TELECOM NEW ZEALAND

Retail Update

Investor Briefing Day – 27 May 2010

Chief Executive Officer Retail – Alan Gourdie

2009/10 Retail highlights

We have protected our fixed base, maintained our broadband share and successfully migrated mobile customers onto higher value XT services

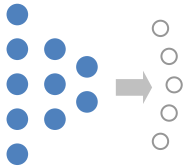
			FY2009	FY2010F
Market Performance	• Access churn contained		73%	70%
	• Fixed Broadband market share declines stabilised		57%	56%
	• Mobile market share increasing		39%	40%
Customer Performance	• Fixed access churn is significantly down YoY in both Consumer (C) and Business (B) segments	C	7.5%	6.3%
		B	10.8%	8.3%
Business Performance	• Migration of customers from CDMA to XT continues at fast pace		4%	35%
	• We continue to grow our Total Home product, more than doubling our base in one year		131k	283k
Financial Performance	• YoY EBITDA reduction slowed from 14.5% in FY09 to 5.3% in FY10		$404m	$383m
Transformation	• All regulatory milestones to date have been met			

Strategic priorities

Deliver turnaround in EBITDA through cost reduction, customer retention in fixed and high value acquisition in mobile

Reduce cost

- NGT & Right First Time
- Reduce marketing expense
- Continued organisational right-sizing



Simplify

- Streamline organisational model
- Simplify portfolio of products and bundles
- End to end process automation

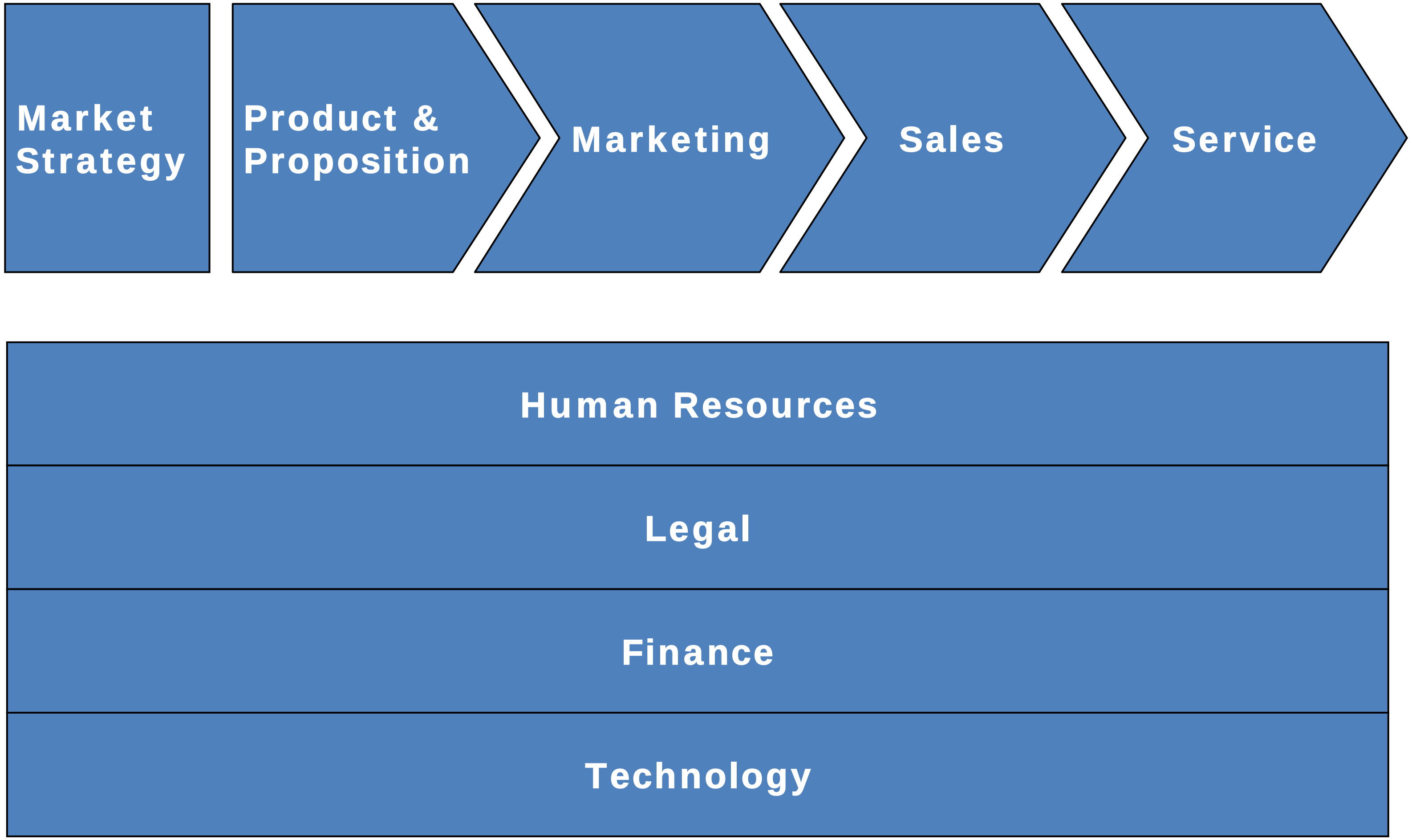
Retain value

- Fixed - Continue bundling and contracting strategy
- Mobile - Accelerate CDMA upgrade to higher value XT
- Deliver higher OTIF performance and more self & assisted online service

Targeted growth

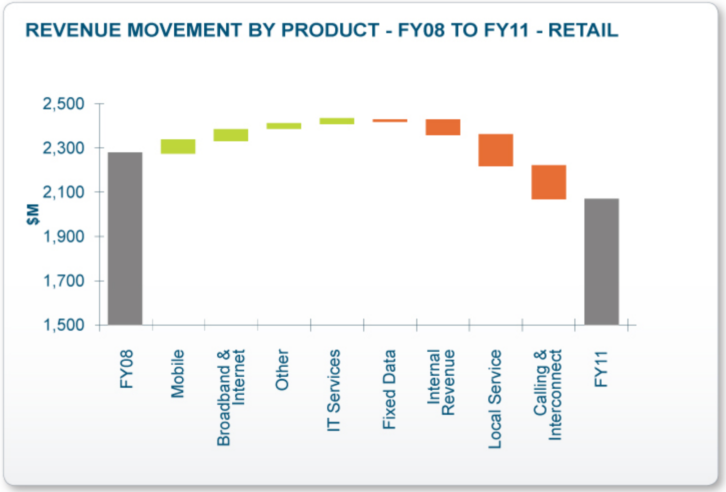
- Mobile - SME and high value Consumer post paid focus
- Build sales engine that aligns channel, product and segment Mobile Broadband - Drive data on device and mobile broadband

Lean, efficient Retail Organisation



Revenue – FY08 to FY11

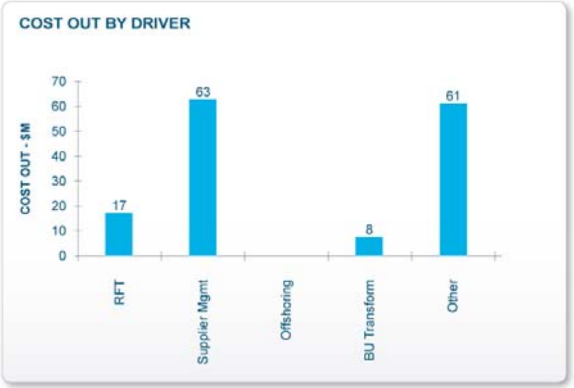
Total Retail revenue has declined from FY08 – FY10, but is expected to be flat in FY11

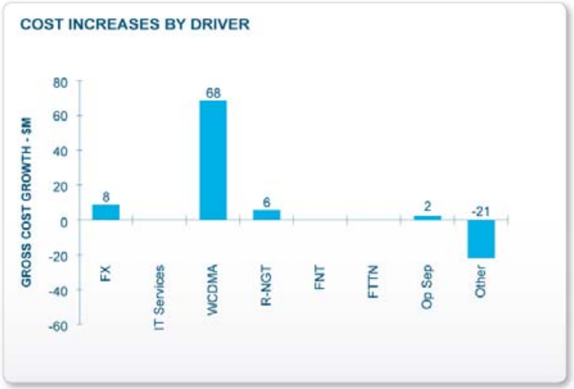


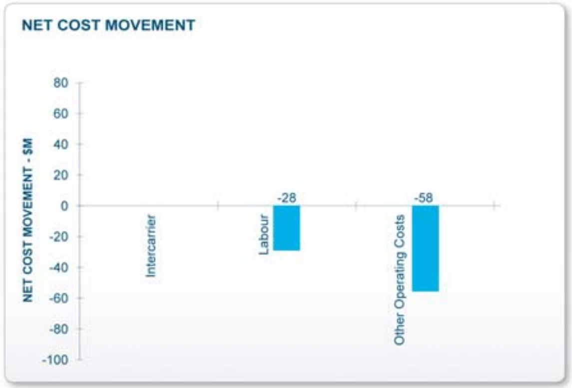
- **Access and Calling** churn minimised to protect existing revenues
- Rate of **Broadband** revenue growth to remain stable
  - Maintenance of customer ARPU to be delivered via up-sell and bundling activities
- **Mobile** revenues projected to increase by $105m (17.9%) YoY as a result of:
  - CDMA customer migration to higher ARPU XT network
  - High Value customer acquisition particularly in SME segment
  - Continued growth of data on device and Mobile Broadband
  - Targeted activity in Auckland youth market

Cost Out – FY08 to FY11

Retail will continue and extend our Cost Out programme as a major driver of EBITDA growth







Comprehensive cost out programme addressing all major levers

- Organisational design
- Business process automation
- Product portfolio
- Cost to serve
- Cost of sales
- Marketing efficiency

Cost increases driven by

- Migration to XT
- Migration to NGT platform

Note – External cost only

Cost reduction

Simplification of Retail's operating model, offers and processes

Organisation design	•Right-sized organisation •Do Less, Better
Cost of sales	•Handset supply & sourcing •Subsidy reduction
Business process automation	•Service automation •Online portal build
Cost to serve	Right First Time including: •Product design improvement •Process OTIF
Product portfolio	•Product rationalisation •Drive PLM disciplines
Marketing efficiency	•CRM driven campaigns •Reduced cost to promote and sell

- Improved Gross Margin
- Unit Cost of Sales and Cost to Serve reductions

Fixed line retention

Continued focus on customer retention and cross-sell

Better network
- Continued emphasis network performance and product quality
- VDSL and Fibre services development

Better service
- On time, in full buy and resolve for Access and Broadband
- More self and assisted service on line

Better bundles
- Consumer and business bundles customised to segment needs
- Trading existing customers up to triple and quadruple plays

Better targeting
- More segment specific offers and communications
- Develop loyalty strategy for existing customers

Better selling
- Re-defined product and channel alignment and capability
- New Sales Channel development

Access Gross Churn reduction

Fixed Line ARPU increase

Increase in products per customer

Mobile growth - focused on customer migration and targeted acquisition of high value customers

Driver of Value	Our Priorities
Connection Growth	• Post paid –focus on high value, existing fixed customers • Pre paid growth via calling circle disruption • Mobile Broadband development
ARPU Growth	• Maintain voice ARPU with mix and voice service development • Improved VAS portfolio to stimulate mobile internet usage • Increased uptake of Smartphones to drive Data on Device.
COS Reduction	• Controls on device and channel costs • Customer payment options to reduce level of handset subsidy

Mobile Data ARPU increase

Unit Cost of Sales reduction

Blended ARPU increase

Some Things We Have Achieved…

Launched Yahoo! TWorld Portal, a great enabler of mobile internet usage

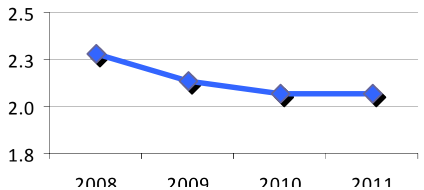
Compelling new plans and devices launched, including the exclusive LG GW620f using the Android OS

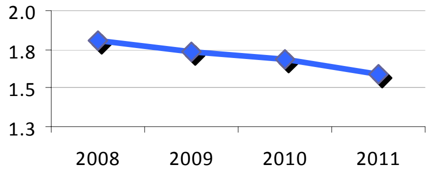
Some Things We Are Planning…

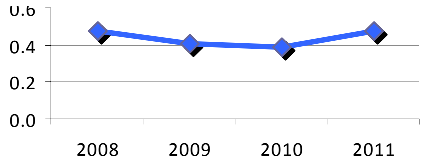
Galvanise the Mobile Broadband market with HSPA+ delivering average speeds of ~4Mb/s

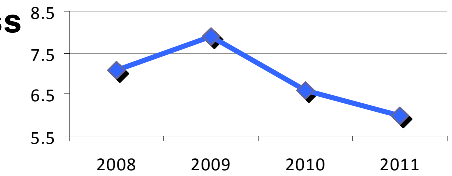
Concept store for our new head office to demonstrate the power of XT

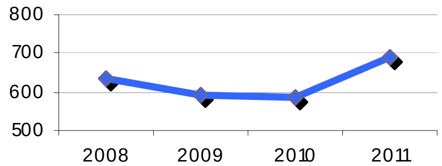
Key performance indicators

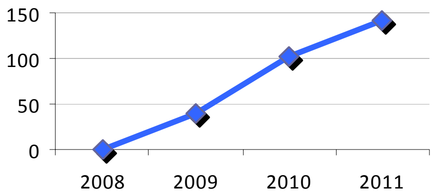












	Actual Change		Normalised Change*		COMMENTARY
	2010F	2011F	2010F	2011F	
Revenue ($bn)	(3.5%)	0.0%	(2.8%)	(0.7%)	• Stabilisation of Access Net Churn and continued Mobile growth
Expenses ($bn)	(3.0%)	(5.6%)			• Cost Out programmes have delivered $103m savings since FY08
EBITDA ($bn)	(5.3%)	24.7%	(1.7%)	20.2%	• Targeted YoY increase during FY11 to be delivered via Cost Out focus and Mobile growth
Net Access Churn (%)	(6.6%)	(6.0%)			• Continued contracting and Bundles focus will stabilise Net Churn
Mobile Revenue ($m)	(0.5%)	17.9%	1.9%	15.1%	• FY11 Revenue growth to be delivered via 5% YoY increase in Cellular ARPU
Cost Out ($m)	166.5%	36.7%			• Continued focus on RightFirstTime programme, Unit Cost of Sales and introduction of Retain, Simplify and Reduce strategy

* Reflects normalisation of FY10 outturn for XT reparations ($14.5m)

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  - Average Revenue per User ('ARPU'). Telecom calculates ARPU as mobile voice and data revenue for the period divided by the average number of customers for the period. This is then divided by the number of months in the period to express the result as a monthly figure.
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