

Question and Answer

Unknown Executive

Mr. Chairman, Joe would like to ask a question.

Unknown Attendee

Over the last few months I've watched the Telecom share price track down. With the changes that you're making and improved results, are you confident that this will start tracking up over the next 12 months?

Mark John Verbiest

Former Chairman

Let me say that we wouldn't be embarking on the course that we are if we weren't confident that we were on the right track. I think the price today is reflecting, if you like, uncertainty on the part of investors and analysts who are rightly saying, we want to see runs on the board. And I think until that occurs and when that occurs you would expect to see an uplift.

Unknown Executive

[indiscernible] would like to ask a question.

Mark John Verbiest

Former Chairman

Sorry, Mr.?

Unknown Attendee

I'm Noel [indiscernible]. Just a couple -- one question. That's in relation to the Southern Cross cable. Charles mentioned the incredible amount of demand that's on this -- between here and Australia. There were rather vague comments in the annual report about the Southern Cross, about it being -- time and price and capacity and difficult to predict the level of Southern Cross sales in any particular year and the fact that it's perhaps running near the end of its life. There has been lot in the media about a competitor being set up and large amounts of money being able to be made by the entrepreneurs who are wanting to put that forward. And what's the position today with Southern Cross?

Mark John Verbiest

Former Chairman

Well, I will start off and Simon might add to it. Southern Cross is far from being at the end of its life. It's got a lot more life left in it. And we continue to get a good, if somewhat lumpy, dividend stream as a result of the sales that it makes. It's lumpy and it's unpredictable, and hence the comments in the annual report, because by nature and particularly given the phenomenon that Charles is talking about, the sales that are made by Southern Cross to its customers are very, very large and so it's not like a regular sale of a commodity that might occur in another business. As I say, it's got a lot more life. I think what you're also seeing is an expansion of traffic coming from parts of the world other than the U.S. now. Most international traffic into New Zealand used to come from the U.S. There's a far greater proportion that's starting to come from Asia through Australia and elsewhere and hence we've committed to making an investment with Telstra and Vodafone and another trans-Tasman cable. So the prices are going down. And the other points -- but the volume, if you like of capacity sales is going up. And so it still leads to, we would expect, a reasonable dividend stream coming from that investment for some time. And then just a further comment, because we often hear in the media about Southern Cross's pricing. Southern Cross is independent of Telecom. We do not control it. It prices though on the basis of the Australian market. Those are the prices that customers, its New Zealand customers, pay. The Australian market in submarine cables is highly competitive. So New Zealand is not getting ripped off and Simon might be able to confirm this, but my understanding is that the international component and what all of you who are customers might see in your end data bill is about 5%, something like that.

Simon Moutter*Former MD & Executive Director*

A lot less than that, actually. So in a typical broadband bundle of \$75 which a typical household would take today, the cost of Southern Cross embedded net is just over \$1. So it's not a meaningful impact on the price of broadband. And another little interesting fact for you is that the price per gigabyte on the Southern Cross has fallen since the cable was first brought to market by 99%. So the price today is 1% of what it was a little over 10 years ago, when the cable came to market. So it's certainly meeting the market, no doubt about that.

Mark John Verbiest*Former Chairman*

Yes. But it has been and continues to be a great asset and investment, our shareholding in Southern Cross.

Simon Moutter*Former MD & Executive Director*

It will be with us and strong for at least another 10 years, no question about that. These cables can be upgraded by adding more electronics onto the end of them and Southern Cross has more potential upgrades as it runs out of capacity to be sold, it can be upgraded again in future.

Unknown Executive

Mr. Shaw would like to make a comment.

Mark John Verbiest*Former Chairman*

Mr. Shaw?

Unknown Attendee

I would like to make a comment. You're doing all these fancy, fantastic things. I presume you have a research and development department or is that not...

Mark John Verbiest*Former Chairman*

It's our Digital Ventures unit I would say, that's where that expertise sits.

Unknown Attendee

Or some, yes, yes [ph]. The AGM report, do you have to have it, such a bulky -- I mean, so the average person here would look at the front page. That's as far as it goes and to plow through that as I've done, takes time. And you wonder, God, what's all this rubbish here for?

Mark John Verbiest*Former Chairman*

Mr. Shaw, let me assure you, we have a lot of sympathy with you. We have reporting requirements as long as we have a U.S. registration that means that we have to put the information that you see in the annual report in there. We -- it's fair to say, I think we can do a bit to improve how we disclose, particularly our financials going forward and we'll take your comments onboard.

Simon Moutter*Former MD & Executive Director*

Yes, we assure you everybody's trying to get off the U.S. registration to minimize that stuff too, so.

Unknown Attendee

Yes, surely you can do something for just the ordinary average guy, who happens to be a shareholder. This building, you lease it, correct?

Unknown Executive

Correct.

Unknown Executive

Yes.

Unknown Attendee

How much does that cost?

Mark John Verbiest

Former Chairman

A few million a year.

Unknown Attendee

\$10 million a year?

Mark John Verbiest

Former Chairman

A few million.

Unknown Attendee

A few million?

Mark John Verbiest

Former Chairman

[indiscernible] don't know the number.

Unknown Attendee

Well, \$10 million wouldn't be far away then?

Mark John Verbiest

Former Chairman

Might not be.

Unknown Attendee

The auditor. I presume the auditor and the CFO are on the same page. Do you get the same figures that he does or vice versa?

Unknown Executive

Absolutely. I think we would be all seriously concerned if that wasn't the case, Mr. Shaw.

Unknown Attendee

Well, I do hope so. This country is obsessed with borrowing. Often [indiscernible] million a day. I only hope that you people keep an edge on that. It's a serious matter and the future could be a bit dicey. We don't know yet.

Mark John Verbiest

Former Chairman

Well, we got a little snippet of that from Murray. I think we are very committed to maintaining our current sort of A-band credit rating. We want to be in a stable position so that we can weather any sort of international storm that might occur in the debt markets and still access debt funding when we need it. Thank you. Shanta [ph]?

Unknown Executive

Mr. Chairman, John Randalls [ph] would like to ask a question.

Mark John Verbiest

Former Chairman

John?

Unknown Attendee

I'm part of the social media world and there's a lot of talk around the future, engaging younger customers in particular. What's being done in the social media from a strategic level to sort of engage those new consumers?

Simon Moutter

Former MD & Executive Director

We have in our retail marketing group, people with the expertise in social media and increasingly you will see our future for communicating our products and services and reaching markets embracing increasingly the social media. We're already active. We would tick most boxes in terms of presence and participation in social media. But I think our retail team will have much higher ambitions for the role that it can play. In a world where I talked earlier about simplifying and going online and on device, social media will play a very important part of reaching and interacting with customers, providing service and promoting our products and services through those channels, which are so pervasively used by particularly the younger market. And we did stress that it was one of our key target markets so you can be sure we'll be active. I think we know we're not perfect but we're striving.

Unknown Executive

Mr. Chairman, Lynn Weber's [ph] got a question.

Unknown Attendee

Good morning. My first question is, do you have trouble attracting the type of IT talent that you need, given how Zero and Duran Health [ph] in particular are operating in the market?

Simon Moutter

Former MD & Executive Director

To date, we have not had any difficulty. We are not application developing IT people, so they -- Zero is an organization that is building software. We don't tend to do software. We're mostly about delivery of software applications, so our IT centricity is around platforms that run and manage IT networks. So we draw from a different group and to date we have proven successful in attracting the sort of talent we need to do that.

Unknown Attendee

Right. And my second question is about the performance management [indiscernible] that you were going to measure total shareholders returns. One of the easiest ways you can make the returns look good is the share price to drop really low because you're just comparing cents to the share price. I would like to see a weighting following on from the first person's question. An actual mark in the sand for the share price because, as I said, it drops down to \$2, the yield looks fantastic. It's the mix between the share price and the dividend cents per share.

Mark John Verbiest

Former Chairman

Well, both are taken into account in the context of total shareholder return, and obviously, that's set year-on-year. So the benchmark is what the situation was at the start of the year and we measure what happened during and as a result of the end of the year.

Unknown Attendee

Yes, yes, I understand that. However, if the share price was to drop, the return would look excellent and you could come along and say we have achieved a very good total shareholders return because our dividend yield is this much per year.

Mark John Verbiest

Former Chairman

I think on a multiyear basis people would see through that pretty quickly.

Unknown Attendee

Yes but sometimes those figures can be slightly misleading and people can be a bit confused when they hear that total shareholders returns have gone up, and all they can see is a decrease in share price.

Mark John Verbiest

Former Chairman

I understand what you're saying. Thank you.

Unknown Executive

Mr. Chairman, Colleen Goode [ph] has a question.

Unknown Attendee

Now that the Auckland City has spread out, i.e., [indiscernible] Coast, Helensville, Papakura, that way, why are some of those places still on toll calls and not just an ordinary call like Auckland?

Simon Moutter

Former MD & Executive Director

I think the user base who's simply making toll calls today is just such a rapidly shrinking part of the business. So most people today will use their mobiles for calling. So it's not really an issue that we've paid a lot of attention to, to be honest, in the last while.

Unknown Attendee

I don't actually live in those areas, I live 5 minutes from the city. But people living down -- out there, a lot of them don't like using mobiles and they've got to pay a toll call.

Simon Moutter

Former MD & Executive Director

Well, yes. But even then it's -- you can buy from Telecom a bundle for \$14 fixed price per month all the calling nationwide, so it's not exactly a lot of money.

Unknown Attendee

And on a lighter note, you were talking about a -- was it a Wi-Fi motor mower?

Simon Moutter

Former MD & Executive Director

No, a remote control motor mower.

Unknown Attendee

Do you think you'd be able to give one to Len Brown [ph] so he could mow the grass verge?

Simon Moutter

Former MD & Executive Director

A very good thought. I like that. That's a great suggestion. Billy?

Unknown Executive

Martin Gary [ph] has a question.

Unknown Attendee

Yes, it's a comment actually. I've been to quite a few meetings and I think this is the first time I have seen such an impressive talk from each of the directors and I have been impressed with that. And all of you seemed very committed and I'm really looking forward to seeing hopefully the runs come up on the board as well. Thank you.

Unknown Executive

Thank you very much.

Unknown Executive

Mr. Chairman, Mr. Noel Thompson [ph] would like to raise a question.

Unknown Attendee

Mr. Chairman, regulation is quite a topical issue at the moment with Chorus. I understand Telecom are still subject to some regulation in the copper loop business. Is that really holding you back too much? I mean in the annual report it talks about that being in effect for the next 3 years.

Mark John Verbiest

Former Chairman

We face an input cost disadvantage, which I'll get Simon to expand on, until the end of next year. But it's more -- it's not us that -- it's not us being regulated, it's more the price that we pay, like all other retail service providers pay is regulated, particularly in the copper space.

Simon Moutter

Former MD & Executive Director

So our business today, we are mostly a consumer of regulated input products from Chorus. So we are Chorus's customer and we buy a number of regulated products, package them up and resell them as products to our customers, embedded in them, but there are a couple of areas, as Mark emphasized. There is one area of particular disadvantage in that we are not permitted to unbundle the local loops and consume those, which gives us a cost disadvantage. We only have 1 year to run. It was part of the demerger deal and we effectively ignore it. We price to the market, irrespective. It hurts our returns in the near term but eventually, that will neutralize. So we're not worried about that, it's only effectively 12 months to go. Other than that, regulation is not a big factor for us. And I can tell you we have -- we do not spend and have not spent 1 single minute of leadership team time in this company since I started talking about regulation. We never do, we are talking only and working on customers. You will not see us put our name in these debates that are occurring around regulation. We're keeping the Telecom brand away from that. We just adopt a reasonable stance looking for reasonable outcomes. And the extent to which regulation limits us today is very, very small. We have some termination rate rules between our fixed and mobile networks with competitors and we have some rules that we need to comply with some of the older PST in-type products that we still act as the wholesaler for because we're in the -- we have the -- we own the IT and the technology that supports them. We will resell those to competitors but it's not really a factor in our business today.

Unknown Attendee

Well, the other question sort of around that as well is that if the regulator gets their way with Chorus and reduces these pricing, is it an advantage for Telecom or not?

Simon Moutter

Former MD & Executive Director

Look, it's -- we're the biggest buyer of those broadband inputs, so naturally you would assume that a lower price would mean a lower cost for us. I think the difficulty in us giving you any view of whether that is a benefit to the company or not is that we don't until markets play out, you don't know how much that cost benefit flows through to end customer versus has any benefits to the company. And so it's very, very hard to form an opinion on that and we won't get there until much later in the piece and we see where this all lands anyway, so it's clearly very much up in the air at the moment.

Unknown Attendee

Yes, no, the point of asking that question was, as a shareholder, we could watch this action taking place and have an idea of where Telecom fits within that. Yes, thank you.

Presentation

Mark John Verbiest

Former Chairman

Right. Thank you. It looks like there are no further questions so we now come to the formal matters requiring resolution which are outlined in the Notice of Meeting. As I said earlier, there will be the opportunity to ask any questions on each matter being put to shareholders. When I call for questions again, can I ask that you go to a microphone, state your -- and give your cards to the Telecom staff member so that we can properly engage with you?

Now, moving to the resolutions, I propose to call a poll on each of them. The polls will be conducted at the end of formal business. Each resolution is clearly set out in the Notice of Meeting. They are all ordinary resolutions and as such only require a simple majority of votes to be cast to be passed.

Firstly, if I could turn to matters relating to the company's auditors, KPMG. Companies Act sets out a procedure for the re-appointment of auditors. Under that procedure, the auditors are automatically reappointed. The motion concerning the fixing of the auditors' remuneration seeks your approval to delegate authority for us to be able to fix the remuneration.

I can say that the statutory audit fees for the June 2013 year were \$2.754 million plus disbursements for both New Zealand and Australian and other overseas operations. The fee for this year's statutory audit has been set at \$1.6 million for the New Zealand business and AUD 475,000 for Australian-related operations. Across the board, basically we're looking at a 10% reduction on the fee for FY'13.

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

Ladies and gentlemen, the poll authorizing the directors to fix the auditors' remuneration will be conducted at the end of the formal business.

Resolution 2, the re-election of Maury Leyland. Maury is retiring by rotation in accordance with listing rules and offers herself for re-election. The board recommends Maury to you as a Telecom director and unanimously supports her re-election. You heard from her earlier in the meeting and Maury's credentials are outlined in more detail in the Notice of Meeting.

I now propose Maury Leyland be re-elected as a director of the company. Are there any questions or matters of discussion concerning the motion?

No? Ladies and gentlemen, the poll on the re-election of Maury will be conducted at the end of formal business.

Charles Sitch is also retiring by rotation in accordance with listing rules and offers himself for re-election. The board recommends Charles to you as a Telecom director and unanimously supports his re-election. You've heard from Charles earlier in the meeting and, again, his credentials are well laid out in the Notice of Meeting.

I now propose that Charles Sitch be re-elected as a director of the company. Are there any matters of discussion or questions?

No? Again, I will -- the poll on Charles' re-election will be conducted at the end of the formal business.

Finally, Justine Smyth is retiring by rotation in accordance with listing rules and offers herself for re-election. The board recommends Justine to you as a Telecom director and unanimously supports her re-election. You've heard from her earlier and her credentials, again, are set out in more detail in the Notice of Meeting.

I now propose Justine Smyth be re-elected as a director. Are there any matters or questions for discussion?

No? Ladies and gentlemen, the poll on the re-election of Justine will be conducted at the end of formal business.

We will now conduct the polls on the matters described in the Notice of Meeting. The company's auditors, KPMG, will act as scrutineers. You should all have a voting paper. For most of you, this is the back page of the proxy form that accompanied your copy of the Notice of Meeting. Others of you may have had a voting paper printed for you at the registration desk on your arrival. If you don't have a voting paper, please put up your hand and we will get a Telecom staff member to assist you.

Please complete the voting paper by ticking for, against or abstain in the appropriate place on the voting paper for each resolution and sign the voting paper. Do not tick the proxy discretion box. If you have any difficulty, again, please raise your hand and we will have a staff member come and 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.

Ladies and gentlemen, thank you for your attendance at our Annual Meeting today. We will be announcing the results of the polls to the stock exchanges and media this afternoon. If any of you have any questions about Telecom products or services, then unashamedly I'm going to say again, we have customer services reps outside and they are only too happy to help you. If you prefer, you can complete a query form that is available at the customer services desks and then Telecom staff will contact you later.

Thank you again for your attendance today. I now invite you to meet with us and the auditors to take refreshments. They are going to be served in a room to my right. The meeting will close on completion of the voting procedures and once again can I remind you to put your voting papers in the ballot boxes. Thank you again.