

Outline of UFB agreement between Chorus and Crown Fibre Holdings



Design, build obligations and timeline:

- The demerged Chorus entity will design and build a fibre fixed line network in 24 candidate areas
- Fibre build comprises two components:
 1. communal infrastructure which will deliver fibre past premises
 2. the connection of premises as dictated by demand, including the equipment in the customer's home to enable service delivery.
- Chorus Communal Infrastructure
 - The communal infrastructure will be built according to annual build milestones and must be complete by no later than 31 December 2019.
 - The communal infrastructure must pass all premises in the candidate areas. Initial deployment from 2012 to 2015, will focus on priority users (businesses, schools and medical centres) and premises within the vicinity of the fibre network deployed for priority users.
 - The communal infrastructure will pass approximately 830,000 premises, with around 50,000 premises passed by June 2012, and around 100,000 premises passed each year to June 2019.
 - CFH investment of up to \$929 million will help fund the cost of the communal infrastructure, with Chorus carrying the risk of any variation in costs.
- Connection of Premises
 - Chorus will meet the cost of connecting standard residential customer premises and the equipment in the customer's home to enable service delivery to Retail Service Providers.
- Connection of premises will be driven by demand.
- The estimated average cost per premise is between \$2,250 and \$2,750, which covers both the communal infrastructure costs and the cost to connect the premises.
- Telecom will start the design and build of the new fibre network in August. Telecom will self-fund the design and build work during the interim period prior to demerger, and CFH's investment post structural separation will reflect the build completed during the interim period.
- Telecom Retail and Gen-i have committed to progressively offer fibre-based voice and broadband products from the second half of 2012.

Services, prices and service levels:

- Chorus will offer a broad range of Layer 1 and Layer 2 services. In the residential market only Layer 2 services will be available prior to 2020. In the corporate market, Layer 1 services will be available from the end of 2011.
- Under the terms of the contract Chorus will charge the following selected prices:

Product	Upstream and Downstream Speeds	Committed Information Rate (CIR)	Pricing at commencement (excl GST)
<i>Entry level Consumer</i>	30 Megabits per second (Mbps) Downstream / 10Mbps Upstream	2.5Mbps Symmetrical	\$37.50
<i>Household 100Mbps</i>	100Mbps Downstream / 50Mbps Upstream	7.5 Mbps down, 2.5 Mbps up	\$55
<i>Business</i>	100Mbps Downstream / 100Mbps Upstream	Purchase CIR/EIR* in increments to suit customer need	\$380, plus CIR and EIR
<i>Premium Business</i>	1 Gbps Downstream/ 1 Gbps Upstream	Purchase CIR/EIR* in increments to suit customer need	\$455, plus CIR and EIR

*EIR = Excess Information Rate

- Chorus will connect standard residential customer premises at no charge, with fees applying for business connections
- The residential connection will include fibre from the communal network to the Optical Network Terminal (ONT) located inside the customers' premises. The ONT will provide Ethernet ports and phone jacks allowing customers to plug in most existing phones, PC's and wireless routers to receive service.

Crown investment:

- Chorus will not adopt the Local Fibre Company ("LFC") model but instead Chorus will be a stand alone listed entity. The Crown will invest up to \$929m directly in Chorus as the network is built.
- The Crown investment will be through an equal combination of structured debt and equity securities i.e. 50% debt, 50% equity. Chorus will also issue warrants to CFH.
- The debt and equity securities and warrants will be issued by Chorus in tranches on a progressive basis in line with build milestones.
- In order for CFH to invest in Chorus, Chorus must have an investment grade rating at the time CFH initially invests in Chorus.
- Equity Securities
 - The equity securities will have no right to vote at meetings of Chorus ordinary shareholders.
 - No dividend payments will occur before 2025

- The portion of equity securities that attract dividends will increase over time from 2025, and by 2036 all outstanding equity securities will attract dividend payments.
 - The portion of equity securities upon which dividends are payable accelerates if a 20% fibre up take threshold is not passed by 2020. (Note: 20% threshold is used for calculating the timing of crown returns and does not represent take up projections.)
- Debt Securities
 - The debt securities are unsecured and non interest bearing, and carry no voting rights at meetings of Chorus' ordinary shareholders.
 - The debt securities will be redeemed in tranches from 2025 to 2036.
 - The timing of redemption of tranches of debt will vary depending on whether a 20% fibre up take threshold is passed by 2020. (Note: 20% threshold is used for calculating the timing of crown returns and does not represent take up projections.)
- Chorus may elect to redeem the equity or debt securities at any time at face value.
- Chorus will also issue warrants to CFH which will allow CFH to share in the upside if Chorus generates cumulative Total Shareholder Returns in excess of a 16% per annum hurdle. This allows CFH to share in any upside of strong Chorus performance.

Fibre open access:

- Chorus will have obligations to the Crown to ensure open access to Chorus's fibre access networks.
- These obligations will require "equivalence of input" for Point to Point Layer 1 services from commencement, and for shared fibre layer 1 services from 1 January 2020, and non-discriminatory treatment of service provider customers.
- Chorus's compliance with these obligations will be supervised by the Commerce Commission.

Commitment to fibre services:

- Chorus will prioritise investment in fibre, and promote uptake of the fibre network.

Partnership

- Telecom has agreed to enter into good faith negotiations with LFCs with respect to arrangements in their coverage areas.

Governance:

- Chorus has agreed that CFH will participate in the development of plans for the fibre elements of its business. There are also monitoring provisions designed to assist CFH in ensuring that Chorus is observing the requirements to prioritise fibre.
- Chorus will have obligations to the Crown which will mean that associated persons of other telecommunications service providers in New Zealand are unable to be directors of Chorus.

- Any changes to the contractual provisions that deal with Chorus's ability to offer fibre products and services will require the Crown's approval.

Demerger and the interim period:

- The interim period covers the period prior to structural separation – Telecom's participation in the UFB initiative only becomes unconditional if structural separation occurs.
- Telecom will use reasonable endeavours to achieve structural separation by late 2011. If structural separation does not occur by 1 July 2012, or the regulatory package is significantly modified, the UFB arrangements can be terminated.
- If the UFB arrangements are terminated during the interim period, Telecom or CFH will be entitled to an \$11 million costs reimbursement from the other in certain circumstances (including, for CFH, if Telecom's shareholders do not approve structural separation).

Other key provisions – milestones, service levels and remedies:

- Chorus's build of the communal infrastructure will be subject to geographic performance milestones, which will be set as part of the annual deployment planning process and will cover both build and systems and product deployment.
- If Chorus fails to meet performance milestones or service levels, Chorus will generally be required to pay agreed damages to CFH. If there is an ongoing un-remedied "Material Breach" of the network build agreement CFH can terminate the agreement and require Chorus to redeem the debt securities and exchange the equity securities for voting based preference shares or a comparable value of ordinary shares.
- The agreement includes remedies available to Chorus if significant changes are made to prices or other key features of the agreement. Remedies can take several forms, including additional deferral of repayment of Crown funds.

Steps remaining:

- Full implementation 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.