

STOCK EXCHANGE ANNOUNCEMENT

28 March 2013



Telecom acts decisively on costs

At Telecom's half year profit announcement on 22 February 2013, the company advised that it would book material one-off costs in H2 FY13 associated with implementing its new strategy.

As part of its drive for simplification and a competitive cost base, the company has moved swiftly on structural and portfolio changes. In the last five weeks, decisions have been taken to:

- reset the scope of Gen-i Australia to its original rationale;
- reduce significantly corporate centre functions in management, HR, Finance, Legal and Corporate Relations; and
- tighten the management and operational staff levels in all business units.

Telecom expects to incur one-off restructuring costs of \$70 million to \$80 million in FY13, associated with decisions taken to date including impacts of resetting the scope of Gen-i Australia and downsizing costs in New Zealand. The flow on impact of these changes onto revenues and non-labour operating costs is uncertain. Telecom believes that payroll costs (Opex and Capex) will reduce by \$90 million to \$110 million on an annualised basis.

Telecom expects to incur further redundancy and other one-off costs associated with cessation of business activities as it works through the remainder of its strategic change process. Telecom will provide a second update once decisions are taken.

As a result of this overall process, Telecom expects to reduce its number of full time equivalent employees from 7,530 at 31 December 2012 to approximately 6,300 to 6,600 by the middle of this year. Staff levels are being reduced by constraints on recruitment activity, voluntary and involuntary redundancies and the transfer of roles to other employers associated with portfolio rationalisation decisions.

Telecom's adjusted EBITDA guidance for FY13 remains \$1,040 million to \$1,060 million. This guidance excludes the one-off restructuring costs described above associated with implementing the new strategy.

Chief executive Simon Moutter commented: "This is an important step to build a leaner, more agile organisation with a competitive cost structure, setting us up to win in the market."

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