



MEDIA RELEASE

24 May, 2011

Chorus selected as cornerstone of Ultra-fast Broadband initiative

Telecom New Zealand has today reached an agreement for its network business Chorus to take the cornerstone role in the government's Ultra-fast Broadband (UFB) initiative.

Chorus has been chosen as the Crown's UFB partner in 24 regions. In total this represents around 70% of the UFB coverage area.

In line with Crown Fibre Holdings' requirements, between 2012 and 2015 fibre will be delivered first to priority customers, which includes schools, hospitals and businesses. This will see 299 schools connected within the first 12 months, with an additional 736 schools connected by 2015. In addition 30 hospitals will be connected within the first 12 months, with a further seven added by the end of 2015.

In addition, Chorus intends to engage in partnering discussions with Christchurch City Holdings Ltd (CCHL) and its subsidiary Enable, which could result in Chorus taking up to a 50% stake in a joint venture in Christchurch and Rangiora.

"We are extremely pleased to have reached an agreement with the Crown that we firmly believe is in the best interests of our shareholders, as well as the industry and New Zealand as a whole," said Paul Reynolds, Telecom CEO.

"Under the terms of the agreement, Chorus will become a new listed company completely independent of Telecom (structural separation) and form the cornerstone of New Zealand's fibre future. Today, Chorus has been confirmed as New Zealand's leading fibre partner. This reflects Chorus' proven fibre expertise, its history of delivery through the fibre-to-the-node programme, and its trusted relationships with other telecommunications companies.

"We are excited to be able to play such a significant role in delivering New Zealand's fibre future. To that end, we will be laying the first fibre for the Ultra-fast Broadband initiative from August this year, while continuing the process to demerge Chorus in parallel," he said.

Fibre further faster

"We have said from the beginning of the UFB initiative that a partnership between the Crown and Chorus would allow the delivery of fibre further and faster than any other partnership or alliance. We also said that every dollar of the Crown's investment would be spent directly on fibre, and we have kept that promise.

"Throughout a tough and lengthy negotiation process Telecom has worked hard to find innovative ways to keep the deployment costs low, while ensuring a high quality network is delivered.



"As a result, Chorus will be able to deliver fibre past all premises in the 24 regions by 2019 and ensure wholesale prices for fibre products are in line with current copper pricing.

Coverage

Before the end of 2011, Chorus' existing fibre across New Zealand will also be available to Retail Service Providers (RSPs) as open access for connecting customers.

While fibre will be delivered first to priority customers, which includes schools, hospitals and businesses, any residential customers who are passed by the new fibre will also be able to connect.

Further coverage will be delivered according to the milestones agreed with CFH.

Pricing

The entry level wholesale price per month for a 30mbps plan will be \$37.50 and a 100mbps plan will be \$55. RSPs will not be charged connection fees for standard residential connections.

"The wholesale rates mean that barriers to upgrade to a fibre connection have largely been removed as soon as it is available in an area. As such, we expect RSPs will seek to convert their customers to fibre as quickly as possible.

Partnership

"We also reiterate our commitment to partnerships with other participants, and we are happy to commence discussions in short order with other chosen partners as well as unsuccessful bidders.

"We will happily partner with Christchurch City Holdings and Enable to deliver the best possible outcome for Christchurch and Rangiora. Telecom, as one of the largest employers in the city, remains very committed to Canterbury. Chorus, in particular, played a critical role in maintaining communications infrastructure after the earthquakes," Paul Reynolds said.

Demerger

Telecom said it would now aim to demerge Chorus by the end of the calendar year.

A demerger would see Telecom split into two entirely separate companies and change radically the entire telecommunications industry structure.

Chorus will be a nationwide fixed line access network infrastructure operator that will offer services to RSPs on an open access basis to allow them to build and deliver innovative services to New Zealand end-users.

Sue Sheldon, who is currently a Telecom director and based in Christchurch, has been named as Chairman of Chorus. Sue also sits on the boards of several other



high profile NZX-listed companies, including Freightways and Contact Energy, along with holding a directorship of the Reserve Bank of New Zealand.

Telecom will be a retail-focused telecommunications business comprising fixed, mobile and ICT businesses. It will also provide some other non-regulated services to the industry, such as national backhaul and certain commercial wholesale services. After a demerger Telecom will no longer own local access fixed networks and will build and deliver services to end users using the Chorus network, just like other RSPs. Telecom's ownership restrictions will pass to Chorus.

The agreement is subject to certain conditions, including stakeholder approvals and legislative change. Telecom intends to demerge via a court approved scheme of arrangement by late 2011, further details will be released in due course.

Between 1 July and a demerger occurring certain transitional arrangements will be put in place.

Guidance

Given that Telecom anticipates demerging Chorus in the FY12 financial year, financial guidance for the FY12 financial year has been withdrawn.

FY11 financial guidance remains unchanged.

ENDS

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CONFERENCE CALL



Investors and Analysts are invited to join a teleconference with Telecom's Chief Executive, Paul Reynolds, Chorus Chief Executive Mark Ratcliffe and Telecom Chief Financial Officer Nick Olson.

DATE: Tuesday 24 May 2011

TIME:

Country	Date	Time	Dial in
New Zealand	24/05/2011	01:30pm NZT	0800 440 246
Australia	24/05/2011	11:30am AEST	1800 730 002
Hong Kong	24/05/2011	09:30am HKT	800 908 530
Japan	24/05/2011	10:30am JST	00531 252 004
Singapore	24/05/2011	09:30am SGT	800 616 3007
United Kingdom	24/05/2011	02:30am GMT	0800 358 5267
USA	23/05/2011	09:30pm EST	1 877 941 1427

Please dial into the teleconference 5 minutes before the start of the presentation.

An archive of the conference call will be available for replay later at <http://investor.telecom.co.nz/>

Summary of agreement

Coverage:

- Chorus has reached an agreement for around 70% of UFB premises, over 24 regions, including Auckland and Wellington
- All properties in the 24 regions will be passed by fibre by 31 December 2019
- Chorus and Christchurch City Holdings intend to discuss partnership options for the Christchurch region
- Build to begin in August 2011

Pricing:

- Chorus will sell access to a range of fibre services on a wholesale, open access, basis to all Retail Service Providers (RSPs)
- Fibre wholesale pricing is roughly in line with current wholesale pricing for residential copper products
- Plan pricing for end users will be decided by the RSPs

Connecting customers:

- Chorus will not charge RSPs for standard residential connections
- Fibre will be connected to customers' homes using a device called an Optical Network Terminal (ONT)
- Customers will be able to plug existing phones, PCs and wireless routers into the ONT to receive service

Crown investment:



- The Crown investment is structured to align the interests of Chorus and CFH and encourage fibre up take
- The Crown will fund Chorus directly up to \$929m
- Funding will be a 50/50 split of debt and equity

Legislative changes:

- The government has proposed a number of changes to the Telecommunications Act
- Those changes are currently before the House
- The amendments enable several government policies, along with the demerger of Telecom which will lead to a radical reshaping of the telecommunications industry in New Zealand

Demerger:

- Telecom is aiming to demerge via a court approved scheme of arrangement
- Demerger is expected by late 2011
- Further details around timing are to be released in due course

Upon demerger Chorus will:

- Be a national provider of layer 1 and 2 wholesale local access network fibre and copper services to retail telecommunications companies (RSPs)
- Be the Government's/Crown's partner in the roll out of fibre infrastructure in 24 UFB regions
- Sell open access and non-discriminatory (exactly the same price and technical specification) services to RSPs
- Connect end users and install certain equipment in their premises
- Manage its network including fixing faults on its network

Upon demerger Telecom will:

- Be a provider of fixed line, mobile and ICT services to end users
- It will be a fixed line RSP like other retail telecommunications companies, along with retaining its mobile network
- It will buy Chorus' layer 1 and 2 services and compete with other service providers to sell them to end users
- It will also provide some other non-regulated wholesale and resale services to the industry, such as national backhaul, international voice and IP transit services as well as regulated and non regulated resale services
- Be the company, like other RSP's, that sends end users their bills, and who end users call if they have any faults or want to buy additional services

Steps remaining:

- This agreement is subject to shareholder approval of the demerger and passage of the legislative changes