

Directors' report

For the six months ended 31 December 2010

TCNZ Finance Limited ('TCNZ Finance') is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited ('Telecom') and is the principal finance company for the Telecom group. TCNZ Finance was incorporated in 1991, established an Australian branch in 2001 and a Bermudian branch in 2004.

TCNZ Finance raises debt funding in New Zealand and internationally. The majority of these funds are then advanced to other members of the Telecom group in order to assist in funding their operations. TCNZ Finance enters into derivative financial instruments in order to manage the foreign exchange and interest rate risk associated with its borrowings, as well as to manage the foreign exchange risk associated with the operations of the Telecom group.

TCNZ Finance recorded a net profit for the six months ended 31 December 2010 of \$261 million compared to a net profit of \$89 million for the six months ended 31 December 2009. The volatility in earnings is primarily caused by TCNZ Finance's exposure to movements in foreign exchange rates on derivative financial instruments that are held on behalf of the Telecom group, which principally led to the \$172 million increase in net earnings. The net foreign exchange gain for the six months ended 31 December 2010 was \$162 million, compared to a net gain of \$2 million for the six months ended 31 December 2009.

The directors of TCNZ Finance consider the results of the company to be satisfactory and the company to be in a sound financial position.

TCNZ Finance solely lends to other companies within the Telecom group and accordingly, its financial performance should be considered in conjunction with the financial performance of the Telecom group. A copy of the Telecom group's results can be found at <http://investor.telecom.co.nz> or a copy can be requested from the registered office of TCNZ Finance.

On behalf of the Board



John van Woerkom
DIRECTOR



Anthony Parker
DIRECTOR

23 February 2011

Directors' report

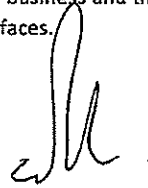
For the six months ended 31 December 2010

Declaration pursuant to Article 3 (2) (c) of the Transparency Law dated 11 January 2008

We, Mr John van Woerkom and Mr Anthony Parker, both Directors of TCNZ Finance (herein after the "Issuer"), hereby declare that, to the best of our knowledge, the condensed financial statements for the period ended 31 December 2010 which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and that the Directors' report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Issuer faces.



John van Woerkom
DIRECTOR



Anthony Parker
DIRECTOR

23 February 2011

Income Statement*For the six months ended 31 December 2010*

	Notes	Six months ended 31 December		Year ended
		2010 Unaudited \$m	2009 Unaudited \$m	30 June 2010 Audited \$m
Finance income	2	448	511	892
Finance expense	2	(321)	(388)	(660)
Net finance income		127	123	232
Other income	3	182	15	8
Other expenses	3	(13)	(12)	(35)
Net earnings before income tax		296	126	205
Income tax expense		(35)	(37)	(66)
Net earnings for the period		261	89	139

Statement of Comprehensive Income*For the six months ended 31 December 2010*

	Six months ended 31 December		Year ended
	2010 Unaudited \$m	2009 Unaudited \$m	30 June 2010 Audited \$m
Net earnings for the period	261	89	139
Other comprehensive income			
Translation of foreign branches	(5)	-	1
Cash flow hedges	(23)	7	(6)
Income tax relating to components of other comprehensive income	25	(2)	(1)
Other comprehensive income/(loss) for the period, net of tax	(3)	5	(6)
Total comprehensive income/(loss) for the period	258	94	133

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Statement of Changes in Equity*For the six months ended 31 December*

Unaudited	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedging reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
Balance as at 1 July 2009	883	883	757	(17)	20	1,643
Net earnings for the period	-	-	89	-	-	89
Other comprehensive income for the year	-	-	-	5	-	5
Total recognised income and expenses	-	-	89	5	-	94
Balance as at 31 December 2009	883	883	846	(12)	20	1,737

Unaudited	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedging reserve \$m	Foreign Currency translation reserve \$m	Total equity \$m
Balance as at 1 July 2010	883	883	646	(21)	18	1,526
Net earnings for the period	-	-	261	-	-	261
Other comprehensive income for the year	-	-	-	(16)	13	(3)
Total recognised income and expenses	-	-	261	(16)	13	258
Balance as at 31 December 2010	883	883	907	(37)	31	1,784

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Balance sheet

As at 31 December 2010

	31 December		30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
	\$m	\$m	\$m
ASSETS			
Current assets:			
Cash	97	68	216
Accounts receivable	-	1	-
Due from other Telecom group companies	2,263	2,663	2,029
Short-term derivative assets	19	21	19
Total current assets	2,379	2,753	2,264
Non-current assets:			
Deferred tax asset	14	-	-
Due from other Telecom group companies	11,520	11,317	11,469
Long-term derivative assets	118	103	109
Investments	540	540	540
Total non-current assets	12,192	11,960	12,118
Total assets	14,571	14,713	14,382
LIABILITIES AND EQUITY			
Current liabilities:			
Income tax payable	6	10	27
Due to other Telecom group companies	9,797	9,964	9,995
Short-term derivative liabilities	328	33	25
Debt due within one year	613	361	191
Accrued interest	37	37	38
Total current liabilities	10,781	10,405	10,276
Non-current liabilities:			
Long-term derivative liabilities	286	431	439
Long-term debt	1,720	2,130	2,137
Deferred tax liability	-	10	4
Total non-current liabilities	2,006	2,571	2,580
Total liabilities	12,787	12,976	12,856
Equity:			
Share capital	883	883	883
Reserves	(6)	8	(3)
Retained earnings	907	846	646
Total equity	1,784	1,737	1,526
Total liabilities and equity	14,571	14,713	14,382

On behalf of the Board of TCNZ Finance Limited

John van Woerkom
Director
Authorised for issue on 25 February 2011

Anthony Parker
Director

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Cash flow statement

For the six months ended 31 December 2010

	Six months ended 31 December		Year ended 30 June
	2010 Unaudited	2009 Unaudited	2010 Audited
	\$m	\$m	\$m
Cash flows from operating activities			
Interest income	448	511	892
Interest paid on debt	(317)	(383)	(652)
Net cash flows from operating activities	131	128	240
Cash flows from investing activities			
Net advances to/(from) other Telecom group companies	(330)	(88)	378
Cash flow on foreign exchange contracts	(10)	(11)	(24)
Net cash flows applied to investing activities	(340)	(99)	354
Cash flows from financing activities			
Repayment of long-term debt	(15)	-	(20)
Proceeds from/(repayment of) short-term debt, net	106	(40)	(191)
Dividend paid	-	-	(250)
Net cash flows applied to financing activities	91	(40)	(461)
Net cash flow	(118)	(11)	133
Net cash at beginning of period	216	83	83
Foreign exchange movement	(1)	(4)	-
Net cash position at end of period	97	68	216

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Notes to the financial statements

For the six months ended 31 December 2010

Note 1 Financial Statements

These condensed financial statements of TCNZ Finance have been prepared in accordance with New Zealand Equivalent to International Accounting Standard ('NZ IAS') No.34: 'Interim Financial Reporting', issued by the New Zealand Institute of Chartered Accountants. In complying with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') TCNZ Finance is in compliance with International Financial Reporting Standards ('IFRS').

The condensed financial statements for the six months ended 31 December 2010 and 31 December 2009 are unaudited. The financial information for the year ended 30 June 2010 has been extracted from the audited financial statements of TCNZ Finance.

TCNZ Finance is a profit oriented company and was incorporated in New Zealand on 19 July 1991 in the name of Randori Holdings Limited as a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the 'parent company'). Randori Holdings Limited changed its name to TCNZ Finance Limited effective from 18 September 1991 and re-registered under the Companies Act 1993 on 31 January 1997. TCNZ Finance Limited Australian Branch ('Australian Branch') was established on 13 July 2001. On 7 December 2004 TCNZ Finance established TCNZ Finance Bermudian Branch ('Bermudian Branch'). These financial statements include the activities of TCNZ Finance, the Australian Branch and the Bermudian Branch and have been prepared in accordance with the Financial Reporting Act 1993, the Securities Act 1978 and the Securities Regulations 1983.

The principal activity of TCNZ Finance is that of a finance company for the parent company and its subsidiaries (the 'Telecom group'). In these accounts the term fellow subsidiaries is used to describe other subsidiaries of the parent company.

Basis of preparation of data

These accounts have been prepared in accordance with NZ IFRS and in accordance with the accounting policies detailed in the Annual Report of TCNZ Finance for the year ended 30 June 2010, a copy of which is available at <http://investor.telecom.co.nz>.

There have been no changes in accounting policies during the period. All accounting policies have been applied on a consistent basis.

Notes to the financial statements

For the six months ended 31 December 2010

Note 2 Finance income and expense

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	\$m	\$m	\$m
	Unaudited	Unaudited	Audited
Finance income:			
Interest income on loans to other Telecom group companies	446	509	887
Interest income from deposits	2	1	4
Other interest income	-	1	1
Total finance income	448	511	892
Finance expense:			
Finance expense on long-term debt:			
- European Medium Term Notes	79	77	154
- TeleBonds	21	22	43
Revaluation of interest rate derivative	2	2	2
Interest expense on loans from other Telecom group companies	213	276	439
Other interest and finance expense	6	11	22
Total finance expense	321	388	660

Note 3 Other income and expenses

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	\$m	\$m	\$m
	Unaudited	Unaudited	Audited
Other income:			
Net unrealised foreign exchange gains	174	-	-
Net realised foreign exchange gains	-	13	8
Revaluation of derivatives	8	2	-
Total other income	182	15	8
Other expenses:			
Net unrealised foreign exchange losses	-	11	21
Net realised foreign exchange losses	12	-	-
Revaluation of derivatives	-	-	13
Other operating expenses	1	1	1
Total other expenses	13	12	35

Administration costs, including audit fees for the period of \$13,894 (31 December 2009: \$14,625, 30 June 2010: \$27,788) have been recorded by a fellow subsidiary company.

No fees or other remuneration have been paid to the directors by TCNZ Finance or any related party in respect of services provided by the directors to TCNZ Finance.

Notes to the financial statements

For the six months ended 31 December 2010

Note 4 Segmental reporting

TCNZ Finance operates within one industry segment, operating solely to finance the Telecom group of companies.

Geographical segments

31 December 2010	New Zealand operations	Australian operations	Other operations	Consolidated
Unaudited	\$m	\$m	\$m	\$m
Finance income	394	10	44	448
Net earnings for the period	304	(45)	2	261
Total assets	12,347	1,177	1,047	14,571
Total liabilities	(10,529)	(1,283)	(975)	(12,787)

31 December 2009	New Zealand operations	Australian operations	Other operations	Consolidated
Unaudited	\$m	\$m	\$m	\$m
Finance income	451	9	51	511
Net earnings for the period	111	(24)	2	89
Total assets	10,575	1,102	3,036	14,713
Total liabilities	(9,250)	(1,144)	(2,582)	(12,976)

30 June 2010	New Zealand operations	Australian operations	Other operations	Consolidated
Audited	\$m	\$m	\$m	\$m
Finance income	773	19	100	892
Net earnings for the period	181	(46)	4	139
Total assets	10,925	1,095	2,362	14,382
Total liabilities	(9,419)	(1,164)	(2,273)	(12,856)

Contact Information

Registered office

The registered office of TCNZ Finance is:

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Enquiries

Telebond holders with enquiries about transactions, changes of address or interest payments should contact:

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