MEDIA STATEMENT

18 April, 2011

Telecom submits final proposal to Crown Fibre Holdings and accelerates organisational change

Telecom today announced it has provided a binding offer to Crown Fibre Holdings (CFH) in respect of the Crown's Ultra-fast Broadband (UFB) initiative, and has accelerated the reorganisation of its business to meet the competitive challenge of a fibre-based world.

The Telecom offer follows months of detailed negotiations with CFH, and two years of engagement overall.

"Our proposal meets all of the key components of the UFB vision. It would see the creation of a completely new listed company, Chorus, to deliver an open-access, national, fibre-to-the-home network. Chorus' fibre services would reach 75% of New Zealand within ten years and we believe it satisfies all of CFH's competitive pricing requirements," said Paul Reynolds, Telecom CEO.

"Of course, we are engaged in an intensely competitive process with other bidders and the Crown must decide, so we retain a degree of caution. However, the Telecom board is satisfied that we have submitted the best possible bid terms on behalf of our shareholders.

"Telecom's bid represents a once-in-a-generation opportunity for New Zealand to create a national, entirely open-access, fibre network which builds on what's already installed, avoids needless duplication and waste and utilises a first-class, national team of experts.

"It would allow competition and consumer choice to flourish, would attract huge investment of up to $6 billion and ultimately contribute to the transformation of important sectors of our economy. We therefore await the Crown's decision with interest," said Dr Reynolds.

Should Chorus be selected as the Crown's partner in the 25 regions remaining to be allocated, Telecom would move to structurally separate, subject to shareholder approval.

"Our focus now shifts from negotiating with CFH to getting ready for the UFB environment, which will see us either demerging as the UFB partner or competing with new entrants in the access business.

"The timelines are very short for either scenario, so we must begin the work now, before the Crown has made its decision on the awarding of the UFB contract," said Dr Reynolds.

Whether or not Telecom is a chosen partner, UFB will fundamentally re-shape the telecommunications industry in New Zealand. Paul Reynolds therefore also outlined important organisational changes to prepare for this.

“Telecom will change fundamentally, and for the better, whether or not we are chosen as the Crown’s partner. We aim to build confidence by creating even greater separation between Telecom’s regulated and commercial services, and also build competitiveness through a leaner and more agile organisation.

“The organisational changes under way will position us strongly to further reduce costs and play a significant, ongoing role in bringing world-class services to New Zealanders.”

The changes are:

- Telecom’s simpler business model starts with the executive team which will be reduced from ten to eight members. The new structure aims to eliminate duplication in corporate services, technology platforms, products and customer delivery processes, thereby lowering costs and enabling better service for customers.

- Mark Ratcliffe, who has led Telecom’s UFB bid team, will now resume his role as CEO of the Chorus business unit, while retaining the lead on UFB matters with the Crown.

- In anticipation of regulatory change and demerger, the regulated Wholesale business will progressively align with Chorus over the year ahead to provide a more seamless service for Wholesale customers. As a first move, acting CEO of Wholesale, Nick Clarke, will continue to report directly to Paul Reynolds but will step back from Telecom Group issues and will stand down from the Telecom executive.

- A major new executive role, Chief Product Officer, is created to improve the performance of product and pricing activity across the company. Teams from Retail, Gen-i, commercial Wholesale and the entire TNZI business will move into this new business unit.

- Telecom’s existing five corporate centre executives - finance, HR, strategy, legal and corporate relations - will reduce to three corporate services executive roles.

“What isn’t changing at Telecom is our commitment to have customers at our heart or our commitment to meet the Undertakings on Operational Separation agreed in 2008.

“New Zealand stands on the threshold of exciting and far-reaching changes to the telecommunications industry. Whether or not we partner with the Government on UFB, Telecom looks to the future with great confidence,” Paul Reynolds said.

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