31 August 2012

Dear Shareholder

On behalf of the Board of Directors I am pleased to invite you to the 2012 Annual Meeting of Telecom Corporation of New Zealand Limited, which is to be held on Friday 28 September 2012 at 10.00am (New Zealand time) in the Conference Centre at Level 2, Telecom Place, 167 Victoria Street West, Auckland.

At the Annual Meeting I will comment briefly on Telecom's performance during the year to 30 June 2012. I also look forward to introducing Telecom's new Chief Executive Officer Simon Moutter to you.

Paul Berriman and I are retiring and standing for re-election at the Annual Meeting. Shareholders will also be asked to vote on the election of Simon Moutter who was appointed by the Board as an addition to the existing directors since the 2011 Annual Meeting. The Board unanimously supports the re-election and election of these Directors. You can read about the background of all the Directors standing for re-election and election in the Explanatory Notes to the Notice of Annual Meeting attached to this letter.

There are two resolutions relating to the Chief Executive Officer's remuneration package. Firstly, for a proposed issue of shares to the Chief Executive Officer and secondly, for a proposed issue of share rights to him. Full details are contained in the Explanatory Notes.

At the meeting, shareholders will also be asked to authorise the Directors to fix the auditors' remuneration.

The Board recommends that you vote in favour of all resolutions.

Shareholders present at the Annual Meeting will have the opportunity to ask questions during the meeting.

If you cannot attend the Annual Meeting, I encourage you to complete and lodge the enclosed Proxy Form (either by email, post or fax) so that it reaches Computershare Investor Services by 10.00am (New Zealand time) on Wednesday 26 September 2012. Alternatively you can complete a proxy form online by going to: www.investorvote.co.nz/telecom before 10.00am (New Zealand time) on Wednesday 26 September 2012. You will need your shareholder number and FIN number to do this. If you do not have a FIN number, please contact Computershare at: enquiry@computershare.co.nz or 0800 737 100 (NZ toll free) or +64 9 488 8777 (international). If you receive other proxy forms, please complete only one proxy form in respect of each shareholding and ensure it is delivered to Computershare by the date and time indicated above.

You will also be able to view and listen to the Annual Meeting live by webcast at: http://investor.telecom.co.nz

For those shareholders who are attending the Annual Meeting, please bring the enclosed Proxy Form with you to assist with your registration.

You are invited to join the Board and senior management for light refreshments at the conclusion of the Annual Meeting. I look forward to seeing you then.

Yours sincerely

Mark Verbiest
Chairman

Notice of Annual Meeting of Shareholders

The Annual Meeting of shareholders of Telecom Corporation of New Zealand Limited ('Telecom') will be held in the Conference Centre at Level 2, Telecom Place, 167 Victoria Street West, Auckland on Friday 28 September 2012, commencing at 10.00am (New Zealand time).

Items of business

A The Chairman's introduction

B Addresses to shareholders

C Shareholder discussion

D Resolutions:

To consider, and if thought fit, to pass the following ordinary resolutions:

1. *That the Directors are authorised to fix the auditors' remuneration.*
2. *That Mr Mark Verbiest is re-elected as a Director of Telecom.*
3. *That Mr Paul Berriman is re-elected as a Director of Telecom.*
4. *That Mr Simon Moutter is elected as a Director of Telecom.*
5. *That approval is given for the issue by Telecom's Board of Directors to Mr Simon Moutter (Telecom's Chief Executive Officer) during the period to 27 September 2015 of in total up to 1,000,000 shares in Telecom under the Performance Equity Scheme (comprising redeemable ordinary shares and, where contemplated by the scheme, ordinary shares), on the terms set out in the Explanatory Notes accompanying the 2012 Notice of Annual Meeting.*
6. *That approval is given for the issue by Telecom's Board of Directors to Mr Simon Moutter (Telecom's Chief Executive Officer) during the period to 27 September 2015 of in total up to 2,500,000 share rights to acquire Telecom ordinary shares under the Performance Rights Scheme on the terms set out in the Explanatory Notes accompanying the 2012 Notice of Annual Meeting.*

Notes:
Each resolution above is to be considered as an ordinary resolution and, to be passed, requires the approval of a simple majority of votes cast on the resolution.

Telecom will disregard any votes cast on Resolution 5 (issue of shares) and Resolution 6 (issue of share rights) by Mr Simon Moutter or any associate or associated person of Mr Moutter. However, Telecom will not disregard a vote if the person is acting as a proxy for a person who is entitled to vote, in accordance with the express instructions setting out how to exercise the relevant vote on the Proxy Form.

By Order of the Telecom Board

Mark Verbiest
Chairman

31 August 2012

Explanatory Notes

Resolution 1: Fixing the Remuneration of the auditors, KPMG

Pursuant to the Companies Act 1993, KPMG are automatically reappointed at the Annual Meeting as auditors of Telecom. The proposed resolution is to authorise the Directors to fix the remuneration of the auditors, KPMG.

Resolutions 2 and 3: Re-election of Directors

Non-executive Directors Mark Verbiest and Paul Berriman retire by rotation and offer themselves for re-election.

Mark Verbiest, LLB; MInstD

Chairman, Non-executive Director, Independent

Term of Office

Appointed Director 1 December 2011.

Board Committees

Chair of the Nominations and Corporate Governance Committee and a member of the Human Resources and Compensation Committee.

Biography

Mark is Chairman of Transpower New Zealand Limited and Willis Bond Capital Partners Limited, a director of Freightways Limited and a board member of the Financial Markets Authority. He is also a consultant to law firm Simpson Grierson. He was a member of Telecom's senior executive team from late 2000 through to June 2008 as Group General Counsel and Executive responsible for Telecom International and Yellow Pages Group (prior to its sale) and, prior to 2000, a senior partner in Simpson Grierson specialising in mergers and acquisitions and securities, competition and utilities-related law. Mark has a law degree from Victoria University of Wellington.

Paul Berriman, BSc (Electroacoustics); MBA; FHKIoD; MIOA; CEng

Non-executive Director, Independent

Term of office

Appointed Director 1 December 2011.

Board Committees

Member of the Audit and Risk Management Committee and the Nominations and Corporate Governance Committee.

Biography

Paul is the Chief Technology Officer of the HKT Trust, the telecommunications arm of PCCW, which was spun off and listed in November 2011 and is Hong Kong's largest telecommunications company. Prior to the spin-off, he was Chief Technology Officer of the PCCW Group and he continues to lead the Group's product and technology roadmap and strategic developments. He has over 25 years of experience in telecommunications, especially in IPTV, mobile TV, media convergence and quadruple-play. Prior to joining PCCW in 2002 as Senior Vice President, Strategy and Marketing, he was Managing Director of management consultancy Arthur D. Little in Hong Kong and was involved in telecommunications consultancy projects globally. Previously he also held executive, technical, engineering and operations management roles in Reuters and several major Hong Kong service providers, including the Hong Kong Telephone Company and Hong Kong Telecom CSL. He holds a Bachelor of Science in Electroacoustics from the University of Salford in the United Kingdom (UK), and a Master of Business Administration from the University of Hong Kong. He is a Chartered Engineer, a member of Intel's Communications Board of Advisors and was a member of the board of directors of the International Engineering Consortium. He has been a fellow of the Hong Kong Institute of Directors since 1997 and has been a member of Hong Kong Telecom Regulator OFTA's Technical Standards Advisory Committee for over 12 years.

Resolution 4: Election of Director

Managing Director Simon Moutter, who was appointed by the Board as an addition to the existing directors since the 2011 Annual Meeting, retires and offers himself for election.

Simon Moutter, ME, BSc

Managing Director, Not Independent

Term of office

Appointed Director 13 August 2012.

Board committees

None.

Biography

As Chief Executive Officer and Managing Director, Simon is responsible for the leadership, strategic direction and management of the company. He was appointed Telecom Chief Executive Officer in April 2012, commencing mid-August of the same year. Simon is well attuned to the Telecom business having managed parts of the company in previous roles, most recently as Chief Operating Officer from 1999 to 2008.

In the intervening years, he was Chief Executive Officer of Auckland International Airport for four years in which the company experienced customer growth and significant uplift in its share price.

Prior to this he spent 13 years in the electricity and gas industry where he held various positions, including Chief Executive of Powerco (1992 to 1999).

Simon has a Master's degree in Engineering from the University of Canterbury and a Bachelor's degree in Science from Massey University.

Explanatory Notes

Resolutions 5 and 6: Issue of Shares and Share Rights to the Chief Executive Officer

Resolution 5 seeks approval for the issue to Mr Moutter of up to 1,000,000 Telecom shares. Resolution 6 seeks approval for the issue to Mr Moutter of up to 2,500,000 share rights to acquire Telecom ordinary shares.

1. Remuneration of Chief Executive Officer – Overview

Telecom has appointed Simon Moutter as its Chief Executive Officer. In determining the Chief Executive Officer's remuneration package, the Board considered the scope and complexity of the Chief Executive Officer's role, the high calibre of Mr Moutter, external expert advice on best practice remuneration structures, the business challenges facing the Telecom Group and market practice for the remuneration of chief executive officers in positions of similar responsibility in New Zealand and Australia.

In structuring the Chief Executive Officer's remuneration package, the Board aimed to create an appropriate balance between fixed and variable components, ensuring that a substantial proportion of the Chief Executive Officer's remuneration is subject to Mr Moutter's and Telecom's performance.

To ensure alignment between the interests of shareholders and the Chief Executive Officer, and to enhance his long-term commitment to Telecom, the Board further determined that a component of the Chief Executive Officer's remuneration package would be delivered in equity and hence subject to the long-term performance of Telecom.

The Chief Executive Officer's employment agreement provides that his remuneration package (including annual target values of the incentive components of his package) will be reviewed each year at 1 July, with the first review at 1 July 2013.

The Chief Executive Officer's remuneration package comprises:

- Fixed cash remuneration of NZ$1,350,000 per annum;
- An annual cash-based short-term incentive with a target value of NZ$750,000;
- An equity incentive with a target value of NZ$600,000 that will be delivered in Telecom redeemable ordinary shares, which will be made under the 'Performance Equity Scheme' described further below; and
- A long-term incentive with a target value of NZ$1,000,000 that will be delivered as a grant of share rights to acquire Telecom ordinary shares subject to achieving performance hurdles. This grant will be made under the 'Performance Rights Scheme' described further below.

The Chief Executive Officer's employment agreement also provides for an additional one-off grant of NZ$750,000 share rights to acquire ordinary shares in Telecom, to be granted with an effective date of 14 September 2012. This grant will be made under the 'Performance Rights Scheme' described further below.

Payments or awards under the Chief Executive Officer's cash-based short-term incentive and equity incentive will be pro-rated for the 2012-13 financial year from 13 August 2012 when the Chief Executive Officer commenced employment with Telecom.

As the Chief Executive Officer will be a Director of Telecom (subject to election by shareholders) the issue of shares or share rights to him must be approved by an ordinary resolution of shareholders. Approval is sought pursuant to NZSX Listing Rule 7.3.1 and ASX Listing Rule 10.14. The Chief Executive Officer is the only Director who will be issued with shares and share rights. If shareholder approval to the issue of equity is not obtained, the incentive awards will be received by the Chief Executive Officer in cash instead of equity.

2. Performance Equity Scheme

a. Overview

The Performance Equity Scheme is intended to reward the Chief Executive Officer for achieving pre-specified target levels of performance during a financial year and through delivering the reward in equity, linking part of his remuneration to the long-term performance of Telecom. The incentive award will be delivered in redeemable ordinary shares or, at the Board's discretion or where shareholder approval is not obtained, cash only. Redeemable ordinary shares have the same rights and terms as ordinary shares in Telecom except that they can be 'redeemed' (ie, acquired from the Chief Executive Officer and cancelled by Telecom) for a nominal consideration of $1 in certain circumstances. The Chief Executive Officer is prohibited from disposing of the redeemable ordinary shares for a specified period following issue. The issue of the shares on these conditions links a substantial part of the Chief Executive Officer's remuneration with the long-term performance of Telecom.

b. Key Features

The key features of the proposed Performance Equity Scheme are:

1. The target value of the incentive award for each financial year will be determined by Telecom as part of the remuneration package;
2. Telecom will prescribe target performance levels for that financial year in consultation with the Chief Executive Officer;
3. If the Chief Executive Officer achieves the target performance levels in any financial year, he will be entitled to an incentive award equal to the annual target value of the annual performance incentive component of his remuneration package. The amount of the incentive award will be adjusted up or down in line with assessed over- or under performance. The maximum pre-tax value of the incentive award is capped at 75% above the annual target value;
4. The actual incentive award will be delivered to the Chief Executive Officer in redeemable ordinary shares, which the Chief Executive Officer will be prohibited from trading for a specified period and which can be redeemed by Telecom in certain circumstances;
5. Telecom may, in its sole discretion, determine that 100% of the incentive award will be received by the Chief Executive Officer in cash instead of shares;
6. If shareholder approval to the issue of shares is not obtained, 100% of the incentive award will be received by the Chief Executive Officer in cash instead of shares;
7. The amount and timing of any cash payment described in paragraph 5 or 6 is designed to put the Chief Executive Officer in substantially the same position he would have been in had he received shares instead of cash. Unless Telecom determines otherwise, the cash payment would be the value that the Chief Executive Officer would have received when the trading restrictions would have ended if he had received redeemable ordinary shares rather than a cash payment;
8. The redeemable ordinary shares will have the same rights and terms as ordinary shares in Telecom except that during the restrictive period they will be redeemed (ie, acquired and cancelled by Telecom) in certain circumstances summarised in paragraph 6 under 'Key Conditions of Shares Issued';
9. The maximum number of shares to be issued over the three-year period (28 September 2012 to 27 September 2015) for which approval is sought is 1,000,000;

Explanatory Notes

10. The shares issued to the Chief Executive Officer will not be able to be sold or otherwise disposed of for a period specified by Telecom following their issue (except as described in the key conditions below). The shares will rank equally in all respects with all other Telecom ordinary shares from the date of issue; and
11. The redeemable ordinary shares will automatically reclassify into ordinary shares at the end of the specified period to which trading restrictions apply and in certain other circumstances detailed below.

The other key conditions of issue are referred to below.

c. Determination of Incentive Award

The amount of any incentive award will depend on an evaluation of the Chief Executive Officer's actual performance, measured against specific performance objectives, which will be set by the Board. The specific performance objectives will include financial criteria based on Telecom's business and strategic plans and other criteria relating to corporate governance, reputation, effective leadership and management. These objectives will be set at the beginning of each financial year and assessed at the end of the financial year by the Board when it makes its determination of the incentive award.

d. Key Conditions of Shares Issued

1. The redeemable ordinary shares issued to the Chief Executive Officer in respect of the 2012-13 financial year will not be able to be sold, transferred or otherwise disposed of for a two-year period following issue in September 2013. Telecom may specify longer or shorter restrictive periods for subsequent grants.
2. The shares will have equivalent rights to ordinary shares held by all other Telecom shareholders except that during the period in which the restrictions on disposal apply, they will be redeemed (ie, acquired and cancelled by Telecom) in certain circumstances specified in the scheme and summarised in paragraph 6 below for an aggregate consideration of NZ$1. This redemption feature ensures that Telecom recovers the shares if the Chief Executive Officer ceases to be entitled to some or all of the shares during the relevant period.
3. If the Chief Executive Officer's employment ceases due to termination by Telecom on notice then the restrictions on disposal will cease to apply to all the redeemable ordinary shares that are at least halfway through the vesting period and these shares will reclassify into ordinary shares.
4. If the Chief Executive Officer's employment ceases due to termination by the Chief Executive Officer following a 'fundamental change' in the Chief Executive Officer's employment then:
   (a) the restrictions on disposal of the redeemable ordinary shares will cease to apply and all of those shares will reclassify into ordinary shares; and
   (b) the Chief Executive Officer will receive a bonus issue of ordinary shares (for performance over the partially complete financial year). The number of ordinary shares to be issued will be a pro-rata proportion of the target value for the then current financial year (based on the proportion of that year that has passed) divided by the volume weighted average market price for ordinary shares reported on the NZSX over the 20 trading days before the date of issue.

   A 'fundamental change' is where the Chief Executive Officer is no longer the Chief Executive Officer of a company listed on either the New Zealand or Australian stock exchanges ('Fundamental Change').
5. If the Chief Executive Officer employment ceases for any other reason then the Board has the discretion to remove the restrictions on disposal of some or all of the shares and these shares will reclassify into ordinary shares.
6. Where employment ceases, any redeemable ordinary shares, which do not reclassify into ordinary shares in the manner described above, will be redeemed and cancelled for a nominal total consideration of NZ$1.

e. Number of Shares Issued

The Board proposes that the maximum number of shares to be issued to the Chief Executive Officer over the next three years (28 September 2012 to 27 September 2015) for which approval is sought is 1,000,000 shares. This includes all redeemable ordinary shares and any ordinary shares to be issued as described under 'Key Conditions of Shares Issued' above. The Chief Executive Officer will be asked to consent to issue of redeemable ordinary shares under the Performance Equity Scheme being met by payment in cash of the relevant after-tax amount to the Chief Executive Officer and the application of that amount to the subscription for new shares. The number of redeemable ordinary shares awarded will be calculated by dividing the value of the award by the volume weighted average market price of Telecom ordinary shares reported on the NZSX for the 20 trading days immediately preceding the effective date of issue of the redeemable ordinary shares.

An example of the number of shares that could be issued to the Chief Executive Officer under the Performance Equity Scheme for the 2012-13 financial year is provided below:

The Chief Executive Officer has a target value for the Performance Equity Scheme for the 2012-13 financial year of $600,000 per annum (which, on a pro-rata basis for the period of his employment in the 2012-13 financial year, would be $529,315). In the event that the Chief Executive Officer meets the thresholds required to earn the target value, 100% of the after-tax value of this award may be provided in the form of Telecom redeemable ordinary shares. The number of shares awarded will be calculated by dividing the after-tax (calculated at 33%) value of the award by the volume weighted average market price (VWAP) of Telecom ordinary shares reported on the NZSX for the 20 trading days immediately preceding the effective date of issue of the redeemable ordinary shares. Based on these assumptions, set out below is the number of shares the Chief Executive Officer would receive based on an illustrative example using the lowest and highest prices for Telecom shares traded in the 2012 financial year:

- *If the VWAP was $1.74 (the lowest traded price for Telecom shares during the 2012 financial year) the Chief Executive Officer would receive 203,817 redeemable ordinary shares (after adjusting for the partial year); and*
- *If the VWAP was $2.67 (the highest traded price for Telecom shares during the 2012 financial year) the Chief Executive Officer would receive 132,825 redeemable ordinary shares (after adjusting for the partial year).*

f. Date of Issue

The Performance Equity Scheme as described in this *Notice of Annual Meeting* is intended to apply from 13 August 2012. Subject to shareholder approval, the first issue of shares under the Performance Equity Scheme will occur on or about 13 September 2013, following determination of the actual incentive award achieved in respect of the 2012-13 financial year by the Board and announcement of Telecom's 2013 result in August 2013.

Subsequent grants of shares will be at the discretion of the Board within the context of the approval granted by shareholders and may be made in September of each year but in no case will shares be issued later than three years after the date of the 2012 Annual Meeting (unless a further shareholder approval is obtained).

Explanatory Notes

3. Performance Rights Scheme

a. Overview

The Performance Rights Scheme is intended to link part of the Chief Executive Officer's remuneration with the long-term performance of Telecom and align the Chief Executive Officer's interests with those of shareholders.

Two grants will be made under this scheme in 2012.

First, the Chief Executive Officer will receive the annual long-term incentive award of NZ$1,000,000 of share rights in respect of the 2012-13 year.

Second, it is proposed that the Chief Executive Officer also receives a one-off grant of NZ$750,000 of share rights (the 'Additional Grant'). The terms of the Additional Grant are slightly different to other grants under the scheme in that there are no performance criteria attached. The Additional Grant is dealt with separately below under 'Additional Grant'.

If shareholder approval is not obtained for the Performance Rights Scheme, Telecom will instead put in place a cash-based long-term incentive scheme of equivalent value to the Performance Rights Scheme.

b. Key Features

The key features of the proposed Performance Rights Scheme are:

1. Each share right is granted for no cash consideration and provides the right to acquire one Telecom ordinary share for no cash consideration (that is, each share right has a nil exercise price);
2. Share rights issued to the Chief Executive Officer will not be able to be sold, transferred or otherwise disposed of;
3. The Board sets the period after which share rights are eligible for vesting (that is, become exercisable) at the time a grant is made. For the grant for the 2012-13 financial year, the Board has determined that one-half of the share rights will be eligible for vesting on the second anniversary of the grant and one-half of the share rights will be exercisable on the third anniversary of the grant. For subsequent grants of share rights the Board will specify that share rights be eligible for vesting on the third anniversary of the grant;
4. The ability of any of the share rights to vest and the number of share rights that will vest following the end of the vesting period is dependent on achievement of performance hurdles. Each grant will have a re-test date 12 months after the initial testing of the performance hurdles;
5. Each share right confers an entitlement to acquire one share on exercise or, at the Board's discretion, a cash amount equal to the value of the shares can be paid instead;
6. The scheme contains specific regimes dealing with rights offers, bonus issues and capital returns. In broad terms:
   (a) For a rights offer, Telecom will pay the Chief Executive Officer a cash amount equal to what he would have received if he had exercised his share rights before the record date of the rights offer and sold his rights;
   (b) For a bonus issue of shares, Telecom will, on the ultimate exercise of the share rights, issue to the Chief Executive Officer the number of ordinary shares he would have received if he had exercised his share rights earlier and participated in the bonus issue;
   (c) For a capital return, Telecom will reduce the number of share rights in the same proportion as the reduction of shares under the capital return and pay the Chief Executive Officer the amount he would have received if he had exercised his share rights and participated in the capital return.
7. The Board has the power to alter the rights, obligations or benefits of the Chief Executive Officer (including to provide for an early vesting of some or all of the share rights) on the occurrence of an Event, if the scheme does not provide for the Event or, in the opinion of the Board, the occurrence of the Event produces an unfair or inappropriate result. The scheme defines an 'Event' as an event which affects the position or rights or benefits of the Chief Executive Officer, such as an offer for an acquisition of securities of Telecom or a reconstruction or amalgamation affecting Telecom;
8. Upon the occurence of any of the events covered in paragraphs 6 and 7 above, the treatment under the scheme will be subject to any applicable NZSX and ASX Listing Rules;
9. Except as summarised above, share rights confer no dividend rights or general entitlement to participate in issues of securities in Telecom;
10. The maximum number of share rights to be issued over the next three years (28 September 2012 to 27 September 2015) for which approval is sought is 2,500,000; and
11. Shares issued on the exercise of share rights will be fully paid Telecom ordinary shares and will rank equally in all respects with all other Telecom ordinary shares at the date of issue of the shares.

The other key conditions of a grant are referred to below.

c. Performance Hurdles

Share rights granted under the Performance Rights Scheme may be exercised only if the applicable performance hurdle has been met, except in the case of the share rights granted in respect of the 'Additional Grant'. If the applicable performance hurdle is met, share rights may be exercised at any time up to and including the lapse date (subject to the key conditions below).

The Board will determine annually the performance hurdle that will apply to share rights granted under the Performance Rights Scheme. For the share rights granted in 2012, the Chief Executive Officer may only exercise those share rights if Telecom's Total Shareholder Return ('TSR') meets or exceeds the 50th percentile of a comparator group of the companies which comprise the NZX50 index when ranked by TSR calculated over the relevant period. Telecom's TSR is a measure of the combination of share price appreciation and dividends paid since the date of the grant. TSR calculations for this hurdle will be made with reference to the closing price immediately prior to the effective date of issue and the volume weighted average price of that share for the 10 business days at the end of the relevant period. If Telecom TSR performance is equal to the 50th percentile of the TSR of the comparator group over the relevant period (subject to certain limits described in the following paragraphs) then 40% of the share rights in a tranche become exercisable, increasing on a straight-line basis such that all share rights in a tranche may be exercised if Telecom's TSR is at or above the 85th percentile of the TSR of the comparator group.

Testing to determine whether the performance hurdle has been met will occur at the end of the vesting period of the grant. If the maximum performance hurdle is not met, there will be a re-test twelve months later using the same methodology. If the percentage of share rights that would be exercisable on the re-test is greater than the percentage that were exercisable on the initial test date then that percentage of additional share rights will become exercisable following the re-test. If the percentage is lower on the re-test date, no additional share rights will be exercisable. If no share rights become exercisable on the initial test date, then a maximum of 50% of the share rights can be exercised if the performance hurdle is met at the re-test. Any un-exercisable remaining share rights will immediately lapse.

Explanatory Notes

Achievement of the performance hurdle will be determined by the Board following receipt of data that verifies that the performance hurdle has been met for each tranche of share rights.

Telecom also has discretion to grant shares rights with no performance hurdles. It is anticipated that the Board will specify that subsequent grants of share rights are subject to performance hurdles.

d. Termination of Employment Conditions of Share Rights

Except as outlined below, the Chief Executive Officer's non-vested share rights lapse immediately upon termination of his employment:

1. If the Chief Executive Officer's employment ceases due to termination by the Chief Executive Officer following a Fundamental Change in the Chief Executive Officer's employment, then those grants of share rights that have not reached the vesting date, but that are more than halfway through the period from the grant date to the vesting date, will vest. Where such share rights are subject to performance hurdles, Telecom may determine that they shall not vest but shall remain in place until the next performance testing, at which time they will either vest or expire; and
2. If the Chief Executive Officer's employment ceases for any other reason, then any entitlement to vesting of the share rights shall be solely at the Board's discretion.

Share rights that have vested continue to be exercisable after termination of the Chief Executive Officer's employment for any reason for a period of three months, after which they lapse.

e. Additional Grant

The one-off Additional Grant is on the same terms as other share rights referred to above, except that no performance hurdles apply and 50% of the share rights will be exercisable on the date one year after grant and the remaining 50% will be exercisable on the date two years after grant. The number of share rights granted under the Additional Grant will be calculated in accordance with the process described in 'Number of Share Rights Granted'.

f. Number of Share Rights Granted

The Board proposes that the maximum number of share rights to be issued to the Chief Executive Officer over the next three years (28 September 2012 to 27 September 2015) for which approval is sought is 2,500,000 share rights. This maximum number includes the NZ$1,000,000 of share rights in respect of the 2012-13 year and the NZ$750,000 of share rights under the Additional Grant, and grants in subsequent years up to 27 September 2015. The number of share rights granted will be calculated by dividing the value of the grant to be issued in share rights (as opposed to cash) by the volume weighted average market price of Telecom shares reported on the NZSX for the 20 trading days immediately preceding the effective date of the issue of the share rights.

An example of the number of shares rights that could be issued to the Chief Executive Officer under the Performance Rights Scheme for the 2012-13 financial year is provided below:

The Chief Executive Officer has a value for the Performance Rights Scheme for the 2012-13 financial year of $1,000,000. The number of share rights awarded will be calculated by dividing the value of the award by the volume weighted average market price of Telecom ordinary shares reported on the NZSX for the 20 trading days immediately preceding the effective date of issue of the share rights. Based on these assumptions, set out below is the number of share rights the Chief Executive Officer would receive based on an illustrative example, using the lowest and highest prices for Telecom shares traded in the 2012 financial year:

- *If the VWAP was $1.74 (the lowest traded price for Telecom shares during the 2012 financial year), the Chief Executive Officer would receive 574,713 share rights; and*
- *If the VWAP was $2.67 (the highest traded price for Telecom shares during the 2012 financial year), the Chief Executive Officer would receive 374,532 share rights.*

The number of share rights that could ultimately be exercised by the Chief Executive Officer is subject to the applicable performance hurdle. For the 2012 grant, the hurdle is the performance of Telecom's TSR relative to the comparator group. If Telecom's TSR performance is equal to the 50th percentile of the comparator group over the relevant period, 40% of the share rights granted in that tranche could then be exercised, increasing on a straight-line basis such that 100% of the share rights granted in that tranche could be exercised if Telecom's TSR performance is equal to the 85th percentile of the comparator group over the relevant period.

g. Date of Grant

The Performance Rights Scheme as described in this *Notice of Annual Meeting* is intended to apply from 13 August 2012. Subject to shareholder approval, the first grant of share rights under the Performance Rights Scheme is expected to occur in October 2012, following the announcement of the full year 2011-12 result. The effective date of the first grant of share rights will be 14 September 2012.

Subsequent grants of share rights will be at the discretion of the Board within the context of the approval granted by shareholders and may be made in September of each year but in no case later than three years after the date of the 2012 Annual Meeting (unless a further shareholder approval is obtained).

4. Directors' Discretion

The Board will have the discretion and power to amend the terms of the Performance Equity Scheme and the Performance Rights Scheme subject to the NZSX and ASX Listing Rules, as long as the interests of Telecom shareholders are not adversely affected and any necessary consent of the Chief Executive Officer is obtained.

5. External Advice and Review

A copy of a letter dated 27 July 2012 from PricewaterhouseCoopers New Zealand (PwC) is included with this *Notice of Annual Meeting*. PwC's letter confirms that the proposed remuneration package and incentive arrangements are appropriate for a chief executive officer of a company of the size and complexity of Telecom.

6. Appraisal Report

In accordance with the requirements of NZSX Listing Rule 6.2.2, an appraisal report on the proposal to issue shares and share rights to the Chief Executive Officer on the terms of each scheme has been prepared by Simmons Corporate Finance Limited. Simmons Corporate Finance Limited has reviewed the terms of the proposed issue of shares and share rights to the Chief Executive Officer and has concluded the proposal is fair to Telecom shareholders. A copy of the Simmons Corporate Finance appraisal report is included with this *Notice of Annual Meeting*.

7. Disclosure of Number of Shares and Share Rights

The actual number of shares issued under the Performance Equity Scheme and share rights granted under the Performance Rights Scheme will be disclosed in Telecom's annual report each year, together with the details of the shareholder approval previously obtained. No shares or share rights have been issued under the Performance Equity Scheme or the Performance Rights Scheme prior to the date of this

Important information

Notice of Annual Meeting. Any additional persons who become entitled to participate in either of the above schemes and who have not been named in this *Notice of Annual Meeting* will not participate in the schemes unless shareholder approval is obtained under ASX Listing Rule 10.14. Simon Moutter will be the only person entitled to participate in either of the above proposed schemes.

Voting in person

If you are entitled to vote and wish to do so in person, you should attend the Annual Meeting and bring your Proxy Form (which contains your attendance slip and ballot paper) with you to the meeting.

A corporation may appoint a person to attend the meeting as its representative in the same manner as that in which it could appoint a proxy.

Voting by proxy

A Telecom shareholder who is entitled to attend and vote at the Annual Meeting is entitled to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be a Telecom shareholder.

If you appoint a proxy you may either direct your proxy how to vote for you or you may give the proxy discretion to vote as he or she sees fit. If you wish to give your proxy discretion, then you should mark the appropriate boxes on the Proxy Form to grant your proxy that discretion.

The Chairman of the meeting or any other Director is willing to act as proxy for any shareholder who appoints him or her for that purpose. If you do not name a person as proxy on your returned form, or your named proxy does not attend the meeting, the Chairman will be your proxy and may vote only in accordance with your express direction. If you expressly appoint the Chairman or a Director as your proxy and elect to give them discretion on how to vote on a resolution, they may exercise your proxy even if they have an interest in the outcome of that resolution (subject to the Listing Rules). The Chairman and Directors intend to vote all discretionary proxies in favour of resolutions 1 to 6.

If you wish to appoint Mr Simon Moutter, or any associate or associated person of Mr Moutter as your proxy, they will be prohibited (in accordance with applicable Listing Rules) from voting any discretionary proxies in relation to the two resolutions relating to Mr Moutter's remuneration package. Accordingly, in such case, unless a direction on how to vote for you in respect of such resolution is given to them, they will be unable to vote as your proxy on such resolutions.

A Proxy Form accompanies this *Notice of Annual Meeting*.

If you do not propose to attend the Annual Meeting but wish to be represented by proxy, complete and sign the Proxy Form (detach the attendance slip) and either:

- Lodge your proxy **online** by going to www.investorvote.co.nz/telecom. To complete a proxy form online, you will need your shareholder number and FIN. If you do not have a FIN number, please contact Computershare at: enquiry@computershare.co.nz or 0800 737 100 (within New Zealand) or +64 9 488 8777 (international);
- **Email** your proxy to corporateactions@computershare.co.nz;
- Return the Proxy Form by **mail** to the Share Registrar, Computershare Investor Services Limited, Private Bag 92119, Auckland 1142, using the freepost envelope enclosed; or
- **Fax** the Proxy Form to 09 488 8787 (within New Zealand) or +64 9 488 8787 (international).

The completed Proxy Form must be received by the Share Registrar no later than 10.00am on Wednesday 26 September 2012 (New Zealand time).

A proxy granted by a company must be signed by a duly authorised officer or attorney. Persons who sign on behalf of a company must be acting with the company's express or implied authority.

When the Proxy Form is signed by an attorney, the power of attorney under which it is signed, if not previously provided to Telecom, together with a completed certificate of non-revocation of power of attorney must accompany the Proxy Form.

Voting entitlements

Voting entitlements for the Annual Meeting will be determined as at 5:00pm (New Zealand time) on Thursday 27 September 2012. Registered Telecom shareholders at that time will be the only persons entitled to vote at the Annual Meeting, and only the Telecom shares registered in those Telecom shareholders' names at that time may be voted at the Annual Meeting.

Webcast

The Annual Meeting will be webcast live on the internet. To view the webcast, go to: http://investor.telecom.co.nz.

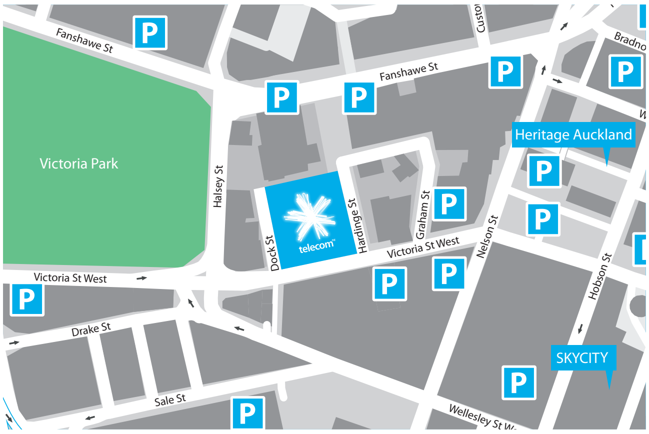
Minutes of the previous meeting and Annual Report

The minutes of last year's Annual Meeting and an archive of the 2011 webcast are also available on http://investor.telecom.co.nz. The 2012 Annual Report is available on Telecom's website. Go to: http://investor.telecom.co.nz.

Meeting venue

The Conference Centre at Level 2, Telecom Place, 167 Victoria Street West, Auckland.

Parking around Telecom Place:



If you have any questions, or for more information, please call Telecom Investor Relations on:

Australia	1800 123 350
Canada	1800 280 0398
Hong Kong	800 962 867
New Zealand	0800 737 500
Singapore	800 641 1013
United Kingdom	0800 960 283
United States	1800 208 2130