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6th August, 2009

Hon. Steven Joyce
Minister of Communications and IT
Parliament Buildings
Wellington

Dear Steven

Since our meeting on 9 June our respective teams have been making good progress on clarifying the potential impact of the Crown's investments if it was made additive to Telecom's own substantial investments in broadband technologies for New Zealand.

Overall the impact is very positive. As expected with this type of additive investment the country would avoid any spend that would merely be replicating what Telecom has already invested in, and exists today, while providing synergy benefits of at least \$500M. As discussed we have been open and approached this investment on a marginal cost basis, which means the maximum possible benefit to New Zealanders from the Government's investment, both in terms of short to medium term speed, and longer term fibre to the home.

I believe that Telecom's proposal is credible and offers the ability to deliver on your policy objectives. By working together we can get close to 70% coverage of infrastructure for homeowners to able to connect, all while actual speeds increase significantly, meaning we don't have to wait the 10 years for the productive benefits to start to flow.

To date the conversations between our teams have focussed primarily on the solution itself.

Notwithstanding these very constructive discussions, I now understand that officials have suggested that the government has a preference for Telecom to voluntarily offer to structurally separate:

My recollection of our last discussion is that you said that this issue was not on the agenda. This is an extremely significant issue for us, as you will appreciate, and therefore I would suggest a discussion between us is in order to better understand your views on this matter.

I will have my team contact your office in this regard.

Yours sincerely,

Paul Reynolds

Paul Reynolds
Chief Executive Officer