



STOCK EXCHANGE ANNOUNCEMENT

August 31, 2011

Moody's comments on proposed demerger of Telecom New Zealand

Moody's Investors Service notes today's announcement by Telecom that it will proceed with the structural separation of its existing business.

Should the demerger proceed as planned, Telecom would likely be rated A3, with stable outlook, and Chorus would likely be assigned a preliminary credit rating of Baa2.

Moody's statement is attached.

- ends -

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Announcement: Moody's comments on proposed demerger of Telecom New Zealand

Global Credit Research - 31 Aug 2011

Sydney, August 31, 2011 -- Moody's Investors Service notes today's announcement by Telecom Corporation of New Zealand Limited ("TCNZ" A3/P-2, negative outlook) that it will proceed with the structural separation (the "demerger") of its existing business into two new and separate, publicly listed businesses, "New Telecom" and "New Chorus". Upon the demerger, New Telecom will retain TCNZ's existing position as the largest provider of telecommunication and IT services within New Zealand. New Chorus will be the country's largest telecommunications utility and infrastructure business and the nation-wide owner and operator of fixed line infrastructure with around 93% share of the fixed line access market.

TCNZ plans to apportion its debt, including existing bonds, between New Telecom and New Chorus. TCNZ and New Chorus have launched an exchange offer in relation to certain of its bonds and TCNZ has announced its plans to either repay or repurchase certain other bonds around the demerger date.

Should the demerger proceed as planned, New Telecom would likely be rated A3, with stable outlook. New Chorus will likely have an investment grade rating profile, considering its stable network infrastructure business, which has utility-like credit fundamentals.

TCNZ has today announced that it will proceed with the demerger which it expects to be completed by the end of 2011, subject to shareholder and court approval. Should these approvals be obtained and the demerger proceed as planned, "The loss of TCNZ's core monopoly asset - its copper access network - will substantially weaken the earnings and cashflows of New Telecom relative to the pre-demerger credit profile of TCNZ", says Ian Lewis, a Moody's Vice President and Senior Credit Officer. "At the same time, the expected new, de-leveraged, capital structure of New Telecom is likely to be materially strengthened post-demerger and will provide a major counterbalance to offset the diminution in earnings", adds Lewis who is also the Lead Analyst for TCNZ.

"We expect that New Telecom will have a financial profile appropriate to a likely ratings outcome of A3/P-2 and expect that gross adjusted Debt/EBITDA will peak through the cycle at no more than 1.5x but will more generally operate in the low 1.0x range," says Lewis, adding, "While we anticipate that operating conditions will remain extremely competitive for New Telecom, we expect the company to adopt appropriate financial policies for its A3/P-2 ratings and should competitive conditions or New Telecom's performance deteriorate - which is not our central scenario for the company - adjust its financial profile and policies accordingly".

New Chorus will be New Zealand's largest provider of wholesale fixed line services, via both copper and fibre networks. This business is expected to deliver predictable revenue with high margins. Capital expenditure will be substantial for New Chorus, both in maintaining the existing copper network, and rolling out fibre to the home in the areas of New Zealand where it has won the New Zealand government's ultra-fast broadband mandate.

"We understand that New Chorus will target a Debt/EBITDA level of below 3.5 times and will likely have cash interest coverage of around 3.5 to 4 times (on a funds from operations pre interest expense to interest expense basis). Given New Chorus's business profile, forecast capital expenditure, and dividend policy, our expectation is that the company will likely have a Baa2 rating on demerger from TCNZ, should the transaction proceed as outlined to us" says Nicola O'Brien, Lead Analyst for New Chorus, a Moody's Vice President and Senior Analyst.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The principal methodology used in this rating was Global Telecommunications Industry published in December 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Telecom Corporation of New Zealand Limited, headquartered in Auckland, New Zealand, provides telecommunications services in New Zealand and Australia.

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