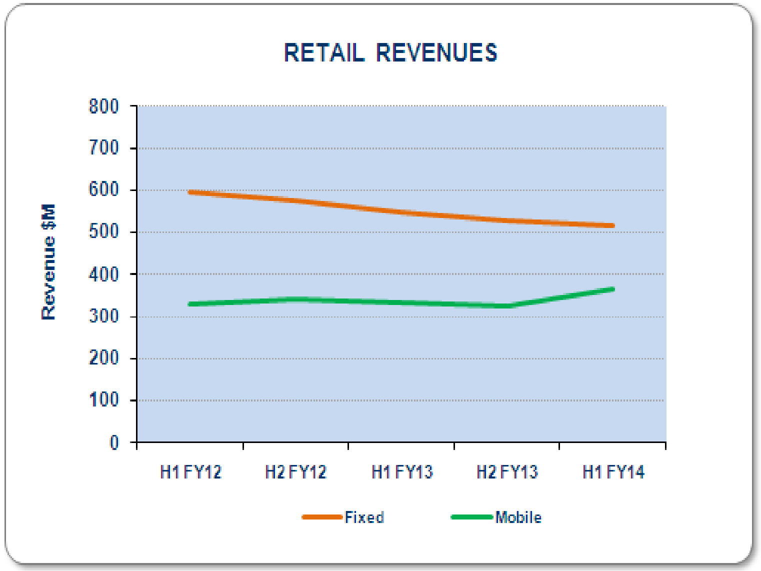
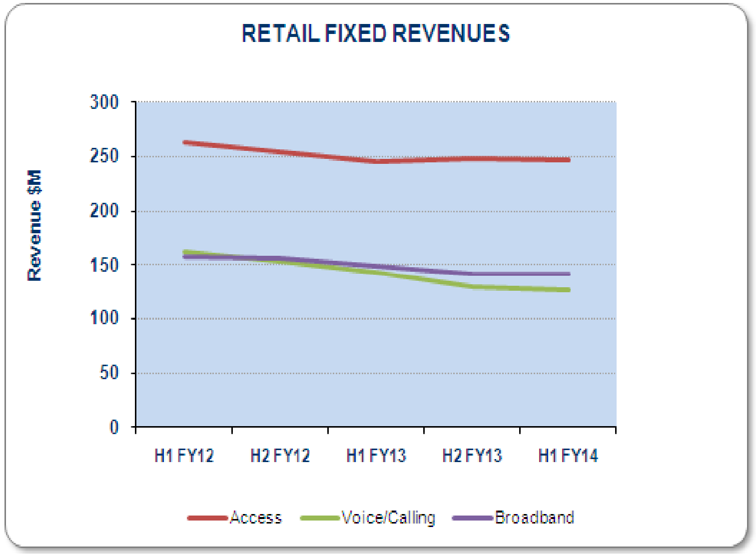
RETAIL BU SNAPSHOT



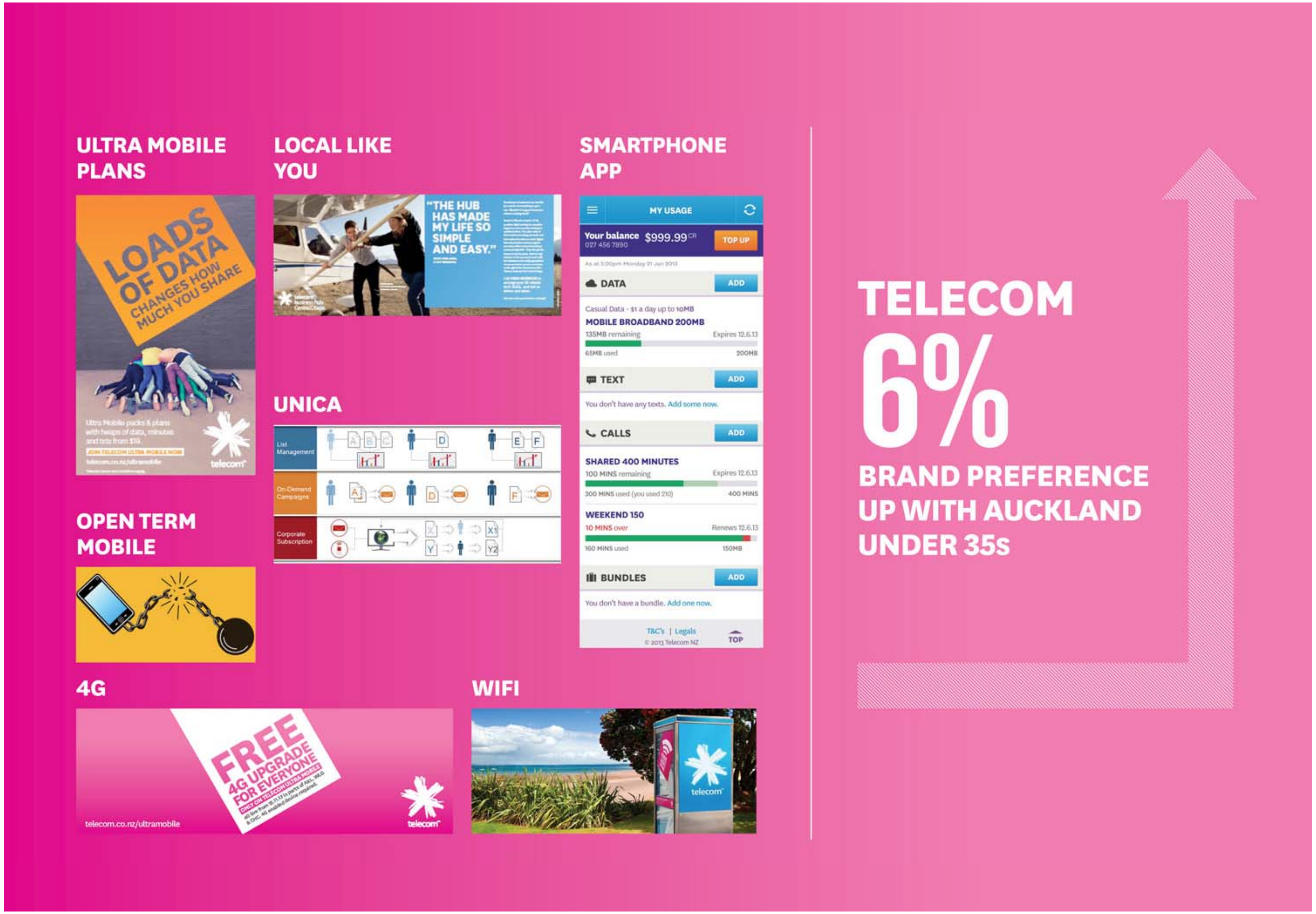


- **Retail Revenue stabilised, for first time since 2008**
- **EBITDA $328m, down 5.8%**
- **Strong performance in mobile, revenues up 9% (service revenues up 4%)**
- **Further improvements in SARC ratio**
- **Rate of fixed revenue decline slowing to 5.7% YOY (previously >8%)**
  - **Access churn remains very low at 3.8% on an annualised basis**
  - **Price and volume reductions resulting in 17% decline in calling revenues**
  - **5% decline in broadband revenues reflecting impact of prior year plan refresh (78% on new plans)**
- **Increased broadband costs of sales reflecting connection growth and backhaul cost increases on rapidly rising data volumes**
- **8% reduction in labour costs, following prior year initiatives**
- **Skinny EBITDA and TDV early investment costs included within Retail**

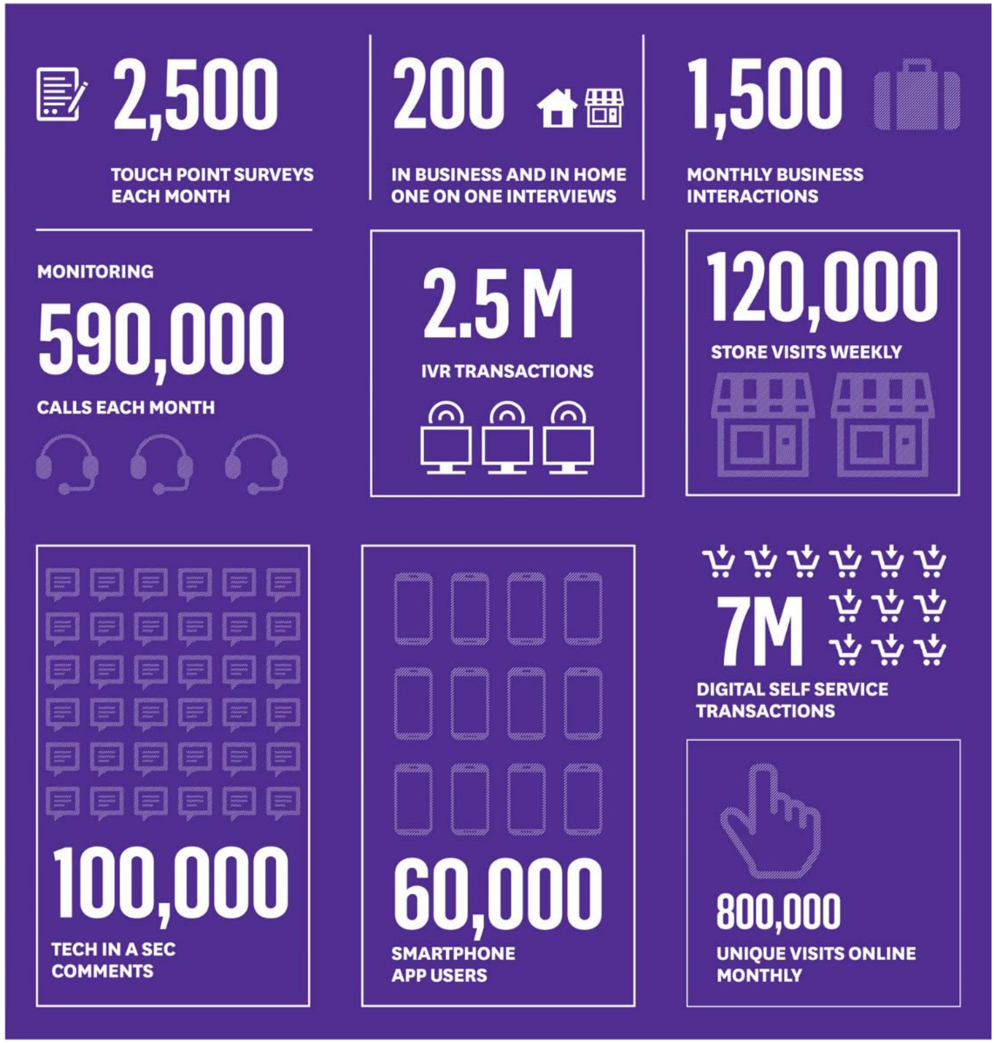
RETAIL CUSTOMER FOCUS IS DRIVING RESULTS

Total mobile base has grown **200,000** connections in last 12 months (includes Skinny & Gen-i)	**holding connection share** in broadband at around **47%**	Business market revenue returned to **growth**	**94%** of service transactions are **now online**
SARC/revenue ratio improved a **further one % point**	**On track** for a **2%** improvement in support cost per revenue dollar	**68%** of customers rate us **5/5** for **effortless** service	**6%** point increase in brand preference with Auckland u35

RETAIL CUSTOMERS ARE SEEING MOMENTUM



CUSTOMER INSIGHTS



- Know me and like me
- Value and win my business
- Bring me new, cool stuff
- Make it easy for me to deal with you
- Be a company I love and am proud to be with

THE CONSUMER BRAND STORY

OUR HIGHER PURPOSE

UNLEASHING NEW ZEALAND'S POTENTIAL

OUR BELIEF AND DIFFERENTIATION

We believe that New Zealand is the best place on the planet. We will ensure everyone can live, work and play in more incredible ways by being the leaders in the indispensable and amazing experiences data provides

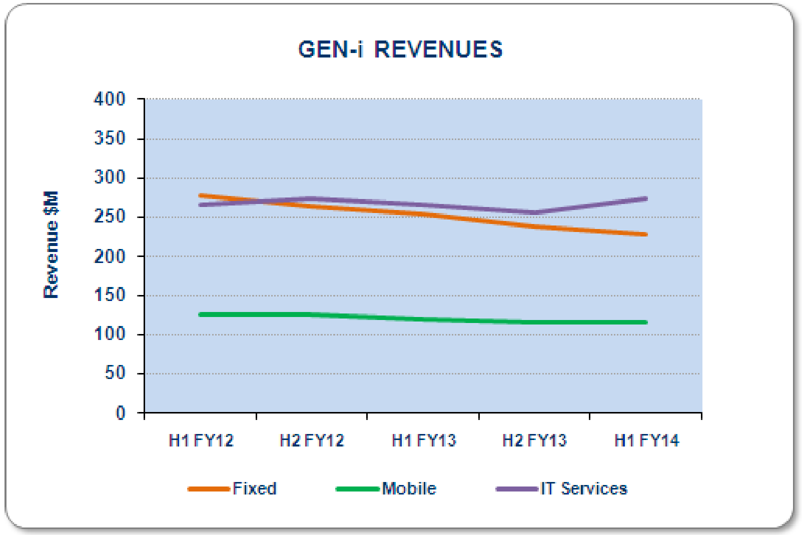
WHAT WE LIVE BY

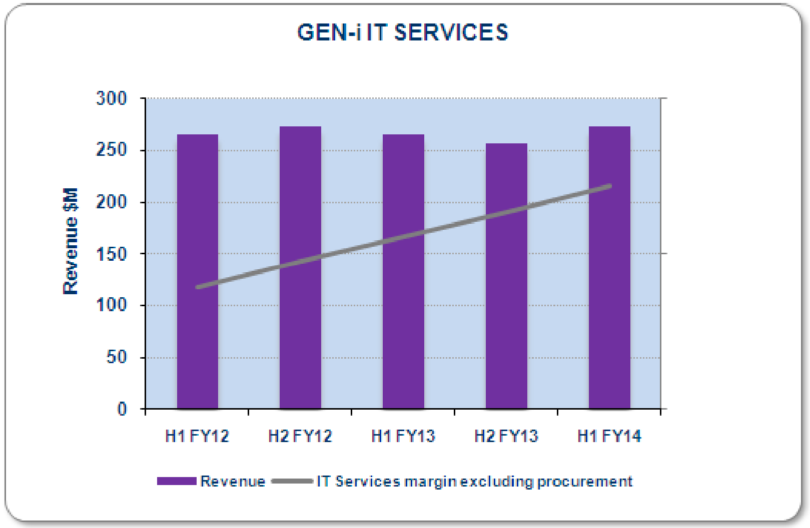
FOR HERE.
FOR YOU.
FOR TOMORROW.

OUR CUSTOMER-INSPIRED CHARACTER

COURAGEOUS. CARING. CURIOUS. COLOURFUL.

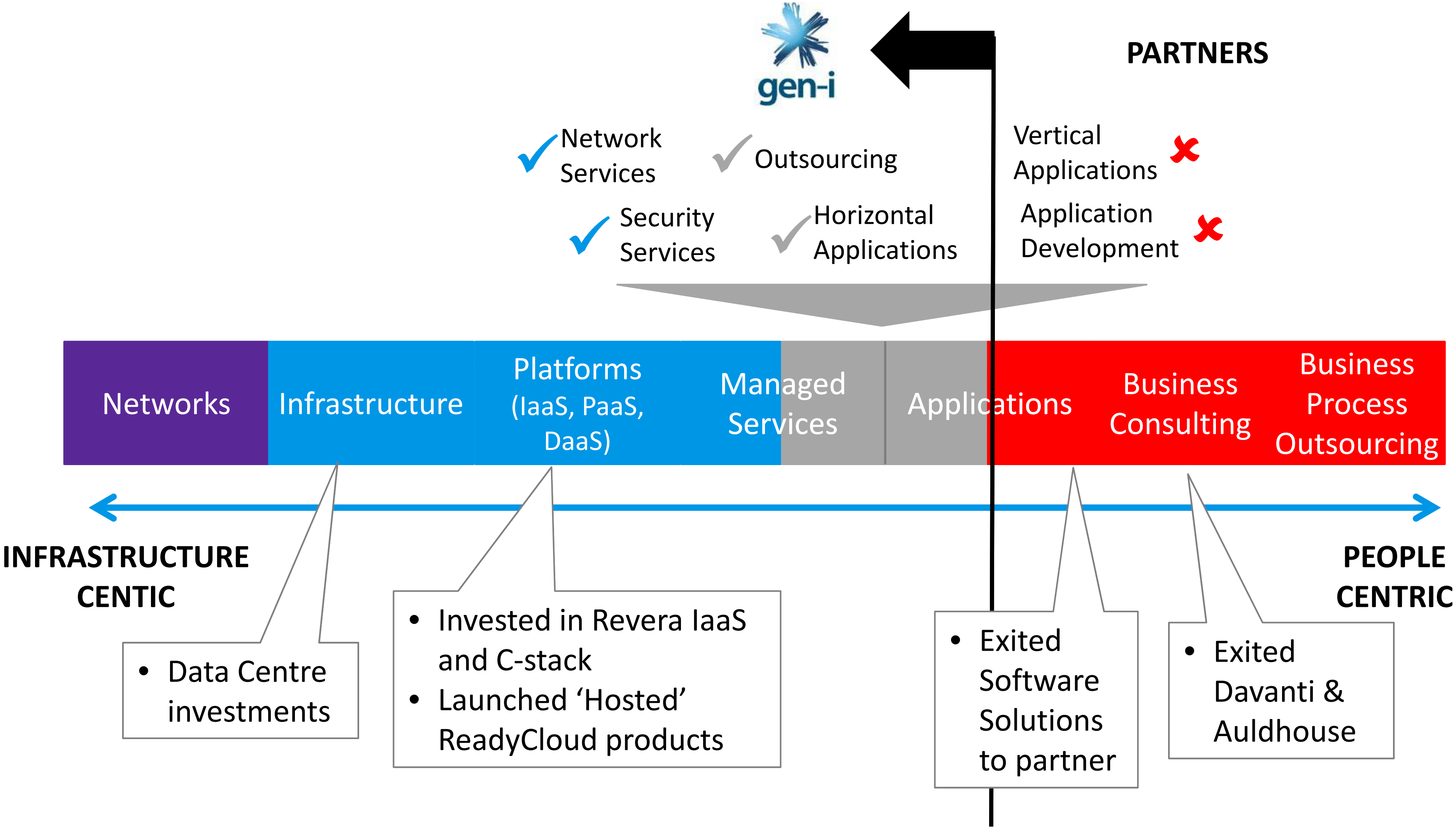
GEN-I BU SNAPSHOT





- **EBITDA $193m, down 4.5%**
- **Revenues down 3.0%, reflecting intense price pressure across all product categories, particularly in Enterprise Segment**
- **Maintained #1 NZ market position in Mobile, Data and IT Services**
- **Focus on Network and Platform-centric ICT**
  - **Gen-i/Revera has the highest market share (49%) in the Hosted Infrastructure Services category in the NZ IT Services Market Tracker**
  - **Acquisition of Revera providing synergy value in major accounts**
  - **Divested Davanti & Auldhouse**
  - **Partnering to access capability while reducing delivery risk**
  - **Key wins with N4L and Auckland Council**
- **Labour costs down 17.8% reflecting operating model changes in H1 FY13**
- **IT Services contribution margins improving from product simplification, process standardisation and Procurement portal implementation**
- **Data Centre development on track**

GEN-I BU: THE STRATEGIC SHIFT



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GEN-I BU: REPOSITIONING ON TRACK

Reoriented Sales and Service around the customer	• Sale & Service organisational structure reset • Additional resource focused on government segment, leveraging Revera capability
Future Voice & Data propositions gaining traction	• Migrating clients to Broadsoft IP voice. On track to be #1 in IP voice in FY15 • UFB connected in all regions by March 2014 • On track to launch two new corporate data products in Q4
Leadership position in mobility maintained	• Slight growth in mobile market share, but intense price based competition • Mobility practice established, focused on M2M and mobile apps • Partner collaborations – SAP, Cisco, Samsung
IT Services strategy refocused around network and infrastructure core	• IT contribution margin improving, due to better execution and better quality product mix
Infrastructure investments on track	• Strong pipeline for data centres and Revera • Christchurch data centre complete • Build on track for Auckland, Wellington and Dunedin

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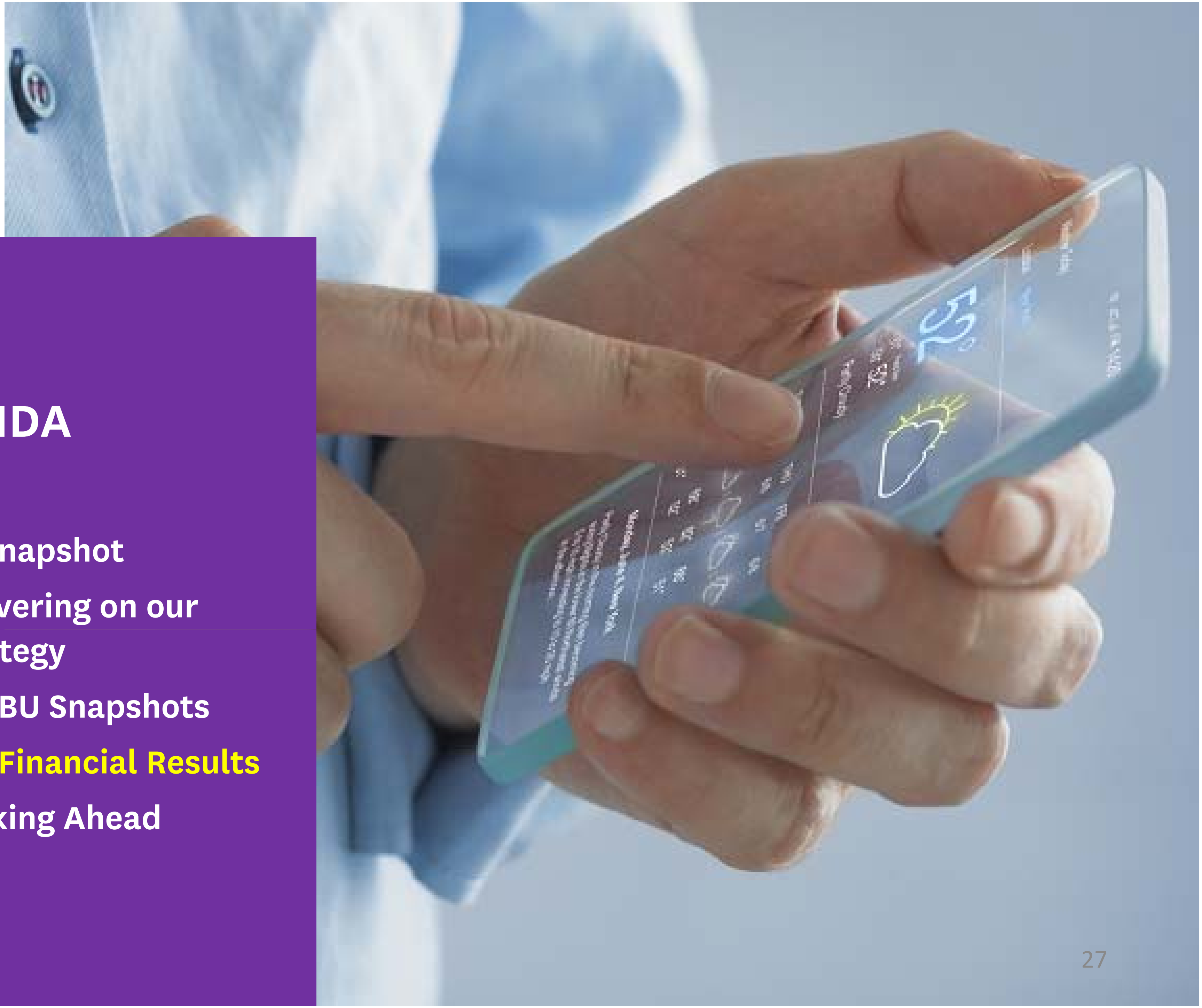
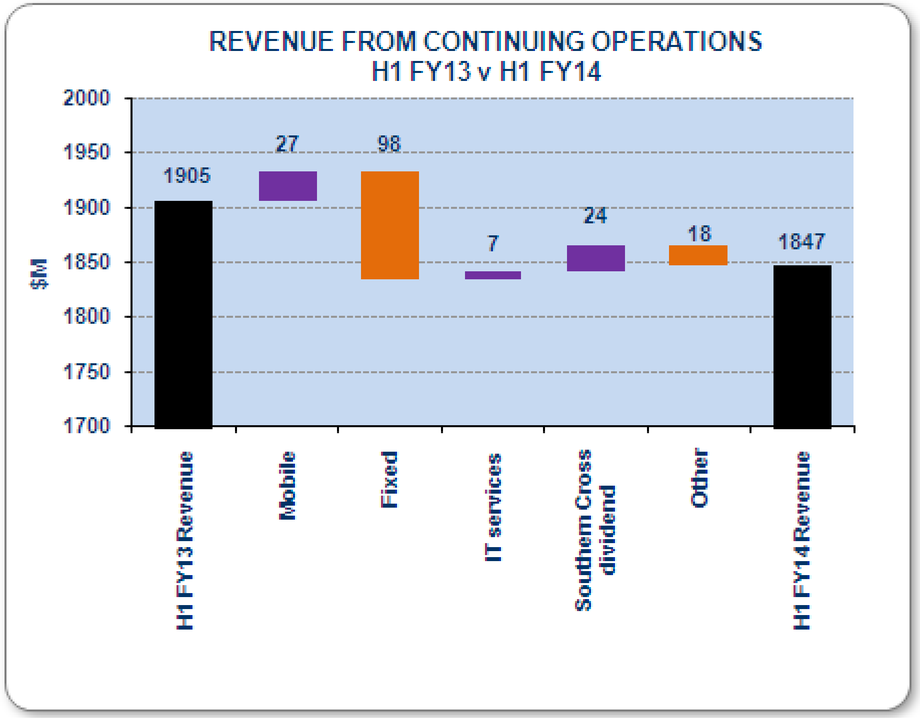


KEY FINANCIAL RESULTS

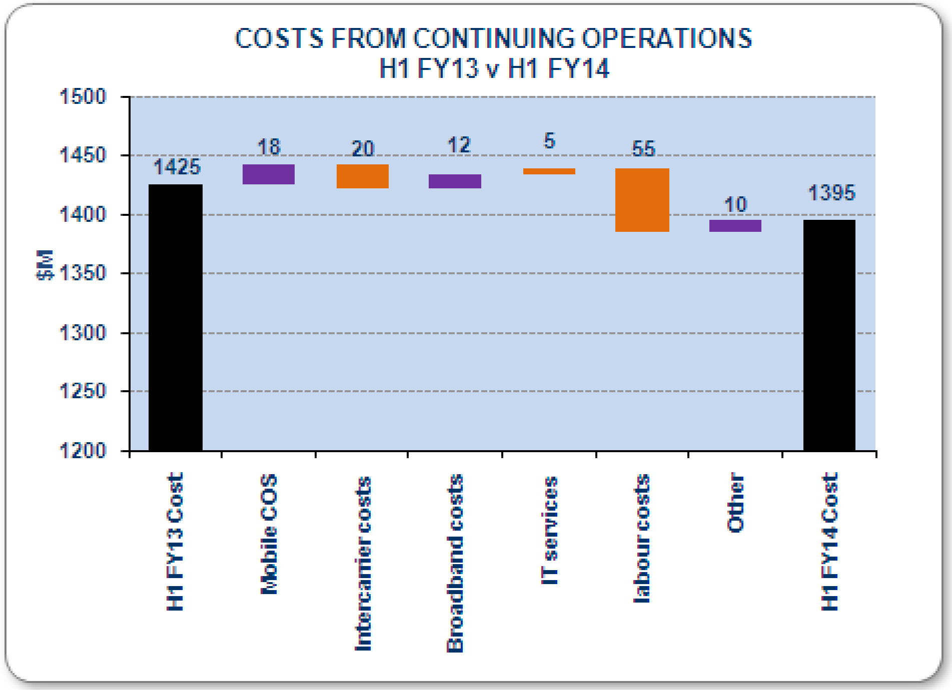
	H1 FY14 $M	H1 FY13 $M	CHANGE
Total Revenues - cont ops	1,847	1,905	(3.0)
Operating Costs – cont ops	1,395	1,425	(2.1)
EBITDA – cont ops	452	480	(5.8)
D&A – cont ops	227	228	-
Net financing costs – cont ops	17	22	(22.7)
Tax expense – cont ops	61	62	(1.6)
Net Earnings – cont ops	147	168	(12.5)
Net Earnings - disc ops	20	(5)	NM
Net Earnings	167	163	2.5
Capex – cont ops	266	225	18.2
EPS (cps)	9	9	-

REVENUES



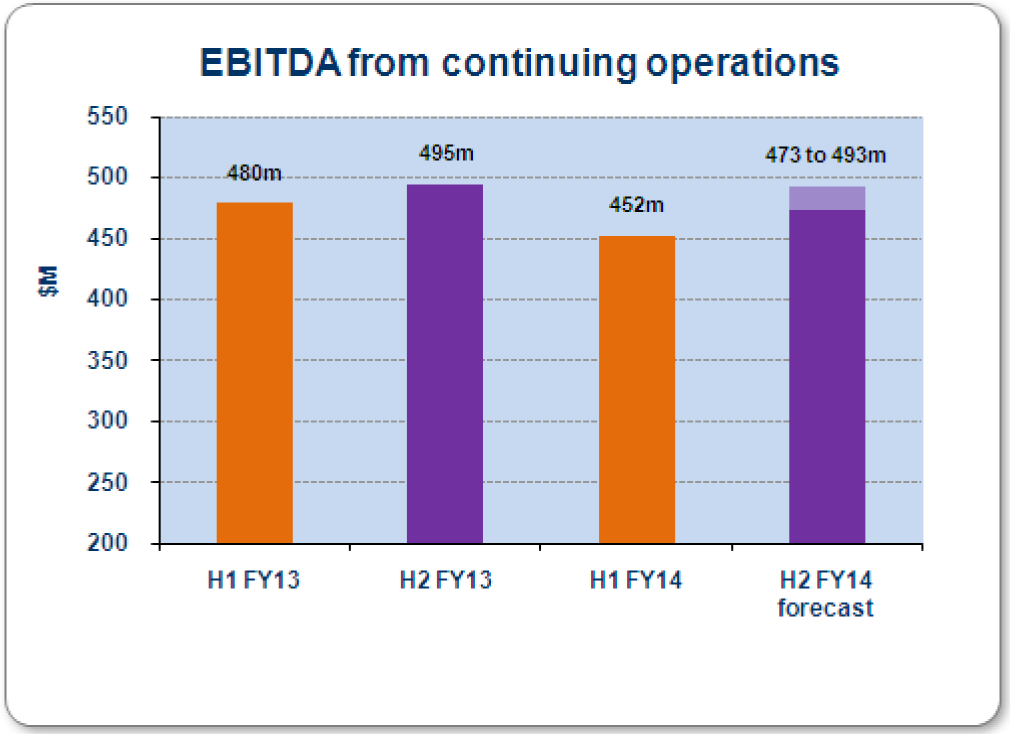
- 3% top line decline
- Strong mobile performance
  - 4% service revenue growth in Retail
  - Price pressure in Gen-i
- Continued fixed line declines
  - Retail access churn 4%
  - 17% decline in calling revenues
  - Broadband price downs in prior year
  - Commercial wholesale deals
- $24m increase in Southern Cross dividends
- $5m lower insurance proceeds

COSTS



- Mobile cost of sales reflects strong connection growth
- Intercarrier costs reflect access line reductions and more efficient consumption of Chorus inputs
- Broadband costs increase reflects base growth and increased backhaul costs
- Labour cost reductions YOY reflect flow through benefits of FY13 cost reduction activities

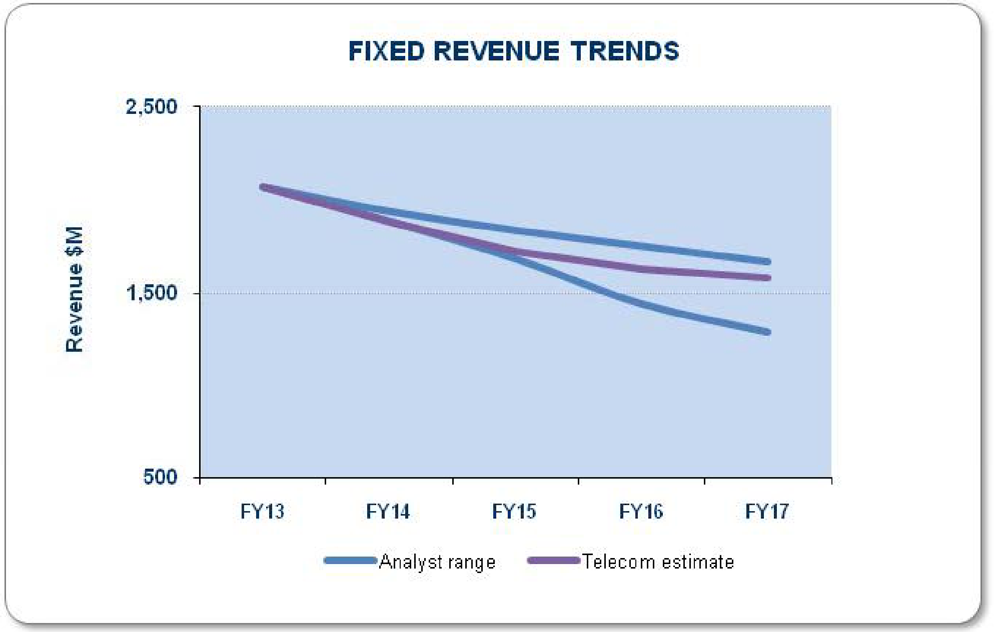
EBITDA FULL YEAR OUTLOOK



- **H1 FY14 EBITDA impacted by:**
  - **Continued fixed line declines**
  - **Impact of FY13 broadband plan refresh**
  - **Wholesale commercial arrangements**
- **Expect improved performance in H2 FY14**
  - **Sustained growth in mobile revenue/margin**
  - **Stabilisation of Broadband revenues/margin**
  - **Turnaround initiatives, delivering improved free cash flow**

MEDIUM TERM VALUE DRIVERS

- Fixed revenue decline moderating to circa 6% CAGR FY14 to FY17
- Offset by growth in mobile, IT services & other revenues
- Aiming to stabilise top line around FY16
- Turnaround initiatives implemented in FY14 and through FY15 to deliver $200-$300m of annualised sustainable cash benefits (previously $100-$200m)



Turnaround initiatives	Percentage of benefits
Opex	~75%
Revenue	~10%
Capex	~15%

CAPITAL EXPENDITURE

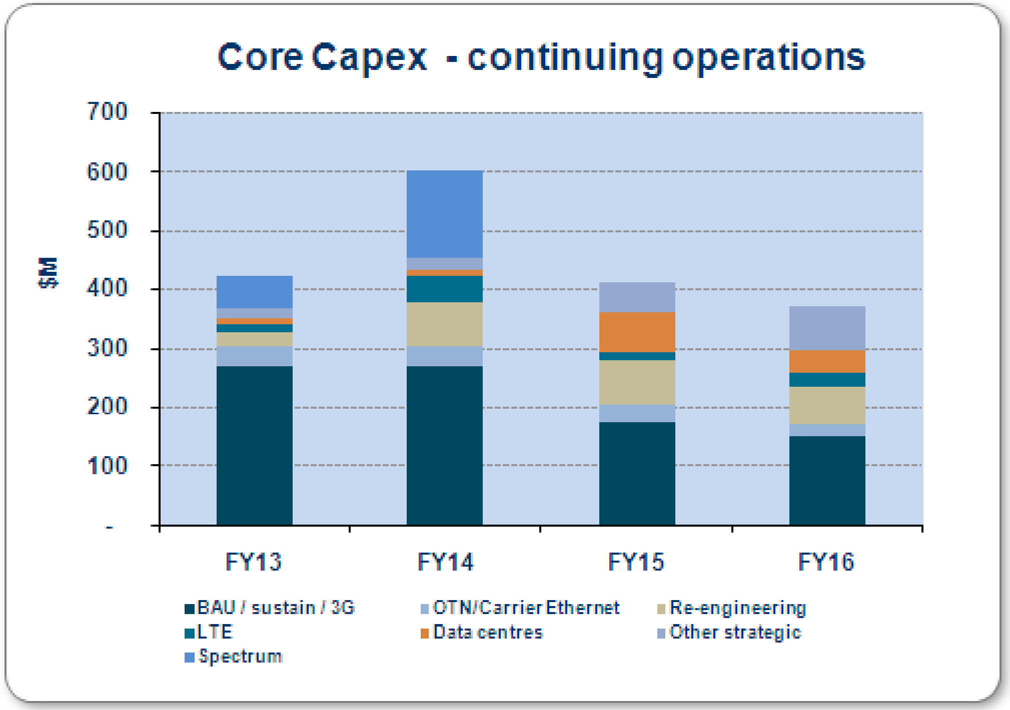


Chart reflects FY14 to FY16 core Capex envelope
FY14 excludes final allocation round for spectrum

- **FY14 peak Capex year in strategic turnaround programme**
- **$149m spectrum purchase**
  - **Price favourable vs global benchmarks**
  - **4th lot subject to commerce commission approval**
  - **Final round (allocation) still to be completed**
- **Targeting sustainable long term core Capex of below $400m per annum**

DIVESTMENT OF NON-CORE ASSETS

AAPT

- Sold 100% stake for A$450m, NZ$490m
- Transaction expected to complete 28 February 2014
- EBITDA H1 FY14 NZ$55m, expect approx NZ$70m for 8 months
- D&A H1 FY14 NZ$35m

Telecom Cook Islands

- Actively considering divestment of our 60% stake
- EBITDA H1 FY14 NZ$4m

CAPITAL MANAGEMENT

Repositioning business portfolio in line with strategic shift

- Divestment of non-core assets
- Reinvestment in 700 MHz spectrum, 4G expansion, re-engineering, digital ventures, new brand

Remain committed to conservative capital structure and single A credit rating

- Ratio of net debt/EBITDA (including associated derivatives) not to materially exceed 1.0x on a long run basis, which for credit rating agency purposes equates approximately to 1.5x

Expect debt headroom of approx $250m post completion of AAPT sale and acquisition of spectrum

- Appropriate given stage in business turnaround

Aspiration to deliver sustainable increases in ordinary dividends over time

- 8cps dividend declared for H1 FY14 (75% imputation)
- Intention to pay a minimum dividend of 16cps in FY14, payout to be reviewed at full year

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OUR SCORECARD: AT THE FY13 FULL YEAR RESULTS, WE SAID WE WOULD TARGET IN FY14 …..

A more competitive organisation:

A new winning culture which is performance driven, more agile and competitive	On track
On track to crystallising an additional $100-$200m of annualised benefits from re-engineering, cost out and simplification programmes	Increased to $200-$300m

Success in the market:

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

Success for the future:

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

FINANCIAL OUTLOOK

Adjusted EBITDA:

- Expect full year adjusted EBITDA from continuing operations of $925m to $945m
- Guidance excludes AAPT sale proceeds and rebranding costs

Capex:

- Expect FY14 Capex from continuing operations of $450m to $460m, excluding spectrum

Dividend:

- Intention to pay a minimum dividend of 16cps in FY14
- Payout to be reviewed at year end

A solid half-year, with a sound strategy being executed at increasing pace.

Telecom is busy reinventing itself for its customers and for the digital future.

DISCLAIMER

Forward-looking statements and disclaimer

This announcement may include 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 may 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 announcement. 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 and the regulatory environment in New Zealand and Australia; 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 announcement 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 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.

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.