

Vector Capital Bonds
Explanatory Notes and Deed
of Amendment of Capital Bond
Trust Deed



EXPLANATORY NOTES

1. VECTOR CAPITAL BONDS ELECTION DATE

On 5 November 2002, Vector Limited ("**Vector**") issued capital bonds ("**Capital Bonds**") under the trust deed ("**Trust Deed**") dated 25 September 2002 between Vector and The New Zealand Guardian Trust Company Limited.

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

The material provisions governing the Capital Bonds are contained in the Trust Deed itself and in the conditions ("**Existing Conditions**") set out in Schedule 2 to the Trust Deed. The Existing Conditions stipulate that the first Election Date relating to Capital Bonds will be 15 December 2006 ("**First Election Date**"). In advance of the First Election Date and in accordance with the Existing Conditions, Vector has sent you an Election Notice to which these explanatory notes are attached. The Election Notice describes your options as a holder of Capital Bonds to either:

- (a) sell some or all of your Capital Bonds; and/or
- (b) retain some or all of your Capital Bonds subject to new conditions.

If on 1 December 2006 your registered address is outside New Zealand, you will not be entitled to retain your Capital Bonds after the First Election Date. All Capital Bonds held by bondholders with a non-New Zealand address on 1 December 2006 will be automatically offered for sale under the Resale Facility.

The Election Notice also provides you with an opportunity to purchase further Capital Bonds, if these are available. Bondholders with a non-New Zealand address on 1 December 2006 will not be able to purchase further Capital Bonds.

The election options available to you as a bondholder are explained in further detail in paragraph 5 below.

2. VARIATION OF THE TERMS OF THE CAPITAL BONDS

Vector and The New Zealand Guardian Trust Company Limited have entered into a Deed of Amendment of Capital Bond Trust Deed ("**Deed of Amendment**") dated 3 November 2006, to amend Schedule 2 to the Trust Deed containing the Existing Conditions with effect from 15 December 2006.

Under the Deed of Amendment, the Existing Conditions will be amended and will apply as new conditions ("**New Conditions**") from the First Election Date. A summary of the changes from the Existing Conditions to the New Conditions is contained in paragraph 4 below, with the full text of the Deed of Amendment and the New Conditions enclosed with these explanatory notes.

If you are a New Zealand registered Bondholder and choose to retain some or all of your existing Capital Bonds after 15 December 2006, those Capital Bonds will be held subject to the New Conditions.

3. PURPOSE OF THE CHANGE OF TERMS

Adoption of the New Conditions reflects Vector's desire:

- (a) to specify the next Election Date applying to the Capital Bonds, which will be 15 June 2012;
- (b) to specify a new interest rate payable by Vector to holders of Capital Bonds to reflect an interest rate appropriate for the Capital Bonds in the current market;
- (c) to remove provisions from the Existing Conditions that are no longer relevant following the initial public offering of Vector's shares in 2005; and
- (d) to enhance Vector's capital management options.

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

New Election Date:

The next Election Date applying to the Capital Bonds will be 15 June 2012.

Interest Rate:

Under the Existing Conditions an Interest Rate of 8.25% currently applies to the Capital Bonds. Under the New Conditions the interest rate will be the higher of either:

- (a) 8 per cent. per annum; or
- (b) the Swap Rate on 14 December 2006 plus a margin of 0.90 per cent. per annum.

Interest Cancellation:

Under the Existing Conditions, Vector has a discretion to cancel a payment of interest on Capital Bonds if:

- (a) Vector has, or the payment of interest would cause Vector to become insolvent; or
- (b) Vector has, or the payment of interest would cause Vector to breach a warranty or covenant given to a Senior Creditor;
or
- (c) the payment of interest would cause Vector to breach any other legal obligation.

Under the New Conditions, the board of directors of Vector will be entitled to cancel the payment of interest in any circumstance.

Capital Bondholders need to be aware that Vector has the ability to cancel interest payments in respect of the Capital Bonds, thereby affecting the income derived from the Capital Bonds.

Credit Rating Change:

The Existing Conditions contain a provision that operates to increase or reduce the Interest Rate applying to the Capital Bonds if the Rating Agency downgrades or upgrades Vector's corporate Credit Rating. These provisions have not been retained in the New Conditions.

This change removes the possibility of an increase in the amount of interest payable to you as a result of a corporate credit rating downgrade. Conversely, the risk that the interest payments to you are reduced as a result of an improvement in Vector's credit rating has been eliminated.

Election Notice:

The Existing Conditions require Vector to redeem all the Capital Bonds on the First Election Date if the bondholders are not given an Election Notice.

Under the New Conditions, the Election Date will be automatically deferred by one year if Vector does not deliver an Election Notice prior to a future Election Date. The interest rate applying to the extended period will be the one-year swap rate plus the existing issue Margin plus 1 per cent. per annum.

If Vector does not deliver an Election Notice, bondholders will not have the ability to sell their Capital Bonds through the resale facility on that Election Date. Failure to give an Election Notice will not affect a bondholder's existing right to sell its Capital Bonds at any time. However, there can be no assurance that there will be a liquid market for the Capital Bonds.

Issuer's right to redeem:

Vector has no early redemption right under the Existing Conditions. Under the New Conditions, Vector may redeem all of the outstanding Capital Bonds for cash on any Election Date at their Principal Amount plus all accrued interest that is unpaid and which has not been cancelled in accordance with the New Conditions.

Conversion rights:

Under the Existing Conditions Vector has the right to convert some or all of the Capital Bonds into ordinary shares on any Election Date. Vector also has the right to pay interest by converting the amount due into ordinary shares of Vector. Under the New Conditions these conversion rights have been removed.

Issuer's right to convert or redeem in extraordinary circumstances:

Under the Existing Conditions Vector is entitled to convert all Capital Bonds to Vector's ordinary shares in the following extraordinary circumstances:

- (a) the occurrence of a change in law or change in tax law event that has a material impact upon the Capital Bonds; or
- (b) where no more than \$50,000,000 Capital Bonds remain outstanding.

Under the New Conditions, Vector's right to convert Capital Bonds will be replaced with a right to redeem the Capital Bonds for cash (at their Principal Amount plus interest on the Capital Bonds which is accrued but unpaid and which has not been cancelled in accordance with the New Conditions) in these extraordinary circumstances.

Issuer's right to purchase:

Under the Existing Conditions Vector has the right to purchase Capital Bonds at any time. Under the New Conditions Vector may not purchase any Capital Bonds during the five year period commencing on any Election Date (including the First Election Date). Under the Existing Conditions any Capital Bonds purchased by Vector or any of its wholly-owned subsidiaries are required to be cancelled. Under the New Conditions any Capital Bonds purchased by Vector or any of its wholly-owned subsidiaries may be held by it for subsequent resale or cancelled at Vector's option.

IPO:

Terms in the Existing Conditions that applied to and governed the Capital Bonds prior to the initial public offering of Vector's ordinary shares have been deleted in the New Conditions. They are no longer relevant.

Replacement Security Deed Poll:

In addition to the New Conditions, Vector has entered into a deed poll with The New Zealand Guardian Trust Company Limited as trustee ("NZGT") for the benefit of its principal senior creditors (being creditors owed more than \$20,000,000).

Under the deed poll Vector agrees that it will not exercise any right to redeem or purchase any Capital Bonds prior to the interest payment date for the Capital Bonds falling in December 2011, other than in the extraordinary circumstances described above or where Vector is required to redeem Capital Bonds at the request of the holder in the event of a corporate takeover of Vector.

Vector also agrees that it will not purchase or redeem Capital Bonds at any time unless it:

- (a) reasonably believes, based on due enquiry, that the purchase or redemption will not cause its corporate credit rating from Standard & Poor's (or any other provider of a corporate credit rating to Vector) to fall from that applying immediately prior to Vector's announcement of the purchase or redemption; or
- (b) completes the purchase or redemption with funds raised by it or one of its subsidiaries, within the 12 months preceding the purchase or redemption, from the issue of ordinary shares or the issue of any other debt or equity security with, in the opinion of the relevant rating agency, substantially the same terms and conditions regarding maturity, ranking, deferral, replacement provisions, purchase and redemption as the Capital Bonds.

The deed poll may be amended at any time without the consent of the Capital Bonds' Trustee or any Bondholder with the consent of a majority by value of the principal senior creditors or where, in the opinion of Vector, the amendment:

- (a) is to correct a manifest error;
- (b) is to comply with law or the NZSX listing rules;
- (c) is of a formal or technical nature; or
- (d) is not and is not likely to become materially prejudicial to the interests of the principal senior creditors generally.

For the purposes of paragraph (d) above, any amendment to the deed which is required to enable Vector to obtain intermediate equity treatment for the Capital Bonds from Standard & Poor's will be deemed not to be materially prejudicial to the interests of the principal senior creditors.

Redemption of Unsold Bonds:

Under the Existing Conditions, all Capital Bonds placed in the Resale Facility but unsold on the relevant Election Date must be redeemed by Vector for cash. Under the New Conditions, Vector may, but is not required to, redeem any unsold Capital Bonds. If Vector does not exercise its right to redeem the unsold Capital Bonds, all of the outstanding Capital Bonds will be subject to the new conditions proposed by Vector for the period to the next Election Date save that the interest rate will be the prevailing swap rate plus the existing issue Margin plus 1 per cent. per annum.

If Vector is required to issue replacement securities in order to redeem Capital Bonds but has not been able to raise sufficient funds through such an issue to enable the redemption of all those unsold Capital Bonds, all the Capital Bonds will remain outstanding. The outstanding Capital Bonds will be subject to the new conditions proposed by Vector at that time, provided that the interest rate applicable to the period ending on the next Election Date will be the prevailing swap rate plus the existing issue Margin plus 1 per cent. per annum. This change does not alter your existing right to sell your Capital Bonds at any time. However, there can be no assurance that there will be a liquid market for the Capital Bonds.

5. ELECTION OPTIONS FOR BONDHOLDERS

New Zealand Capital Bond holders have four election options available to them.

These options are described below.

If you wish to select option B, C or D you must complete your Election Notice to indicate which option you have chosen and return it to Vector's bond registrar, Computershare Investor Services Limited ("**Computershare**"). The Election Notice must be received by Computershare no later than 5.00 p.m. on 1 December 2006.

If you wish to select option A you can either complete your Election Notice and return it to Computershare or do nothing.

Capital Bonds held by bondholders with a registered address outside New Zealand on 1 December 2006 will be automatically offered for sale under the Resale Facility.

5.1 Election Option A – Retain all of your Capital Bonds

You may elect to retain all of your Capital Bonds beyond the First Election Date of 15 December 2006.

A properly completed Election Notice indicating that you wish to retain all your Capital Bonds must be received by Computershare no later than 5.00 p.m. on 1 December 2006. If you do not complete and return your Election Notice by this time you will be deemed to have elected to continue to hold your Capital Bonds on the terms of the New Conditions as from the Election Date.

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

5.2 Election Option B – Retain all of your Capital Bonds and apply to purchase additional Capital Bonds

You may elect to retain all of your Capital Bonds beyond the First Election Date of 15 December 2006 and also apply to purchase further Capital Bonds, at par, through the Resale Facility.

The dollar value of Capital Bonds that you would like to purchase should be entered into the space provided in the Election Notice. Nominated purchase amounts must be in multiples of \$1,000. You must then return the completed Election Notice to Computershare no later than 5.00 p.m. on 1 December 2006 together with a cheque made payable to "Vector Capital Bonds Resale Facility" for the face value of the Capital Bonds to be purchased. 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 all of the additional Capital Bonds that you have requested, a refund for the balance will be provided.

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

5.3 Election Option C – Sell some of your Capital Bonds and retain some of your Capital Bonds

You may elect to retain some of your Capital Bonds beyond the First Election Date of 15 December 2006 subject to the New Conditions. The amount of Capital Bonds to be retained by you should be entered into the space provided in the Election Notice. The amount retained 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 retain, will be offered for re-sale under the Resale Facility at a purchase price equal to the Principal Amount of those Capital Bonds.

If any Capital Bonds are not sold under the Resale Facility then, on 15 December 2006, Vector is required to redeem those Capital Bonds at par.

If you are also the registered holder of Capital Bonds on 1 December 2006, Vector is required to pay you on the First Election Date 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 retain your Capital Bonds after the First Election Date.

Vector will ensure that you are paid the Principal Amount of each of the Capital Bonds which you have elected to offer for re-sale. This payment is required to be made no later than 27 December 2006. No brokerage fee will be deducted from amounts payable to you as a result of the sale of any Capital Bonds through the Resale Facility.

A properly completed Election Notice indicating that you wish to retain some of your Capital Bonds and sell the rest of your Capital Bonds must be received by Computershare no later than 5.00 p.m. on 1 December 2006.

If your Election Notice does not stipulate the amount of Capital Bonds to be retained or the amount stipulated is not a multiple of \$1,000, you will be deemed to have selected option A described above in respect of all your Capital Bonds.

5.4 Election Option D – Sell all of your Capital Bonds

You may elect to offer all of your Capital Bonds for re-sale under the Resale Facility. If you do so then, in accordance with the Existing Conditions, all of your Capital Bonds will be offered for re-sale for a purchase price equal to the Principal Amount of the Capital Bonds. On 15 December 2006 Vector is required to redeem those Capital Bonds not sold under the Resale Facility for an amount equal to the Principal Amount of the Capital Bonds.

If you are also the registered holder of Capital Bonds on 1 December 2006, Vector is required to pay you on the First Election Date, all interest accrued, un-cancelled and unpaid up to that date on your Capital Bonds.

Vector will ensure that you are paid the Principal Amount of each of the Capital Bonds which you have elected to offer for re-sale. This payment is required to be made no later than 27 December 2006. No brokerage fee will be deducted from amounts payable to you as a result of the sale of Capital Bonds through the Resale Facility.

A properly completed Election Notice indicating that you wish to sell all your Capital Bonds must be received by Computershare no later than 5.00 p.m. on 1 December 2006. 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.

5.5 Minimum Holds

If you elect to retain some or all of your Capital Bonds and the Principal Amount of the Capital Bonds retained is less than \$5,000 then you will not be entitled to retain those Capital Bonds and those Capital Bonds will be offered for sale under the Resale Facility.

5.6 Bondholder having a registered address outside New Zealand

If on 1 December 2006 your registered address is outside New Zealand, you will not be entitled to retain your Capital Bonds after the First Election Date of 15 December 2006. All Capital Bonds held by bondholders with a non-New Zealand address on 1 December 2006 will be automatically offered for sale under the Resale Facility.

5.7 Summary table of Bondholder options

OPTION	ACTION	OUTCOME	WHAT TO DO	CLOSING DATE
Option A	Retain all Capital Bonds.	The New Conditions will apply to all of the Capital Bonds held.	No action required. You may elect to send in a completed Election Notice.	No action required
Option B	Retain all Capital Bonds and apply to purchase further Capital Bonds.	The New Conditions will apply to all of the Capital Bonds held and any Capital Bonds purchased.	Send in a completed Election Notice together with a cheque for the face value of the additional Capital Bonds to be purchased.	No later than 5.00 p.m. on 1 December 2006.
Option C	Elect to retain some Capital Bonds with the balance offered for sale under the Resale Facility.	Subject to minimum hold requirements, you will retain the number of Capital Bonds nominated in your Election Notice. The New Conditions will apply to the Capital Bonds retained by you. The balance will be offered for sale under the Resale Facility. Vector will redeem any Capital Bonds not sold.	Send in a completed Election Notice detailing the number of Capital Bonds to be retained by you.	No later than 5.00 p.m. on 1 December 2006.
Option D	Elect to offer all Capital Bonds for sale under the Resale Facility.	The Capital Bonds will be offered for sale under the Resale Facility. Vector will redeem any Capital Bonds not sold.	Send in a completed Election Notice.	No later than 5.00 p.m. on 1 December 2006.

6. INFORMATION FOR BONDHOLDERS

6.1 NZX Listing Rules Compliance

In compliance with the NZSX Listing Rules, the New Conditions were submitted to NZX. NZX has confirmed that the New Conditions comply with the NZSX Listing Rules. Vector has formally disclosed to the market the changes from the Existing Conditions to the New Conditions.

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 (telephone "Vector Enquiries" on +64 9 488 8777) as bond registrar or ANZ Institutional, a part of ANZ National Bank Limited as Lead Manager of these arrangements.

Computershare Investor Services Limited

Address: Level 2, 159 Hurstmere Road
Takapuna
North Shore City
Private Bag 92119
AUCKLAND 1020

Phone: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz

ANZ Institutional

Chris O'Neale

Phone: +64 4 802 2423
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Paul Daley

Phone: +64 4 802 2421
Fax: +64 4 802 8565
Email: daley@anz.com

DEED OF AMENDMENT OF CAPITAL BOND TRUST DEED

DEED dated 3 November 2006

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 ("**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 December 2006 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 sell their Capital Bonds under the Resale Facility. Capital Bonds not sold through the Resale Facility are to be redeemed by the Company for cash at their Principal Amount; 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. To facilitate the operation of the Resale Facility required to be established by the Company in accordance with the Existing Conditions, the Company wishes to amend the Trust Deed and the Conditions to allow it to purchase and on-sell Capital Bonds.
- E. The Company wishes to have the right to require, in relation to any Election Date process, Bondholders who do not have a registered address in New Zealand to elect to participate solely in the Resale Facility.
- F. The amendments described in recitals D and E are not considered to be materially prejudicial to the interests of Bondholders generally.
- G. 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 December 2006:

- (a) the definition of "**Conversion**" in clause 1.1 of the Trust Deed is deleted;
- (b) all references to "Interest Date" are replaced by references to "Interest Payment Date";
- (c) clause 1.2(f)(i) of the Trust Deed is deleted;
- (d) the word "Converted" is deleted from clause 3.5(c) of the Trust Deed;
- (e) the words ", and every Conversion of Capital Bonds duly made in accordance with the Conditions," is deleted from clause 3.7(c) of the Trust Deed;

- (f) clause 6.2(c)(iii) of the Trust Deed is replaced with the following:
"The Company has paid in full all Accrued Interest and all Cancelled Interest which was cancelled (and has not been paid) subsequent to the last time two consecutive instalments of interest were paid in full on their respective Interest Payment Dates."
- (g) clause 6.2(c)(iv) of the Trust Deed is amended by the deletion of the words "(either in cash or by Conversion)";
- (h) clauses 6.2(d), 6.2(g) and 6.2(h) of the Trust Deed are deleted and clause 6.2 of the Trust Deed is renumbered accordingly;
- (i) clause 6.2(p) of the Trust Deed is amended by the replacement of the words "Facility Broker" with the words "Resale Facility Agent";
- (j) clause 6.3(a)(i)(cc) of the Trust Deed is amended by the deletion of the words "Converted" and "Conversion";
- (k) clause 6.3(a)(i)(ff) of the Trust Deed is amended by the deletion of the words "or paid by Conversion"; and
- (l) 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.

2.2 With effect from the date of this deed:

- (a) Clause 3.9 of the Trust Deed shall be replaced with the following:

"3.9 Cancellation, purchase or redemption:

- (a) Each Capital Bond which is redeemed in accordance with this Deed is and will be deemed to be cancelled, and neither the Company nor the Trustee will have any further liabilities or obligations in respect of that Capital Bond or the relevant Bondholder.
- (b) Each of the Company and its subsidiaries may subject to and in accordance with the Listing Rules and the Constitution, at any time purchase a Capital Bond for its own account. Each Capital Bond purchased by the Company or a wholly owned subsidiary 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 or the relevant Bondholder. Capital Bonds purchased and held by the Company or a wholly owned subsidiary of the Company 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."
- (b) Existing Condition 4.2 is amended by adding the following as new Condition 4.2(h):
 - "(h) Offshore Bondholder: the Company is of the opinion that the implementation of an election made by the Bondholder 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,"
- (c) The final paragraph of Existing Condition 4.2 is amended by inserting:
 - (i) after "Bondholder will" in line 1:
 ", subject to the below,"
 - (ii) after "Capital Bonds" at the end of that paragraph:
 "and in the case of (h) above, the Bondholder will be deemed to have elected to have all its Capital Bonds sold through the Resale Facility; and"

(d) Existing Condition 4.4(d) shall be replaced with the following:

“(d) Purchase by Company:

- (i) The Company may itself purchase any Capital Bond offered for sale under the Resale Facility. Each Capital Bond so purchased by the Company will be cancelled immediately and neither the Company nor the Trustee will have any further liabilities or obligations in respect of that Capital Bond or the relevant Bondholder.
- (ii) Notwithstanding (i) above, the Company may, solely for the purpose of facilitating the operation of the Resale Facility, purchase and resell any Capital Bonds without being required to cancel those Capital Bonds.”

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) 8 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);

"**Credit Rating**" means the credit rating assigned to the Company by the Rating Agency from time to time;

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

"**Election Date**" means 15 June 2012 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 Record Date**" has the meaning given to it in Condition 4.1;

"**Election Notice**" 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 December 2006 to the next Election Date, the Basic Rate; and
- (b) in respect of each subsequent Bond Period the rate determined in accordance with Condition 4;

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

"**Issue Margin**" means 0.90 per cent. per annum;

"**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 December 2006, 14 December 2006, 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;
- (c) for the purposes of determining the Swap Date under Condition 4.3(d)(ii), the Record Date for the Interest Payment Date on which redemption is to occur; and
- (d) for the purposes of determining the Swap Rate under Condition 4.4(g), the Business Day preceding the relevant Election Date;

"Rating Agency" means Standard & Poor's Australia Pty Limited or any other rating agency selected by the Company and approved by the Trustee;

"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 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; or
- (c) for the purposes of Condition 4.3(d)(ii), for the period from the relevant Interest Payment Date to the next Election Date, based on Reuters Monitor Screen page FISSWAP (or its successor) at or about 3.00 p.m. 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 December 2006 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)(iv).

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 5.00 p.m. 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 CONVERT, AND 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 Swap Rate plus 1.90 per cent. per annum. 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), in each case in respect of all Capital Bonds, 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;
 - (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;

- (iii) **Minimum remaining Capital Bonds:** implementation of an election or deemed election (pursuant to this Condition 4.1) 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 Record Date in respect of the Election 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 Election Date except that, for that Bond Period, the Capital Bonds will bear interest at the aggregate of the Swap Rate plus 1.90 per cent. per annum.

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 1983 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 2004, 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) **FASTER system:** means of the FASTER 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 FASTER:** 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 Bondholder.
- 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.

