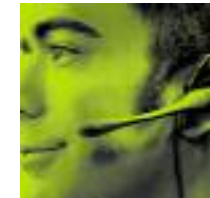


Access Competition in New Zealand

Why Telecom is Taking Alternative Networks Seriously

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Access competition is real



There are a range of access competitors currently in the market with viable plans to substitute Telecom's local loop

- Significant investments already made in alternative networks, with more forecast in the near term
- These competitive ventures are backed by serious investment capital
- Access competitors can challenge Telecom on price with sound economics



Access competition is real



Together, these networks have the potential to cover 80 percent of the country within a few years, not just a few pockets

- Metropolitan and business precincts will be the primary target for Woosh and TelstraClear
- Regional centres and rural precincts are supported by Probe and are being targeted by multiple providers including BCL, Wired Country and ThePacific.net








Access competition is real








Telecom is viewing these networks as serious access competitors in the near and long term as we develop our market strategy

- Competitors have networks operating today that are providing attractive offers to the consumer, and they are rapidly building the functionality and appeal of the services they can deliver over these networks
- In aggregate, we believe that over time they will provide competition across the bulk of our geographic markets

Investment in competitive access networks has been substantial, and is forecast to continue

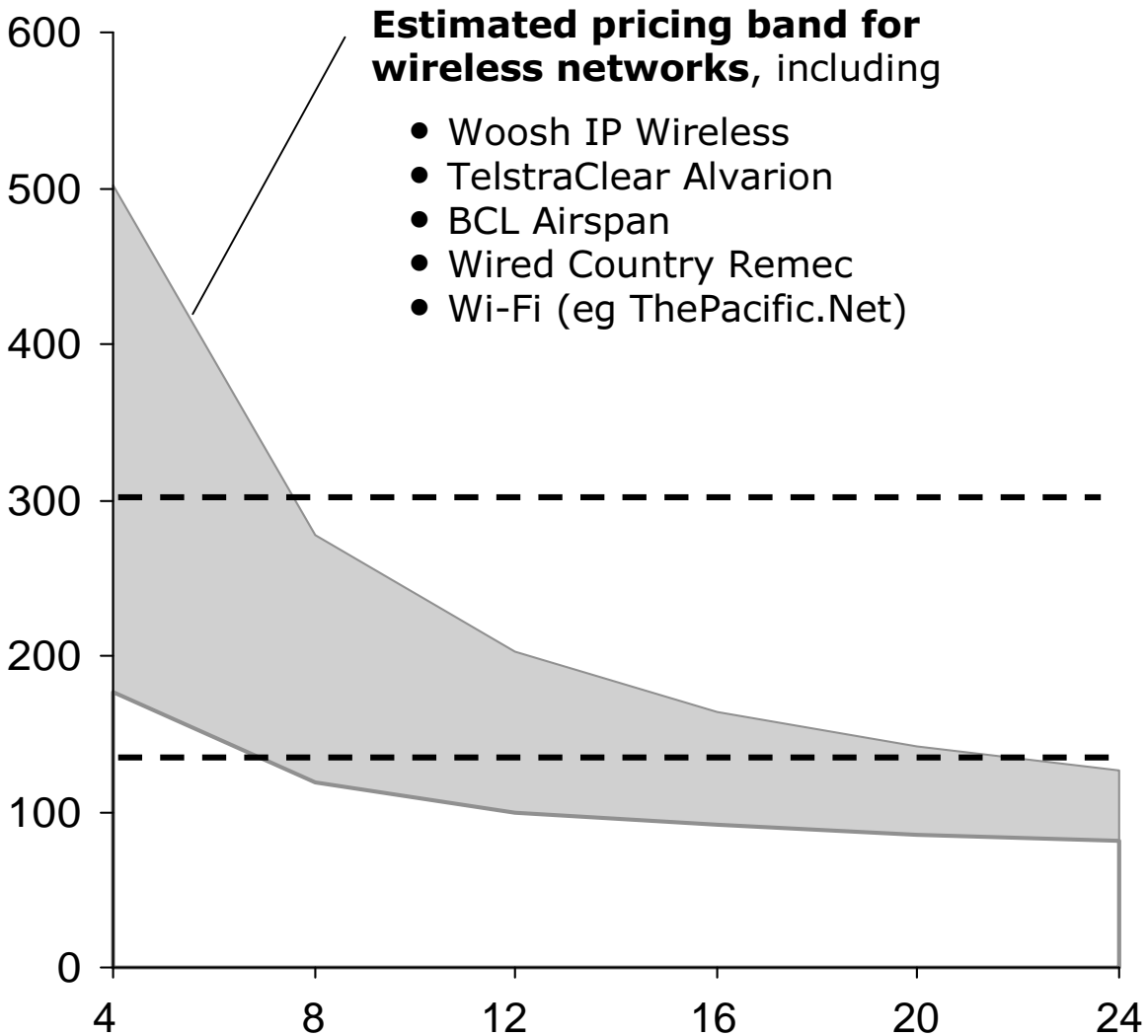
Leading 5 players	To date	Forecast
	<ul style="list-style-type: none"> • Cable networks widely deployed in Wellington and Christchurch 	<ul style="list-style-type: none"> • \$14m to be spent on 'targeted' deployment of Alvarion wireless access platform
	<ul style="list-style-type: none"> • Central Auckland network completed, being extended • Network build and test costs believed to be at least \$10m to date 	<ul style="list-style-type: none"> • National rollout planned over the coming 3 years
	<ul style="list-style-type: none"> • Rural/regional access and national IP backbone network built over last 3 years – currently covering 600,000 customer sites • Access network ~\$15m • DMR network ~\$40m 	<ul style="list-style-type: none"> • Number of sites to be increased by 80% in second rollout phase • Cost likely to be around \$10m
	<ul style="list-style-type: none"> • \$15–20m on wireless/fibre network across Franklin County • \$3m spent by WorldxChange on voice hardware 	<ul style="list-style-type: none"> • Has applied for licences to operate in Hamilton • King Country service likely through The Lines Company
	<ul style="list-style-type: none"> • Coverage across Nelson region, including towns of Motueka, Nelson, and Richmond 	<ul style="list-style-type: none"> • Rollout across Nelson/Marlborough within Probe contract • Site footprint to be increased from 6 to 56 by end of 2003

These ventures have clear strategies & serious investor backing

Leading 5 players	Perceived access network strategy	Investors
	<ul style="list-style-type: none"> • Alvarion network will be targeted at business customers • Complementary to other Telstra-Clear access platforms—cable, fibre, wholesaled copper 	<ul style="list-style-type: none"> • Wholly owned by Telstra
	<ul style="list-style-type: none"> • Offer internet and voice solutions, across NZ, without the need for a Telecom line 	<ul style="list-style-type: none"> • High-profile NZ individuals (Heatley, Todd, Tindall) • Vodafone has an option to buy 20 percent
	<ul style="list-style-type: none"> • Be a leading wholesale provider of national network services to telecommunications retailers – build off Telecom as a foundation customer 	<ul style="list-style-type: none"> • NZ Government (State Owned Enterprise)
	<ul style="list-style-type: none"> • Efficiently operate a wholesale access network in regional/rural areas, using the electricity line business model, and support the growth of broadband 	<ul style="list-style-type: none"> • Counties Power
	<ul style="list-style-type: none"> • Use low entry cost technology to provide quality broadband solutions as an alternative to DSL, in the Nelson region 	<ul style="list-style-type: none"> • Buller Electricity • Tasman Solutions (local ISP)

These competitive networks can challenge telecom on price with sound economics

Minimum price threshold of competitor
(monthly revenue per user)



JetStream 1200 plus business line, local calling, and \$70 tolls

JetStream 1200

Percentage share of broadband captured, next 5 years
(indicative, based on near-term network footprint)

Together these networks are likely to cover 80% of the New Zealand customer base within a few years

Primary focus
 Secondary focus

Lines covered by 2005-06

Main Centres



700,000 – 1,000,000



1,200,000 – 1,500,000



600,000 – 1,100,000



>100,000 likely
(model could cover
1.1m nationally)



>50,000 in Nelson
(model could cover
1.3m nationally)

	Metro/ Urban	Sub- urban	Regional centres	Rural
TelstraClear				
Woosh				
BCL				
wired country				
ThePacific.net				

1.4 million ~80% coverage



SUMMARY



Telecom is taking alternative access competitors very seriously as we develop our market strategy

- This is not crystal-ball gazing—competitors have networks operating today, with concrete near-term expansion plans
- New competitors are leveraging relatively low entry cost, scaleable technologies with sustainable underlying economics to compete aggressively with Telecom
- New competitors are backed by stable, serious investors, and many have significant capital on which to draw
- Telecom is expecting to face vigorous access competition nationally, not just in a few selected, high customer density, areas