

## Directors' report

For the year ended 30 June 2010

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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.

### Principal activities

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.

### Principal risks and uncertainties

The key risks to TCNZ Finance are foreign exchange rate, interest rate, credit, liquidity, and equity risks. A summary of those risks and TCNZ Finance's risk management objectives and policies are set out in notes 13 to 15 of the audited financial statements which can be found at <http://investor.telecom.co.nz>. The directors of TCNZ Finance do not believe there is any significant net risk to TCNZ Finance as financial assets are matched by financial liabilities with similar characteristics. There have been no material events or circumstances that have occurred subsequent to balance date that require disclosure.

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. As the proceeds of debt are advanced to other members of the Telecom group, the ability of TCNZ Finance to meet its obligations under the debt issues depends upon the payment of the principal and the interest due from the other Telecom group companies.

### Business review

TCNZ Finance recorded a net profit for the year ended 30 June 2010 of \$139 million compared to a net profit of \$26 million for the year ended 30 June 2009. The volatility in earnings is primarily caused by TCNZ Finance's exposure to movements in foreign exchange rates which principally led to the \$113 million increase in net earnings. The net foreign exchange loss for the year ended 30 June 2010 was \$13 million, compared to a net loss of \$126 million in the year ended 30 June 2009.

The net assets of TCNZ Finance as at 30 June 2010 was \$1,526 million compared to \$1,643 million as at 30 June 2009. The share capital of TCNZ Finance is \$883 million (30 June 2009: \$883 million), consisting of 882,872,600 issued and fully paid shares, of which 342,872,600 are ordinary shares. TCNZ Finance did not acquire any of its own shares during the year ended 30 June 2010 (30 June 2009: nil).

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 for the year ended 30 June 2010 can be found at <http://investor.telecom.co.nz> or a copy can be requested from the registered office of TCNZ Finance.

### General

Based on current expectations TCNZ Finance will continue to operate as the principal finance company for the Telecom group. TCNZ Finance does not engage in research and development activities.

On behalf of the Board



Nicholas Olson  
DIRECTOR



Anthony Parker  
DIRECTOR

24 August 2010

## Directors' report

For the year ended 30 June 2010

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

We, Mr Nick Olson 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 year ended 30 June 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.



Nicholas Olson  
DIRECTOR



Anthony Parker  
DIRECTOR

24 August 2010

**Income Statement***For the years ended 30 June 2010 and 2009 (Audited)*

Year ended 30 June	2010 \$m	2009 \$m
Finance income	892	1,116
Finance expense	(660)	(894)
<b>Net finance income</b>	<b>232</b>	<b>222</b>
Other income	8	-
Other expenses	(35)	(164)
<b>Net earnings before income tax</b>	<b>205</b>	<b>58</b>
Income tax expense	(66)	(32)
<b>Net earnings for the year</b>	<b>139</b>	<b>26</b>

**Statement of Comprehensive Income***For the years ended 30 June 2010 and 2009 (Audited)*

Year ended 30 June	2010 \$m	2009 \$m
Net earnings for the year	139	26
Other comprehensive income		
Translation of foreign branches	1	(2)
Cash flow hedges	(6)	(28)
Income tax relating to components of other comprehensive income	(1)	5
<b>Other comprehensive income/(loss) for the year net of tax</b>	<b>(6)</b>	<b>(25)</b>
<b>Total comprehensive income for the year</b>	<b>133</b>	<b>1</b>

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

**Statement of Changes in Equity***For the years ended 30 June 2010 and 2009 (Audited)*

	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
<b>Balance as at 1 July 2009</b>	<b>883</b>	<b>883</b>	<b>757</b>	<b>(17)</b>	<b>20</b>	<b>1,643</b>
Net earnings for the year	-	-	139	-	-	139
Other comprehensive income for the year <sup>1</sup>	-	-	-	(4)	(2)	(6)
<b>Total recognised income and expenses</b>	<b>-</b>	<b>-</b>	<b>139</b>	<b>(4)</b>	<b>(2)</b>	<b>133</b>
Dividend paid	-	-	(250)	-	-	(250)
<b>Balance as at 30 June 2010</b>	<b>883</b>	<b>883</b>	<b>646</b>	<b>(21)</b>	<b>18</b>	<b>1,526</b>

  

	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
<b>Balance as at 1 July 2008</b>	<b>883</b>	<b>883</b>	<b>731</b>	<b>3</b>	<b>25</b>	<b>1,642</b>
Net earnings for the year	-	-	26	-	-	26
Other comprehensive income for the year <sup>1</sup>	-	-	-	(20)	(5)	(25)
<b>Total recognised income and expenses</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>(20)</b>	<b>(5)</b>	<b>1</b>
<b>Balance as at 30 June 2009</b>	<b>883</b>	<b>883</b>	<b>757</b>	<b>(17)</b>	<b>20</b>	<b>1,643</b>

<sup>1</sup> Other comprehensive income components are shown net of tax*The accompanying notes form part of and are to be read in conjunction with these financial statements.*

# Statement of Financial Position

As at 30 June 2010 and 2009 (Audited)

As at 30 June	2010 \$m	2009 \$m
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	216	83
Accounts receivable	-	1
Income tax receivable	-	17
Due from other Telecom group companies	2,029	3,869
Short-term derivative assets	19	32
<b>Total current assets</b>	<b>2,264</b>	<b>4,002</b>
<b>Non-current assets:</b>		
Due from other Telecom group companies	11,469	11,559
Long-term derivative assets	109	97
Investments	540	540
<b>Total non-current assets</b>	<b>12,118</b>	<b>12,196</b>
<b>Total assets</b>	<b>14,382</b>	<b>16,198</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Income tax payable	27	-
Due to other Telecom group companies	9,995	11,447
Short-term derivative liabilities	25	44
Debt due within one year	191	390
Accrued interest	38	36
<b>Total current liabilities</b>	<b>10,276</b>	<b>11,917</b>
<b>Non-current liabilities:</b>		
Long-term derivative liabilities	439	343
Long-term debt	2,137	2,288
Deferred tax liability	4	7
<b>Total non-current liabilities</b>	<b>2,580</b>	<b>2,638</b>
<b>Total liabilities</b>	<b>12,856</b>	<b>14,555</b>
<b>Equity:</b>		
Share capital	883	883
Reserves	(3)	3
Retained earnings	646	757
<b>Total equity</b>	<b>1,526</b>	<b>1,643</b>
<b>Total liabilities and equity</b>	<b>14,382</b>	<b>16,198</b>

On behalf of the Board



Nicholas Olson  
DIRECTOR

Authorised for issue on 24 August 2010

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



Anthony Parker  
DIRECTOR

## Statement of Cash flow

For the years ended 30 June 2010 and 2009 (Audited)

Year ended 30 June	2010 \$m	2009 \$m
<b>Cash flows from operating activities</b>		
Interest Income	892	1,116
Interest paid on debt	(652)	(887)
<b>Net cash flows from operating activities</b>	<b>240</b>	<b>229</b>
<b>Cash flows from investing activities</b>		
Net advances to/(from) other Telecom group companies	378	325
Payments on settlement of forward exchange contracts	(36)	(98)
Receipts from settlement of forward exchange contracts	12	12
<b>Net cash flow applied to investing activities</b>	<b>354</b>	<b>239</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	-	400
Repayment of long-term debt	(20)	(771)
Proceeds from short-term debt	1,651	1,587
Repayment of short-term debt	(1,842)	(1,626)
Dividend paid	(250)	-
<b>Net cash flow applied to financing activities</b>	<b>(461)</b>	<b>(410)</b>
<b>Net cash flow</b>	<b>133</b>	<b>58</b>
Net cash at beginning of period	83	25
<b>Net cash position at end of period</b>	<b>216</b>	<b>83</b>

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

## Notes to the condensed financial statements

For the year ended 30 June 2010 (Audited)

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### Note 1 Statement of accounting policies

These condensed financial statements of TCNZ Finance have been extracted from the audited financial statements of TCNZ Finance for the year ended 30 June 2010. The audited financial statements were authorised for issue on the 24 August 2010. The auditors of the financial statements of TCNZ Finance issued an unqualified opinion. These condensed financial statements should be read in conjunction with the audited financial statements which can be found at <http://investor.telecom.co.nz>.

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 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.

#### *(b) Basis of preparation*

These condensed financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. They have been prepared in accordance with the Financial Reporting Act 1993, which requires compliance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') as appropriate for profit-oriented entities.

#### *(c) Changes in accounting policies*

TCNZ Finance has adopted NZ IAS 1 'Presentation of Financial Statements (revised 2007)' ('IAS 1') with effect from 1 July 2009. The revised Standard has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure.

## Notes to the condensed financial statements

For the year ended 30 June 2010 (Audited)

### Note 2 Equity

#### Contributed capital

As at 30 June 2010 contributed capital consisted of 882,872,600 issued and fully paid shares, of which 342,872,600 were ordinary shares. Each of the shares confers on the holder the right to vote at any general meeting of TCNZ Finance. 540,000,000 of the shares are redeemable at the option of TCNZ Finance, in accordance with the terms of its constitution. No other conditions are attached to the ordinary and redeemable shares. There is no par value on the ordinary shares issued by TCNZ Finance.

#### Hedging reserve

The hedging reserve is used to record changes in fair value of derivatives that are designated as cash flow hedges. Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item will affect profit or loss.

#### Foreign currency translation reserve

Exchange differences arising on translation of foreign branches are taken to the foreign currency translation reserve, as described in Note 1.

#### Dividend

TCNZ Finance paid a dividend of \$250 million to the parent company on 23 March 2010.

### Note 3 Segmental reporting

TCNZ Finance operates with one operating segment. The principal activity of TCNZ Finance is that of a finance company for the Telecom group. TCNZ Finance's financial statements are reviewed by the directors of TCNZ Finance in assessing the company's performance. The geographical information below is not used by the directors to decide how to allocate resources or to assess performance.

#### Geographical information

30 June 2010	New Zealand operations	Australian operations	Other operations	Consolidated
	\$m	\$m	\$m	\$m
Finance income	773	19	100	892
Net earnings for the year	181	(46)	4	139
Investments	540	-	-	540
Total assets	10,925	1,095	2,362	14,382
Total liabilities	(9,419)	(1,164)	(2,273)	(12,856)

  

30 June 2009	New Zealand operations	Australian operations	Other operations	Consolidated
	\$m	\$m	\$m	\$m
Finance income	905	23	188	1,116
Net earnings for the year	63	(40)	3	26
Investments	540	-	-	540
Total assets	12,086	1,092	3,020	16,198
Total liabilities	(10,884)	(1,116)	(2,555)	(14,555)



## Contact Information

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### *Registered office*

The registered office of TCNZ Finance is:

Level 6  
Telecom House  
8 Hereford Street  
Auckland, 1142

### *Enquiries*

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

Computershare Investor Services  
Private Bag 92119  
Auckland, 1142  
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Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)  
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Enquiries about the operating and financial performance of TCNZ Finance or the Telecom Group can be emailed to [investor-info@telecom.co.nz](mailto:investor-info@telecom.co.nz) or addressed to:

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