

# TCNZ Finance Limited Half Year Report

for the six months ended  
31 December 2009



telecom<sup>nz</sup>



# Directors' Report

For the six months ended 31 December 2009

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 2009 of \$89 million compared to a net loss of \$136 million for the six months ended 31 December 2008. 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 \$225 million increase in net earnings. The net foreign exchange gain for the six months ended 31 December 2009 was \$2 million, compared to a net loss of \$212 million for the six months ended 31 December 2008.

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 2009 can be found at [www.annualreport.telecom.co.nz](http://www.annualreport.telecom.co.nz) or a copy can be requested from the registered office of TCNZ Finance.

On behalf of the Board



**Nick Olson**  
Director



**Anthony Parker**  
Director

25 February 2010

# Financial Statements

## Income Statement

For the six months ended 31 December 2009

	Notes	Six Months Ended 31 December		Year Ended 30 June
		2009 \$m (Unaudited)	2008 \$m (Unaudited)	2009 \$m (Audited)
Finance income	2	511	567	1,116
Finance expense	2	(388)	(495)	(894)
<b>Net finance income</b>		<b>123</b>	<b>72</b>	<b>222</b>
Other income	3	15	–	–
Other expenses	3	(12)	(212)	(164)
<b>Net earnings before income tax</b>		<b>126</b>	<b>(140)</b>	<b>58</b>
Income tax (expense)/credit		(37)	4	(32)
<b>Net earnings for the period</b>		<b>89</b>	<b>(136)</b>	<b>26</b>

## Statement of Comprehensive Income

For the six months ended 31 December 2009

	Six Months Ended 31 December		Year Ended 30 June
	2009 \$m (Unaudited)	2008 \$m (Unaudited)	2009 \$m (Audited)
Net earnings for the period	89	(136)	26
Other comprehensive income			
Translation of foreign branches	–	–	(2)
Cash flow hedges	7	(47)	(28)
Income tax relating to components of other comprehensive income	(2)	2	5
Other comprehensive income/(loss) for the period, net of tax	5	(45)	(25)
<b>Total comprehensive income/(loss) for the period</b>	<b>94</b>	<b>(181)</b>	<b>1</b>

*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 2009

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 2008	883	883	731	3	25	1,642
Net earnings for the period	-	-	(136)	-	-	(136)
<i>Amount recognised directly in equity: Translation of foreign branches</i>						
	-	-	-	-	(11)	(11)
Cash flow hedges	-	-	-	(34)	-	(34)
Total recognised income and expenses	-	-	(136)	(34)	(11)	(181)
<b>Balance as at 31 December 2008</b>	<b>883</b>	<b>883</b>	<b>595</b>	<b>(31)</b>	<b>14</b>	<b>1,461</b>

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
<i>Amount recognised directly in equity: Translation of foreign branches</i>						
	-	-	-	-	-	-
Cash flow hedges	-	-	-	5	-	5
Total recognised income and expenses	-	-	89	5	-	94
<b>Balance as at 31 December 2009</b>	<b>883</b>	<b>883</b>	<b>846</b>	<b>(12)</b>	<b>20</b>	<b>1,737</b>

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

# Balance Sheet

As at 31 December 2009

	31 December 2009 \$m (Unaudited)	31 December 2008 \$m (Unaudited)	30 June 2009 \$m (Audited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash	68	140	83
Accounts receivable	1	2	1
Income tax receivable	–	–	17
Due from other Telecom group companies	2,663	4,606	3,869
Short-term derivative assets	21	49	32
<b>Total current assets</b>	<b>2,753</b>	<b>4,797</b>	<b>4,002</b>
<b>Non-current assets:</b>			
Deferred tax asset	–	17	–
Due from other Telecom group companies	11,317	10,254	11,559
Long-term derivative assets	103	194	97
Investments	540	540	540
<b>Total non-current assets</b>	<b>11,960</b>	<b>11,005</b>	<b>12,196</b>
<b>Total assets</b>	<b>14,713</b>	<b>15,802</b>	<b>16,198</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Income tax payable	10	1	–
Due to other Telecom group companies	9,964	10,945	11,447
Short-term derivative liabilities	33	53	44
Debt due within one year	361	553	390
Accrued interest	37	37	36
<b>Total current liabilities</b>	<b>10,405</b>	<b>11,589</b>	<b>11,917</b>
<b>Non-current liabilities:</b>			
Long-term derivative liabilities	431	332	343
Long-term debt	2,130	2,420	2,288
Deferred tax liability	10	–	7
<b>Total non-current liabilities</b>	<b>2,571</b>	<b>2,752</b>	<b>2,638</b>
<b>Total liabilities</b>	<b>12,976</b>	<b>14,341</b>	<b>14,555</b>
<b>Equity:</b>			
Share capital	883	883	883
Reserves	8	(17)	3
Retained earnings	846	595	757
<b>Total equity</b>	<b>1,737</b>	<b>1,461</b>	<b>1,643</b>
<b>Total liabilities and equity</b>	<b>14,713</b>	<b>15,802</b>	<b>16,198</b>

On behalf of the Board



**Nick Olson**  
Director



**Anthony Parker**  
Director

Authorised for Issue on 25 February 2010

*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 2009

	Six Months Ended 31 December		Year Ended 30 June
	2009 \$m (Unaudited)	2008 \$m (Unaudited)	2009 \$m (Audited)
<b>Cash flows from operating activities</b>			
Interest income	511	611	1,116
Interest paid on debt	(383)	(494)	(887)
Net cash flows from operating activities	128	117	229
<b>Cash flows from investing activities</b>			
Net advances (from)/ to other Telecom group companies	(88)	318	325
Cash flow on foreign exchange contracts	(11)	(94)	(87)
Net cash flow applied to investing activities	(99)	224	238
<b>Cash flows from financing activities</b>			
Proceeds from long-term debt	–	400	400
Repayment of long-term debt	–	(719)	(771)
Proceeds from/(repayment of) short-term debt, net	(40)	93	(39)
Net cash flow applied to financing activities	(40)	(226)	(410)
Net cash flow	(11)	115	57
Net cash at beginning of period	83	25	25
Foreign exchange movement	(4)	–	1
<b>Net cash position at end of period</b>	<b>68</b>	<b>140</b>	<b>83</b>

*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 2009

## 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').

These condensed financial statements of TCNZ Finance should be read in conjunction with the financial statements and related notes included in TCNZ Finance's Annual Report for the year ended 30 June 2009. The financial statements for the six months ended 31 December 2009 and 31 December 2008 are unaudited. The financial information for the year ended 30 June 2009 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 2009. Since the completion of the Annual Report, TCNZ Finance has adopted NZ IAS 1 with effect from 1 July 2009. The revised Standard has introduced a number of terminology changes (including revised titles for these financial statements) and has resulted in a number of changes in presentation and disclosure. The revised Standard has had no impact on the reported results or financial position of TCNZ Finance.

Apart from the adoption of the revised NZ IAS 1 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 2009

## 2 Finance Income and Expense

	Six Months Ended 31 December		Year Ended 30 June
	2009 \$m (Unaudited)	2008 \$m (Unaudited)	2009 \$m (Audited)
<b>Finance income:</b>			
Interest income on loans to other Telecom group companies	509	545	1,091
Interest income from deposits	1	10	12
Other interest income	1	12	13
<b>Total finance income</b>	<b>511</b>	<b>567</b>	<b>1,116</b>
<b>Finance expense:</b>			
Finance expense on long-term debt:			
– Euro Medium Term Notes	77	108	187
– TeleBonds	22	22	44
Revaluation of interest rate derivative	2	(8)	(5)
Interest expense on loans from other Telecom group companies	276	357	639
Other interest and finance expense	11	16	29
<b>Total finance expense</b>	<b>388</b>	<b>495</b>	<b>894</b>

## 3 Other Income and Expenses

	Six Months Ended 31 December		Year Ended 30 June
	2009 \$m (Unaudited)	2008 \$m (Unaudited)	2009 \$m (Audited)
<b>Other income:</b>			
Net realised foreign exchange gains	13	–	–
Revaluation of derivatives	2	–	–
<b>Total other income</b>	<b>15</b>	<b>–</b>	<b>–</b>
<b>Other expenses:</b>			
Net unrealised foreign exchange losses	11	111	30
Net realised foreign exchange losses	–	101	96
Revaluation of derivatives	–	–	35
Other operating expenses	1	–	3
<b>Total other expenses</b>	<b>12</b>	<b>212</b>	<b>164</b>

Administration costs, including audit fees for the period of \$14,625 (31 December 2008: \$16,250, 30 June 2009: \$29,250) 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 2009

## 4 Segmental Reporting

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

### Geographical segments

31 December 2009

Unaudited	New Zealand operations \$m	Australian operations \$m	Other operations \$m	Consolidated \$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)

31 December 2008

Unaudited	New Zealand operations \$m	Australian operations \$m	Other operations \$m	Consolidated \$m
Finance income	441	13	113	567
Net earnings for the period	(133)	(5)	2	(136)
Total assets	12,068	1,123	2,611	15,802
Total liabilities	(10,732)	(1,118)	(2,491)	(14,341)

30 June 2009

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

## 5 Net Tangible Assets per Security

	31 December 2009 (Unaudited)	31 December 2008 (Unaudited)
Net tangible assets per security	\$1.97	\$1.65

# Contact Information

## Registered office

The registered office of TCNZ Finance is:

Level 6  
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8 Hereford Street  
Auckland, 1142

## Inquiries

TeleBond holders with inquiries about transactions, changes of address or interest payments should contact:

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Inquiries about the operating and financial performance of TCNZ Finance or the Telecom group can be emailed to <http://investor.telecom.co.nz> or addressed to:

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