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Datacom House  
68-86 Jervois Quay  
WELLINGTON

8 November 2013

Hon Amy Adams  
Minister of Communications and Information Technology  
Private Bag 18041  
Parliament Buildings  
Wellington 6160

Dear Minister

Thank you for your letter dated 6 November 2013 and published on 7 November 2013 advising that you are seeking an independent assessment of Chorus' financial position following the release of the final benchmarked UBA determination.

Chorus welcomes the opportunity to assist and co-operate with the independent adviser. We understand that a consulting firm will be asked to provide an independent report assessing the scope for Chorus to manage the impact within the constraints of the reduced revenue, and if required, a range of alternative options to inform the Government's considerations.

We will be as transparent as we can in our engagements with your independent adviser. As a listed company we will need to ensure that appropriate arrangements (including confidentiality undertakings) are put in place to ensure compliance with listing rules and securities laws. As standard commercial practice we will also need to understand the conflicts position of your independent adviser. We are happy to work with your officials on setting up appropriate arrangements.

Your letter has referred to Chorus' future review of capital management settings, dividend policy and equity and requested that we advise Government on steps that might be taken.

The Government's regulatory review and the Commerce Commission's final pricing review processes (and any interplays between them) are inextricably relevant to any steps that Chorus might ultimately need to take in relation to capital structure, dividend policy or potential equity raising and this will need to be within appropriate parameters including a fair return to Chorus investors for the risks assumed.

To assist your independent adviser we are able to discuss preliminary views with them on the potential range of options that may be available to us, subject to the constraints of the limited timeframe, our disclosure obligations and the fundamental challenge of solving for optimal capital management settings when broader regulatory and other key matters are unresolved.

We are proud of our role as a wholesale only nationwide fixed line communications provider of essential infrastructure. We are making a once in a many generation infrastructure upgrade in New Zealand through the ultra fast broadband (UFB) and rural broadband (RBI) programmes. We have invested approximately \$1 billion in fibre in the two years since we began to build the UFB network ahead of demand and of course continue to also maintain our existing network in order to support service levels.

Chorus is committed to providing resilient critical infrastructure nationwide. New Zealand got a very good deal for the UFB upgrade by entering into an innovative public-private partnership to leverage Chorus' balance sheet to fund it. It is our revenues and the funding we receive from lenders and shareholders that underpins this kind of investment.

The majority of those revenues are from our existing network. Fibre is being taken further, for less taxpayer funding than other countries. We are already 20% of the way through one of the largest nationwide civil engineering projects ever undertaken in New Zealand and ahead of schedule. We are delivering on the RBI initiative and providing leadership through initiatives such as "Gigatown" and a proposed improved fibre product set. New Zealand is leading the way in broadband growth.

Having invested around \$1 billion so far, as a consequence of the Commerce Commission decisions using a pricing principle that is out of date, we have noted that we now face a potential funding shortfall of around \$1 billion during the build period. As we have said to the market, we are intensely disappointed that the much needed certainty at this time of generational investment and transition incentives for the whole industry has not shown up as was intended.

The pricing principles in the Act are out of date. There have also been significant implementation and timing difficulties. All four UFB partners and the Government intended and have publicly noted that s18(2A) was a signpost to recognise the significant investment being made in fibre and to ensure copper price decisions didn't undermine the UFB investment. However, the Commission – rightly or wrongly - does not have the same view.

We find it incomprehensible that an outdated and flawed regulatory regime could lead to a listed company that is reinvesting 65% of its revenues, possibly being unable to perform obligations that it is currently performing appropriately, and giving rise to consequential real financial losses for investors.

For certainty to occur, and for the industry to focus on the opportunities that fibre brings, the sector must be underpinned with a high quality and effective regulatory framework and aligned implementation.

We are very willing to work with Government to resolve the unsatisfactory situation that has arisen and ensure that New Zealand benefits from investment that brings progress like the UFB and RBI initiatives at attractive entry level pricing as well as maintaining the existing infrastructure.

We welcome a prompt timetable as your letter indicates. We look forward to hearing from you on the next steps and advice on who the key point of contact is from the Government perspective.

We will release a copy of this letter through the NZX and ASX.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Ratcliffe', with a stylized flourish at the end.

Mark Ratcliffe