



STOCK EXCHANGE ANNOUNCEMENT

August 23, 2011

Standard and Poor's maintains Telecom credit rating

Standard and Poor's Ratings Services has today maintained its 'A' long-term and 'A-1' short-term ratings on Telecom New Zealand, on CreditWatch with negative implications.

Standard and Poor's statement is attached.

- ends -

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August 22, 2011

Research Update:

**Telecom Corp. of New Zealand Ltd.
Ratings Remain On CreditWatch
Negative As Proposed Chorus
Demerger Nears**

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Research Update:

Telecom Corp. of New Zealand Ltd. Ratings Remain On CreditWatch Negative As Proposed Chorus Demerger Nears

Overview

- TCNZ continues to progress the proposed demerger of its fixed-line telecommunications access network, Chorus.
- We believe a demerger will weaken TCNZ's strong business risk profile.
- Accordingly, the ratings on TCNZ remain on CreditWatch with negative implications, pending shareholder and various other approvals of the demerger.
- We are likely to lower the long-term rating on TCNZ by at least one notch.

Rating Action

On Aug 23, 2011, Standard & Poor's Ratings Services maintained its 'A' long-term and 'A-1' short-term ratings on Telecom Corp of New Zealand Ltd. (TCNZ) on CreditWatch with negative implications, where they were initially placed on Aug. 4, 2010.

Rationale

The CreditWatch placement reflects our opinion that there is a high likelihood that TCNZ will complete the proposed demerger of its access network and related infrastructure as part of the New Zealand government's "Ultra Fast Broadband" (UFB) fibre-to-the-home proposal.

In May 2011, TCNZ announced that it had reached an agreement with Crown Fibre Holdings Ltd. (CFH) that would allow TCNZ's access network business, Chorus, to build and own at least 70% of the proposed UFB network in New Zealand. CFH is the government-owned entity established to facilitate the UFB process.

Importantly for creditors, the agreement with CFH would necessitate a full demerger of TCNZ's access network business and related infrastructure into a separately listed entity. In our view, this demerger--which we consider as increasingly likely, but remains subject to shareholder and legislative approval--will weaken TCNZ's strong business risk profile. TCNZ plans to demerge Chorus by the end of calendar year 2011.

TCNZ's access network remains a large, high-margin, and high-quality source of cash flow generation to the group. If the demerger is completed as proposed, TCNZ's earnings will be significantly reduced and will become increasingly concentrated in its mobile business--where TCNZ is New Zealand's second largest

mobile network and services provider-and in its retail fixed-line services businesses. In our view, the retail fixed-line businesses will be subject to heightened competition following the demerger, which will likely pressure TCNZ's margins and market shares. In addition, earnings contributions from the group's more competitive products and services, such as IT services and its Australian businesses, will increase as a proportion of total earnings.

TCNZ is yet to announce how it will structure the balance sheets of both TCNZ and the demerged network entity, Chorus. In our view, the business risk profile of Chorus should allow it to support a significant proportion of the group's debt while still achieving an investment-grade credit rating required under the CFH agreement.

The existing 'A/A-1' ratings on TCNZ reflect our opinion of the group's strong market position as the incumbent provider of integrated telecommunications networks and services in New Zealand. Also underpinning the ratings is TCNZ's improving free-cash-flow generation and commitment to maintaining a modest financial risk profile. These strengths are offset by the significant regulatory-driven uncertainties surrounding the group's future earnings and asset composition, as well as the increasingly competitive operating environment and operating and technological risks associated with the evolving telecommunications landscape.

TCNZ's full-year results to June 30, 2011 were above expectations, with underlying EBITDA growing about 5% during the second half, due primarily to strong fixed-line retention and lower costs. This, together with capital expenditure falling about 23% from fiscal 2010 levels, allowed unadjusted debt to EBITDA to fall to about 1.3x at year end.

CreditWatch

If shareholders approve the demerger of Chorus, it will likely result, all things being equal, in a lowering of the long-term rating on TCNZ by at least one notch. In our view, however, a rating outcome of 'A-' is possible for TCNZ if the group maintains an appropriately conservative capital structure and financial policies following the demerger. Furthermore, the group has publicly stated its intention to target a rating in the 'A' rating category following the demerger.

The final rating outcome will however depend on a number of key issues, including:

- TCNZ's initial capital structure and financial policy objectives;
- The outlook for revenue and market share for the group's mobile business;
- Revenue and margin expectations for the fixed-line retailing business; and
- The group's strategy regarding its ancillary businesses, particularly its ICT and Australian operations.

Related Criteria And Research

- Corporate Ratings Criteria 2008, published April 15, 2008.
- Use Of CreditWatch And Outlooks, published Sept. 14, 2009.

Ratings List

Ratings Remaining On CreditWatch
Telecom Corp. of New Zealand Ltd.

Corporate credit rating	A/Watch Neg/A-1
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Teleco Insurance Ltd.

Counterparty credit rating	A/Watch Neg/ A-1
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TCNZ Finance Ltd.

Senior unsecured	A/Watch Neg
Commercial paper	A-1/Watch Neg

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