



STOCK EXCHANGE ANNOUNCEMENT

31 August 2011

TELECOM TO DEMERGE CHORUS

Demerger overview

Telecom today announced that it will proceed with the next steps towards structural separation (the Demerger) to create two independent publicly listed companies: Telecom, a focused telecommunications and IT services business (New Telecom) and Chorus, a New Zealand nationwide fixed line access network infrastructure business (New Chorus). Telecom has released this summary information to ensure all market participants have access to the same key information following the distribution of the New Chorus debt prospectus to bond holders today.

A scheme booklet containing more information in relation to the Demerger is expected to be released to Telecom shareholders in mid September 2011. Subject to the necessary approvals, the Demerger is expected to be completed around 30 November 2011.

On Demerger, New Telecom will be New Zealand's largest provider of telecommunications and IT services, by revenue, customers and assets. New Telecom's assets will include the PSTN network equipment for fixed line calling, the XT 3G mobile network, national backhaul networks, a 50% ownership interest in the Southern Cross international cable, and an extensive Australian fixed IP network. Under the New Zealand Government's proposed regulatory changes, which are conditional on the Demerger, New Telecom will be subject to less of the current Telecom-specific regulation and will therefore compete on a similar regulatory footing with its market peers. On a pro forma basis¹ for the year ended 30 June 2011 (FY11), New Telecom generated revenue and other gains of NZ\$5,071 million, EBITDA of NZ\$885 million and EBIT of NZ\$178 million. After removing the gain from the sale of AAPT's consumer division and the effect of certain one-off costs and asset impairments², New Telecom earned adjusted pro forma EBITDA of NZ\$1,125 million.

New Chorus will be New Zealand's largest telecommunications utility business and will be a nationwide owner and operator of fixed line access network infrastructure with an approximate 93% market share of the fixed line access market. New Chorus' main assets will comprise local telephone exchanges, roadside cabinets and approximately 1.8 million lines connecting New Zealand homes and businesses. A range of telecommunications providers will use New Chorus' network to deliver phone and internet services to New Zealanders and rely on New Chorus' copper and fibre network capability and expertise to build and maintain their communications services. New Chorus will play an important role in the New Zealand Government's Ultra-Fast Broadband (UFB) Initiative, a fibre-to-the-premise network that is intended to reach 75% of New Zealanders by the end of 2019. The agreements providing for New Chorus' participation in the UFB Initiative are effectively conditional on the Demerger. On a pro forma basis³ for FY11, New

¹ The pro forma financial information in this announcement is unaudited and reflects certain transactions that are expected to take place as part of or in association with the Demerger as if they had occurred on 1 July 2010. The pro forma financial information is based on assumptions and estimates and does not represent what the results of operations or financial position of New Chorus or New Telecom, as applicable, would have been had it operated as a separate legal entity for the years presented. The scheme booklet, which is expected to be sent to shareholders in September 2011, will contain more detailed financial information, including more information regarding the basis of preparation of the separate financial information for New Telecom and New Chorus.

² Telecom pro forma FY11 EBITDA of NZ\$885 million has been adjusted for one off items of: a gain of NZ\$18 million due to the sale of the consumer division of AAPT's operations to iiNet, costs of NZ\$23 million in relation to Telecom's UFB proposal, one-off costs of NZ\$20 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$215 million recognised on copper-based regulatory assets due to the combined effect of the move to a fibre-oriented world and regulatory developments.

³ See footnote 1 above.

Chorus generated revenue and other gains of NZ\$1,050 million, EBITDA of NZ\$606 million and EBIT of NZ\$286 million. After removing the effect of certain one-off costs and asset impairments⁴, New Chorus earned adjusted pro forma EBITDA of NZ\$676 million.

Rationale for the Demerger

The Telecom Board believes that the Demerger will maximise long term value for Telecom shareholders as it:

- Facilitates Chorus undertaking a leading role in the Government led fibre initiative
- Aligns the interests of New Chorus with the Government's UFB objectives
- Avoids Telecom competing with Government backed fibre competition if Telecom is not a partner in the UFB Initiative
- Leads to the introduction of a simplified regulatory regime with greater certainty, reduced regulatory burden and less associated cost
- Allows New Telecom and New Chorus to further focus on their independent strategies and core competencies
- Enables tailored capital structure and financial policies for New Telecom and New Chorus
- Allows for improved alignment of management incentives at New Telecom and New Chorus with performance
- Provides greater transparency and flexibility for investors

Following the Demerger, New Telecom is expected to remain in the NZX50, ASX200 and the MCSI World (Standard) Index. It is anticipated that New Chorus will be listed on both NZX and the ASX. It is expected that New Chorus will qualify for inclusion in the NZX50, however, New Chorus may not remain eligible for inclusion in the ASX200 index or the MCSI World (Standard) Index. New Chorus will not be listed in the US, however it will have a level 1 ADR programme, which will allow ADR holders to buy and sell ADRs on the Over The Counter (OTC) market.

Demerger process and timing

The Demerger will be implemented by way of a Court approved scheme of arrangement under Part XV of the Companies Act, under which Eligible Shareholders⁵ will receive one share in New Chorus for every five Telecom shares held. Telecom shareholders will also retain their shareholding in New Telecom.

The key steps to implement the Demerger include:

- Approval of the Demerger resolution by Telecom shareholders at the shareholder meeting
- Obtaining all required approvals, waivers or consents in respect of the Telecom EMTN Programme and Telebonds Programme
- All material conditions precedent to New Chorus drawing on its new financing arrangements either being satisfied or waived

Subject to initial court approval, a scheme booklet is expected to be sent to shareholders in mid September 2011 which will contain further information about the Demerger. A shareholder meeting to consider and vote on the Demerger is expected to be scheduled thereafter. Final court approval will be sought following the shareholder meeting.

⁴ Chorus pro forma FY11 EBITDA of NZ\$606 million has been adjusted for one off items of: NZ\$6 million in relation to Telecom's UFB proposal, one-off costs of NZ\$22 million in relation to the Canterbury earthquakes; and impairment charges of NZ\$42 million recognised on copper-based regulatory assets due to the combined effect of the move to a fibre-oriented world and regulatory developments.

⁵ Eligible Shareholders are expected to be Telecom shareholders whose registered address is within New Zealand, Australia, the United States, the United Kingdom, Canada, Germany, Hong Kong, Japan, Luxembourg, Norway, the Netherlands, Singapore or Switzerland; or a jurisdiction in which Telecom reasonably believes that it is not prohibited and not unduly onerous or impractical to distribute New Chorus shares to Telecom shareholders pursuant to the Demerger. New Chorus shares to which ineligible shareholders would otherwise be entitled will be automatically sold, with ineligible shareholders receiving the proceeds of the sale.

The scheme booklet will contain an independent expert's report from Grant Samuel and an investigative accountants' report from KPMG.

Subject to the necessary approvals, the Demerger is expected to be completed around 30 November 2011.

New Chorus Board and management

If the Demerger proceeds, the Board and senior management team of New Chorus will comprise:

New Chorus Non-Executive Directors	New Chorus Executives
<ul style="list-style-type: none">• Sue Sheldon CNZM (Chairman)• Anne Urlwin• Clayton Wakefield• Jon Hartley• Keith Turner• Prue Flacks	<ul style="list-style-type: none">• Mark Ratcliffe – Chief Executive Officer• Brian Hall – Acting Chief Financial Officer⁶, Financial Controller• Ed Beattie – General Manager, Property and Network Operations• Sara Broadhurst – General Manager, HR• Victoria Crone – General Manager, Sales and Marketing• Chris Dyhrberg – General Manager, Network Build• Irene Lovejoy – Executive Assistant to the CEO• Vanessa Oakley – General Counsel & Company Secretary• Ewen Powell – Chief Information Officer• Nick Woodward – General Manager, Customer Services

Brief biographies of all New Chorus Board and management team members are included in Appendix A.

Capital structure and management of debt providers

If the Demerger proceeds, Telecom will apportion its existing debt so that upon Demerger New Chorus is expected to have approximately NZ\$1,700 million of net interest bearing debt (inclusive of associated derivatives) and New Telecom is expected to have approximately NZ\$750 million to NZ\$950 million of net interest bearing debt (inclusive of associated derivatives). The New Telecom figure will vary depending on the amount of Telecom's operating, investing and financing cash flows in the period prior to the Demerger and market rates at that time.

⁶ Brian Hall will fill the CFO role until the selection process for a permanent CFO is concluded and the new CFO commences employment with New Chorus.

Telecom has the following series of notes outstanding under the Telecom EMTN Programme:

Bond	Coupon	Maturity
USD250 million	6.750%	14 December 2011
CHF200 million	4.375%	6 August 2012
CAD275 million	4.750%	11 October 2013
GBP125 million	5.625%	14 May 2018
GBP150 million	5.750%	6 April 2020

On 31 August 2011 Telecom and Chorus launched an exchange offer in relation to the two existing series of Telecom GBP EMTN notes with the objective of having a majority of holders of existing GBP notes due in 2018 and 2020 subscribe for new 2020 notes to be issued upon Demerger by New Chorus. In addition, Telecom intends to repay or repurchase, around the Demerger date, the USD, CHF and CAD series of notes. The redemption of the CHF notes will be subject to approval of noteholders according to a notice to note holders dated 31 August 2011.

Telecom also has six series of bonds outstanding under its Telebonds programme totaling NZ\$541 million all of which are proposed to remain as obligations of New Telecom following the Demerger. The Demerger requires the approval of the Trustee for the Telebond programme. A meeting of Telebond holders will be held in September 2011 at which the Trustee will seek the approval of Telebond holders to approve the terms of the Demerger.

Credit ratings of New Telecom and New Chorus

Standard & Poor's believes that if New Telecom maintains an appropriately conservative capital structure and financial policies, a rating outcome of A- is possible and Moody's is expected to assign a preliminary credit rating of A3 / Stable.

New Telecom intends to adopt a capital structure consistent with maintaining an 'A band' credit rating. To that end, New Telecom intends to manage its debt levels to ensure that the ratio of net interest bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed 1.1 times on a long run basis which for credit rating agency purposes equates approximately to net debt to EBITDA of 1.5 times. The difference between these two ratios is primarily due to the capitalisation of operating leases.

It is expected that Standard & Poor's will assign a preliminary credit rating for New Chorus of BBB / Stable and Moody's is expected to assign a preliminary credit rating of Baa2 / Stable.

New Chorus intends to adopt a capital structure consistent with maintaining an investment grade credit rating. To that end, New Chorus intends to manage its debt levels to ensure that the ratio of net interest bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed three and a half times on a long run basis. For the purposes of this metric, net interest bearing debt includes the senior portion of CFH Debt Securities⁷, but excludes the subordinated portion of the CFH Debt Securities and the CFH Equity Securities.

Dividend policies

For the 2012 financial year it is anticipated that New Telecom will continue with the existing Telecom dividend policy and target a payout ratio of approximately 90% of adjusted net earnings, subject to there being no material adverse changes in circumstances or operating outlook. For the 2012 financial year, Telecom will move to paying dividends on a semi-annual basis. As a result, should the proposed Demerger occur prior to 31 December 2011, Telecom will not declare another dividend prior to Demerger and will pay an interim dividend for the 6 months ending 31 December 2011 based on a combination of Telecom's pre-Demerger adjusted net earnings and New Telecom's post-Demerger adjusted net earnings.

⁷ See Appendix B for a description of the CFH Securities, including the CFH Debt Securities, the CFH Equity Securities and the CFH Warrants.

It is anticipated that for the 2012 financial year New Chorus will adopt a dividend policy to pay out 25 cents per New Chorus Share per annum (noting that one New Chorus Share will be issued for every 5 Telecom Shares, and therefore each Telecom Shareholder will hold one-fifth of the number of New Chorus Shares as they held Telecom Shares on the Record Date (subject to rounding)). This policy is subject to there being no material adverse changes in circumstances or operating outlook. It is expected that the Demerger will occur part way through the 2012 financial year, and as a result the 2012 financial year dividend pay out will be prorated to reflect only the post-Demerger period. It is expected that New Chorus' first dividend will be declared post 30 June 2012.

Under the terms of the agreements with Crown Fibre Holdings Limited (CFH) in relation to the UFB Initiative, if at any time New Chorus' credit rating falls below investment grade, New Chorus will be prohibited from paying any distributions on New Chorus shares while its crediting rating remains below investment grade without CFH's approval.

New Telecom and New Chorus intend to impute dividends to the extent practicable. The future dividend policy of New Telecom and New Chorus remains a matter for their respective Boards and may change over time.

UFB Network build costs

Telecom management estimates that the total cost to deploy the communal elements of the fibre access network to an estimated 830,900 premises across the 24 UFB candidate areas in which New Chorus will partner with the New Zealand Government will be in the range of NZ\$1,400 million – NZ\$1,600 million over the period of the UFB Network rollout to 31 December 2019. However, the annual cost will materially vary from year to year. The New Zealand Government investment through the CFH Securities of approximately NZ\$929 million will be awarded to New Chorus over the UFB Network deployment period (provided certain build milestones are met and at the election of New Chorus) and as such it is estimated that New Chorus would have to fund in the range of NZ\$470 million – NZ\$670 million for the communal fibre access network over the same period.

In addition, Telecom management estimates that the average cost to connect a premise to the communal fibre access network over the UFB Network rollout period will be in the range of NZ\$900 – NZ\$1,100 per premise in real terms. However, within this average, the cost to connect individual premises will vary significantly on a premise by premise basis. It is also expected that the average cost of connection per premise in the early years of deployment will be higher as some elements of the equipment used to connect a single premise can be shared across multiple premises which could connect at a later date.

Transitional and long term arrangements

On Demerger, New Telecom and New Chorus will enter into transitional and long term arrangements to share some assets and IT system, services and telecommunications equipment. These arrangements are structured into short to medium term transitional arrangements which will be entered into between New Telecom and New Chorus (with the majority being provided until 30 June 2014), and long term arrangements that could endure for the life of the assets. All of these arrangements have been negotiated on an arms length basis and will be monitored by the Commerce Commission.

Further information

A scheme booklet containing more information in relation to the Demerger is expected to be released to Telecom shareholders in mid September 2011.

Until the release of the scheme booklet Telecom remains subject to significant communication constraints. As such it is not anticipated that any further announcement regarding the Demerger will be made prior to its release.

All Demerger related dates in this announcement are indicative only and subject to change.

The securities referred to in this announcement have not been, and will not be, registered under the United States Securities Act of 1933 or under the securities laws of any state or other jurisdiction of the United States. This announcement does not constitute an offer of securities in the United States or to any person to whom it would not be lawful. Any securities described herein may not be offered or sold in the United States absent registration under the Securities Act or pursuant to an applicable exemption from registration.

APPENDIX A: NEW CHORUS BOARD AND SENIOR MANAGEMENT TEAMS

New Chorus Board

Sue Sheldon CNZM; BCom; FCA ***Chairman, Non-Executive Director***

Sue Sheldon CNZM has been a member of the Telecom Board since 21 June 2010 and Chairs the Human Resource and Compensation Committee and is a member of the Audit and Risk Management Committee. Sue is a professional company director. She is a director of Contact Energy Limited, Freightways Limited, Paymark Limited, and the Reserve Bank of New Zealand and former director of Smiths City Group Limited, and Wool Grower Holdings Limited and Wool Industry Network Limited.

Prior to moving into a professional director role, Sue practised as a Chartered Accountant. She is a former president of the New Zealand Institute of Chartered Accountants and was made a Companion of the New Zealand Order of Merit for services to business.

Sue has previously held directorships in Meridian Energy Limited, Ngai Tahu Holdings Limited, Christchurch International Airport Limited and Asure New Zealand Limited, and is the former chair of the National Provident Fund. She has extensive experience as both chair and member of audit and risk committees. For some years Sue has been involved with the governance of Girl Guiding New Zealand, the leadership organisation for girls and young women.

The following have been conditionally appointed as Non-Executive Directors of New Chorus and will be formally appointed upon Demerger:

Anne Urlwin, BCom; CA; F InstD; FNZIM; ACIS ***Non-Executive Director***

Anne Urlwin has 20 years' directorship experience in sectors ranging from energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry and the primary sector as well as education, sports administration and the arts. She is Chairman of Lakes Environmental and Naylor Love Enterprises, and a director of New Zealand electricity generator and retailer Meridian Energy and New Zealand Cricket. She is the former chair of the New Zealand Blood Service and of New Zealand Domain Name Registry Limited. She is a member of the College of Chartered Accountants, New Zealand Institute of Chartered Accountants and is also a Fellow of the Institute of Directors in New Zealand and of the New Zealand Institute of Management.

Clayton Wakefield, BSci (Computer Science); GradDip Mgmt ***Non-Executive Director***

Clayton Wakefield is an executive director and owner of Techspace Consulting Limited, a leading New Zealand independent IT advisory company working with New Zealand's major corporates. Clayton is also an independent non-executive director of Endace Limited. From 2001 to 2007 he was Head of Technology and Operations at ASB Bank Limited, one of the largest providers of financial and insurance services in New Zealand. Clayton has over 30 years' experience in the banking, financial services, telecommunications and technology industries. Clayton was previously a director and chairman of Electronic Transactions Services Limited, New Zealand's leading electronic payments provider and also previously a director and chairman of Visa New Zealand Limited. Clayton holds a Bachelor of Science in Computer Science and Mathematics from Waikato University and a Post Graduate Diploma in Management from the University of Auckland.

Jon Hartley, BA Econ Accounting (Hons); Fellow ICA (England & Wales); Associate ICA (Australia); Fellow AICD

Non-Executive Director

Jon Hartley is an English and Australian Chartered Accountant and Fellow of the Australian Institute of Company Directors. He has lived and worked in several countries and held senior executive and non-executive roles across a diverse range of commercial and not for profit organisations including chairing SkyCity Limited, CEO of Brierley NZ and Solid Energy and CFO of Lend Lease in Australia. His current roles include Deputy Chair of ASB Bank, ASB Life and VisionFund International, director of Mighty River Power and VisionFund Cambodia, and trustee of World Vision NZ and the Wellington City Mission.

Keith Turner, BE (Hons); ME; PhD

Non-Executive Director

Dr Keith Turner was Chief Executive of New Zealand electricity generator and retailer Meridian Energy for 9 years from its establishment in 1999. He is now the Chairman of Fisher and Paykel Appliances, Deputy Chairman of Auckland International Airport and a director of Spark Infrastructure, an Australian listed company. He is also a director of several small start-up enterprises. Keith has had an extensive career in electricity, taking part in much of its reform including separation of Transpower from Electricity Corporation of New Zealand Limited (ECNZ) in 1992, the separation of Contact Energy from ECNZ in 1996 and the eventual break up of ECNZ into three companies in 1999.

Prue Flacks, LLB; LLM.

Non-Executive Director

Prue Flacks has been an independent, non-executive director of Bank of New Zealand since 19 October 2009. Prue is also a director of Mighty River Power Limited, a trustee of the Victoria University Foundation and a barrister and solicitor with extensive specialist experience in commercial law and, in particular, banking and finance and securities law. Her areas of expertise include corporate and regulatory matters, corporate finance, capital markets, securitisation and business restructuring. She is a consultant to Russell McVeagh and was previously a partner at Russell McVeagh for 20 years. She is also a member of the Institute of Directors, Global Women, Shareholder Association, INFENZ and the Banking & Financial Services Law Association.

New Chorus management team

Mark Ratcliffe, *Chief Executive Officer*

Mark Ratcliffe has worked for Telecom for the past 20 years, commencing originally in the finance department before moving into various marketing, product development, product management and IT roles. Mark was promoted to the Telecom Executive team in 1999. In March 2008, Mark became CEO of Chorus, Telecom's operationally separate business unit that manages the telecommunications infrastructure and gives service providers equal access to the local network. In May 2010, Mark was seconded to lead a team focused on Telecom's participation in the Government's UFB initiative. Mark will be appointed to the role of CEO of New Chorus, in the event that the Demerger proceeds.

Brian Hall, *Acting Chief Financial Officer, Financial Controller*

Brian Hall has been appointed as New Chorus Financial Controller and will act as Chief Financial Officer until the permanent CFO position is filled. Brian has more than 20 years experience in a variety of finance roles across Telecom and was involved in the Telecom IPO, the acquisition of Gen-i and most recently, the financial and asset split associated with the Demerger. Before joining Telecom, Brian was a senior audit manager with PriceWaterhouseCoopers. As Acting Chief Financial Officer for New Chorus Brian will be responsible for overseeing all finance, commercial, supply chain & demand functions as well as managing New Chorus' treasury and investor relations activities. Brian joined Chorus in September 2008 from his role of Finance and Operations Manager of the T&SS business team at Telecom.

Ed Beattie, *General Manager, Property and Network Operations*

Ed Beattie has more than 30 years experience in building and maintaining fixed line and mobile telecommunications networks in New Zealand. He has delivered large-scale network programmes and managing a national field operations team to deliver world-class customer service. Within New Chorus Ed will focus on improving the performance and operations of New Chorus' fibre and copper network, maintaining its portfolio of local exchanges, cabinets and telecommunications infrastructure and delivering outstanding customer service in the field. Ed has been part of most major network programmes in Telecom since he joined in 1979 as a telephone lineman, including significant deployment and network upgrade projects over the years. Most recently he managed the delivery of the successful fibre-to-the-node programme and continues to play a lead role in Telecom's Christchurch crisis response and restoration activities.

Sara Broadhurst, *General Manager, HR*

Sara Broadhurst has more than 10 years experience in human resources in New Zealand and the UK in a wide range of industries. She has a strong track record of managing organisational change, organisational design, employee relations, recruitment and remuneration. Within New Chorus Sara will be responsible for developing and sustaining New Chorus' organisational management, ensuring that the company has the capabilities, skills and resources to deliver on its business strategy and the expectations of stakeholders. She is dedicated to ensuring that New Chorus builds the culture and people engagement necessary to create a high performing organisation. Sara joined Chorus in 2008 and she previously held HR roles in New Zealand for ANZ National Bank, EFTPOS and Barnardos, HR roles in the UK and prior to that worked in operational and account management, communications and marketing for housing organisations.

Victoria Crone, General Manager, Sales & Marketing

Victoria Crone joins New Chorus after more than 15 years experience in bringing telecommunications products and services to market, and positively influencing the way the New Zealanders experience communications and the internet. Victoria's knowledge of the retail market will offer a fresh perspective to New Chorus as the company develops products and services that will encourage the transition to a fibre world. She will be responsible for working with New Chorus customers to ensure that the company develops the products that will meet the demands of end-customers, and continue to build positive perceptions of New Chorus with stakeholders and the general public. Based in Auckland, Victoria has held several senior business, sales and marketing roles throughout her career. This includes responsibility for the sales strategy and operations for Telecom's retail business, managing offerings for the business market and developing Telecom's proposition for next generation products and services.

Chris Dyhrberg, General Manager, Network Build

Chris Dyhrberg has played a key role in developing and implementing major changes in New Zealand's telecommunications industry for the most of his career, pioneering open access to the Telecom network including; the unbundling of the local copper network, the operational separation of Telecom, and most recently, has been involved in negotiations with respect to the Government UFB Initiative and the Rural Broadband Initiative. Within New Chorus Chris will be responsible for the network build operations including the architecture, investment, planning and deployment of the rural broadband network and the UFB Network. Chris began as a trainee telephone technician for the Post Office and he has held a variety of marketing, industry and commercial management roles within Telecom. Chris has also worked at Transpower, the Central Regional Health Authority and Capital Coast Health Ltd.

Irene Lovejoy, Executive Assistant to the CEO

Irene Lovejoy will be responsible for liaising with the office of the New Chorus Board, managing the New Chorus CEO office, overseeing all administration functions and managing the team of coordinators and assistants throughout the business. Irene has been at Telecom for 22 years and held roles in the marketing, technology and corporate teams. She has been working with Mark Ratcliffe, the New Chorus CEO, for more than 13 years and brings a unique insight that will be valuable in the development of the New Chorus executive team.

Vanessa Oakley, General Counsel & Company Secretary

Vanessa brings significant knowledge to Chorus with 17 years experience in law and policy. The majority of this time has been in relation to regulated infrastructure businesses and in the development of policies that result in legislative change and drive commercial operations. Most recently, she has been involved in the negotiations with respect to the Government UFB Initiative and the Demerger of New Chorus. Within New Chorus Vanessa will manage interactions with the Chorus Board and oversee the team responsible for legal and regulatory affairs including government relations, compliance, risk and audit. Her focus will be providing legal advice and guidance that will ensure the company is best placed to deliver its business goals, regulatory commitments and meet customer and stakeholder expectations. Vanessa has held roles in New Zealand and the UK. Her previous legal experience includes roles in criminal prosecution, civil litigation, acting as a key adviser to Oftel in the UK on a new EU telecommunications framework and the New Zealand Commerce Commission and providing legal and regulatory advice across the Telecom Group.

Ewen Powell, Chief Information Officer

Ewen Powell has more than 18 years experience in managing the technology, services and partnerships that combined operate a national communications network and support a high performing organisation. Within New Chorus Ewen will be responsible for delivering the technology and systems New Chorus needs to achieve its business objectives and operate as a standalone entity. He will provide stewardship for New Chorus' network assets and the systems to manage and support these. Since re-joining Telecom in 1999, Ewen has been at the forefront

of the technology changes, from initial consultations with mobile network suppliers, building the CDMA network, and most recently, driving the technology changes to deliver efficiencies within customer transactions and enabling Chorus to achieve its operational separation requirements.

Nick Woodward, *General Manager, Customer Services*

Nick Woodward brings to New Chorus his knowledge of gaining customer confidence through outstanding service, which stems from his IT, sales and customer management experience in the financial and telecommunications industries throughout Europe and in the United States. Within New Chorus Nick will be responsible for driving operational excellence in the way the company interacts with customers, suppliers and partners. This will include helping customers transition their business systems to New Chorus and managing the team and processes that will ensure operational transactions deliver business efficiencies and a great customer experience. Prior to joining Telecom Nick worked in the UK for companies including Hutchison 3G UK and Household Bank. He joined Chorus in 2008 as Head of Customer Services where he has successfully introduced operational improvements to deliver better services to customers, prior to this role he managed Telecom's Channel Planning and Operations group.

APPENDIX B: CFH SECURITIES

CFH Securities

New Chorus and CFH will, on Demerger, enter into the Subscription Agreement which will entitle New Chorus to call for CFH to subscribe for securities issued by New Chorus (CFH Securities) at any time during the period from Demerger to 31 December 2019 (unless terminated earlier). The maximum value of CFH Securities that New Chorus can require CFH to subscribe for at any time will be determined according to the number of premises passed by New Chorus' fibre network under the UFB Initiative up to that time. The maximum aggregate value of CFH Securities to be subscribed for by CFH is approximately NZ\$929 million.

Half of each tranche of investment by CFH must be used to subscribe for CFH Equity Securities and the other half for CFH Debt Securities. With each issue of CFH Securities, New Chorus will also issue to CFH a tranche of CFH Warrants for nil consideration. The key terms of the CFH Equity Securities, CFH Debt Securities and CFH Warrants are described below.

CFH Debt Securities

The CFH Debt Securities will be unsecured, non interest bearing and will carry no voting rights at meetings of holders of New Chorus ordinary shares. New Chorus will be required to redeem the CFH Debt Securities in tranches from 2025 to (at the latest) 2036 by repaying the issue price to the holder. An accelerated repayment schedule applies if end-user fibre uptake does not exceed a threshold level of 20% by 30 June 2020.

The principal amount of each CFH Debt Security will consist of a senior portion and a subordinated portion⁸. The senior portion will rank equally with all other unsecured, unsubordinated creditors of New Chorus. The subordinated portion will rank below all other indebtedness of New Chorus.

CFH Equity Securities

The CFH Equity Securities are a unique class of security that carry no right to vote at meetings of holders of New Chorus Shares, but entitle the holder to a right to a repayment preference on liquidation and additional rights that relate to New Chorus' performance under the agreements with CFH. New Chorus has the right to redeem the CFH Equity Securities at any time for cash or, provided certain conditions are met, by the issue of new Chorus ordinary shares.

Dividends will become payable on a portion of the CFH Equity Securities from 2025 onwards, with the portion of CFH Equity Securities that attract dividends increasing over time⁹. By 2035 or 2036 (depending on whether the end-user fibre uptake threshold is met) all outstanding CFH Equity Securities will attract dividends. The portion of CFH Equity Securities that attract dividends will increase at a faster rate if the 20% end-user fibre uptake threshold is not met.

New Chorus is not obliged to declare any dividend on CFH Equity Securities in respect of any period, but if it does not pay (or declare) a scheduled dividend on the CFH Equity Securities it may not make any distribution on New Chorus ordinary shares until a subsequent dividend on the CFH Equity Securities is paid in full. The dividends payable on the CFH Equity Securities are non-cumulative, which means that if New Chorus does not declare or make a scheduled dividend payment, the unpaid dividend falls away and does not become a debt due to the holder of the CFH Equity Securities.

⁸ The value of the senior portion of a CFH Debt Security at any time will be the present value of the sum repayable on the CFH Debt Security (i.e. the issue price) at that time, calculated using a discount rate of 8.5%. Prior to 30 June 2020, calculation of the senior portion will assume that the end-user fibre uptake threshold will not be met at 30 June 2020, and will therefore be based on the repayments applicable under that scenario. The subordinated portion of a CFH Debt Security at any time will be the difference between the issue price and the senior portion at that time (i.e. the remainder of the issue price after subtracting the senior portion)

⁹ The dividend rate on the CFH Equity Securities (when payable) will be equal to a reference rate (based on the 180 day bank bill rate in New Zealand) plus a margin of 6% per annum.

CFH Warrants

New Chorus will issue CFH Warrants to CFH for nil consideration along with each tranche of CFH Equity Securities. The CFH Warrants are intended to allow CFH (or the holder if they are transferred) to participate in the upside if New Chorus Shares perform in excess of a total shareholder return of 16% per annum over the relevant period. Each CFH Warrant gives the holder the right, on a specified exercise date, to purchase at a set strike price a New Chorus ordinary share to be issued by New Chorus. A CFH Warrant will therefore be "in the money" to the extent that the price that the holder can realise for the New Chorus ordinary share issued on exercise of a CFH Warrant exceeds the price paid to exercise the CFH Warrant. The strike price for a CFH Warrant is based on a total shareholder return of 16% per annum on New Chorus ordinary shares over the relevant period. Therefore, a holder of a CFH Warrant is only likely to exercise the CFH Warrant if total shareholder return on New Chorus Shares has exceeded 16% per annum over that period.

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