



MEDIA RELEASE

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Further details on the structural separation of Telecom

Telecom and the Ministry of Economic Development (MED) have today published a range of documents that provide further information on the structure of New Zealand's telecommunications industry in the event that Telecom structurally separates.

Telecom has said that, subject to shareholder and bondholder approval, it will separate Chorus into a stand-alone business "New Chorus" via a demerger. Separation will enable New Chorus to participate in the Ultra-fast Broadband initiative.

"Telecom will be the first comparable telco in the world to undergo structural separation, and unpicking such a complex business is a massive undertaking," said Paul Reynolds, Telecom CEO.

"We believe we are now well positioned to deliver a stand-alone New Chorus business in a timely and effective manner, while also ensuring there is no disruption to services or unnecessary cost created for the industry."

The documents released today include:

- Details of the Telecom assets and liabilities that will be transferred to New Chorus during the demerger
- The associated commercial sharing arrangements between New Telecom and New Chorus
- The Deeds of Open Access.

Last week Chorus also published a Wholesale Services Agreement (WSA) for consultation, which provided additional detail to the industry on the features and pricing of New Chorus' proposed fibre products.

"The release of this information is the continuation of a long-running MED process on structural separation, which has included extensive industry consultation," said Mark Ratcliffe, CEO Chorus.

"In addition to the publication of the Deeds of Open Access, and last week's publication of the Chorus WSA, we felt voluntary, early and detailed publication of the asset split would provide the industry with valuable certainty, and better inform the consultation process for both the WSA and the Deeds of Open Access."

The Asset Allocation Plan (AAP) is now subject to final approvals, including approval by the Minister for Communications and Information Technology, Steven Joyce.

The Deeds of Open Access are now subject to industry consultation, with the MED seeking written submissions on the deeds by 12 August 2011.

Deeds of Open Access

On the day of demerger, Telecom's Undertakings on Operational Separation will be revoked, and replaced with three Deeds of Open Access.

The purpose of the deeds is to ensure the principles of non-discrimination and equivalence that were put in place through operational separation are maintained by New Chorus following structural separation, in line with the recent amendment to the Telecommunications Act 2001.

"As structural separation marks a fundamental shift to the industry structure, the principles of a level playing field and non-discrimination and equivalence will shift to the newly-demerged Chorus business," said Mr Ratcliffe.

"Non-discrimination and equivalence have been in Chorus' DNA since its establishment as a business unit in 2008, and we look forward to being the industry's fibre partner on this basis."

Drafts of the deeds are available on the MED website:

- Deeds of Open Access – Copper
- Deeds of Open Access – Fibre
- Deeds of Open Access – RBI

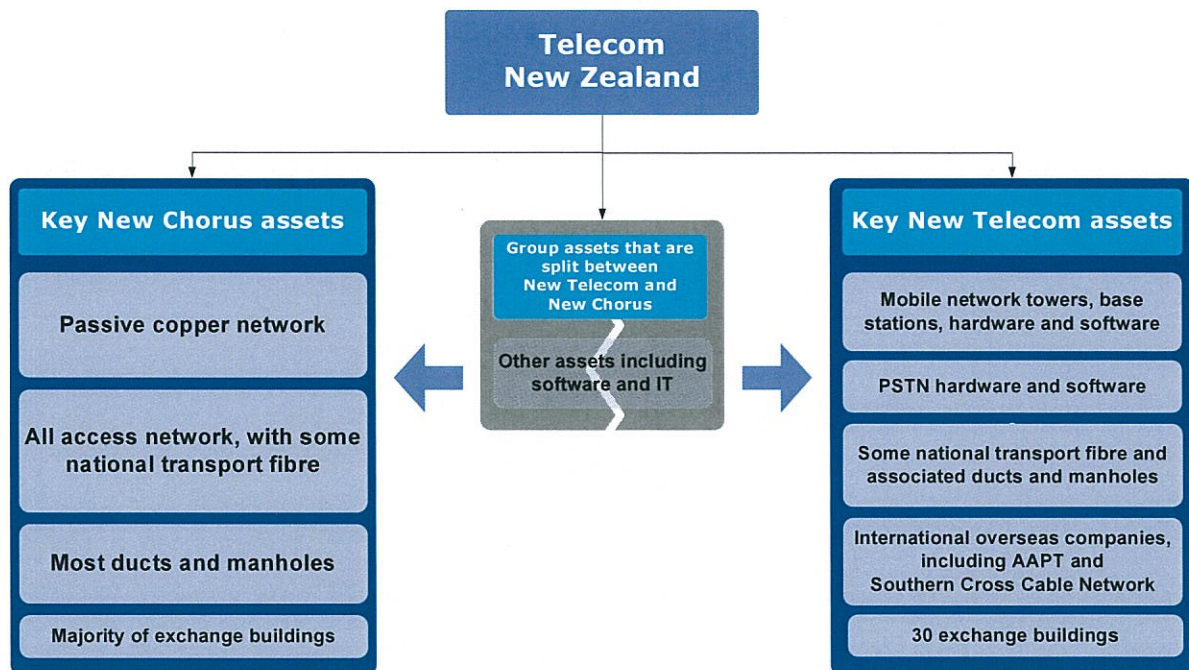
http://www.med.govt.nz/templates/StandardSummary_46182.aspx

Asset Allocation Plan

The AAP outlines the basis for splitting Telecom's assets and liabilities between New Chorus and New Telecom on demerger. The document is available at:

<http://investor.telecom.co.nz/phoenix.zhtml?c=91956&p=irol-ufb>

The AAP document includes the allocation of more than 270,000 individual fixed assets between the two companies, with those assets grouped under more than 100 headings.



Please see table for the complete list

Telecom has said that its objective when undertaking the split of its assets is to create two sustainable companies, along with meeting the requirements of the Telecommunications Act.

Following the demerger, New Chorus' key assets will include:

- Local access fibre, copper and physical infrastructure and buildings throughout NZ
- Local access electronics and aggregation
- Operating Support Systems (OSS)/ Business Support Systems (BSS) for managing wholesale service provider customers.

Following the demerger, New Telecom's key assets will include:

- Service platforms for voice and data applications
- Mobile network
- The necessary national network, physical sites to accommodate service platforms and connect together to provide end to end services
- OSS/BSS for managing and provisioning end to end services
- Sales/distribution channels and brand
- Investment in overseas assets, including AAPT and the 50% stake in the Southern Cross Cable.

Sharing arrangements

The AAP also outlines arrangements that will exist between New Chorus and New Telecom in circumstances where duplication of assets would drive additional cost and complexity into the industry.

While there will be no joint ownership of any assets, certain assets will be used by both entities. Those arrangements are designed as commercial arm's length agreements and they will be subject to oversight by the Commerce Commission. The arrangements are summarised in the AAP.

"Sharing of some assets, under robust arm's length agreements, is a pragmatic and sensible solution that ensures the industry continues to receive reliable services and avoids unnecessary duplication and waste," said Mr Ratcliffe.

"These agreements enable the timely establishment of New Chorus as a stand-alone business, and maximise the significant investment already undertaken in system separation through operational separation, rather than everyone in the industry rebuilding entirely new systems for legacy products and services."

The principles supporting the sharing arrangements are:

- Ensuring a level of service that is consistent with pre-demerger
- Ensuring that New Telecom is neither advantaged nor disadvantaged relative to other Retail Service Providers.
- Ensuring that New Chorus does not have interests downstream that could affect its position as a wholesale provider of services only.

There are significant penalties if either New Telecom or New Chorus breaches the principles of the sharing arrangements.

Mechanics of the asset split

If approved, the process of the asset split broadly involves the following steps:

- Establishing New Chorus as a stand-alone company, initially as a wholly owned subsidiary of Telecom
- Transferring network and other assets from existing Telecom companies to New Chorus
- Allocating other rights, obligations and liabilities from existing Telecom companies to New Chorus
- Structurally separating the two companies by distributing Telecom's shares in New Chorus to Telecom's shareholders – so that Telecom itself has no ownership interest in New Chorus.

The demerger of Telecom is subject to shareholder and bondholder approval, and further information will be provided to shareholders prior to a shareholder vote.

The demerger of Telecom will be implemented through a High Court-approved scheme of arrangement process set out in the Companies Act.

Table of fixed assets:

Asset groups allocated to New Chorus	Asset groups allocated to New Telecom	Assets groups to be allocated between New Chorus and New Telecom
Passive copper network Transport copper cable MDF Active cabinet shells Access HDSL/SHDSL/HDB3 PCM30 transport PDH FOTS access SDH FOTS access Access DMR CMAR Country sets Media converters PON cabinets GPON shelves line cards GPON HONTs Access small pair gain ADSL, DSLAM, DSL Voice and ISDN Mux	Submarine cables other Network firewalls Satellite earth station Mobile radio towers, antennas and feeders CDMA base stations CDMA switches hardware CDMA switches software WCDMA core hardware WCDMA core software WCDMA base stations Other mobile VoIP hardware VoIP software PSTN/ISDN/IN PSTN/ISDN hardware PSTN/ISDN software IN, VSP, VCC hardware IN, VSP, VCC software ATM Legacy data networks IPNet Broadcast transport Access broadcast CBR data access CPE voice equipment CPE managed networks CPE data equipment ISDN NTUs Payphones Submarine cable IRUs Goodwill	Ducts and manholes Fibre optic cable Radio towers PDH FOTS transport SDH FOTS transport DWDM transport Transport DMR Transport radio antennas and feeders Network routers hardware Network routers software Building services Power systems: general Power systems: access derived systems Tools and plant Freehold land Land site costs Buildings Property fit-outs Motor vehicles Office equipment Furniture Spectrum licences Land easements Land licences IT Hardware and Software

ENDS

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