
VECTOR CAPITAL BONDS
Explanatory Notes and Deed of Amendment of Capital Bond Trust Deed
03 May 2012

EXPLANATORY NOTES

1. VECTOR CAPITAL BONDS ELECTION DATE

On 5 November 2002, Vector Limited (**Vector**) issued unsecured, subordinated capital bonds (**Capital Bonds**) under a trust deed dated 25 September 2002 (as amended) (**Trust Deed**).

The existing conditions of the Capital Bonds (contained under schedule 2 of the Trust Deed) (**Existing Conditions**) provide that the next Election Date for the Capital Bonds is 15 June 2012 (**Election Date**).

Vector has sent you an Election Notice together with these explanatory notes which describe the election options available to you as a New Zealand Bondholder in relation to the upcoming Election Date, being to:

- keep all of your Capital Bonds; or
- keep all of your Capital Bonds and apply to purchase additional Capital Bonds through the resale facility to be established by Vector as part of the election process (**Resale Facility**); or
- offer some of your Capital Bonds for sale through the Resale Facility and keep the balance of your Capital Bonds; or
- offer to sell all of your Capital Bonds through the Resale Facility.

Completed Election Notices must be returned to and received by Computershare Investor Services Limited (Vector's bond registrar) (**Computershare**) **no later than 5.00pm on Thursday 31 May 2012**.

If you do not complete your Election Notice to indicate which option you have chosen and return it to Computershare by no later than 5.00pm on 31 May 2012 you will be deemed to have elected to continue to keep all of your Capital Bonds on the terms of the New Conditions (defined in section 2 below) as from the Election Date.

If on 31 May 2012 your registered address is outside New Zealand, you will not be entitled to keep your Capital Bonds after the Election Date. All Capital Bonds held by Bondholders with a non-New Zealand address on 31 May 2012 will be automatically offered for sale through the Resale Facility.

Further information about your election options is set out in section 5 below.

On the Election Date, Vector is required to pay you all interest accrued, un-cancelled and unpaid up to that date on your Capital Bonds. Vector will pay this interest to you irrespective of whether or not you keep your Capital Bonds after the Election Date.

Capitalised terms defined in the Trust Deed and in the New Conditions (defined in section 2 below) have the same meaning when used in these explanatory notes.

2. VARIATION OF THE TERMS OF THE CAPITAL BONDS

Vector and The New Zealand Guardian Trust Company Limited (as Trustee of the Capital Bonds) have entered into a Deed of Amendment of the Trust Deed (**Deed of Amendment**) dated 2 May 2012 which amends the Existing Conditions with effect from 15 June 2012. These amended conditions are referred to as the **New Conditions** in these explanatory notes.

The full text of the Deed of Amendment and the New Conditions is also enclosed with these explanatory notes.

3. PURPOSE OF THE CHANGES CONTAINED IN NEW CONDITIONS

The purpose of the changes contained in the New Conditions are to:

- (a) specify the new election date that will apply to the Capital Bonds;
- (b) specify a new interest rate payable by Vector to Bondholders; and
- (c) specify the adjusted interest rate payable by Vector to all Bondholders if:
 - (i) Vector fails to give an Election Notice on any election date; or
 - (ii) any Capital Bonds offered for sale through the Resale Facility are not sold or redeemed by Vector.

4. SUMMARY OF CHANGES TO EXISTING CONDITIONS OF CAPITAL BONDS AND EFFECT OF CHANGES

NEW ELECTION DATE

The new election date that will apply to the Capital Bonds will be 15 June 2017 (**New Election Date**).

INTEREST RATE

Under the Existing Conditions an Interest Rate of 8.00 per cent. per annum currently applies to the Capital Bonds. Under the New Conditions the interest rate will be the higher of either:

- (a) 7.00 per cent. per annum; or
- (b) the Swap Rate on 14 June 2012 plus the Issue Margin of 2.95 per cent. per annum.

As at 9am on 2 May 2012, the Swap Rate was 3.30 per cent. If the Interest Rate was being determined at that time, the calculation set out in paragraph (b) above, would give a rate of 6.25 per cent. per annum and accordingly the Interest Rate would be 7.00 per cent. per annum (being the higher of the figures in paragraphs (a) and (b) above). The Swap Rate will fluctuate between the date of these explanatory notes and 14 June 2012.

ADJUSTED INTEREST RATE

Under the Existing Conditions if:

- (a) Vector fails to give an Election Notice on any election date; or
- (b) any Capital Bonds offered for sale through the Resale Facility are not sold or redeemed by Vector,

then the adjusted interest rate payable by Vector on all Capital Bonds following the applicable election date will be the prevailing Swap Rate plus 1.90 per cent. per annum.

Under the New Conditions:

- (a) if Vector fails to give an Election Notice on any election date, then the adjusted interest rate payable by Vector on all Capital Bonds following that election date will be the aggregate of the prevailing Swap Rate, plus the Issue Margin as at that date, plus the Specified Margin (being 1.00 per cent. per annum); and
- (b) if any Capital Bonds offered for sale through the Resale Facility are not sold or redeemed by Vector, then the adjusted interest rate payable by Vector on all Capital Bonds following the applicable election date will be the aggregate of the prevailing Swap Rate, plus the Issue Margin for the prior Bond Period, plus the Specified Margin (being 1.00 per cent. per annum).

It has come to Vector's attention that the description of the adjusted interest rate contained in the explanatory notes for the 2006 election process may not have been clearly reflected in the Existing Conditions. As a result, it may have been unclear to Bondholders how the adjusted interest rate mechanism would operate in respect of future election processes which occur after the current Election Date of 15 June 2012. Vector has decided to amend the adjusted interest rate in the New Conditions to ensure the New Conditions reflect the same formulation that was described to Bondholders in the explanatory notes for the 2006 election process.

Under the Existing Conditions, the adjusted interest rate payable by Vector in the above circumstances is the sum of the relevant prevailing Swap Rate, plus a fixed 1.90 per cent. per annum. This adjusted interest rate would apply to all future election processes unless amended by Vector on an election date.

The effect of the change is that, under the New Conditions, the adjusted interest rate for future election processes will, unless otherwise amended by Vector as part of an election process, be the sum of the relevant prevailing Swap Rate plus the relevant Issue Margin plus the Specified Margin (which is currently set at 1.00 per cent. per annum). This is the same formulation that was described to Bondholders in the explanatory notes for the 2006 election process.

For the purposes of the next election date of 15 June 2017, the relevant Issue Margin is 2.95 per cent. per annum.

5. ELECTION OPTIONS FOR BONDHOLDERS

5.1 NEW ZEALAND BONDHOLDERS

If you are a New Zealand Bondholder, you have four election options available to you in relation to the upcoming Election Date. These options are described below.

Unsold Capital Bonds in the Resale Facility

If any Capital Bonds remain unsold under the Resale Facility on the Business Day preceding the Election Date (being 15 June 2012), Vector may on the Election Date redeem all those unsold Capital Bonds for the Principal Amount of each unsold Capital Bond.

If Vector chooses not to redeem all of the unsold Capital Bonds on the Election Date, all of the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the prevailing Swap Rate plus 1.90 per cent. per annum.

Summary of New Zealand Bondholder options

OPTION	ACTION	OUTCOME	WHAT TO DO	CLOSING DATE
Option A	Keep all of your Capital Bonds.	<p>The New Conditions will apply to all of the Capital Bonds you keep.</p> <p>In the event that any Capital Bonds offered for sale under the Resale Facility are not sold or redeemed by Vector, the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including the Capital Bonds that you choose to keep) will be the prevailing Swap Rate plus 1.90 per cent. per annum.</p>	Send in a completed Election Notice to Computershare.	No later than 5.00pm on 31 May 2012.
Option B	Keep all of your Capital Bonds and apply to purchase additional Capital Bonds through the Resale Facility.	<p>The New Conditions will apply to all of the Capital Bonds you keep and any additional Capital Bonds you purchase through the Resale Facility.</p> <p>In the event that any Capital Bonds offered for sale under the Resale Facility are not sold or redeemed by Vector, the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including the Capital Bonds that you choose to keep) will be the prevailing Swap Rate plus 1.90 per cent. per annum.</p>	Send in a completed Election Notice to Computershare together with payment for the aggregate Principal Amount of the additional Capital Bonds you wish to purchase.	No later than 5.00pm on 31 May 2012.
Option C	Choose to keep some of your Capital Bonds and offer to sell the balance of your Capital Bonds through the Resale Facility.	<p>Subject to the minimum holding requirements, you will keep the number of Capital Bonds nominated in your Election Notice.</p> <p>The New Conditions will apply to all of the Capital Bonds you keep.</p> <p>The balance of your Capital Bonds will be offered for sale under the Resale Facility.</p> <p>Vector may redeem all Capital Bonds not sold through the Resale Facility on the Election Date.</p> <p>Capital Bonds not sold or redeemed will remain on issue and they will remain yours and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds and any Capital Bonds that you choose to keep) will be the prevailing Swap Rate plus 1.90 per cent. per annum.</p>	Send in a completed Election Notice to Computershare detailing the number of Capital Bonds you wish to keep.	No later than 5.00pm on 31 May 2012.
Option D	<p>Choose to offer to sell all of your Capital Bonds through the Resale Facility.</p> <p>Overseas Bondholders will be deemed to have elected this option.</p>	<p>All of your Capital Bonds will be offered for sale under the Resale Facility.</p> <p>Vector may redeem all Capital Bonds not sold through the Resale Facility on the Election Date.</p> <p>Capital Bonds not sold or redeemed will remain on issue and they will remain yours and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the prevailing Swap Rate plus 1.90 per cent. per annum.</p>	Send in a completed Election Notice to Computershare.	No later than 5.00pm on 31 May 2012.

Explanation of New Zealand Bondholder Options

(a) Election Option A – Keep all of your Capital Bonds

You may elect to keep all of your Capital Bonds beyond the Election Date of 15 June 2012.

The New Conditions will apply to all Capital Bonds that you keep after the Election Date.

Election Notice

If you choose this option a properly completed Election Notice indicating that you wish to keep all of your Capital Bonds must be received by Computershare no later than 5.00pm on 31 May 2012.

(b) Election Option B – Keep all of your Capital Bonds and apply to purchase additional Capital Bonds

You may elect to keep all of your Capital Bonds beyond the Election Date of 15 June 2012 and also apply to purchase further Capital Bonds through the Resale Facility. The purchase price for each Capital Bond is the Principal Amount of each Capital Bond being \$1.00. Vector will allocate any Capital Bonds offered for sale under the Resale Facility in its absolute discretion.

The New Conditions will apply to all Capital Bonds that you purchase through the Resale Facility as well as to all Capital Bonds that you keep after the Election Date.

Election Notice

If you choose this option, your election to keep all of your Capital Bonds and the dollar value of Capital Bonds that you would like to purchase should be entered into the space provided in the Election Notice and must be received by Computershare no later than 5.00pm on 31 May 2012.

The amount of Capital Bonds you nominate to purchase must be in multiples of \$1,000. If the amount you insert is not a multiple of \$1,000, the amount you have inserted will be rounded down to the nearest \$1,000 and you will be deemed to have elected to purchase that new amount of Capital Bonds.

Payment

If payment is to be made by cheque, you must return the completed Election Notice together with a cheque made payable to "Vector Capital Bonds Resale Facility" for the Principal Amount of \$1.00 for each of the Capital Bonds to be purchased. Alternatively, if payment is to be made by direct debit, please complete the relevant section of the Election Notice.

Vector does not guarantee the availability of Capital Bonds for you to purchase under the Resale Facility. If Vector does not or is unable to allocate to you any Capital Bonds or fewer Capital Bonds than the number you have requested, a refund for the balance of the amount paid by you (without interest) will be provided to you as soon as practical after the Election Date.

(c) Election Option C – Offer to sell some of your Capital Bonds and keep some of your Capital Bonds

You may elect to offer to sell some of your Capital Bonds under the Resale Facility and also keep some of your Capital Bonds beyond the Election Date of 15 June 2012 subject to the New Conditions. Vector will allocate any Capital Bonds offered for sale under the Resale Facility in its absolute discretion.

If any Capital Bonds remain unsold under the Resale Facility on the Business Day preceding the Election Date (being 15 June 2012), Vector may on the Election Date redeem all those unsold Capital Bonds for the Principal Amount of each of the unsold Capital Bonds. If Vector chooses not to redeem all of the unsold Capital Bonds on the Election Date, all the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the prevailing Swap Rate plus 1.90 per cent. per annum.

Election Notice

If you choose this option, the amount of Capital Bonds you wish to keep should be entered into the space provided in the Election Notice. The amount of Capital Bonds you keep must be \$5,000 or more and a multiple of \$1,000. The balance of the Capital Bonds that you currently hold but which you do not elect to keep, will be offered for sale under the Resale Facility at a purchase price equal to the Principal Amount of those Capital Bonds, being \$1.00 per Capital Bond.

If you do not insert the value of the Capital Bonds you wish to keep in the space provided, you will be deemed to have elected to keep all of your Capital Bonds beyond the Election Date of 15 June 2012 and accepted the New Conditions in respect of those Capital Bonds.

If the amount you insert is not a multiple of \$1,000, the amount you have inserted will be rounded up to the nearest \$1,000 and you will be deemed to have elected to keep that new amount of Capital Bonds and accepted the New Conditions in respect of all those Capital Bonds, and deemed to have elected to offer to sell the remainder of your Capital Bonds through the Resale Facility.

If as a result of the implementation of your election you would hold less than \$5,000 of Capital Bonds (**Minimum Holding**), you will be deemed to have elected to keep the Minimum Holding and accepted the New Conditions in respect of the Minimum Holding, and deemed to have elected to offer to sell the remainder of your Capital Bonds through the Resale Facility.

A properly completed Election Notice indicating that you wish to keep some of your Capital Bonds and offer to sell the rest of your Capital Bonds must be received by Computershare no later than 5.00pm on 31 May 2012.

Payment

Vector will pay to you the Principal Amount of each of the Capital Bonds which you have elected to offer for sale and which have either been sold through the Resale Facility or redeemed by Vector. If some or all of your Capital Bonds are not sold through the Resale Facility or redeemed by Vector, no payment will be made to you in relation to those unsold Capital Bonds and they will remain yours. Any such payment is required to be made to you no later than 22 June 2012. No brokerage fee will be deducted from, nor any interest added to, amounts payable to you in respect of any Capital Bonds sold through the Resale Facility.

(d) Election Option D – Offer to sell all of your Capital Bonds

You may elect to offer to sell all of your Capital Bonds under the Resale Facility.

If you do so then, in accordance with the Existing Conditions, all of your Capital Bonds will be offered for sale under the Resale Facility for a purchase price equal to the Principal Amount of the Capital Bonds, being \$1.00 per Capital Bond. Vector will allocate any Capital Bonds offered for sale under the Resale Facility in its absolute discretion.

If any Capital Bonds remain unsold under the Resale Facility on the Business Day preceding the Election Date (being 15 June 2012), Vector may on the Election Date redeem all those unsold Capital Bonds for the Principal Amount of each of the unsold Capital Bonds. If Vector chooses not to redeem all of the unsold Capital Bonds on the Election Date, all the unsold Capital Bonds will remain on issue and will be subject to the New Conditions except that, for the period until the New Election Date, the interest rate payable by Vector on all Capital Bonds (including all unsold Capital Bonds) will be the prevailing Swap Rate plus 1.90 per cent. per annum.

Election Notice

If you choose this option, a properly completed Election Notice indicating that you wish to offer to sell all of your Capital Bonds through the Resale Facility must be received by Computershare no later than 5.00pm on 31 May 2012. If your Election Notice is not received by this time, you will be deemed to have selected option A described above in respect of all your Capital Bonds.

Payment

Vector will pay to you the Principal Amount of each of the Capital Bonds which you have elected to offer for sale and which have either been sold through the Resale Facility or redeemed by Vector. If some or all of your Capital Bonds are not sold through the Resale Facility or redeemed by Vector, no payment will be made to you in relation to those unsold Capital Bonds and they will remain yours. Any such payment is required to be made to you no later than 22 June 2012. No brokerage fee will be deducted from, nor any interest added to, amounts payable to you in respect of Capital Bonds sold through the Resale Facility.

5.2 OVERSEAS BONDHOLDERS AND MINIMUM HOLDING

Where:

- (a) you hold less than the Minimum Holding of Capital Bonds on 31 May 2012; or
 - (b) your registered address is outside New Zealand on 31 May 2012,
- you will be deemed to have elected to offer to sell all of your Capital Bonds through the Resale Facility.

6. INFORMATION FOR BONDHOLDERS

6.1 NZSX AND NZDX LISTING RULES COMPLIANCE

In compliance with the NZSX and NZDX Listing Rules, the New Conditions were submitted to NZX Limited (**NZX**). NZX has approved the New Conditions contained in the Deed of Amendment. Vector has formally disclosed to the market the changes from the Existing Conditions to the New Conditions. NZX takes no responsibility for any statement in these explanatory notes or the Deed of Amendment.

The Capital Bonds are listed on the NZDX and all the requirements of NZX relating thereto have been duly complied with. However, NZX accepts no responsibility for any statement in these explanatory notes or the Deed of Amendment. NZDX is a registered market operated by NZX which is a registered exchange.

6.2 BONDHOLDER ENQUIRIES

If you have any doubts as to what you should do, you should contact your financial adviser. If you have any queries regarding the procedure for making your election you should contact Computershare Investor Services Limited, as bond registrar, or your financial or other professional adviser.

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DEED OF AMENDMENT OF CAPITAL BOND TRUST DEED

DEED dated 2 May 2012

PARTIES

Vector Limited (**Company**)

The New Zealand Guardian Trust Company Limited (**Trustee**)

INTRODUCTION

- A. The Company and the Trustee are parties to a Capital Bond Trust Deed dated 25 September 2002 as amended by the deed of amendment of Capital Bond Trust Deed dated 3 November 2006 and the deed of amendment dated 20 October 2011 (**Trust Deed**) which constitutes the Company's issue of unsecured subordinated capital bonds (**Capital Bonds**).
- B. Under clause 8.5(c) of the Trust Deed, the Trustee may, without the consent of the Bondholders, concur with the Company in amending the Trust Deed (including the Conditions) if the amendment is not and is not likely to become materially prejudicial to the interest of the Bondholders generally.
- C. The Company wishes to amend the existing Conditions (**Existing Conditions**) on the Election Date falling on 15 June 2012 by replacing Schedule 2 to the Trust Deed with the terms and conditions (**New Conditions**) set out in the appendix to this deed. Replacement of the Existing Conditions with the New Conditions is not materially prejudicial to the Bondholders generally as:
 - (a) Bondholders have the option to either retain their Capital Bonds subject to the New Conditions after the upcoming Election Date or to offer to sell their Capital Bonds under the Resale Facility. If any Capital Bonds remain unsold through the Resale Facility on the Business Day preceding the Election Date (being 15 June 2012), the Company may on the Election Date redeem all those unsold Capital Bonds for the Principal Amount of each of the unsold Capital Bonds. If the Company chooses not to redeem all of the unsold Capital Bonds on the Election Date, all the unsold Capital Bonds will remain on issue and held by the current registered Bondholder and will be subject to the New Conditions except that, for the period until the new election date, the interest rate payable by the Company on all Capital Bonds (including all unsold Capital Bonds) will be the prevailing Swap Rate plus 1.90 per cent. per annum; and
 - (b) the Trust Deed contemplates that the Company will amend the Existing Conditions as of and from the upcoming Election Date and provides the Company with the contractual opportunity to do so.

- D. The parties have agreed to vary the Trust Deed and amend it as set out below.

1. INTERPRETATION

- 1.1 Capitalised terms defined in the Trust Deed (including the Existing Conditions) shall, unless expressly defined otherwise, have the same meaning in this deed.

2. AMENDMENT AND VARIATION

- 2.1 With effect from 15 June 2012 the Conditions contained in Schedule 2 to the Trust Deed shall be deleted and replaced with the New Conditions set out in the appendix to this deed.

3. CONFIRMATION

- 3.1 Each of the parties to this deed confirms that the Trust Deed and the Conditions continue in full force and effect save as amended by this deed.

4. GOVERNING LAW

- 4.1 This deed is governed by and must be construed in accordance with the laws of New Zealand and the parties submit to the non-exclusive jurisdiction of the courts of New Zealand.

5. COUNTERPARTS

- 5.1 This deed may be signed in any number of counterparts, all of which together shall constitute one and the same instrument. Any party may enter into this deed by signing any such counterpart.

APPENDIX

CONDITIONS OF THE CAPITAL BONDS

1. DEED

1.1 Deed binding: The statements in these Conditions are subject to the detailed provisions of the trust deed dated 25 September 2002 (as amended) (the **Deed**) between Vector Limited and The New Zealand Guardian Trust Company Limited as trustee. Words and expressions defined in the Deed and not otherwise defined in these Conditions have the same meanings where they are used in these Conditions.

1.2 Notice of Deed: Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Deed.

1.3 Definitions: In these Conditions, terms defined in the Deed have the same meanings where used in these Conditions and, unless the context otherwise requires:

Accrued Interest means all interest on the Principal Amount of the Capital Bonds which has accrued and is payable in accordance with these Conditions, other than any Cancelled Interest;

Basic Rate means the greater of:

- (a) 7.00 per cent. per annum; and
- (b) the Swap Rate plus the Issue Margin,

or such higher rate as the Company may determine on the Rate Set Date;

Bond Period means a period from one Election Date until the next Election Date;

Cancelled Interest has the meaning given to it in Condition 3.2(c);

Dominant Owner means a dominant owner as defined in rule 50 of the Takeovers Code;

Election Date means 15 June 2017 or if an Election Date is extended under Condition 4.1(b), the relevant date determined in accordance with that Condition, and each subsequent New Election Date;

Election Notice has the meaning given to it in Condition 4.1;

Election Record Date has the meaning given to it in Condition 4.1;

Interest Payment Date means 15 June and 15 December in each year and including the Election Date, or such other dates determined by the Company pursuant to Condition 4.1;

Interest Period means each period of six months ending on an Interest Payment Date (so that the interest payable on each such Interest Payment Date will be one half of the annual interest);

Interest Rate means:

- (a) in respect of a Capital Bond and from the period from 15 June 2012 to the next Election Date, the Basic Rate, or if Condition 4.4(g) applies in relation to the previous election date, the Swap Rate plus 1.90 per cent. per annum; and
- (b) in respect of each subsequent Bond Period the rate determined in accordance with Condition 4;

Issue Margin means 2.95 per cent. per annum;

Liquidation Amount means the Principal Amount of the Capital Bonds plus all Accrued Interest in respect of that amount;

Minimum Holding has the meaning given to it in Condition 5.1;

New Conditions has the meaning given to it in Condition 4.1;

New Election Date has the meaning given to it in Condition 4.1;

Notification Date has the meaning given to it in Condition 4.2;

NZX means, as the context requires, the New Zealand Stock Exchange or any alternative or substitute market for ordinary shares or other arrangement in New Zealand on or through which ordinary shares may be freely traded and which is generally regarded as the principal such market or arrangement for the trading of ordinary shares in New Zealand;

Rate Set Date means:

- (a) for the purposes of determining the Basic Rate as at 15 June 2012, 14 June 2012, or such other date selected by the Company;
- (b) for the purposes of determining the Swap Rate under Condition 4.1(b), the Business Day preceding the beginning of the relevant extended period; and
- (c) for the purposes of determining the Swap Rate under Condition 4.4(g), the Business Day preceding the relevant Election Date;

Record Date means in respect of an Interest Payment Date (including an Election Date), the day selected by the Company which is not less than 10 days prior to the relevant Interest Payment Date;

Resale Facility means the facility described in Condition 4.4;

Senior Creditors means all creditors of the Company in relation to obligations other than indebtedness owed by the Company to Bondholders in respect of Capital Bonds or obligations which are expressed to be subordinate to the obligations of the Company under or in relation to the Capital Bonds, or *pari passu* with such obligations;

Specified Margin means 1.00 per cent. per annum;

Swap Rate means the interpolated mid-market yield for an interest rate swap for a term equal to:

- (a) the Bond Period; or
- (b) for the purposes of Condition 4.1(b), the period of the extension,

based on Reuters Monitor Screen page FISSWAP (or its successor) at or about 3.00pm on the Rate Set Date or, if on the relevant day no such rate is displayed, the rate determined by the Company to be the nearest practicable alternative; and

Takeovers Code means the Takeovers Code set out in the schedule to the Takeovers Code Approval Order 2000.

2. STATUS AND SUBORDINATION OF THE CAPITAL BONDS

2.1 Status: The Capital Bonds constitute unsecured subordinated obligations of the Company and rank *pari passu* and without priority or preference among themselves.

2.2 Subordination: The obligations of the Company to the Bondholder under, and the rights of the Bondholder (or the Trustee on behalf of the Bondholder) against the Company in respect of the Principal Amount of, and Accrued Interest on, the Capital Bonds are subordinated to the claims of Senior Creditors of the Company in that in and upon the Commencement of Liquidation the claims of the Bondholder against the Company under and in respect of the Capital Bonds in such Liquidation are:

- (a) **Claims of Senior Creditors:** subordinated in point of priority and right of payment to, and rank behind, the claims of the Senior Creditors; and
- (b) **Limited to Liquidation Amount:** subject to clause 4.14 of the Deed, limited to the Liquidation Amount.

2.3 Relevant provisions of Deed: The Deed contains provisions restricting the remedies of the Trustee and the Bondholder in relation to the Capital Bonds and providing that the Trustee and the Bondholder must hold on trust various amounts in favour of the Trustee and Senior Creditors. In the event of any conflict between the Deed and these Conditions, the Deed is to prevail.

3. INTEREST

3.1 Interest Rate and calculation of interest: Each Capital Bond bears interest on the Principal Amount at the Interest Rate. The Interest Rate applying as at 15 June 2012 and as at each subsequent Election Date will be confirmed in writing to each Bondholder within 14 days of the relevant Election Date. Interest will be calculated on the Principal Amount of a Capital Bond and will accrue daily on the basis of a 365-day year. Interest will cease to accrue on a Capital Bond on the earliest of:

- (a) in the event of Liquidation, the date on which that Capital Bond is redeemed by payment of the Liquidation Amount; or

- (b) the date on which that Capital Bond is redeemed for cash by the Company; or
- (c) the date on which that Capital Bond is cancelled under Condition 4.8.

3.2 Interest:

- (a) **Accrual of interest:** Interest will accrue on a daily basis on the Capital Bonds during each Interest Period and is payable on the Interest Payment Date falling at the end of that Interest Period.
- (b) **Election to cancel interest:** On any Interest Payment Date the Company may elect to cancel payment of all or any part of the interest due on any Interest Payment Date.
- (c) **Cancelled Interest:** All interest which is cancelled (**Cancelled Interest**) will be deemed never to have accrued and never to have been payable and the Company will not have any obligation to pay any Cancelled Interest at any time in the future.
- (d) **Option to pay Cancelled Interest:** The Company may, at its option and upon giving not more than 14 nor less than seven days' notice to Bondholders (which notice may be accompanied by a post-dated cheque), pay all, or part of, any Cancelled Interest in cash which, if part only, must be paid on a pro rata basis across all Capital Bonds.
- (e) **Notice to Trustee and Bondholders:** The Company will promptly notify the Trustee if the Company elects or intends to cancel any interest under Condition 3.2(b).

If the Company has elected to cancel payment of interest in accordance with this Condition 3.2, the Company has covenanted in the Deed not to pay any dividend on, or make any distribution in respect of, its shares (or take certain other actions) unless and until the Company has paid in full all Cancelled Interest that was cancelled since the last time two consecutive instalments of interest were paid in full or has paid in full the two consecutive interest payments immediately preceding the date of payment of the dividend or distribution. Any non-payment of interest on an Interest Payment Date (including cancellation of any interest) will not give rise to any right to accelerate payment of any amount due under a Capital Bond nor will it constitute a default by the Company for any purpose.

3.3 Payments: All payments in relation to a Capital Bond may be satisfied by:

- (a) **Post:** mailing cheques to the address of; or
- (b) **Direct credit:** direct credit to any bank account nominated in writing (prior to the Record Date) by,

the Bondholder entered in the Register on the Record Date. Such mailing or direct credit will occur prior to 5.00pm on the relevant Interest Payment Date (or, if that date is not a Business Day, the next Business Day after that date) or other date on which payment is required to be made.

3.4 Withholding tax:

- (a) **Deduction for withholding:** Subject to Condition 3.4(b), all payments or credits to, or to the account of Bondholders (including payments of, and credits in respect of interest) will be made net of any tax in respect thereof required by law to be withheld, deducted or paid by the Company, except to the extent that the Company is satisfied that the Bondholder is exempt from any such tax or is a person in respect of whom any such withholding, deduction or payment is not required to be made. Any Bondholder claiming any such exemption or to be such a person must provide the Company with such evidence as the Company may from time to time require to satisfy itself in respect of the validity of that claim.
- (b) **Approved issuer levy:** Bondholders to whom such is relevant may in writing request the Company to advise the basis, if any, upon which the Company, at no cost to itself, is prepared from time to time to deduct and pay an approved issuer levy (within the meaning of section 86F of the Stamp and Cheque Duties Act 1971) from interest paid or credited to Bondholders as an alternative to the exercise by the Company of its rights under Condition 3.4(a).
- (c) **Taxation indemnity from Bondholder:** If, in relation to any Capital Bond, the Trustee or the Company becomes liable to make any payment of or on account of tax payable by the Bondholder or in relation to any Capital Bonds, the Trustee and the Company are each indemnified by the Bondholder and the personal representatives or successor of that Bondholder (and, as concerns the Trustee, also by the Company) in respect of any such liability, and any moneys paid by the Trustee and the Company in respect of any such liability may be recovered by action from such Bondholder and the personal representatives or successor of the Bondholder (as the case may be) as a debt due to the Trustee or the Company. Nothing in this Condition prejudices or affects any other right or remedy of the Trustee or the Company.

4. ELECTION TO RETAIN OR SELL OR REDEEM CAPITAL BONDS

4.1 Election Notice:

- (a) **Company to give Election Notice:** The Company must, subject to Condition 4.3, give to each Bondholder (and send a copy to the Trustee) not later than three Business Days after the date (the **Election Record Date**) which is 33 Business Days before each Election Date, a notice (an **Election Notice**) specifying the new conditions (**New Conditions**) as to Interest Rate, Interest Payment Dates and Election Date (the **New Election Date**), and each other modification to the Conditions to apply to the Capital Bonds following the Election Date.
- (b) **Failure to give Election Notice:** If, subject to Condition 4.3, the Company fails to give an Election Notice as required by Condition 4.1(a) the Company shall be deemed to have postponed the Election Date by a period of one

year and for that extended one year period up to the extended Election Date interest shall accrue in accordance with Condition 3.2(a) at a fixed rate equal to the aggregate of the Swap Rate plus the Issue Margin plus the Specified Margin. Condition 4.1(a) shall apply to each extended Election Date under this Condition 4.1(b).

4.2 Bondholder's election to retain or sell:

- (a) Unless the Company has included with the Election Notice a redemption notice under Condition 4.3(b) each Bondholder must complete and sign the Election Notice and return it to the Company not later than the date (the **Notification Date**) which is 23 Business Days after the Election Record Date and must indicate in the Election Notice, in relation to the proportion of Capital Bonds the Bondholder holds:
 - (i) **Retain Capital Bonds:** the Capital Bonds in respect of which the Bondholder accepts the New Conditions with effect from the Election Date; and/or
 - (ii) **Sell Capital Bonds:** the Capital Bonds which the Bondholder wishes to sell through the Resale Facility on the Election Date.
- (b) If, in relation to a Capital Bond:
 - (i) **No Election Notice received:** the Company does not receive a properly completed Election Notice from the Bondholder on or before the Notification Date; or
 - (ii) **No election indicated:** to the extent that the Company receives an Election Notice, the Election Notice does not indicate whether or not the Bondholder elects to sell all or part of the Capital Bonds through the Resale Facility; or
 - (iii) **Minimum remaining Capital Bonds:** implementation of an election or deemed election (pursuant to this Condition 4.2) made by the Bondholder would result in him or her remaining a Bondholder of Capital Bonds with an aggregate Principal Amount of less than \$5,000; or
 - (iv) **Offshore Bondholder:** the Company is of the opinion that the implementation of an election made by the Bondholder (where that Bondholder has a registered address outside New Zealand) pursuant to an Election Notice, whether express or implied, would or may result in the Company making a regulated offer of securities in any jurisdiction outside New Zealand,

then, in the case of (i) above, the Bondholder will (subject to paragraph (iv)) be deemed to have accepted the New Conditions in respect of all such Capital Bonds, in the case of (ii) above, the Bondholder will (subject to paragraph (iv)) be deemed to have accepted the New Conditions in respect of such number of Capital Bonds in respect of which no such indication has been given, in the case of (iii) above, the Bondholder will (subject to paragraph

(iv) and to it holding more than the Minimum Holding) be deemed to have accepted the New Conditions in respect of the Minimum Holding and deemed to have elected to sell the remainder of its Capital Bonds through the Resale Facility, and in the case of (iv) above, the Bondholder will be deemed to have elected to sell all of the Bondholder's Capital Bonds through the Resale Facility. Where a Bondholder holds less than the Minimum Holding on the Notification Date, that Bondholder will be deemed to have elected to sell all its Capital Bonds through the Resale Facility.

4.3 Company's option to redeem:

- (a) **Redemption:** The Company may elect to redeem all but not some only of the Capital Bonds on any Election Date in cash for the Principal Amount plus any Accrued Interest.
- (b) **Redemption notice:** The Company must give to each Bondholder (and send a copy to the Trustee), not later than three Business Days after the Election Record Date, notice that the Company has elected to redeem all the Capital Bonds under Condition 4.3(a).

4.4 Resale Facility:

- (a) **Resale Facility:** The Company will, prior to each Election Date, establish a Resale Facility which the Company may conduct itself or may involve the use of one or more investment banks, stockbrokers or other similar professional organisations as its agent (the **Resale Facility Agent**) whereby Bondholders may offer their Capital Bonds for sale for value on the Election Date.
- (b) **Offer price:** Any Capital Bond offered for sale under the Resale Facility will be offered or deemed to be offered for sale at a price equal to the Principal Amount of the Capital Bond.
- (c) **No obligation to purchase:** The Company shall use reasonable endeavours to procure the purchase of any Capital Bonds offered under the Resale Facility but the Company is not obliged to purchase or procure the purchase of any such Capital Bonds offered.
- (d) **Purchase by Company:** The Company may itself purchase any Capital Bond offered for sale under the Resale Facility. Each Capital Bond purchased through the Resale Facility may, at the option of the Company, be held for resale or cancelled and, if cancelled, neither the Company nor the Trustee will have any further liabilities or obligations in respect of that Capital Bond.
- (e) **Payment:** The Company shall pay, or shall procure that the Resale Facility Agent shall pay, to the relevant Bondholder the Principal Amount of all Capital Bonds sold through the Resale Facility as soon as practical after the sale date, but in any event not later than five Business Days after the Election Date. No deductions or withholdings on account of commissions, brokerage or otherwise will be made from

any payment made to the relevant Bondholder other than deductions or withholdings required by law.

- (f) **Interest:** All interest due on the Capital Bonds on the Election Date will be paid to the Bondholder whose name is on the register on the Record Date relating to the Election Date, whether or not the relevant Capital Bonds are sold through the Resale Facility.
- (g) **Redemption:** If any Capital Bond offered for sale under the Resale Facility is not the subject of a binding agreement for sale and purchase (for delivery on the Election Date) by the Business Day preceding the Election Date (an **Unsold Bond**) the Company may on the Election Date redeem that Capital Bond in cash for the Principal Amount. If the Company chooses not to redeem all of the Unsold Bonds on the Election Date all the Capital Bonds will remain outstanding and will be subject to the New Conditions applicable during that Bond Period commencing on the next Election Date except that, for that Bond Period, all the Capital Bonds (including the Unsold Bonds) will bear interest at the aggregate of the Swap Rate plus the Issue Margin for the prior Bond Period plus the Specified Margin.

4.5 Takeover: If, in relation to the Company a person becomes a Dominant Owner, not later than five days after the date (the **relevant date**) that the person becomes a Dominant Owner, any Bondholder may by notice to the Company, elect that all of the Capital Bonds held by that Bondholder be redeemed in cash for the Principal Amount plus Accrued Interest on the date falling 10 days after the relevant date.

4.6 Extraordinary circumstances: If any of the following events occurs:

- (a) **Change in law:** the Company receives an opinion from an experienced legal counsel that, as a result of any amendment or change to, or clarification of, (including the announcement of a prospective introduction of any of these) the Securities Act 1978, the Securities Regulations 2009 or any other law regulating securities in New Zealand, there would be additional requirements relating to the Capital Bonds with which the Company would be required to comply and which the Company, in its absolute discretion, deems unacceptable; or
- (b) **Change in tax law:** the Company receives an opinion from an experienced tax advisor that, as a result of any amendment or change to, or clarification or interpretation of, (including the announcement of a prospective introduction of any of these) the Income Tax Act 2007, the Goods and Services Tax Act 1985 or any other tax law in New Zealand, there is a material risk that the cost to the Company of maintaining the Capital Bonds would be increased or any tax deduction available to the Company in respect of the Capital Bonds would be decreased or become unavailable; or

- (c) **Minimum Bonds outstanding:** there remains outstanding Capital Bonds (excluding any Further Capital Bonds) having an aggregate Principal Amount of \$50,000,000 or less,

the Company may by notice to each Bondholder and to take effect on the date specified in that notice, being not more than 30 Business Days after the notice is given, redeem all the Capital Bonds in cash for the Principal Amount plus Accrued Interest.

4.7 Capital Bonds held by subsidiaries: Notwithstanding these Conditions, this Condition 4 (other than Condition 4.8) will not apply to any Capital Bond already held by a wholly-owned subsidiary of the Company, or the Company, on the Notification Date in respect of any Election Date. The Bondholder of any such Capital Bond will be deemed to have retained the Capital Bond subject to the relevant New Conditions from that Election Date.

4.8 Purchase of Capital Bonds:

- (a) Each of the Company and its subsidiaries may at any time, other than during the five year period commencing 15 December 2006 or on any Election Date, purchase a Capital Bond for its own account. Each Capital Bond purchased by the Company or by a wholly-owned subsidiary of the Company may at the option of the Company or wholly-owned subsidiary, as the case may be, be held for resale or cancelled and, if cancelled, neither the Company nor the Trustee will have any further liabilities or obligations in respect of that Capital Bond.
- (b) Capital Bonds purchased and held by the Company or a wholly-owned subsidiary of the Company (including New Condition 4.4(d)) shall not entitle the holder to vote at any meeting of the Bondholders and shall not be considered for the purposes of calculating the quorum at a meeting of Bondholders.

5. TRANSFERS AND REPLACEMENTS OF CAPITAL BONDS

5.1 Transfers: The Capital Bonds may be transferred in minimum aggregate Principal Amounts of \$1,000 or such lesser amount as the Company may from time to time permit subject to this Condition 5, provided that, following any such transfer, the transferee holds Capital Bonds with a minimum aggregate Principal Amount of \$5,000 (the **Minimum Holding**).

5.2 Form of Transfer: Subject to these Conditions and the Deed, a Bondholder may transfer any Capital Bond held by him or her by:

- (a) **Written instrument:** a written instrument of transfer in the usual or common form signed by the Transferor and the Transferee; or
- (b) **Clearing House system:** means of the Clearing House system operated by the NZX; or
- (c) **Other method:** any other method of transfer of marketable securities which is not contrary to any law and which may be operated in accordance with any Listing Rules, and which is approved by the Company.

5.3 Registration process:

- (a) **Transfers other than through the Clearing House:** The following provisions apply to instruments of transfer other than any transfer under Condition 5.2(b):
- (i) the instrument of transfer must be left at the Registrar accompanied by the Certificate (if any) in respect of the Capital Bonds to be transferred or such other evidence as the Registrar or the Trustee requires to prove the transferor's title to, or right to transfer, the Capital Bonds; and
- (ii) on registration of a transfer of a Capital Bond, the Certificate (if any) evidencing that Capital Bond will be cancelled and replaced.
- (b) **Fees:** The Company will direct the Registrar not to charge a fee to any Bondholder for:
- (i) registering transfers of Capital Bonds; or
- (ii) splitting Certificates in relation to Capital Bonds; or
- (iii) issuing Certificates (where bound to do so) and transmission receipts in relation to Capital Bonds; or
- (iv) using holder or FASTER identification numbers in relation to Bondholders; or
- (v) effecting conversions between sub-registers (if any) of the Register; or
- (vi) noting transfer forms in relation to Capital Bonds,

except in the case where Certificates, or any information necessary to effect a transfer of Capital Bonds are issued to replace a lost or destroyed Certificate.

5.4 Transfers must be registered: Subject to this Condition 5, the Company must direct the Registrar not to refuse to register or fail to register or give effect to, a transfer of Capital Bonds.

5.5 Refusal to register transfers: The Company may direct the Registrar to refuse to register any transfer of Capital Bonds where these Conditions, the Deed, any Listing Rules or any applicable legislation permits, or requires the Company to do so.

5.6 Notice of refusal to register: Where registration of a transfer of Capital Bonds is refused under Condition 5.5, the Company must direct the Registrar to give written notice of the refusal and the precise reasons for the refusal to the party lodging the transfer, if any, within five Business Days after the date on which the transfer was lodged. The failure to give such a notice will not invalidate the decision not to register.

5.7 Retention of transfers: The Company is to direct the Registrar to retain all instruments of transfer of Capital Bonds which are registered, but any instrument of transfer of Capital Bonds the registration of which was declined or refused (except on the ground of suspected fraud) is to be returned to the party lodging the transfer.

5.8 Powers of attorney: Any power of attorney granted by a Bondholder empowering the donee to deal with, or transfer Capital Bonds, which is lodged, produced or exhibited to the Registrar will be deemed to continue and remain in full force and effect as between the Company, the Trustee, the Registrar and the grantor of that power and may be acted on, until express notice in writing that it has been revoked or notice of the death of the grantor has been received at the Registry.

5.9 Transmission by operation of law: Any person becoming entitled to any Capital Bond by operation of law (including the death or bankruptcy of any Bondholder) may, upon producing such evidence of entitlement as is acceptable to the Company, obtain registration as the Bondholder of such Capital Bond or execute a transfer of such Capital Bond. This provision includes any case where a person becomes entitled as a survivor of persons registered as joint Bondholders.

5.10 Replacement of Certificates: If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the office of the Registrar upon payment by the claimant of the fees and expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Company and the Registrar may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued. The Registrar may decline to register any transfer unless the relevant Certificate is produced, but may in its discretion dispense with production of the Certificate subject to production instead of such indemnity or declaration of loss as it may require.

5.11 Notices: All notices given by Bondholders in accordance with these Conditions will be irrevocable.

5.12 Sale of less than Minimum Holding: The Board may at any time give notice to any Bondholder holding less than a Minimum Holding of Capital Bonds that if at the expiration of three months after the date the notice is given the Bondholder still holds Capital Bonds which are less than a Minimum Holding, the Board may exercise the power of sale of those Capital Bonds set out in this Condition 5.12. If that power of sale becomes exercisable:

- (a) the Board may arrange for the sale of those Capital Bonds through the NZX or in some other manner approved by the NZX;
- (b) the Bondholder shall be deemed to have authorised the Company to act on the Bondholder's behalf and to execute all necessary documents for the purposes of that sale;
- (c) the Company shall account to the Bondholder for the net proceeds of sale of the Capital Bonds (after deduction of reasonable sale expenses), which shall be held on trust for the Bondholder by the Company and paid to the Bondholder on surrender of any certificates for the Capital Bonds sold; and
- (d) the title of a purchaser of any Capital Bonds sold pursuant to this Condition 5.12 shall not be affected by any irregularity or invalidity in the exercise of the power of sale or the sale itself.

