

Segmental results

Impact of operational separation on Telecom's segmental results

As detailed in **Regulation**, the 2006 changes to the Telecommunications Act 2001 required Telecom to operationally separate its business into at least three units, comprising:

- i. a network business that sells access to the copper access network on an equivalent basis to both Telecom and third parties;
- ii. a regulated wholesale business that sells wholesale broadband access services on an equivalent basis to both Telecom's retail arms and third parties; and
- iii. one or more retail business units.

Telecom restructured during 2008 to comply with the Undertakings and created five customer-facing business units, supported by a Technology & Shared Services business unit and a corporate centre. 2009 is the first year that Telecom has reported the results of its business in these new business units. Prior to 2008 Telecom's operations consisted of four reportable business segments; NZ Business, NZ Consumer, NZ Technology and Enterprises and Australian operations.

As at date of publication Nov 2012 (Archive)

External revenues and costs that now sit in the operationally separated business units have been restated as if those revenues and costs were in those business units in prior periods. This may give unrepresentative indication of growth where costs have increased since separation to facilitate the running of the separated business. For instance Chorus' labour costs prior to separation were lower than current levels as it was not a separate business unit.

The segment results exclude significant one-off gains, expenses and impairments. These items are excluded from the segment results to enable an analysis of the underlying earnings of the segment when the financial results are presented to the executive team. A reconciliation between the segment results and net earnings from continuing operations is included in the financial statements in note 2.

Chorus

YEAR ENDED 30 JUNE	2009 NZ\$M	2008 NZ\$M	2007 NZ\$M	2009/2008 % CHANGE	2008/2007 % CHANGE
Operating revenues					
Local service	14	11	-	27.3	NM ¹
Other operating revenues	18	8	8	125.0	-
Internal revenue	751	758	750	(0.9)	1.1
Total operating revenues	783	777	758	0.8	2.5
Operating expenses					
Labour	(20)	(10)	(4)	100.0	150.0
Other operating expenses	(208)	(186)	(179)	11.8	3.9
Internal operating expenses	(2)	(2)	-	-	NM ¹
Total operating expenses	(230)	(198)	(183)	16.2	8.2
Segment result	553	579	575	(4.5)	0.7

1 Not meaningful

Chorus became operational in March 2008, hence the trading results of 2008 and 2007 are not necessarily comparable. Comparative results have been restated based on theoretical trading between Chorus and other business units based on the drivers of that revenue. Expenses that are now allocated to Chorus have been restated in prior periods where those expenses existed.

Operating revenues

Operating revenues increased by 0.8% to NZ\$783 million in 2009 and by 2.5% in 2008 principally due to revenue from external customers from the provision of UCLL and co-location services. As at 30 June 2009 Chorus had UCLL products

or services available from 64 exchanges and five external customers were consuming UCLL based services. There were no UCLL products or services on offer in 2008 or 2007.

Chorus' local service revenue is derived from UCLL and revenue from the provision of access services in new residential developments. While UCLL revenues increased in 2009, this increase was largely offset by lower access services revenue due to the reduction in the number of residential developments.

Other operating revenue increased by NZ\$10 million in 2009, of which NZ\$4 million resulted from the launch of UCLL co-location and backhaul services with the remaining increase due to increased activity from traditional products such as roadworks, property rentals and cable location services.