



21 September 2011

Telecom improves proposal to Telebonds stockholders

Telecom has today announced an improved proposal to Telebonds stockholders.

The consent fee it is offering to Telebond holders and other holders of NZ\$ denominated stock issued by TCNZ Finance Limited (**stock**) has increased from 0.25% to 0.50% of the scheduled redemption amount of stock held.

In addition, if Telecom's credit ratings from Standard & Poor's falls to BBB+ and Telecom's credit rating from Moody's falls to Baa1, Telecom proposes that the interest rate applicable to the stock existing at the date of the demerger increases by 0.50% per annum.

If Telecom's credit ratings from Standard & Poor's falls to BBB (or lower) and Telecom's credit rating from Moody's falls to Baa2 (or lower), Telecom proposes that the interest rate applicable to the stock existing at the date of the demerger increases by a further 0.50% per annum.

The remainder of the proposal as sent to stockholders on 13 September 2011 remains unchanged.

"Following discussions with major stockholders, in return for their support of this proposal, we have agreed to increase the consent fee and provide an increase in the interest rate paid on the existing stock in the event that both Standard & Poor's and Moody's decrease the credit rating of Telecom below the 'A band'," said Nick Olson, Chief Financial Officer, Telecom. "While Telecom intends to adopt a capital structure consistent with maintaining an 'A band' credit rating post demerger, the potential coupon increase component of the proposal adds an additional level of comfort for stockholders.

The Trustee for the stockholders (The New Zealand Guardian Trust Company Limited) is required to approve the terms of Telecom's proposed demerger. The Trustee will approve the terms of the demerger only if it is authorised to do so by an extraordinary resolution of stockholders.

If the extraordinary resolution is passed and the proposed demerger of Telecom occurs, each stockholder who casts valid votes approving the extraordinary resolution will receive the consent fee.

A stockholder meeting is taking place on Friday the 30th of September 2011 to vote on the extraordinary resolution. The latest time and date at which proxy forms relating to the meeting can be received by Computershare is 10am on Wednesday the 28th of September 2011.

The independent expert, Grant Samuel, has been advised of these changes and has confirmed that the revised proposal is in the best interests of stockholders.

Provided the extraordinary resolution is passed, any stockholders who have already voted in favour of the extraordinary resolution will automatically receive the higher consent fee of 0.50% if the proposed demerger of Telecom occurs. Any stockholders who have already voted against the extraordinary resolution will be contacted directly and be provided with the opportunity to change their vote.

On 13 September, 2011 stockholders were sent a booklet and proxy form containing the details of the proposal to stockholders. Electronic versions of both documents and the letter containing the revised proposal can be found at:

<http://investor.telecom.co.nz>

ENDS

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