

Wayne Boyd, Chairman  
Telecom New Zealand Limited  
Private Bag 92-028  
8 Hereford Street, Auckland,  
New Zealand



Dear Shareholder

Over the last few weeks you may have noticed some commentary in the media that Telecom is considering splitting into two companies – a change in your business that is known as structural separation.

As your Chairman I thought it was important to write to you to take the time to explain some of the big decisions that are ahead of us. I would also like to reassure you that we are committed to acting in the interests of shareholders at all times, and that the approval of Telecom's shareholders would be sought on a major decision like splitting up the company.

But first, why are we even talking about the structural separation of Telecom?

Over the last couple of years a Government policy has evolved that is known as Ultra Fast Broadband. The aim of this policy is to invest \$1.5 billion of public funds in extending the amount of fibre optic cables used to carry broadband in New Zealand.

Over time we expect fibre optic cables will replace the traditional copper wires in most telecommunications networks around the world, which will allow for the delivery of broadband speeds many times faster than those currently available.

The Government plans on apportioning its \$1.5 billion investment through a tender process. Given our proven experience in New Zealand telecommunications we believe we are the best partner for the Government. By partnering with Telecom the Government's investment will build on the investment Telecom is already making, rather than replicating and competing with it.

We feel this would be good for Telecom, and good for New Zealand as a whole.

However, one of the requirements of the tender process is that the companies that build the fibre optic infrastructure do not also offer services to end users, such as retail and business customers.

This essentially stops Telecom, and other full service telecommunications companies, from being involved in the Ultra Fast Broadband initiative unless they separate their businesses into two – one that builds and maintains infrastructure, and another that sells services to end users.

As a result, structural separation of some form is an option we are considering, but for us to proceed with a separation the benefits would need to outweigh the costs.

We are at the start of understanding whether or not the benefits do indeed outweigh the costs, and we will keep you informed as we work through this very complex issue.

This potential change is extremely significant but it is only one of many changes that are currently under way at Telecom.

I thought you might like to see a magazine we produce for our staff and other external stakeholders that takes an independent view of the issues Telecom is dealing with.

While it is important that we present this information in a high quality and easy to read manner, I can assure you the magazine is produced on a very tight budget.

'Co.' contains many interesting articles and I hope you enjoy reading it as much as Telecom's people do. You can read it at [www.telecom.co.nz/coissue5](http://www.telecom.co.nz/coissue5)

We will of course keep you informed about Telecom's plans as they develop. Please feel free to contact us on [investor-info@telecom.co.nz](mailto:investor-info@telecom.co.nz) if you have any questions or would like additional information.

Regards

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

Wayne Boyd  
Chairman