



## ISSUE IN NEW ZEALAND

This Prospectus does not constitute an offer of TeleBonds in any jurisdiction other than New Zealand. No action has been or will be taken by the Issuer or TCNZ which would permit a public offering of the TeleBonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No Holder, or any other person, may purchase, offer, sell, distribute or deliver any TeleBonds, or have in its possession, or distribute to any person, any offering material or any documents in connection therewith, in any jurisdiction other than in compliance with all applicable laws and regulations.

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## **MAIN TERMS OF OFFER**

### ***Issuer***

TCNZ Finance Limited (*Issuer*).

### ***Guarantee***

TeleBonds are guaranteed by Telecom Corporation of New Zealand Limited (TCNZ) and the other Guarantors from time to time.

### ***Registered Office of the Issuer***

Level 8, North Tower  
Telecom House  
68-86 Jervois Quay  
Wellington

### ***Date of Prospectus***

The date of this Prospectus is 25 June 2008.

### ***The Issue***

Under this Prospectus and the Investment Statement, the Issuer reserves the right to offer for subscription by the New Zealand public and other investors unsecured, unsubordinated bonds (*TeleBonds*), each of a Principal Amount of \$1 and with an aggregate Principal Amount of up to \$100 million in aggregate over three Maturity Dates (15 June 2011, 15 June 2013 and 15 June 2015). The oversubscription amount for TeleBonds is an aggregate Principal Amount of up to a further \$200 million, which may be all in respect of TeleBonds of any Maturity Date, or split between TeleBonds of any Maturity Date, provided that the maximum aggregate Principal Amount of TeleBonds offered and issued under this Prospectus may not exceed \$300 million. All TeleBonds are available for subscription by the public. No TeleBonds have been reserved. The initial Interest Rates for TeleBonds are set out on the Rate Chart accompanying the Investment Statement. The Rate Chart may be updated or replaced from time to time at the Issuer's discretion. Allotment of TeleBonds under this Prospectus will close on 15 December 2008 unless the maximum amount is earlier subscribed.

### ***The Issuer***

TCNZ Finance Limited is the issuer of the TeleBonds offered under this Prospectus and the Investment Statement. The Issuer is a wholly-owned subsidiary of TCNZ. The Issuer is the principal financing company for the Telecom group of companies (*Telecom*). Further information about the Issuer, TCNZ and Telecom is included elsewhere in this Prospectus. Terms used in this Prospectus are defined in the relevant section or on pages 23 to 26.

### ***Guarantors***

TeleBonds offered under this Prospectus and the Investment Statement are issued under, and have the benefit of, the provisions of the Trust Deed described on pages 16 to 21. Under the Trust Deed, TCNZ and the other Guarantors jointly and severally guarantee, on an unsecured and unsubordinated basis, the payment by the Issuer of all of the amounts payable on the TeleBonds. The guarantee is described in more detail under "Guarantors" on pages 9 to 12.

### ***Applications***

Applications for TeleBonds may only be made on the application form contained in the Investment Statement and shall be made in accordance with the instructions set out in this Prospectus and in the Investment Statement. The Issuer reserves the right to refuse any application or to accept an application in part only, without

assigning a reason. This right shall, if necessary, be exercised by the Directors of the Issuer, or by any agent of the Issuer appointed for that purpose.

If the Issuer refuses an application or accepts an application in part, all or the relevant balance of the application monies will be refunded as soon as practicable. No interest will be paid on application monies in respect of any period prior to the date on which the application monies are deposited in an account of the Issuer or refunded.

**Registered bonds**

TeleBonds will be registered bonds and not bearer bonds. This means that title to a TeleBond will be determined solely by who is entered on the Register in relation to that TeleBond. The Issuer will rely on the Register for the purpose of determining entitlements to interest payments on each Interest Payment Date, and for repayment on the Maturity Date.

**Key dates**

The key dates relevant to this offer are:

- |                         |   |
|-------------------------|---|
| Opening Date:           | 26 June 2008  |
| Issue Date:             | For each TeleBond that the Issuer has agreed to issue, the date on which the Issue Price payable by the applicant for that TeleBond has been lodged to the Issuer's bank account.   |
| Interest Payment Dates: | For each TeleBond, each 15 June and 15 December which occurs after the Issue Date for that TeleBond and prior to or on the Maturity Date for that TeleBond, unless that day is not a Business Day, in which case the Interest Payment Date will be the next succeeding Business Day |
| Maturity Dates:         | 15 June 2011, 15 June 2013, and 15 June 2015  |
| Closing Date:           | 15 December 2008 or such earlier date that the Issuer may determine   |

**Type of instrument**

The TeleBonds offered under this Prospectus and the Investment Statement, constitute direct, unsecured and unsubordinated debt obligations of the Issuer. TeleBonds are investments with a fixed return for a fixed period. They are "debt securities" for the purposes of the Securities Act, and are not secured by any mortgage or other charge over the assets of the Issuer or any of the Guarantors.

TeleBonds are "Stock" issued under the Trust Deed. TeleBonds have the benefit of, and are subject to, the provisions of the Trust Deed, the principal terms of which are described on pages 16 to 21. The TeleBonds will rank equally with any other Stock issued under the Trust Deed from time to time and with all other unsecured, unsubordinated debt of the Issuer, except indebtedness preferred by

law. As at 31 March 2008, the Issuer had Stock outstanding of an aggregate principal amount of \$632 million. Details of the Issuer's outstanding debt obligations as at 31 March 2008 are set out in its most recent unaudited financial statements contained in this Prospectus.

### **Purchase Price**

The purchase price for the TeleBonds will be an amount equal to the Issue Price of the TeleBonds. The Issue Price for the TeleBonds will be par (i.e. 100% of the Principal Amount of the TeleBonds applied for and allotted). The purchase price for each TeleBond shall be paid in full by the applicant's payment of the Issue Price for that TeleBond in the manner set out in the application form contained in the Investment Statement. If payment in full does not accompany the Application Form, the application may be rejected.

### **Minimum application for TeleBonds**

TeleBonds offered under this Prospectus and the Investment Statement will be issued in a minimum Principal Amount of \$2,000 and higher multiples of \$500 in respect of TeleBonds of each relevant Maturity Date.

### **Interest Rate**

TeleBonds offered under this Prospectus and the Investment Statement pay interest at the Interest Rate applicable on the date the application for that TeleBond is received by the Registrar. The initial Interest Rate for TeleBonds of each Maturity Date will be set by the Issuer on the business day prior to the Opening Date, or such earlier date as may be selected by the Issuer. As such, the initial Interest Rate for TeleBonds of each Maturity Date was not known at the date of this Prospectus. The initial Interest Rate for TeleBonds of each Maturity Date will be announced by the Issuer to NZX on or before the Business Day prior to the Opening Date.

The Interest Rate applicable to each TeleBond will not change after that TeleBond has been issued. However, the Issuer may, at any time, without prior notice, change the Interest Rate it offers in respect of TeleBonds of each Maturity Date that are issued after that time. The Interest Rates applicable to TeleBonds may therefore differ depending on the Maturity Date and on when the various applications for TeleBonds are received by the Registrar. Applicants can obtain details of the Interest Rates applicable from time to time and the current Rate Card by contacting the Organising Participant or their investment adviser. The Organising Participant can be contacted on freephone 0800 162 222.

Applicants whose application monies for TeleBonds at a specified Interest Rate are lodged after the date of a decrease of that Interest Rate will be promptly advised by the Issuer. Unless the Registrar receives written acceptance of the lower Interest Rate within 14 days of such advice, the application monies will be refunded in full, without any interest being paid to the applicant. Where the Interest Rate has been increased before the application monies are lodged, the investment will be accepted at the new Interest Rate. Once an application is received for TeleBonds and monies lodged to the account of the Issuer and a Certificate has been issued, the Interest Rate is fixed and will not be changed during the term of the relevant TeleBond.

### **Interest Payment Dates**

The Issuer will pay interest on TeleBonds on 15 December and 15 June in each year from the Issue Date to the Maturity Date for each TeleBond, unless such day is not a Business Day, in which case interest will be paid on the next succeeding Business Day.

The first interest payment for each TeleBond will be paid to the original subscriber of that Telebond irrespective of any subsequent transfer before the first Interest Payment Date (interest to original subscriber "ITOS"). After the first Interest

Payment Date, interest will be payable on each Interest Payment Date to the Holder as at the Record Date immediately preceding the relevant Interest Payment Date.

#### **Calculation of interest**

Interest shall be calculated on the Principal Amount of each TeleBond for the relevant period and shall be payable in arrears in semi-annual instalments on each Interest Payment Date (as described above). The first interest period for each TeleBond will commence on (and include) the Issue Date for that TeleBond. Interest paid for a broken period at the commencement of an investment will be calculated on a 365 day year basis.

#### **Maturity**

Under this Prospectus and the Investment Statement the Issuer is offering TeleBonds with Maturity Dates of 15 June 2011, 15 June 2013 and 15 June 2015. Investors can nominate, at the time of application, whether they wish to subscribe for TeleBonds having one or more of those Maturity Dates, provided they apply for at least the applicable minimum amount of TeleBonds of each relevant Maturity Date. The Issuer may, in its discretion, refuse an application in whole or in part but may not transfer applications for TeleBonds of a particular Maturity Date to TeleBonds of any other Maturity Date. TeleBonds offered under this Prospectus and the Investment Statement will mature on the applicable Maturity Date. Where the Maturity Date is not a Business Day, the repayment amount shall be paid on the next succeeding Business Day, and no additional interest for the intervening day(s) shall be payable.

#### **Further issues of TeleBonds and other debt securities**

Under the Trust Deed, the Issuer has the power to create and issue additional debt obligations ranking equally with the TeleBonds offered under this Prospectus and the Investment Statement without the consent of the Holders. Such further debt obligations may be issued on such terms as the Issuer thinks fit (provided that they are not inconsistent with the terms of the Trust Deed). The TeleBonds offered under this Prospectus and the Investment Statement will constitute direct, unsecured and unsubordinated obligations of the Issuer and rank equally with each other. TeleBonds offered under this Prospectus and the Investment Statement also rank equally with all other unsecured indebtedness of the Issuer, except indebtedness preferred by law.

#### **Oversubscriptions**

TeleBonds offered under this Prospectus and the Investment Statement are capable of being oversubscribed up to the maximum amount described on page 21.

#### **General Information Regarding Interest**

Holder will be notified, in writing by the Registrar, of each interest payment in respect of the TeleBonds. In addition, a statement will be sent annually by the Registrar to Holders detailing total interest paid, and withholding tax deducted for each income tax year to 31 March during the term of the TeleBonds. Interest will be calculated on a 365 day year basis but paid in arrears in semi-annual instalments, except for the broken period until the first Interest Payment Date. Where an interest payment date is not a Business Day, interest shall be paid on the next succeeding Business Day, and no additional interest for the intervening day(s) shall be payable.

#### **Minimum Principal Amount**

TeleBonds will be issued for a minimum Principal Amount of \$2,000 and in \$500 increments in respect of TeleBonds of each Maturity Date. The Issuer reserves the right to refuse any application or to accept an application in part only, without

assigning a reason. This right shall, if necessary, be exercised by the Directors of the Issuer, or by any agent of the Issuer appointed for that purpose.

### ***New Zealand Taxation***

The Issuer assumes no responsibility or liability to any Holders for the tax treatment of their investment in TeleBonds. The following information is designed to be a general summary of the current New Zealand tax implications of holding TeleBonds and is not (and should not be construed as) legal or tax advice or a complete summary of all of the New Zealand tax consequences relevant to Holders. Holders should consult their own taxation advisor regarding the effect of any relevant tax legislation on their investment in TeleBonds (including the relevant tax consequences relating to the acquisition, retention, disposition and maturity of the TeleBonds). Any reference to "interest" in this section of the Prospectus shall be taken as a reference to interest as defined in New Zealand's Income Tax Act 2007.

Interest paid or credited to Holders who are neither resident in New Zealand for New Zealand tax purposes, nor engaged in business in New Zealand through a fixed establishment in New Zealand (a *Non-Resident Holder*), is subject to New Zealand non-resident withholding tax (*NRWT*). NRWT is normally deducted at a rate of 15% of the amount of interest paid or credited (although this rate may be reduced to 10% for residents of certain countries under the applicable double tax agreement with New Zealand.).

The Issuer has obtained "approved issuer" status and has registered the TeleBonds offered under this Prospectus and the Investment Statement as "registered securities" for the purposes of the approved issuer levy provisions in Part VIB of the Stamp and Cheque Duties Act 1971. The Issuer intends to maintain the registration of both itself and the TeleBonds under the approved issuer levy regime. If it does so, and a Non-Resident Holder is neither:

- deriving interest under the TeleBonds jointly with a New Zealand tax resident; nor
- associated with the Issuer for purposes of the NRWT rules in the Income Tax Act 2007,

the Issuer will deduct from the gross amount of interest paid or credited to the Non-Resident Holder an amount equal to the approved issuer levy payable in respect of that interest (which is currently calculated as 2% of the interest due on the TeleBonds) instead of deducting NRWT (which in these circumstances is reduced to 0%). For clarity, the amount of the interest paid or credited will be reduced by the amount of the Approved Issuer Levy paid or payable by the Issuer.

If the Non-Resident Holder derives interest under the TeleBonds jointly with one or more persons, and at least one of those persons is a New Zealand tax resident, NRWT must be deducted from the interest paid or credited to the Non-Resident Holder at the applicable rate of resident withholding tax (see below), subject to any applicable double tax agreement.

Resident withholding tax (*RWT*) is required to be deducted from interest paid or credited to New Zealand residents or any other persons the payment of interest to whom will be subject to RWT (each a *New Zealand Holder*). RWT will be deducted by the Issuer from each amount of interest paid or credited to a New Zealand Holder.

RWT will not be deducted for New Zealand Holders where the New Zealand Holder holds and produces to the Issuer (or the Registrar) a copy of a valid RWT exemption certificate. The Issuer will make RWT deductions (as described below) unless it is satisfied by the New Zealand Holder that such deductions are not required by law.

As at the date of this Prospectus, the applicable rate of RWT will typically be 19.5% where the New Zealand Holder supplies its IRD number to the Issuer, unless the New Zealand Holder elects for RWT to be deducted at a rate of 33% or 39%. It should be noted that the 19.5% rate is only available to corporate New Zealand Holders in certain very limited and specific circumstances. Where no IRD number is supplied to the Issuer, RWT will be deducted at a rate of 39% from all interest paid or credited to a New Zealand Holder.

From 1 April 2008 (for companies with a standard tax balance date of 31 March) the company tax rate reduced to 30%. However, as at the date of this Investment Statement, the RWT rate applicable to interest payments to companies continues to be 33%.

The Issuer requests Holders to provide their IRD numbers when completing an application form for, or security transfer form in respect of, TeleBonds.

The Issuer is under no obligation to and will not gross-up, indemnify or otherwise compensate Holders for any deductions or withholdings on account of RWT or NRWT or any Approved Issuer Levy paid or payable in respect of TeleBonds.

For the purpose of determining the Issuer's liability (if any) to make deductions or withholdings on account of taxes or any Approved Issuer Levy in respect of TeleBonds, the Issuer will assume that the Holder is a New Zealand Holder (or if there is more than one such Holder, the Issuer shall assume that all such Holders are New Zealand Holders), and that the Holder (or Holders as the case may be) hold all of the legal and beneficial ownership interests in the TeleBond, unless the Holder can satisfy the Issuer otherwise.

New Zealand Holders (other than tax exempt entities) will be subject to New Zealand tax on their interest income from the TeleBonds, with a credit against this tax for any RWT withheld by the Issuer. Accordingly, New Zealand Holders who elect a RWT rate which is lower than their marginal tax rate will usually have to account for the difference at the end of their income year.

A New Zealand Holder must return its interest income from the TeleBonds on an accrual basis under the financial arrangement rules in the Income Tax Act 2007, unless the New Zealand Holder is a "cash basis person". A "cash basis person" is a natural person (or the trustee of a deceased estate) whose aggregate holdings of financial instruments are within certain de minimis thresholds.

The above statements are based on applicable taxation legislation current at the date of this Prospectus.

### ***Trust Deed***

TeleBonds are unsecured obligations of the Issuer and each Guarantor, and are issued under the Trust Deed described on pages 16 to 21.

### ***Listing***

Application has been made to NZX for permission to list the TeleBonds and all the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus.

TeleBonds can be traded through any NZX Delivery and Settlement Participant. Enquiries about selling prices for TeleBonds should be directed to any NZX Delivery and Settlement Participant. Holders should note that when a sale is negotiated the price may be greater than, equal to, or less than the original Issue Price for those TeleBonds. Investors should note that bids and offers for TeleBonds may or may not be available at any particular time.

### ***Sale and Transfer of TeleBonds***

Transfers of TeleBonds must be for a minimum amount of \$2,000 and thereafter in multiples of \$500.

Transfers may be effected by completing a security transfer form for that purpose (which is available from NZX Delivery and Settlement Participants, the Registrar and other nominated TeleBond agents), or in accordance with the provisions of the Securities Transfer Act 1991.

TeleBonds may be transferred electronically using the FASTER system operated by NZX to which all NZX Delivery and Settlement Participants are connected. FASTER allows for the electronic transfer of legal title in securities from a seller to a buyer.

As soon as TeleBonds are issued, new Holders will be advised by mail of their FIN (FASTER Identification Number). Separately, the Registrar will send a FASTER statement to each Holder. Further statements can be requested at any time.

Holders of TeleBonds will be required to quote their FIN in all dealings with a broker or the Registrar, as well as their CSN (Common Shareholder Number) which they will have if they have an existing relationship with a broker.

The Registrar will refuse registration of any transfer if that transfer would result in the transferor holding or continuing to hold TeleBonds with an aggregate Principal Amount of less than \$2,000 for TeleBonds of the relevant Maturity Date, except that such transfer will be registered if it would result in the transferor holding no TeleBonds of that Maturity Date or if the transferor is a registered bank or a Market Participant.

The Issuer has received a waiver from NZX under the NZX Listing Rules permitting the restrictions on the transfer and allotment of TeleBonds.

### **INCORPORATION DETAILS AND PLACES OF INSPECTION OF DOCUMENTS**

The Issuer was incorporated as a private limited liability company under the Companies Act 1955 on 19 July 1991, under the name of Randori Holdings Limited. The Issuer changed its name to TCNZ Finance Limited on 18 September 1991 and reregistered under the Companies Act 1993 on 31 January 1997. The Issuer's registration number is 517151. The Issuer's public file may be viewed on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz). Copies of the documents can also be obtained (on payment of the relevant fee) by contacting the Companies Office's Contact Centre on 0508 266 726, or at the Registered Office of the Issuer during normal business hours.

### ***Shareholder of the Issuer***

As at the date of this Prospectus, the share capital of the Issuer is \$882,872,600 which is divided into 342,872,600 ordinary shares and 540,000,000 redeemable shares which are redeemable at the option of the Issuer. All of the shares in the Issuer are held by TCNZ.

### **RESTRICTIONS ON DIRECTORS' POWERS**

The Companies Act 1993 provides that, subject to any modifications, exceptions, or limitations contained in that Act or in a company's constitution, the business and affairs of a company must be managed by, or under the direction or supervision of, the board of the company and the board of a company has all the powers necessary for managing, and for directing and supervising the management of, the business and affairs of the company. The modifications, exceptions and limitations on the powers of the Directors, as at the date of this Prospectus, are:

- (a) those contained in, or permitted by, the Companies Act 1993;
- (b) those which relate to matters that are reserved for decision by the shareholders of the Issuer, or, at the direction of the shareholders of the Issuer, the Directors (except where compliance would be inconsistent with directors' duties under the Companies Act 1993);
- (c) those contained in the constitution of the Issuer that are subject to the prior consent of a simple majority of shareholders having voting rights, in particular the power to:
  - (i) issue shares and certain other securities;
  - (ii) authorise distributions, calls on shares and the acquisition of shares issued by the Issuer; and
  - (iii) authorise any remuneration or other benefit (other than reasonable expenses) by the Issuer to a Director.

## **DESCRIPTION OF THE ISSUER'S ACTIVITIES**

The Issuer is a wholly-owned subsidiary of TCNZ. The Issuer carries on business as the principal financing company for Telecom. Since December 1993, the Issuer's principal activities have been (and continue to be) to borrow funds from the public and other investors (both in New Zealand and overseas) and to on-lend those funds to other members of Telecom in order to fund their operations (including indirectly, through repayment of other external debt of the Issuer). The Issuer solely lends to other members of Telecom, accordingly, its financial performance should be considered in conjunction with the financial performance of Telecom. The Issuer also undertakes money market, foreign exchange and interest rate risk management activities in connection with Telecom's financing needs.

The Issuer has issued certain other bonds pursuant to the Trust Deed. As at 31 March 2008, the Issuer had \$632 million of Stock outstanding (with varying maturities). TeleBonds will constitute "Stock" issued under the Trust Deed. The TeleBonds offered under this Prospectus and the Investment Statement have the benefit of, and are subject to, the provisions of the Trust Deed and will rank equally with all other Stock outstanding from time to time. The Issuer has also issued certain other notes and bonds under various fund raising programmes. The Issuer also operates through branches in Australia (established in July 2001) and Bermuda (established in October 2004). The financial statements of the Issuer include the activities of these overseas branches.

A fuller description of the activities of TCNZ and Telecom is set out on pages 35 to 42.

As noted below, the Issuer has no subsidiaries. Accordingly, the Issuer itself forms the "group" and "borrowing group" for the purposes of the Securities Regulations 1983.

## **GUARANTORS**

TeleBonds are guaranteed by TCNZ and the Guaranteeing Subsidiaries, in accordance with the Trust Deed. TCNZ and the Guaranteeing Subsidiaries (other than the Issuer) are referred to as the "Guarantors". The Guarantors guarantee the payment by the Issuer of all amounts payable on the applicable maturity of the TeleBonds and the payment of interest during the term of the TeleBonds.

As at the date of this Prospectus, the Issuer has no subsidiaries. Accordingly, the Issuer has no "guaranteeing subsidiary" as that term is defined in the Securities Regulations 1983. However, the Issuer is a "Guaranteeing Subsidiary" under the Trust Deed.

The names of the Guarantors, as at the date of this Prospectus, are listed on page 11. The Guarantors each jointly and severally unconditionally guarantee on an unsecured and unsubordinated basis to the Trustee, on behalf of the Holders, the due and punctual payment of all amounts payable on the TeleBonds (as described on page 2) in accordance with the terms and conditions of the TeleBonds and under the Trust Deed, except that the guarantee given by Telecom Europe 3G APS does not extend to the obligations of Telecom Pacific Limited.

The activities of the Guarantors are described on page 12.

The amount of the net tangible assets of each of the Guarantors, as at 30 June 2007 and 31 March 2008 is set out below. In respect of TCNZ, TCNZ Australia Investments Limited, TCNZ (UK) Investments Limited, TCNZ (United Kingdom) Securities Limited, Telecom Europe 3G APS and the Issuer, the amount shown below as at 30 June 2007 was shown in their most recent audited balance sheet. In respect of each other Guarantor, the amount shown below as at 30 June 2007 was shown in that Guarantor's balance sheet (extracted from Telecom's most recent audited consolidated balance sheet). The amounts shown below as at 31 March 2008 for each Guarantor was shown in that Guarantor's unaudited balance sheet as at 31 March 2008.

The amount of the net tangible assets of each Guarantor includes investments and inter-company balances (if any) between that company, the other Guarantors and the Issuer. The table below shows the result of eliminating all the investments and inter-company balances between the Guarantors and the Issuer, and the resulting figure represents the aggregate net tangible assets of the Guarantors and the Issuer (taken as a whole).

## NET TANGIBLE ASSETS OF GUARANTORS

	NZ IFRS 30 June 2007 NZ\$000	NZ IFRS 31 March 2008 NZ\$000
Telecom Corporation of New Zealand Limited*	2,933,000	1,798,009
Telecom Investments Limited	1,307,568	1,307,022
Telecom New Zealand Limited	2,036,196	1,822,200
Telecom Pacific Limited	(833,927)	(832,897)
TCNZ Australia Investments Limited**	(2,258,698)	(2,373,691)
AAPT Limited**	(541,640)	(648,579)
TCNZ (UK) Investments Limited	678,420	699,309
TCNZ (United Kingdom) Securities Limited	173,987	173,901
Telecom Mobile Limited	926,227	1,107,749
Telecom Directories Holdings Limited	7,531	(1,205)
XTRA Limited	545,684	596,686
Telecom IP Limited	(1,938,016)	(1,898,209)
Telecom Leasing Limited	74,303	519,221
Telecom Europe 3G APS**	387,843	463,176
NTA of the Issuer	909,000	1,122,000
Elimination of balances between each of the Guarantors and the Guarantors and the Issuer	(1,523,350)	(1,536,632)
Total Net Tangible Assets of Guarantors and the Issuer	2,884,128	2,318,060

\* These figures include assets of \$550,000,000 which represent TCNZ's investment in the Issuer as at 30 June 2007. Such assets have been eliminated in the "elimination of balances" line above.

\*\* The net tangible assets of TCNZ Australia Investments Limited and AAPT Limited have been converted from Australian dollars to New Zealand dollars at a rate of 0.8640 for 31 March 2008 and 0.9077 for 30 June 2007. The net tangible assets of Telecom Europe 3G APS have been converted from Danish Krone to New Zealand dollars at a rate of 3.7538 for 31 March 2008 and 4.2562 for 30 June 2007.

None of the shareholders of TCNZ guarantee the repayment of TeleBonds or the payment of interest thereon.

TCNZ paid a total of \$1,113 million to shareholders in respect of 228 million cancelled shares under a capital reduction in October 2007. This reduced TCNZ's net tangible assets and the total net tangible assets of the guarantors by \$1,113 million at the time of the transaction.

The Securities Act (TCNZ Finance Limited) Exemption Notice 2006 provides an exemption from section 54B(1) of the Securities Act insofar as that section requires the Issuer to provide, upon request, the financial statements and associated documents of the Guarantors described in regulation 23A(d) of the Securities Regulations 1983. The exemption is similar in its purpose and effect to the Trustee waiver referred to on page 20. The conditions of the exemption generally reflect the conditions specified in the Trustee's waiver described on page 20.

### Activities of the Guarantors

A description of the activities of the Guarantors, other than the Issuer and TCNZ, is as follows:

<b>Company Name</b>	<b>Percentage of Shareholding held directly or indirectly by TCNZ</b>	<b>Description of Activities</b>
Telecom Investments Limited	100%	A group finance company
Telecom New Zealand Limited	100%	Provides local, national and international and value-added telephone services, data and internet services
Telecom Pacific Limited	100%	A holding company
TCNZ Australia Investments Pty Limited	100%	A holding company
TCNZ (UK) Investments Limited	100%	A group finance company
TCNZ (United Kingdom) Securities Limited	100%	A group finance company
Telecom Mobile Limited	100%	Provider of wireless voice and data services
Telecom Directories Holdings Limited	100%	A holding company
Xtra Limited	100%	An internet service provider
AAPT Limited	100%	Main business provider for TCNZ in Australia
Telecom IP Limited	100%	Holds group intellectual property
Telecom Leasing Limited	100%	A group leasing company
Telecom Europe 3G APS	100%	A group finance company

## **DIRECTORATE AND ADVISORS**

*(as at the date of this Prospectus)*

### **Board of Directors of TCNZ Finance Limited (the Issuer)**

Dr Paul J Reynolds  
PhD, BA (First Class Hons)  
Auckland

Mr Anthony G Parker  
BCA, ACA  
Wellington

Mr Nicholas J Olson  
BE (Hons)  
Wellington

Mr Mark J Verbiest  
LLB  
Wellington

Mr John R Houlden  
BSc (Hons), FCMA, FCT  
Auckland

### **Company Secretary of TCNZ Finance Limited**

Mr Craig Mulholland

### **Address and correspondence**

The address to which correspondence, relating to TeleBonds offered under this Prospectus, may be sent to the Directors of the Issuer is:

TCNZ Finance Limited  
Level 8, North Tower  
Telecom House  
68-86 Jervois Quay  
P O Box 570  
Wellington

### **Board of Directors of Telecom Corporation of New Zealand Limited (Promoters)**

Wayne Boyd  
LLB (Hons)  
Auckland

Ronald J Spithill  
BSc Technology, Graduate Harvard Executive Programme  
Sydney, Australia

Paul J Reynolds  
PhD, BA (First Class Hons)  
Auckland

Murray J Horn  
PhD (Harvard), MCom (First Class Hons), BCom  
New Plymouth

Patricia L Reddy  
LLM (Hons), F Inst. D  
Wellington

Michael Tyler  
MA  
London, United Kingdom

Roderick McGeoch  
AM, LLB  
Woollahra, Australia

**Telecom Corporation of New Zealand Limited (Guarantor and Promoter)**

Level 8, North Tower,  
Telecom House  
68-86 Jervois Quay  
P O Box 570  
Wellington

**Registrar**

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road  
Takapuna  
North Shore City 0622  
Auckland

Postal Address:  
Private Bag 92119  
Victoria Street West  
Auckland 1142

Telephone: 09 488 8777  
Freephone: 0800 653 080

**Trustee for Bondholders**

The New Zealand Guardian Trust Company Limited  
Level 3  
Guardian Trust House  
15 Willeston Street  
PO Box 913  
Wellington

**Organising Participant – First NZ Capital Securities Limited –  
Freephone 0800 162 222**

Level 10, Fujitsu Tower  
282-292 Lambton Quay  
P O Box 3394  
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Telephone: +64-4-474 4400  
Facsimile: +64-4-474 4460

Level 39, ANZ Centre  
23-29 Albert Street  
P O Box 5333  
Wellesley Street  
Auckland  
Telephone: +64-9-302 5500  
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164 Hardy Street  
P O Box 114  
Nelson  
Telephone: +64-3-548 8319  
Facsimile: +64-3-548 0593

52 Te Mata Road  
Havelock North  
Telephone: +64-6-877 9074  
Facsimile: +64-6-877 9079

**Auditors of the Issuer**

KPMG  
10 Customhouse Quay  
PO Box 5602  
Wellington

**Solicitors to the Issuer**

Chapman Tripp  
10 Customhouse Quay  
PO Box 993  
Wellington

**MATERIAL CONTRACTS OF THE ISSUER**

There are no material contracts (not being contracts entered into in the ordinary course of the Issuer's business) entered into by the Issuer in the two years preceding the date of this Prospectus.

**PENDING PROCEEDINGS**

As far as the Issuer is aware, no legal proceedings or arbitrations that may have a material adverse affect on the Issuer were pending as at the date of this Prospectus.

However, certain legal proceedings are pending against Telecom. It is not possible to assess the likely outcome of all of these proceedings at the present time.

For further information in relation to the proceedings in respect of TCNZ and other parties refer to the section "Contingent Liabilities – Lawsuits and Other Claims" on page 41.

**ISSUE EXPENSES**

Direct expenses, including brokerage and advertising to be incurred in this issue, are estimated at \$750,000 (assuming that TeleBonds with a Principal Amount of \$100 million are subscribed for under the Offer). In the event TeleBonds with a Principal Amount of \$300 million are subscribed for under the Offer, direct expenses, including brokerage and advertising, are estimated at \$2,000,000.

No brokerage, commission or other charge is payable by the Holders for the issue of TeleBonds. Brokerage is payable by the Issuer to the Organising Participant on the Principal Amount of TeleBonds allotted. The rate of brokerage payable will be 0.3% of the Principal Amount for TeleBonds with a Maturity Date of 15 June 2011, 0.5% of the Principal Amount for TeleBonds with a Maturity Date of 15 June 2013 and 0.7% of the Principal Amount for TeleBonds with a Maturity Date of 15 June 2015. The Organising Participant will pay brokerage at the same rate to Primary Market Participants and selected financial institutions in respect of TeleBonds issued under valid applications bearing the stamp of that firm.

## **RANKING OF SECURITIES**

As at 31 March 2008 no securities of the Issuer or any Guarantor were secured by a mortgage or charge over the assets of the Issuer or any Guarantor that would rank in point of security ahead of or equally with the TeleBonds offered under this Prospectus and the Investment Statement. In general, the Issuer and Telecom customarily borrow on an unsecured basis, and the Issuer and the Guarantors are subject to certain negative pledge restrictions (including the negative pledge described on page 18) which limit their ability to create mortgages or other charges. Other borrowings of the Issuer and Telecom generally rank equally with the TeleBonds offered under this Prospectus and the Investment Statement.

## **TRUST DEED**

### ***General***

In the following description of the Trust Deed, unless otherwise stated, words commencing with capital letters have the meanings defined in the Trust Deed. The following is a summary only of some of the principal provisions of the Trust Deed. Investors requiring further information should refer to the Trust Deed, which is available for inspection at the places referred to on page 8.

The trust deed is dated 25 October 1988 and was entered into between TCNZ and The New Zealand Guardian Trust Company Limited (*Trustee*) as trustee for the holders of Stock (that trust deed, as amended, supplemented and novated from time to time, including as supplemented by the Supplemental Deed (referred to below), is referred to as the "Trust Deed"). The Issuer became a party to the Trust Deed by entering into a Supplemental Deed with the Trustee, dated 30 September 1991. The Trust Deed provides for the issue of unsecured Stock by the Issuer or any other Guaranteeing Group Member. The TeleBonds offered under this Prospectus will be Stock constituted by the Trust Deed. The "Stock Moneys" includes the principal and interest payable on the TeleBonds offered under this Prospectus and the Investment Statement, and holders of Stock includes the Holders. Stock may be issued in other forms at the Issuer's, or TCNZ's, option. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Trust Deed.

### ***Guaranteeing Group***

The "Guaranteeing Group" consists of TCNZ and the Guaranteeing Subsidiaries from time to time. For the purposes of the Trust Deed the Issuer is a Guaranteeing Subsidiary. The Guaranteeing Subsidiaries, other than the Issuer, as at the date of this Prospectus are listed on page 11. TCNZ undertakes that any Subsidiary which is wholly owned by a member of the Guaranteeing Group will become a Guaranteeing Subsidiary, with the exception of:

- a Subsidiary whose profits (before tax and extraordinary items) are not greater than 20% of the consolidated profits (before tax and extraordinary items) of TCNZ and its Subsidiaries and whose Total Tangible Assets represent not greater than 20% of the Total Tangible Assets of TCNZ and its Subsidiaries; or

- a Subsidiary whose principal business is that of a bank, finance company, other financial intermediary, or insurance company, or (in the case of a Subsidiary incorporated outside New Zealand) the raising and/or investing of funds, or any subsidiary of any such company; or
- any Subsidiary in respect of which two Directors of TCNZ certify to the Trustee that there are sound commercial reasons for that Subsidiary not becoming a Guaranteeing Subsidiary and that this will not in their opinion have a materially adverse effect on holders of Stock generally in the reasonably foreseeable future.

TCNZ may at its option join any Subsidiary as a Guaranteeing Subsidiary, whether or not required to do so in accordance with the above.

The Trust Deed contains provisions for the release of a Guaranteeing Subsidiary from its guarantee and other covenants under the Trust Deed, upon certification by two Directors of TCNZ to the effect provided in the third bullet point above.

### ***Substituted Obligor***

Under the Trust Deed, the Trustee may agree to another person (*Substituted Obligor*) taking the Issuer's place under the Trust Deed in substitution for the Issuer (or a previously substituted obligor) in respect of some or all of the TeleBonds (*Relevant TeleBonds*). Such substitution may only occur if a number of requirements are met, as set out in the Trust Deed, including:

- a deed is executed or some other form of undertaking is given by the Substituted Obligor in favour of the Trustee agreeing to be bound by the terms of the Trust Deed and the Relevant TeleBonds;
- arrangements are made for the Holders of the Relevant TeleBonds to have or be able to have the same rights *mutatis mutandis* against the Substituted Obligor as they would have against the Issuer (or any previous substituted obligor);
- the Relevant TeleBonds continue to be unconditionally and irrevocably guaranteed by TCNZ and the other Guaranteeing Group Members and are also guaranteed on the same basis by the Issuer;
- the Issuer (or any previous substituted obligor) and the Substituted Obligor comply with such other reasonable requirements as the Trustee may direct in the interests of the Holders of the Relevant TeleBonds; and
- the Trustee being satisfied that the Substituted Obligor has all necessary governmental and regulatory approvals and consents necessary for its assumption of the obligations and liability as principal debtor under the Trust Deed in respect of the Relevant TeleBonds in place of the Issuer (or of any previous substituted obligor) and where applicable the Issuer, TCNZ and the other Guaranteeing Group Members have all necessary governmental and regulatory approvals and consents necessary for the effectiveness of the guarantees referred to above.

Such a substitution may take place without the consent of the Holders.

### ***Cross Guarantees***

Each Guaranteeing Group Member guarantees to the Trustee the payment of the Stock Moneys by each other Guaranteeing Group Member, including the Issuer. As noted on page 10, an exception to this is the guarantee given by Telecom Europe 3G APS, which does not extend to the obligations of Telecom Pacific Limited. The Issuer, TCNZ and each other Guaranteeing Group Member undertake to observe the negative pledge and certain other provisions of the Trust Deed.

### ***Negative Pledge***

The Issuer, TCNZ and each other Guaranteeing Group Member covenants with the Trustee that, while any Stock remains outstanding, it will not create or permit to exist any Charge over any of its assets, subject to the exceptions described below. "Charge" means any lien, pledge, charge, mortgage, hypothecation or other

encumbrance or security interest but does not include (i) leases, bailments or reservations of title, or (ii) the rights of resumption (in relation to Maori land claims) conferred by sections 27 to 27D of the State-Owned Enterprises Act 1986 or any memorial recording such rights.

The negative pledge covenant does not apply to Charges falling within the following exceptions:

**(a) Charges of Certain Types**

- (i) Charges arising by operation of law in the ordinary course of business, or securing taxes or other governmental levies, or contractors', suppliers', or vendors' liens, so long as, in each such case, the payment of the money secured thereby is not in default or the liability therefor is being contested by appropriate proceedings;
- (ii) Charges created over assets acquired, constructed or improved (or over the land upon which any such asset is situated), for the sole purpose of financing or refinancing the cost of such acquisition, construction or improvement;
- (iii) Charges which existed over the assets of any Guaranteeing Subsidiary, or which such Guaranteeing Subsidiary was contractually obliged to create or enter into, at the date it became a Guaranteeing Subsidiary and which were not created in anticipation of it becoming a Guaranteeing Subsidiary;
- (iv) Charges existing over any assets acquired by any Guaranteeing Group Member after the date upon which it became a Guaranteeing Group Member, which existed at the date of such acquisition and were not created in anticipation of such acquisition;
- (v) Charges created to supplement any Charge as referred to in paragraphs (ii), (iii), (iv) or (vii) pursuant to any obligation to so supplement such Charge;
- (vi) Charges created in substitution for any Charge permitted under paragraphs (i) to (ix);
- (vii) Charges over and limited to assets of a specific project to secure indebtedness incurred in respect of that project, or Charges over and limited to specific monetary assets to secure new indebtedness incurred to acquire such monetary assets, provided that, in either case, the giving of any such Charge is consistent with the then current ordinary banking or business principles or practices in the relevant market and/or jurisdiction in relation to indebtedness of that nature;
- (viii) Charges in favour of the Trustee in respect of the Stock Moneys, or in favour of any other persons where the benefit of such Charge is extended equally and rateably to the Trustee in respect of the Stock Moneys;
- (ix) Charges created with the prior written consent of the Trustee after (if the Trustee so requires) approval by Extraordinary Resolution of the holders of Stock.

**(b) Other Charges**

In addition, other Charges of any nature may be created or permitted to exist over any of the Guaranteeing Group's assets to secure any indebtedness provided that the aggregate principal amount of the indebtedness secured by all such Charges (excluding any Charge referred to in paragraphs (a) (i), (iii) or (iv) above and/or attaching only to assets which are not included in the Total Tangible Assets of the Group) does not exceed 5% of the Total Tangible Assets of the Group. For this purpose, the Group is comprised of TCNZ and all of its Subsidiaries.

### **Ranking**

The Trust Deed does not create any security over the assets of the Guaranteeing Group and accordingly the Stock Moneys constitute unsecured indebtedness. The Issuer, TCNZ and each other Guaranteeing Group Member covenants that the Stock Moneys will constitute unsecured unsubordinated indebtedness ranking at least pari passu as to priority with all their other unsecured unsubordinated indebtedness, except for indebtedness preferred by statute, operation of law or by the provisions of the Trust Deed.

### **Financial Limitations**

Except as referred to under paragraph (b) of the section above dealing with the Negative Pledge, the Trust Deed imposes no limitation in the nature of any ratio of liabilities (or any class of liabilities) to assets (or any class of assets) of the Issuer, TCNZ or the other Guaranteeing Group Members.

### **Duties of The Trustee**

The Trustee is appointed under the Trust Deed to act in the interests of the holders of Stock, including the Holders of TeleBonds offered under this Prospectus and the Investment Statement. The principal duties of the Trustee under the Trust Deed are summarised as follows:

- (a) to oversee compliance with the covenants and obligations of Guaranteeing Group Members under the Trust Deed on the basis of and subject to the provisions of the Trust Deed.
- (b) upon the occurrence of any event specified in the Trust Deed entitling the Trustee to declare the Stock Moneys immediately due and payable, the Trustee may at its discretion and shall, if directed by any Extraordinary Resolution of Holders of Stock, or in writing by Holders of Stock holding in aggregate not less than 20% of the principal amount of the outstanding Stock, declare the Stock Moneys immediately due and payable, exercise the powers of enforcement available to it and distribute all moneys received in accordance with the provisions of the Trust Deed.
- (c) to receive and consider the regular financial and other reports and certificates furnished to it by TCNZ and/or TCNZ's auditors with respect to the Guaranteeing Group (subject to the waiver referred to under "Reporting" below).
- (d) in addition to the above, to perform a number of functions relating to the ongoing administration of the Trust Deed including in relation to the meetings of holders of Stock, the taking of guarantees from new Guaranteeing Subsidiaries, the releasing of existing Guaranteeing Subsidiaries, and the exercise of discretions or the giving or withholding of consents (as appropriate) relating to such administration and other matters out of the ordinary, such as making an application to Court under the Securities Act, the substitution of an obligor in place of an Issuer (as defined in the Trust Deed) in relation to any Stock and agreeing to modifications of the Trust Deed, all upon the terms set out in the Trust Deed.
- (e) on being satisfied that all Stock Moneys have been paid or provided for upon the terms of the Trust Deed, to execute a deed of release of the Trust Deed.

In addition to the above powers set out in the Trust Deed, the Trustee has a statutory duty pursuant to the Securities Act to exercise reasonable diligence to:

- (i) ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of the offer of the Stock and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the security (if any) of the Stock or the interests of the Holders of Stock); and

- (ii) ascertain whether or not the assets of the Issuer that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts of the Stock as they become due.

### **Reporting**

Pursuant to the Trust Deed TCNZ is required to provide to the Trustee quarterly certificates and annual financial statements of the Guaranteeing Group, as well as information relating to TCNZ and the Group. (This is subject to a waiver granted by the Trustee, as explained below.) The Trust Deed includes a requirement that the Directors of TCNZ resolve and certify to the Trustee, following the end of each financial quarter, that they are satisfied that, having regard to the financial position of the Guaranteeing Group (including contingent liabilities) the anticipated trading and transactions during the next twelve months and the sources of finance arranged or capable of being arranged during such twelve months, the Guaranteeing Group will be able to meet all its liabilities (including maturing Stock and interest thereon) as they fall due or are anticipated to become payable during such twelve months.

The Trustee has agreed to accept consolidated financial statements for Telecom instead of financial statements of the Guaranteeing Group. This variation, and the conditions upon which the Trustee has agreed to it, are set out in a waiver letter from the Trustee to TCNZ dated 31 October 2005. In summary, TCNZ has agreed to ensure that (i) earnings (subject to certain exclusions, and before interest and tax) of the Guaranteeing Group will be at least 90% of the earnings (subject to the same exclusions, and before interest and tax) of the Group, and (ii) the Total Tangible Assets of the Guaranteeing Group (excluding intra-group balances) must be at least 70% of Total Tangible Assets of the Group. The above conditions are to be tested on an annual basis by reference to financial information contained in the audited consolidated financial statements for Telecom. TCNZ has also agreed to provide certain other financial details to the Trustee supporting compliance with the above conditions. TCNZ and the Trustee have also agreed to review the continuance of the above waivers annually, although during the currency of this prospectus, it is intended that the reporting obligations contained in the Trust Deed will be amended to formally implement the reporting regime established by the above waivers. Once these amendments are made, a waiver letter in relation to the reporting requirements concerned will no longer be required. If and to the extent that equivalent but more stringent financial limits on the level of assets and earnings that must be within the Guaranteeing Group are made applicable for the purposes of the Securities Act, then the terms of the Trustee's waiver will automatically adjust to that more stringent financial limit. The waiver is similar in its purpose and effect to the Securities Act (TCNZ Finance Limited) Exemption Notice 2006 referred to on page 11. The conditions of the Securities Act (TCNZ Finance Limited) Exemption Notice 2006 generally reflect the conditions specified in the Trustee's waiver described above.

### **Events of Default**

Upon the occurrence of certain Events of Default prescribed in the Trust Deed, the Trustee may, and in certain circumstances must, declare the Stock Moneys to be immediately due and payable.

### **Meetings**

The Trust Deed contains provisions for meetings of holders of Stock and/or any Class of holders of Stock. Resolutions passed as Extraordinary Resolutions at such meetings bind all holders of Stock and/or holders of the relevant Class.

**Other Borrowing Restrictions**

The only restrictions on the ability of the Issuer to borrow which result from any undertaking given, or contract or deed entered into, by the Issuer are certain negative pledges including those contained in the Trust Deed outlined on pages 16 to 21, certain other trust deeds relating to Eurobond issues and the loan documents in relation to certain other fund raising. None of those negative pledge obligations restrict the right of the Issuer to borrow but they do limit the ability of the Issuer to create or permit to exist certain charges and security interests over assets as security for the money so borrowed or raised.

**Trustee's Statement**

The Trustee's statement appears on page 34 of this Prospectus.

**OTHER TERMS OF OFFER****Maximum Amount of Securities Offered**

The Issuer is offering TeleBonds of a Principal Amount of up to \$100 million in aggregate over three Maturity Dates. The oversubscription amount for TeleBonds is an aggregate Principal Amount of up to a further \$200 million, which may be all in respect of TeleBonds of any Maturity Date, or split between TeleBonds of any Maturity Date, provided that the maximum aggregate Principal Amount of TeleBonds offered and issued under this Prospectus may not exceed \$300 million (which could be represented by TeleBonds having one or more of the Maturity Dates). The Issuer will not transfer an application for TeleBonds of a particular Maturity Date to be an application for TeleBonds of any other Maturity Date.

**FASTER statements**

FASTER statements will be issued for TeleBonds after the Issue Date for those TeleBonds or as transfers are registered and will be posted to Holders as soon as practicable following their issue.

**Repayment**

Repayment of TeleBonds on their Maturity Date will be made to the Holder entered on the Register on the Record Date immediately preceding the Maturity Date.

The Registrar may also, at its discretion, require production of a TeleBond Certificate (if any) prior to repayment.

The Issuer has no right or obligation to repay TeleBonds early. In the event that the Trustee declares Stock Moneys to be immediately due and payable prior to the Maturity Date for a TeleBond in accordance with the procedure outlined on page 19, the amounts payable to Holders shall be equal to the Principal Amount of the TeleBonds plus accrued interest not yet paid to the date of repayment or repurchase (less any deductions or withholdings required by law or Approved Issuer Levy paid or payable).

**Applications**

Applications may be made in the names of two or more persons jointly. In such cases, payment of principal and interest will be made to the registered holders whose names appear on the Register on the Record Date applicable to that payment. Only the address of the first named of the joint applicants will be recorded on the register for the TeleBonds and all interest payments, notices, etc will be sent to that address.

**Financial Information**

The latest unaudited financial statements of the Issuer for the period 1 July 2007 to 31 March 2008 have been included with this Prospectus. The latest annual

financial statements of the Issuer for the period 1 July 2006 to 30 June 2007 have been registered under the Financial Reporting Act 1993. Investors should note that the financial and other information required to be contained in or distributed with this Prospectus pursuant to the Second Schedule to the Securities Regulations 1983 relates principally to the Issuer.

A range of financial information (both about the Issuer and the Guarantors) is provided to the Trustee under the Trust Deed and may be requested by Holders under the Securities Act. The precise financial information that is provided, or can be requested, is the subject of the Trust Deed waiver described on page 20 and the exemption described on pages 11 and 20.

#### **OTHER MATERIAL MATTERS**

As at the date of this Prospectus there were no other material matters relating to the TeleBonds offered under this Prospectus and the Investment Statement other than the matters set out elsewhere in this Prospectus or distributed with this Prospectus, including matters set out in or referred to under "Information about Telecom and other Material Matters" on pages 35 to 42, and contracts entered into in the ordinary course of business of the Issuer.

#### **REGISTRATION DOCUMENTS**

The documents attached to the Prospectus registered with the Registrar of Companies are:

- (a) The Auditors' Report set out on pages 31 to 33;
- (b) The signed consent of the Auditors to the above report appearing in this Prospectus;
- (c) Acknowledgement of NZX;
- (d) The Trustee's Statement set out on page 34;
- (e) Certain authorities for agents to sign this Prospectus.

## **INTERPRETATION**

The following definitions, together with definitions set out elsewhere in this Prospectus, are used in this Prospectus, unless the context otherwise requires:

*Approved Issuer Levy* means such approved issuer levy paid or payable by the Issuer under Part VIB of the Stamp and Cheque Duties Act 1971.

*Business Day* means any day (other than a Saturday or a Sunday) on which banks are generally open for business in Auckland and Wellington, except that, in the context of the NZX Listing Rules, it means a day on which the NZDX is open for trading.

*CDMA (Code Division Multiple Access)* means an advanced radio spectrum sharing technique used in new digital mobile networks.

*Certificate* means, in respect of any TeleBond, any certificate, acknowledgement, receipt or other written evidence issued by or on behalf of the Issuer evidencing the issue of that TeleBond, and includes a "Statement" (as defined in the NZX Listing Rules).

*Closing Date* means 15 December 2008 or such earlier date that the Issuer may determine.

*Directors* means the directors for the time being of the Issuer (or as the context may otherwise expressly or by necessary implication require, TCNZ).

*Dollar and \$* means the lawful currency of New Zealand from time to time.

*DSL (Digital Subscriber Line)* means a family of communications technologies allowing high-speed data over existing copper-based telephony plant in the local loop.

*EDGE (Enhanced Data GSM Environment)* means an enhancement to GSM

*EVDO (Evolution Data Optimised)* means a 3G mobile technology that delivers maximum theoretical data speeds of 2.4 Mbit/s, with speeds typically averaging 500 kbits/s in practice.

*Extraordinary Resolution* means a resolution passed at a meeting of Stockholders (or a class of Stockholders, if applicable) at which at least 75% of such Stockholders (or that class of Stockholders) voting at the meeting upon a show of hands or, if a poll is demanded, then at least 75% of the votes given on such a poll, vote in favour of the resolution.

*GSM (Global Service for Mobile Communications)* means a technology used in digital mobile networks.

*Guarantors* means, at a particular time, TCNZ and each wholly-owned subsidiary of TCNZ that guarantees the TeleBonds by virtue of it being a "Guaranteeing Subsidiary" under (and as that term is defined in) the Trust Deed and *Guarantor* means any one of them.

*Holder* means a person whose name is recorded in the Register as the holder of a TeleBond and includes their personal representatives.

*HSPA (High Speed Packet Access)* means a mobile network technology that provides high speed packet data links in the uplink and downlink directions.

*Interest Payment Date* means, in respect of each TeleBond, each 15 June and 15 December which occurs after the date that TeleBond is issued and prior to or on the Maturity Date for that TeleBond, unless that day is not a Business Day, in which case the Interest Payment Date will be the next succeeding Business Day

*Interest Rate* means, in respect of a particular TeleBond, the rate of interest per annum payable on the Principal Amount of that TeleBond.

*Investment Statement* means the investment statement relating to the Offer prepared as at, and dated, 25 June 2008.

*IP (Internet Protocol)* means a principal communications protocol used in the internet.

*Issue Date* means, in respect of each TeleBond, the date on which the Issue Price payable by the applicant for that TeleBond has been lodged to the Issuer's bank account.

*Issue Price* means the amount of \$1.00 per TeleBond, being the Principal Amount of each TeleBond.

*Market Participant* has the meaning given in the NZX Participant Rules.

*Maturity Date* means, in respect of each TeleBond, the date on which that TeleBond matures, being 15 June 2011, 15 June 2013 or 15 June 2015 (as the case may be).

*Naked DSL* means a broadband service that allows end-users access to a broadband product without an associated access phone line

*NGN (Next Generation Network)* means the next generation internet protocol network where all voice, video, Internet and data services will be carried as information across a single integrated network

*NZDX* means the New Zealand debt market operated by NZX.

*NZ IFRS* means the New Zealand equivalents to International Financial Reporting Standards which are standards and interpretations approved by the Accounting Standards Review Board comprising New Zealand equivalents to:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) International Interpretations.

*NZX* means New Zealand Exchange Limited.

*NZX Delivery and Settlement Participants* has the meaning given to that term in the NZX Participant Rules.

*NZX Listing Rules* means the Listing Rules of NZX.

*NZX Participant Rules* means the Participant Rules of NZX.

*Opening Date* means 26 June 2008

*Organising Participant* means First NZ Capital Securities Limited.

*Primary Market Participant* has the meaning given in the NZX Participant Rules.

*Principal Amount* means, in relation to a TeleBond, the amount (other than interest) payable on repayment of that TeleBond on its Maturity Date, being the face value amount recorded as such in the Register in respect of that TeleBond.

*Prospectus* means this registered prospectus dated 25 June 2008.

*PSTN (Public Switched Telephone Network)* means a nationwide switched fixed line voice telephone network.

*Rate Chart* means the rate chart specifying the Interest Rate payable in respect of TeleBonds of each Maturity Date, as updated from time to time. The initial Rate Chart accompanies the Prospectus.

*Record Date* means, in relation to a payment due on a TeleBond, the tenth day before the due date for that payment or if that tenth day is not a Business Day, the Business Day immediately preceding such day.

*Register* means any register of TeleBonds maintained by the Registrar in accordance with the Trust Deed.

*Registrar* means Computershare Investor Services Limited, or any successor or replacement registrar appointed by the Issuer.

*Securities Act* means the Securities Act 1978 and includes the Securities Regulations 1983.

*Stock* means any and all unsecured indebtedness, liabilities, obligations or debt securities of or issued by the Issuer, TCNZ or any Guarantor which is constituted by and with the benefit of the Trust Deed and from time to time outstanding.

*Stockholders* means one or more holders of Stock.

*Substituted Obligor* means any person who replaces the Issuer as the issuer of the TeleBonds pursuant to the provisions of the Trust Deed that permit and regulate such a substitution.

*Trust Deed* means the trust deed dated 25 October 1988 (as modified and supplemented from time to time) between TCNZ, the other Guarantors, the Issuer and the Trustee pursuant to which the TeleBonds offered under this Prospectus and the Investment Statement will be constituted.

*Trustee* means The New Zealand Guardian Trust Company Limited, or any successor or replacement trustee appointed under the Trust Deed.

*TSO* means the TSO (Telecommunications Service Obligation) deed which specifies that Telecom will maintain free local calling, maintain the standard rental rate (in real terms), charge rural residential customers no more than the standard rental and, among other things, continue to provide local residential services as widely as was available at 31 December 2001.

*UBS (Unbundled Bitstream Service)* means a partial circuit service developed by Telecom to meet the needs of service providers who wish to extend the geographic reach of their existing network.

*Undertakings* means the Telecom Separation Undertakings given by TCNZ under Part 2A of the Telecommunications Act 2001

*UPC (Unbundled Partial Circuit)* means a high-speed IP access service which allows access seekers to bundle and deliver internet-grade services to their markets.

*WCDMA (Wideband Code Division Multiple Access)* means Wideband Code Division Multiple Access, a mobile voice and high-speed data technology that is part of the International Telecommunication Union's third-generation (3G) wireless standards.

*1XRTT (One Times Radio Transmission Technology)* means a CDMA standard offering significantly faster data transfer rates than conventional digital cellular technology.

*2G (Second Generation - mobile network)* means the second generation of mobile technology.

*3G (Third Generation - mobile network)* means a digital mobile network based on CDMA standards that is capable of delivering data rates up to 2 Mbit/s or greater (and includes 1XRTT or CDMA-2000).

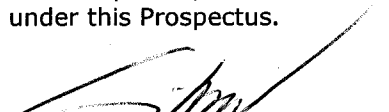
## DIRECTORS' STATEMENT

After due enquiry in relation to the period between 31 March 2008, being the date of the latest statement of financial position referred to in this Prospectus, and the date of registration of this Prospectus, the Directors of the Issuer are of the opinion that no circumstances have arisen that materially adversely affect:


- (a) the trading or profitability of the Issuer;
- (b) the value of the assets of the Issuer; or
- (c) the ability of the Issuer to pay its liabilities due within the next 12 months.

The Directors of the Issuer and TCNZ note that there are matters discussed in this Prospectus concerning the changing competitive and regulatory environment in New Zealand, contingent liabilities, lawsuits and other claims (in particular on pages 35 to 42), which may in the future have an adverse impact on the trading and profitability of Telecom.


This Prospectus has been signed by all of the Directors of the Issuer at the date of this Prospectus, or their authorised agents, as issuer of the TeleBonds offered under this Prospectus.




**Paul J Reynolds** (or his agent authorised in writing)




**Anthony G Parker** (or his agent authorised in writing)



**Nicholas J Olson** (or his agent authorised in writing)

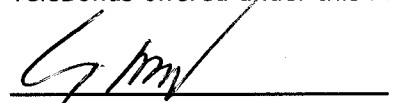


**Mark J Verbiest** (or his agent authorised in writing)

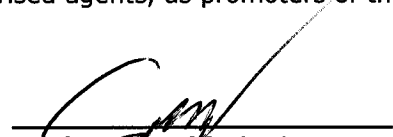


**John R Houlden** (or his agent authorised in writing)

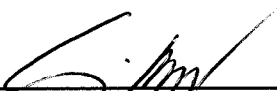
This Prospectus has been signed by TCNZ and by all of the Directors of TCNZ at the date of this Prospectus, or their authorised agents, as promoters of the TeleBonds offered under this Prospectus.

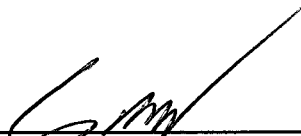


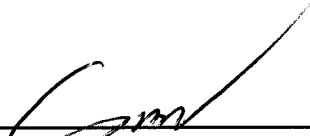
**Ronald J Spithill** (or his agent authorised in writing)

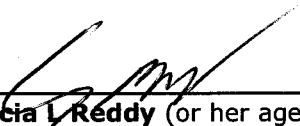


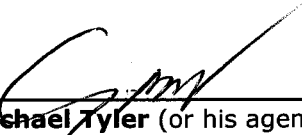
**Paul J Reynolds** (or his agent authorised in writing)

  
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**Murray J Horn** (or his agent authorised  
in writing)

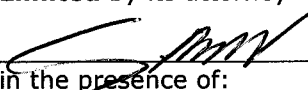
  
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**Wayne Boyd** (or his agent authorised  
in writing)

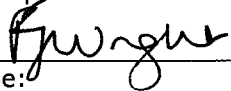
  
\_\_\_\_\_  
**Roderick McGeoch** (or his agent  
authorised in writing)

  
\_\_\_\_\_  
**Patricia L Reddy** (or her agent  
authorised in writing)

  
\_\_\_\_\_  
**Michael Tyler** (or his agent authorised  
in writing)

**Telecom Corporation of New Zealand  
Limited** by its attorney

  
\_\_\_\_\_  
in the presence of:

  
\_\_\_\_\_  
Name: \_\_\_\_\_  
Occupation: \_\_\_\_\_  
Address: **Peter James Wright**  
**Solicitor**  
**Wellington**

## Summary of Financial Statements

TCNZ FINANCE LIMITED

	31 March 2008	30 June* 2007	30 June* 2006	30 June* 2005	30 June* 2005	30 June* 2004	30 June* 2003
	\$m NZ IFRS	\$m NZ IFRS	\$m NZ IFRS	\$m NZ IFRS	\$m NZ GAAP	\$m NZ GAAP	\$m NZ GAAP
<i>Financial Performance</i>							
Interest income	777	906	912	862	862	791	682
Interest expense	666	767	769	745	745	715	681
Earnings before income tax	156	15	235	126	126	48	23
Income tax	(14)	(73)	(5)	(52)	(52)	(46)	(15)
Net earnings/(loss) attributable to shareholders	142	(58)	230	74	74	2	8
Dividends	-	-	-	-	-	-	-
Net Surplus/(loss) after dividends	142	(58)	230	74	74	2	8
Dividends per share	-	-	-	-	-	-	-
<i>Financial Position</i>							
Current assets	3,709	2,029	3,370	1,693	1,693	2,336	2,001
Non-current assets	10,479	11,673	8,590	9,958	9,958	8,581	8,475
Total assets	14,188	13,702	11,960	11,651	11,651	10,917	10,476
Total tangible assets	14,188	13,702	11,960	11,651	11,651	10,917	10,476
Current liabilities	10,883	9,823	8,201	8,043	8,043	7,216	5,941
Term liabilities	2,183	2,970	2,795	2,851	2,851	3,019	3,845
Total liabilities	13,066	12,793	10,996	10,894	10,894	10,235	9,786
Equity	1,122	909	964	758	758	683	690
Total liabilities & equity	14,188	13,702	11,960	11,652	11,652	10,918	10,476

\*Amounts shown for 30 June 2007, 2006, 2005, 2004, and 2003 are extracted from audited financial statements.

The audited financial statements for 30 June 2004 and 2003 were prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), and there were no material changes in accounting policies over these periods. In the year ended 30 June 2006 the Issuer adopted NZ IFRS and the amounts for 30 June 2007 and 2006 were prepared under NZ IFRS. The amounts for 30 June 2005 were restated to NZ IFRS, and no material changes were identified.

The principal differences resulting from transition to NZ IFRS were as follows:

- The balance of the foreign currency translation reserve, representing all cumulative translation differences, was reset to zero at 1 July 2004.
- On 1 July 2005 the Issuer recognised all derivative financial instruments on balance sheet at fair value resulting in the recognition of an additional net liability of \$64 million. This liability should principally unwind through equity to the extent that the Issuer's derivatives can be deemed effective hedges under NZ IFRS.

Amounts presented above for 31 March 2008 are unaudited. TCNZ Finance was incorporated on 19 July 1991 and commenced business on 29 July 1991. TCNZ Finance established an Australian Branch in July 2001 and a Bermudian Branch in October 2004.



The Directors of TCNZ Finance Limited  
TCNZ Finance Limited  
PO Box 570  
Wellington

25 June 2008

### **Auditors' Report for inclusion in prospectus**

We have prepared this report for inclusion in the prospectus dated 25 June 2008.

As auditor of TCNZ Finance Limited ("the Issuer") we have prepared this report pursuant to clause 36 of the Second Schedule of the Securities Regulations 1983 for inclusion in the Prospectus dated 25 June 2008 and for no other purpose.

### ***Director's responsibilities***

The Directors of the company are responsible for the preparation and presentation of:

- the financial statements which give a true and fair view of the financial position of the Issuer as at 30 June 2007 and its financial performance and cash flows for the year ended on that date, as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983
- the financial statements which give a true and fair view of the financial position of the Issuer as at 31 March 2008 and its financial performance and cash flows for the nine months ended on that date, as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983;
- the historical summary of financial statements of the Issuer for the nine months ended 31 March 2008, the financial years ended 30 June 2007, 2006, 2005, 2004 and 2003, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983; and
- the details and amounts in respect of the ranking of securities of the company as at 31 March 2008, as required by clause 12 of the Second Schedule of the Securities Regulations 1983; and

It is our responsibility to report on the matters contained in this report. KPMG takes no responsibility for, nor do we report on, any part of the prospectus not mentioned in this report.

### ***Auditors' responsibilities***

It is our responsibility to express an independent opinion on the financial statements as at 30 June 2007 presented by the Directors and report our opinion to the Board of Directors in accordance with clause 36(1) of the Second Schedule of the Securities Regulations 1983.



In addition we are responsible for reporting in accordance with clause 36(1)(g) of the Second Schedule of the Securities Regulations 1983, on the following matters which have been prepared and presented by the Directors:

- the amounts included in the historical summary of financial statements for the nine months ended 31 March 2008, the financial years ended 30 June 2007, 2006, 2005, 2004 and 2003; and
- the amounts included in the ranking of securities as at 31 March 2008.

This report has been prepared for inclusion in the Prospectus dated 25 June 2008 for the purpose of meeting the requirements of clause 36 of the Second Schedule to the Securities Regulations 1983. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the unaudited financial statements, the historical summary of financial statements. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report.

Other than in our capacity as auditors we have no relationship with or interests in the Issuer.

***Basis of opinion on the financial statements***

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Issuer's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

***Basis of opinion on the historical summary of financial statements***

We have undertaken procedures to obtain reasonable assurance that the amounts set out in the historical summary of financial statements on pages 29 to 30 pursuant to clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983 have been correctly taken from the unaudited financial statements of the Issuer for the nine months ended 31 March 2008, and the audited financial statements of the Issuer for the financial years ended 30 June 2007, 2006, 2005, 2004 and 2003.

### ***Basis of opinion on the ranking of securities***

We have undertaken procedures to obtain reasonable assurance that the amounts set out in the ranking of securities on page 16 pursuant to clause 12 of the Second Schedule of the Securities Regulations 1983 have been correctly taken from the unaudited financial statements of the Issuer as at 31 March 2008.

### ***Unqualified opinion on the financial statements***

We obtained all the information and explanations we required. In our opinion:

- proper accounting records were kept by the Issuer as far as appears from our examination of those records; and
- the audited financial statements for the year ended 30 June 2007 that have been registered pursuant to the Financial Reporting Act 1993, required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983 and set out on pages 46 to 49:
  - comply with these regulations; and
  - subject to these regulations, comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the financial position of the Issuer as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 14 September 2007 and our unqualified opinion is expressed as at that date. We have not undertaken any procedures from the date of completion of our audit.

### ***Unqualified opinion on historical summary of financial statements***

In our opinion the amounts set out in the historical summary of financial statements on pages 29 and 30 of this prospectus, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from:

- the unaudited financial statements of the Issuer for the nine months ended 31 March 2008.
- the audited financial statements of the Issuer for the financial years ended 30 June 2007, 2006, 2005, 2004 and 2003.

### ***Unqualified opinion on the ranking of securities***

In our opinion the amounts set out in the ranking of securities on page 16 pursuant to clause 12 of the Second Schedule of the Securities Regulations 1983 have been correctly taken from the unaudited financial statements of the Issuer from that they were extracted.



KPMG

25 June 2008

*To: The Investors under this Prospectus of TCNZ Finance Limited*

Dear Investor

Clause 13(3) of the Second Schedule to the Securities Regulations 1983 requires us to confirm that the offer of securities (the "TeleBonds") by TCNZ Finance Limited ("TCNZ Finance") set out in this Prospectus complies with any relevant provisions of the trust deed between Telecom Corporation of New Zealand Limited ("TCNZ") and the Trustee dated 25 October 1988 (as amended, supplemented and novated, the "Trust Deed"). These provisions are those which:

- (i) Entitle TCNZ Finance to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the TeleBonds offered under this Prospectus;
- (ii) Impose restrictions on the right of TCNZ Finance to offer the TeleBonds,

and are described in the summary of the Trust Deed set out on pages 16 to 21 of this Prospectus.

The Auditors have reported on the financial information distributed with this Prospectus and our statement does not refer to that information or to any other material in this Prospectus which does not relate to the Trust Deed.

We confirm that the offer of the TeleBonds set out in this Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis:

- (a) set out above; and
- (b) that the Trustee relies on the information supplied to it by TCNZ pursuant to the Trust Deed and does not carry out an independent check of the statements and the figures supplied to it in that information.

The Trustee does not guarantee the repayment of the TeleBonds offered or the payment of interest thereon.

Signed for and on behalf of the Trustee,



**John B Sewell**  
**Manager, Corporate Trusts**

## **INFORMATION ABOUT TELECOM AND OTHER MATERIAL MATTERS**

### ***Introduction***

In addition to the material contained elsewhere in this Prospectus, the following sections contain information about TCNZ and Telecom which may be relevant to investors. This information relates to circumstances as at the date of this Prospectus. TCNZ, as the holding company for Telecom, together with those subsidiaries of TCNZ listed on page 11, guarantee the TeleBonds offered under this Prospectus. (Further financial information concerning TCNZ and the other Guarantors may be obtained by viewing the financial statements registered on TCNZ's file with the Companies Office ([www.companies.govt.nz](http://www.companies.govt.nz)) pursuant to the requirements of the Financial Reporting Act 1993.)

### ***Constitution and Activities***

TCNZ was incorporated on 24 February 1987 and, pursuant to the State-Owned Enterprises Act 1986, commenced business on 1 April 1987. With effect from 1 April 1987 TCNZ acquired from the New Zealand Government the telecommunications business of the New Zealand Post Office. In 1990, TCNZ was fully privatised.

Telecom is a major supplier of telecommunications and ICT services in New Zealand. Telecom provides a full range of telecommunications products and services including local, national, international and value-added telephone services, cellular and other mobile services, data and Internet services, equipment sales, installation services and leased services.

### ***Competitive and Regulatory Environment***

New Zealand has highly competitive markets in telecommunications, with the Commerce Act 1986 and the Telecommunications Act 2001 (*Telecommunications Act*) being the principal governing legislation. Substantial network operators, including Vodafone New Zealand Limited and TelstraClear Limited, provide services in competition with Telecom. Telecom has extensive interconnection arrangements with eleven operators in New Zealand, covering international services, and national and international voice services, as well as data, Internet, cellular and trunked mobile services.

In 2004 the Government undertook a review of the Telecommunications Act. Following the review, the Telecommunications Amendment Act (No.2) 2006 (which amends the Telecommunications Act), was passed and came into force in December 2006.

The Telecommunications Act, as amended, established a regulatory regime with the following key features:

- A specialist Telecommunications Commissioner within the Commerce Commission (*Commission*).
- Provisions allowing the Commission to monitor competition in telecommunications markets and the performance and development of telecommunications markets. The Commission may conduct inquiries, reviews, and studies (including international benchmarking) into any matter relating to the telecommunications industry or the long-term benefit of end-users of telecommunications services within New Zealand.
- The "designation" or "specification" of certain services, allowing the Commission to set the terms and conditions of supply (including, in the case of designated services but not specified services, prices) on a bilateral basis on the application by an access seeker, or on a multi-lateral basis on the initiative

of the Commission. Designated access services are interconnection with Telecom's fixed telephone network, interconnection by Telecom with another carrier's fixed telephone network, wholesaling of certain retail services (and bundles of retail services) that are offered by means of Telecom's fixed telecommunications network, residential local access and calling services offered by means of Telecom's fixed telephone network, Telecom's unbundled bitstream access, Telecom's unbundled bitstream access backhaul, Telecom's unbundled copper local loop network, Telecom's unbundled copper local loop network co-location, Telecom's unbundled copper local loop network backhaul (distribution cabinet to telephone exchange), and Telecom's unbundled copper local loop network backhaul (telephone exchange to interconnect point). Designated multinet access services are Telecom's fixed PSTN to mobile carrier pre-selection service, and local, cellular and national toll-free telephone number portability. Specified services are national cellular roaming, co-location on cellular mobile transmission sites, and co-location of equipment for fixed telecommunications services at sites used by Broadcast Communications Limited.

- Telecom is required to prepare and disclose publicly, regulatory accounts, setting out wholesale and retail accounts. The Commission has a broad discretion to make information disclosure requirements.
- Provisions allowing the Government to declare Telecommunications Service Obligation Instruments, deeming the original Kiwi Share and the Telecommunications Service Obligations Deed for Local Residential Telephone Service to be Telecommunications Service Obligation Instruments, and providing for the costs of these to be shared between industry participants.
- Enforcement provisions, which provide penalties for knowingly, or without reasonable excuse, breaching the Telecommunications Act or Commission-determined regulation.
- The Commission may approve any draft telecommunications access codes submitted to it by the Telecommunications Industry Forum. The Commission may also, on its own initiative, prepare a telecommunications access code in relation to any matter that is not already provided for by an approved code.
- The Commission may, on its own initiative or if requested by the Minister of Communications (*Minister*), commence an investigation into whether any new telecommunications services should be regulated under the Telecommunications Act, or whether any currently regulated services should be altered.
- If the Commission has commenced an investigation under Schedule 3 of the Telecommunications Act into the desirability of altering regulated services, Schedule 3A provides a mechanism where an access provider can supply a service to all access seekers under a voluntary undertaking to the Commission that avoids the need for regulation and that is on terms and conditions agreed between the access provider and the Commission.
- Some of these features will be phased in over time, in accordance with the requirements of the Telecommunications Act and the Commerce Commission.

### ***Operational Separation***

Telecom has given undertakings to operationally separate its business, in accordance with the Telecommunications Act. The undertakings apply to Telecom in New Zealand in relation to the provision of certain relevant services. Relevant services are key wholesale and resale services and include unbundled local loop and associated services, regulated and next generation network (NGN) broadband and managed data input services (including unbundled bitstream access and associated backhaul) and some internet protocol and resale services.

The undertakings came into force on 31 March 2008 and include requirements for Telecom to:

- operationally separate its relevant network access services (Chorus), wholesale (Wholesale) and retail (Retail and Gen-i) business units;
- provide relevant services to other service providers and Telecom business units on an arm's-length basis and in a non-discriminatory way which, in some cases, requires the service to be provided on an equivalent basis;
- limit disclosure of other service providers' confidential information between Telecom business units;
- ensure that Chorus and Wholesale commercial information relating to relevant services is made equally available to all customers (including Telecom business units);
- establish an independent oversight group to monitor Telecom's compliance with the undertakings, and report to the Board and Commission on compliance; and
- progressively migrate off PSTN services, and roll out fibre to the cabinet over the next 12 years.

While Telecom is required to operationally separate these business units, the Board and CEO continue to manage the Telecom businesses as one company. Telecom can also continue to use shared assets and systems across the business.

The key operational requirements must be met by 1 July 2008, while the move to internal provision of relevant services to Telecom business units, and service equivalence between Telecom business units and service providers will occur over a number of years.

The undertakings can be enforced in the High Court by the Commission or any service provider affected by a breach of the undertakings. The maximum fine that the High Court can impose for a breach is \$10,000,000, and \$500,000 for each day that the breach continues. However, any pecuniary penalty imposed by the High Court cannot exceed the commercial gain resulting from the breach, less any compensatory damages.

### ***Capital Expenditure on NGN, NGT, FTTN, New Mobile Network and Separation***

On 8 June 2007, Telecom announced that it is building a WCDMA/HSPA and GSM/EDGE network, which will run in conjunction with its existing CDMA/EVDO network. Telecom is investing substantial capital expenditure into the construction of these networks and is planning to roll out these networks beginning late in 2008. Telecom intends to continue to run and support a CDMA/EVDO network at least until 2012.

Telecom is also investing significant capital expenditure on its Next Generation Network (NGN). An NGN network uses IP (internet protocol) technology, as opposed to the existing PSTN technology. Trials for the first of these NGN products are already underway. In addition, Telecom has a Next Generation Telecom (NGT)

programme underway, which will enhance delivery of NGN and mobile services to customers.

As part of its Undertakings commitments, Telecom is investing in fibre to the node (FTTN), which will enable the delivery of broadband connections between 10Mbps and 20Mbps to 80 per cent of New Zealanders by the end of 2011.

Substantial capital expenditure will also be invested by Telecom in separation which includes the costs of operational separation and various other Undertakings commitments.

### ***Mobile Termination Rates***

The Commission undertook an investigation of Telecom under the Telecommunications Act into whether termination rates for fixed line calls to mobile phones should be regulated.

The Commission commenced the investigation in May 2004 after considering complaints that a potential lack of competition in the wholesale market for terminating mobile calls may be resulting in unreasonably high charges for fixed-to-mobile calls.

The Commission recommended regulating the mobile termination price for voice calls on existing mobile networks, while excluding 3G from regulation. The Commission, however, considered that Telecom's CDMA1XRTT and EVDO networks were not 3G voice networks and were therefore captured by the proposed regulation.

Telecom applied to the High Court for judicial review of the Commission's final report and in August 2005, the Minister announced that he was requiring the Commission to reconsider its recommendation.

The Commission released a report in April 2006, recommending regulation of all mobile termination rates for fixed to mobile calls. Under the Telecommunications Act, the Minister was required to either accept or reject the Commission's recommendation, or ask the Commission to reconsider its recommendation.

In April 2007, Telecom offered to make a binding commercial offer to the Government as an alternative to regulation.

On 30 April 2007, the Minister notified his decision to reject the Commission's recommendation to regulate mobile termination rates. Telecom is now bound by its deed poll to:

- Reduce mobile termination rates for fixed to mobile calls each year over the next five years, down to 12 cents in year five; and
- Pass through any reductions in mobile termination rates to retail fixed-to-mobile call prices.

### ***Mobile Services Review***

In October 2006, the Commission announced that it would launch formal reviews under Schedule 3 of the Telecommunications Act into whether to amend the two current regulated mobile services: national roaming and mobile co-location. The Commission considered whether co-location should be moved from being a specified service under the Telecommunications Act (for which the Commission cannot regulate the price) to a designated service (for which the Commission can regulate price). The Commission also considered whether the national roaming service should become a designated service and/or whether to amend the terms of the national roaming service.

On 14 December 2007 the Commission released its final report on co-location which recommended that the price for the co-location service should not be designated. On 21 December the Commission launched a standard terms determination development process to determine the non-price elements of co-location. Vodafone New Zealand Limited submitted a Standard Terms Proposal in April 2008 and Telecom made submissions on this. Telecom is awaiting the Commission's draft determination.

The Commission issued its final report on roaming on 11 March 2008. The Commission recommended that the Minister make some changes to the existing regulated service, but did not recommend that the service be moved from a specified service (non-price regulated) to a designated service (price regulated). The principal change that the Commission recommended was to extend the roaming regulation from just 2G networks to all mobile networks.

### ***Calculating Telecommunication Service Obligations Losses***

In March 2007 the Commission released a final assessment of Telecom's net cost of complying with the Telecommunications Service Obligation (*TSO*) for the period of 1 July 2003 to June 2004. The TSO cost was calculated at \$63.8 million for this period, \$7 million higher than for the previous period. Vodafone New Zealand Limited has appealed this TSO decision – see the paragraph titled "TSO Appeal" on page 41 for further detail.

On 9 July 2007, the Commission released its draft determinations for the financial years ending 30 June 2005 and 30 June 2006. The Commission's second draft of the 30 June 2005 determination was released on 13 May 2008 and the TSO cost was reduced from \$71.4m to \$57.3m. The Commission's second draft of the 30 June 2006 determination was released on 27 May 2008 and the TSO cost was reduced from \$78.2m to \$64.6m. Telecom intends to make submissions on both of these determinations.

Telecom bears 69% of the TSO cost. The remainder is carried primarily by Vodafone New Zealand Limited and TelstraClear Limited.

### ***Kiwi Share***

On 16 January 2007 the Government announced that it was reviewing the TSO, including the Kiwi Share, to assess its ongoing effectiveness. The Ministry of Economic Development released a discussion paper, on which Telecom provided comments.

Following submissions from industry, the Government agreed that the Telecommunication Carriers Forum (*TCF*) would consider and report back to the Minister recommending changes to the current TSO model. Telecom and Ministry of Economic Development officials are participating in that working party. The working party released a draft paper for public consultation in March 2008 that proposed, amongst other things, a technology neutral TSO service specification that permits a range of fixed and wireless technologies for a TSO service. The draft also set out options for allocating subsidies to provide service to uneconomic customers, including a contestable model. Telecom anticipates that the working party will report to the Minister around the end of June 2008. Telecom is awaiting the public release of the final report to the Minister.

Further, Telecom has agreed to make best efforts to agree a new TSO with the Government by 30 June 2008.

### ***Number Portability Determination***

In August 2005 the Commission released its final Number Portability determination.

The Commission mandated that all parties to the determination must support (where relevant) fixed number portability and mobile number portability by 1 April 2007.

Local and Mobile Number Portability was launched in accordance with Commission requirements by 1 April 2007, allowing end-users to change service providers while retaining their existing telephone number.

### ***Radio Spectrum Holdings***

On 8 May 2008 the Ministry of Economic Development confirmed Telecom's right to renew 15 MHz of spectrum in the 800/900 MHz spectrum band. The rights Telecom currently holds expire in 2012. The renewal will be for a period of 19 years. Settlement of the renewal must be completed by 1 April 2012.

In December 2007 Telecom purchased two 20 MHz blocks of spectrum at the Radio Frequency Auction No. 9 that was conducted by Ministry of Economic Development. Because of the acquisition limits, 40 MHz was the maximum amount Telecom was able to purchase at the auction. The spectrum is paired and can accordingly be used for providing either fixed or mobile broadband wireless services.

### ***UCLL, UCLL Co-location, and UBA Standard Terms Determinations***

In February and March 2007 the Commission initiated standard terms determination processes for Telecom's unbundled copper local loop network from Telecom's exchanges (*UCLL*), *UCLL* co-location, and unbundled bitstream access (including "naked DSL") (*UBA*). The Commission issued its final determinations for these services at the end of 2007 setting out the standard terms for supply of these services, including price.

### ***UCLL Backhaul and UBA Backhaul Standard Terms Determinations***

In May 2007 the Commission initiated two further standard terms determination processes for *UCLL* backhaul and *UBA* backhaul. Telecom proposed standard terms for these services on 28 September 2007. The Commission is expected to issue its final determinations in respect of these services in June 2008.

### ***Sub-loop Related Services Standard Terms Determinations***

In December last year the Commission initiated standard terms determination processes for sub-loop related services (unbundled copper local loop from Telecom's distribution cabinets, backhaul from Telecom's distribution cabinet to the exchange, and co-location services at Telecom's distribution cabinets).

The Commission issued a notice for a single standard terms proposal for the 3 sub-loop services (sub-loop, co-location and backhaul), which is due 27 June 2008. No further timeframes for these processes have been set at this stage.

### ***Commerce Act Investigations***

On 21 December 2007 the Commission closed its investigation under section 36 of the Commerce Act into whether Telecom's broadband pricing and behaviour was anti-competitive. The Commission concluded there was no evidence the pricing

and behaviour was anti-competitive. This investigation had been running for four years.

## ***Contingent Liabilities – Lawsuits and Other Claims***

### **Commerce Act litigation**

#### *0867 proceeding*

In July 2000, the Commission issued a proceeding against Telecom claiming that the introduction of 0867 constituted a use by Telecom of its dominant position for proscribed purposes. The Commission sought a declaration that this contravened section 36 of the Commerce Act, a pecuniary penalty and costs. On 18 April 2008, the High Court issued a judgment in Telecom's favour, holding that Telecom did not use its dominant position in the market for fixed line retail telephone services to residential customers or have an anti-competitive purpose when it introduced the 0867 package, so did not contravene section 36. The Commission has appealed to the Court of Appeal. Telecom has filed a notice to support the High Court decision on additional grounds.

#### *Streamline pricing proceeding*

In March 2004, the Commission issued a proceeding against Telecom claiming that during the period since 2001, Telecom had misused its market power and had priced access to its data tail services for high speed data transmission, for the purposes of deterring potential and existing competitors from engaging in competitive conduct. The Commission is seeking a declaration that this behaviour contravened section 36 of the Commerce Act, a pecuniary penalty and costs.

The trial commences on 30 June 2008 and is scheduled to take six weeks. These proceedings are being vigorously defended by Telecom. The maximum penalty for companies is the greater of NZ\$10 million, three times the value of the commercial gain (where this can be readily ascertained), or up to 10% of turnover (where the commercial gain cannot be readily ascertained). In addition to the pecuniary penalty, if Telecom is found to have acted anti-competitively there may be negative brand implications and it may engender a more invasive regulatory response from either the Government or the Commission. Telecom considers that if these proceedings are decided against Telecom, there is a prospect that it will have a significant effect on Telecom's business, financial condition, position, results of operations or profitability.

### **Telecommunications Act 2001 litigation**

#### *TSO appeal*

In April 2007 Vodafone New Zealand Limited appealed the Commission's "Final Determination for the TSO Instrument for Local Residential Service for the period between 1 July 2003 and 30 June 2004". Vodafone's appeal was dismissed by the High Court in December 2007 and is now seeking leave to appeal to the Court of Appeal. Telecom has filed a notice to support the High Court decision on additional grounds. The key issue in Vodafone New Zealand Limited's appeal relates to the Commission's approach to the introduction of new technologies to deliver TSO services – specifically mobile services. If Vodafone New Zealand Limited is successful the matter would be remitted back to the Commission for a further determination. This may potentially impact future TSO cost allocation determinations.

### **Other claims**

#### *Sintel (in liquidation)*

This claim relates to Telecom International's Audiotext business in the late 1990s. The matter was settled but liquidators are seeking to overturn the settlement agreement alleging deceit, misrepresentation and breach of contract. The value of

the claim against Telecom is approximately NZ\$61m. The matter is progressing towards trial in the High Court.

*Asia Pacific Telecommunications Ltd*

This claim also relates to Telecom International's Audiotext business in the late 1990s. The claim against Telecom is worth approximately US\$17m. Telecom is endeavouring to settle the matter out of court.

All of the above proceedings which are within New Zealand's legal jurisdiction, have been commenced in the High Court of New Zealand unless otherwise stated.

The Directors of TCNZ and the Issuer cannot reasonably estimate the adverse effect (if any) on Telecom if any of the foregoing claims are ultimately resolved against Telecom's interests, and there can be no assurance that such litigation will not have a material adverse effect on TCNZ's business, financial conditions or results of operations. However, TCNZ's Directors consider that the likelihood of financial loss arising from the foregoing claims is remote.

Various other lawsuits, claims and investigations have been brought or are pending against TCNZ and its subsidiaries, none of which are expected to have a significant effect on the financial position or profitability of Telecom.

***TCNZ Finance's Credit Rating for Senior Debt***

As at the date of this Prospectus, TCNZ Finance's domestic senior unsecured long term debt is rated A (stable outlook) by Standard & Poor's and A2 (negative outlook) by Moody's Investors Service (further information in relation to these ratings may be found by visiting the websites of the rating agencies: [www.standardandpoors.com](http://www.standardandpoors.com) and [www.moodys.com](http://www.moodys.com) respectively and further information is also set out below).

The ratings referred to above are not a recommendation to buy, sell or hold the TeleBonds, and the rating may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of the rating may have an adverse effect on the market price of the TeleBonds. Neither rating agency has been involved in the preparation of this Prospectus.

## **STANDARD AND POOR'S LONG-TERM ISSUE CREDIT RATINGS\***

Standard and Poor's issue credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

### **AAA**

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

### **AA**

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

### **A**

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

### **BBB**

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

### **BB, B, CCC, CC, and C**

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

### **BB**

An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

\* The information set out above has been taken from the website of Standard & Poor's - [www.standardandpoors.com](http://www.standardandpoors.com) and is reproduced with the permission of Standard & Poor's.

## INDEX FOR SECURITIES REGULATIONS 1983

For the purposes of Regulation 5(6) of the Securities Regulations 1983, the matters required to be stated or contained in or distributed with this Prospectus by virtue of the Second Schedule to the Regulations are:

Matter	Second Schedule	Page(s)
Main Terms of Offer	Clause 1	2
Name and Address of Offeror	Clause 2	N/A
Details of Incorporation of Issuer	Clause 3	8
Guarantors	Clause 4	9
Directorate and Advisors	Clause 5	13
Restrictions on Directors' Powers	Clause 5A	8
Description of Activities of Issuer	Clause 6	9
Summary of Financial Statements	Clause 7	29
Acquisition of Business or Subsidiary	Clause 8	N/A
Material Contracts	Clause 9	15
Pending Proceedings	Clause 10	15
Issue Expenses	Clause 11	15
Ranking of Securities	Clause 12	16
Provisions of Trust Deed and Other Restrictions on Issuer	Clause 13	16-21
Other Terms of Offer and Securities	Clause 14	21
Financial Statements	Clauses 15-32	46
Places of Inspection of Documents	Clause 33	8
Other Material Matters	Clause 34	22
Directors' Statement	Clause 35	27
Auditors' Report	Clause 36	31

### ADDITIONAL INFORMATION

Please call the Registrar, Computershare Investor Services Limited on Auckland 488 8777, or free on 0800 653 080, for further information on:

- the current Interest Rate applicable to TeleBonds offered under this Prospectus and the Investment Statement;
- Interest earned to date;
- Year end taxation information;

Or write to:

Registrar  
Computershare Investor Services Limited  
Freepost No. 3214  
Private Bag 92119  
Victoria Street West  
Auckland 1142

For-

- Provision of IRD numbers;
- Advising of change of bank account details;
- Advising of change in method of payment for any proceeds;
- Advising of change of name, or address details;
- Transferring of TeleBonds.

You can view and update your Holder details by visiting  
[www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre).

**Income Statement***For the nine months ended 31 March 2008 (Unaudited)*

		Nine months ended 31 March	Year ended 30 June	
	notes	2008 \$m <i>(Unaudited)</i>	2007 \$m <i>(Audited)</i>	2006 \$m <i>(Audited)</i>
Interest income	2	777	906	912
Interest expense	2	(666)	(767)	(769)
<b>Net interest income</b>		<b>111</b>	<b>139</b>	<b>143</b>
Other income	3	61	61	226
Other expenses	3	(16)	(185)	(134)
<b>Profit before income tax</b>		<b>156</b>	<b>15</b>	<b>235</b>
Income tax	4	(14)	(73)	(5)
<b>Net profit/(loss)</b>		<b>142</b>	<b>(58)</b>	<b>230</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 nine months ended 31 March 2008 (Unaudited)*

		Nine months ended 31 March 2008	Year ended 30 June	
	notes	\$m	2007 \$m	2006 \$m
		<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Shareholder's funds at start of period		909	964	715
Net profit/(loss) for the period		142	(58)	230
Translation of foreign branches		2	(9)	12
Cash flow hedges		69	12	7
Total recognised income and expenses		<u>213</u>	<u>(55)</u>	<u>249</u>
<b>Shareholder's funds at end of period</b>	<b>12</b>	<b><u>1,122</u></b>	<b><u>909</u></b>	<b><u>964</u></b>


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

**Balance Sheet**

As at 31 March 2008 (Unaudited)

	31 March 2008 \$m (Unaudited)	30 June 2007 \$m (Audited)	2006 \$m (Audited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash	7	333	1
Accounts receivable	1	2	2
Income tax receivable	17	5	31
Interest receivable	-	1	-
Short-term derivative assets	10 20	76	27
Due from other Telecom Group companies	5 3,664	1,612	3,309
<b>Total current assets</b>	<b>3,709</b>	<b>2,029</b>	<b>3,370</b>
<b>Non-current assets:</b>			
Deferred tax asset	6 -	3	17
Due from other Telecom Group companies	5 9,834	11,004	7,937
Long term derivative assets	10 105	126	96
Investments	7 540	540	540
<b>Total non-current assets</b>	<b>10,479</b>	<b>11,673</b>	<b>8,590</b>
<b>Total assets</b>	<b>14,188</b>	<b>13,702</b>	<b>11,960</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bank overdraft	-	-	3
Debt due within one year	8 1,161	360	956
Due to other Telecom Group companies	11 9,405	9,359	7,065
Short-term derivative liabilities	10 257	69	141
Accrued interest	60	35	36
<b>Total current liabilities</b>	<b>10,883</b>	<b>9,823</b>	<b>8,201</b>
<b>Non-current liabilities:</b>			
Deferred tax liability	6 24	-	-
Long term debt	9 1,822	2,395	2,419
Long term derivative liabilities	10 337	575	376
<b>Total non-current liabilities</b>	<b>2,183</b>	<b>2,970</b>	<b>2,795</b>
<b>Total liabilities</b>	<b>13,066</b>	<b>12,793</b>	<b>10,996</b>
<b>Equity:</b>			
Shareholder's funds	12 1,122	909	964
<b>Total liabilities and equity</b>	<b>14,188</b>	<b>13,702</b>	<b>11,960</b>

On behalf of the Board of TCNZ Finance Limited



**Nicholas John Olson**  
Director

Authorised for issue on 25 June 2008



**John Russell Houlden**  
Director

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

**Cash flow statement***For the nine months ended 31 March 2008 (Unaudited)*

	Nine months ended 31 March 2008 \$m <i>(Unaudited)</i>	Year ended 30 June 2007 \$m <i>(Audited)</i>	2006 \$m <i>(Audited)</i>
<b>Cash flows from operating activities</b>			
Interest income	778	906	893
Interest paid on debt	(632)	(756)	(747)
Tax refund received	-	-	10
Payments to other Telecom Group companies for tax losses	(17)	(68)	(9)
Operating costs	(12)	(4)	(1)
Net cash flows from operating activities	<u>117</u>	<u>78</u>	<u>146</u>
<b>Cash flows (to)/ from investing activities</b>			
Net advances (from)/ to other Telecom Group companies	(696)	614	(20)
Cash flow on foreign exchange contracts	14	62	(114)
Net cash flows from investing activities	<u>(682)</u>	<u>676</u>	<u>(134)</u>
<b>Cash flows from financing activities</b>			
Proceeds from long term debt	-	376	398
Repayment of long term debt	-	(708)	(545)
Net proceeds/(repayments) from short term debt	239	(87)	23
Net cash flows from financing activities	<u>239</u>	<u>(419)</u>	<u>(124)</u>
Net cash flow	<u>(326)</u>	<u>335</u>	<u>(112)</u>
Net cash at beginning of period	333	(2)	110
Net cash at end of period	<u>7</u>	<u>333</u>	<u>(2)</u>
Cash	7	333	1
Bank overdraft	-	-	(3)
	<u>7</u>	<u>333</u>	<u>(2)</u>

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

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

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### 1 Statement of Accounting Policies

#### (a) Constitution, Ownership and Activities

TCNZ Finance Limited ("TCNZ Finance") is a profit orientated 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 incorporated on 13 July 2001. On 7 December 2004 TCNZ Finance incorporated TCNZ Finance Bermudian Branch ("Bermudian Branch").

These financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Securities Act 1978 and the Securities Regulations 1983. The results for 31 March 2008 are unaudited. The result for 30 June 2007 and 30 June 2006 are extracted from audited financial statements.

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

TCNZ Finance's functional and presentational currency is New Zealand Dollars and "\$" refers to New Zealand Dollars unless otherwise stated.

#### (b) General Accounting Policies

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities.

These financial statements have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments as specified in the accounting policies below.

#### (c) Specific Accounting Policies

##### *Interest Income*

Interest income is recognised on a yield to maturity basis.

##### *Accounts Receivable*

Accounts receivable are recorded initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment losses due to bad and doubtful accounts. The provision for doubtful debts is based on management's assessment of amounts considered uncollectable for specific customers or groups of customers based on age of debt, history of payments, account activity, economic factors and other relevant information. The amount of the provision is the difference between the assets unamortised cost and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is recognised in the Income Statement.

Bad debts are written off against the provision for doubtful accounts in the period in which it is determined that the debts are uncollectable. If those debts are subsequently collected then a gain is recognised in the income statement.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

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### 1 Statement of Accounting Policies (continued)

#### *Cash and Cash Equivalents*

For the purpose of the Cash Flow Statement, cash and cash equivalents are considered to be cash on hand, in banks and short term investments or deposits with an original maturity date of less than three months, net of bank overdrafts.

In addition, cash flows from certain items are disclosed net, due to the short-term maturities and volume of transactions involved, or where right of set-off is available.

#### *Investments*

TCNZ Finance investments fall into the following categories: loans and receivables or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired and is re-evaluated by management at each reporting date.

Investments are initially recognised at fair value plus transaction costs. Where the fair value of equity instruments cannot be reliably determined then the investments are recorded at historical cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. These assets are carried at amortised cost using the effective interest method.

#### *Debt*

Debt is recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, debt is stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate method, unless the debt is in a designated fair value relationship in which case it is carried at fair value.

#### *Taxation*

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences.

Deferred taxation is recognised using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Future tax benefits are recognised where realisation of the asset is probable.

#### *Derivative Financial Instruments*

TCNZ Finance uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Each derivative which is designated as a hedge is classified as either:

- a hedge of the fair value of recognised assets or liabilities (a fair value hedge) or
- a hedge of a highly probable forecast transaction (a cash flow hedge)

Gains and losses on fair value hedges are included in the Income Statement together with any changes in the fair value of the hedged asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the underlying physical exposure occurs.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. Movements in the hedge reserve in shareholders equity are shown in Note 12.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

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### 1 Statement of Accounting Policies (continued)

For an instrument to qualify as a hedge, at the inception of the derivative transaction the relationship between hedging instruments and hedged items must be documented, as must the Company's risk management objective and strategy for undertaking various hedge transactions. On an ongoing basis the Company must document whether the hedges are highly effective in offsetting changes in fair values of cash flows or hedged items.

The movement in the fair value of derivative financial instruments that do not qualify or no longer qualify as hedges is recognised in the Income Statement.

The foreign exchange gains and losses on the principal value of cross currency swaps are reflected in the Income Statement using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

Cash flows from derivatives are recognised in the Cash Flow Statement in the same category as that of the hedged item.

#### *Foreign Currencies*

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Unrealised and realised exchange gains and losses are brought to account in determining the earnings for the year.

#### *Translation of Foreign Branches*

Assets and liabilities of the Australian and Bermudian Branches are translated at exchange rates existing at balance date. Revenues and expenses are translated at rates approximating the exchange rates ruling at the dates of the transactions. The exchange gain or loss arising on translation is recorded in the foreign currency translation reserve.

#### *(d) Use of Estimates and Judgement*

The principal areas of judgement in preparing these financial statements are set out below.

#### *Valuation of investments*

Management perform an assessment of the carrying value of long-term investments at least annually. In assessing whether there has been an impairment, consideration is given to the financial performance of the investee and other factors that impact on management's expectation of recovering the value of the investment. This assessment also requires management to make judgements about the expected future performance and cash flows of the investee in order to determine the fair value of investments.

#### *(e) Changes in Accounting Policies*

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 nine months ended 31 March 2008 (Unaudited)

### 2 Interest Income and Expense

	Nine months ended 31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Interest income:			
Other Telecom Group companies	764	893	881
Other interest income	13	13	31
<b>Total interest income</b>	<b>777</b>	<b>906</b>	<b>912</b>
Interest expense:			
Long-term debt	187	278	282
Other Telecom Group companies	471	478	464
Other interest expense	8	11	23
<b>Total interest expense</b>	<b>666</b>	<b>767</b>	<b>769</b>

### 3 Other Income and Expenses

	Nine months ended 31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Other income:			
Realised foreign exchange gains	27	61	-
Unrealised foreign exchange gains	34	-	226
<b>Total other income</b>	<b>61</b>	<b>61</b>	<b>226</b>
Other expenses:			
Realised foreign exchange losses	-	-	133
Unrealised foreign exchange losses	-	185	-
Revaluation of derivatives	16	-	-
Other operating expenses	-	-	1
<b>Total other expenses</b>	<b>16</b>	<b>185</b>	<b>134</b>

Administration costs, including audit fees for the period of \$24,375 (30 June 2007: \$32,500, 30 June 2006: \$32,500) 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 nine months ended 31 March 2008 (Unaudited)

### 4 Income Tax

	Nine months ended 31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Current tax expense	20	67	10
Deferred tax (credit)/expense	(6)	6	(5)
	<b>14</b>	<b>73</b>	<b>5</b>
<i>Reconciliation of income tax expense:</i>			
Profit before income tax	156	15	235
Tax at current rate of 33%	51	5	78
<i>Adjustments to taxation:</i>			
Non-taxable foreign exchange gains	(37)	-	(73)
Non-deductible foreign exchange losses	-	68	-
Income tax expense	<b>14</b>	<b>73</b>	<b>5</b>

### 5 Due from Telecom Group

	Nine months ended 31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
<i>Current assets:</i>			
Advances to the parent company	501	49	1,573
Other amounts due from fellow subsidiaries	3,163	1,563	1,736
	<b>3,664</b>	<b>1,612</b>	<b>3,309</b>
<i>Non-current assets:</i>			
Advances to the parent company	3,584	3,635	2,159
Debentures issued by fellow subsidiary	2,977	2,833	2,747
Advances to fellow subsidiaries	3,273	4,536	3,031
	<b>9,834</b>	<b>11,004</b>	<b>7,937</b>
Total due from other Telecom Group companies	<b>13,498</b>	<b>12,616</b>	<b>11,246</b>

Current amounts due from Australian subsidiary companies have interest rates of 7.65% (30 June 2006: 6.56%, 30 June 2007: 6.84%). Current amounts due from the parent company and New Zealand subsidiary companies have interest rates of 10% for all periods disclosed above. These amounts are repayable at the option of TCNZ Finance and the parent company and fellow subsidiary companies.

The term advances to the parent company and fellow subsidiary companies have interest rates between 5.83% and 10.00% (30 June 2006: 5.56% and 10.00%, 30 June 2007: 5.56% and 10.00%). These advances can be redeemed at book value at the option of either party. For purposes of classification between current and non-current assets in the balance sheet these items have been allocated based upon expected realisation.

The debentures are denominated in Australian Dollars and have an interest rate of 0% (30 June 2006: 0% and 30 June 2007: 0%). The debentures are redeemable at the option of the holder.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 6 Deferred Tax

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Balance at beginning of the period	3	17	15
<i>Amounts recognised in profit and loss:</i>			
Relating to current period	6	(6)	(5)
<i>Amounts recognised in equity:</i>			
Relating to current period	(33)	(7)	(3)
Reduction in tax rate	-	(1)	-
<b>Deferred tax (liability)/asset</b>	<b>(24)</b>	<b>3</b>	<b>17</b>
The deferred tax balance consists of:			
Temporary difference on finance costs	(1)	(1)	(1)
Fair value of derivatives	(23)	4	8

The movement in the deferred tax balance relates to the fair value of derivatives. TCNZ Finance had not recognised in its deferred taxation balance the tax effect of accumulated losses amounting to \$129 million at 31 March 2008. (30 June 2007: \$57 million, 30 June 2006: \$47 million)

### 7 Investments in Telecom Group

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Redeemable shares held in fellow subsidiary	540	540	540
	<b>540</b>	<b>540</b>	<b>540</b>

The redeemable shares held in a fellow subsidiary company do not confer voting rights to TCNZ Finance and are redeemable at the option of TCNZ Finance.

### 8 Debt Due within One Year

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Long term debt maturing within one year (see Note 9)	606	73	582
Notes	69	-	233
Commercial Paper	301	241	67
European Commercial Paper	126	-	49
Other short-term borrowings	59	46	25
	<b>1,161</b>	<b>360</b>	<b>956</b>

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 8 Debt Due within One Year (continued)

At 31 March 2008 Notes had a weighted average interest rate of 9.21%. Notes are issued under TCNZ Finance's \$500 million Note Facility.

At 31 March 2008 Commercial Paper had a weighted average interest rate of 7.88%. The Paper was issued under TCNZ Finance's A\$1.5 billion Short Term Note and Medium Term Note Programme.

At 31 March 2008 European Commercial Paper had a weighted average interest rate of 4.04%. The Paper was issued under TCNZ Finance US\$1 billion Euro Commercial Paper programme

A \$200 million Asian Commercial Paper programme was terminated during the period.

As at 31 March 2008 TCNZ Finance had committed stand-by facilities of US\$500 million with various major banks. TCNZ Finance also had committed overdraft facilities of \$20 million with New Zealand banks and A\$20 million with Australian banks. There are no significant compensating balance requirements associated with these facilities. None of TCNZ Finance's debt due within one year is secured.

### 9 Long Term Debt

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
TeleBonds	562	561	711
Euro Medium Term Notes	1,878	1,921	2,160
Capital Notes	-	-	146
	<u>2,440</u>	<u>2,482</u>	<u>3,017</u>
Less unamortised discount	(12)	(14)	(16)
	<u>2,428</u>	<u>2,468</u>	<u>3,001</u>
Less long term debt maturing within one year (see Note 8)	(606)	(73)	(582)
	<u><b>1,822</b></u>	<u><b>2,395</b></u>	<u><b>2,419</b></u>

#### TeleBonds

TeleBonds are issued under a trust deed between the parent company and The New Zealand Guardian Trust Company Limited dated 25 October 1988, pursuant to which the parent company, TCNZ Finance and certain of TCNZ Finance's fellow subsidiaries (the "Guaranteeing Group") have given a negative pledge that while any of the stock issued under that trust deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge of lien over any of their respective assets. Each member of the Guaranteeing Group has guaranteed the payment of the TeleBond debt, including interest.

TeleBonds are denominated in New Zealand Dollars and have interest rates ranging from 6.92% to 8.65% (30 June 2006: 6.92% to 9.60%, 30 June 2007: 6.92% to 8.65%) and maturity dates between April 2008 and April 2016. At 31 March 2008 there were \$51m of Telebonds with a related party. (30 June 2006: \$52m, 30 June 2007: \$51m)

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 9 Long Term Debt (continued)

#### Euro Medium Term Notes

TCNZ Finance Limited launched a US\$1 billion Euro Medium Term Notes ("EMTN") programme in March 2000. In May 2001 the programme was increased to US\$2 billion. In 2001 the Australian Branch was added as an issuer under the programme and the Bermudian Branch was added in 2005. Both public debt transactions and private placements can be issued under the programme.

Interest rate	Due	Face Value	Currency	Hedged currency rate	31 March	30 June	
					2008	2007	2006
					\$m	\$m	\$m
1.85%	5 Jun 2007	20bn	JPY	48.578	-	-	287
6.13%	12 Dec 2008	200m	GBP	0.2898	504	521	604
2.00%	8 Jun 2009	2bn	JPY	48.71	25	21	29
6.75%	14 Dec 2011	250m	USD	0.469	316	325	409
5.63%	14 May 2018	125m	GBP	0.3611	315	326	378
5.75%	6 Apr 2020	150m	GBP	0.385	378	391	453
4.75%	11 Oct 2013	275m	CAD	0.728	340	337	-
					<b>1,878</b>	<b>1,921</b>	<b>2,160</b>

Cross currency and interest rate swaps have been entered into to manage the EMTN's currency and interest rate risk exposures. The effective NZ dollar interest rates range from 7.29% and 9.65%.

### 10 Derivative Assets and Liabilities

	31 March	30 June	30 June
	2008	2007	2006
	\$m	\$m	\$m
<i>Short term derivative assets:</i>			
Cross-currency interest rate swaps	-	43	-
Foreign exchange contracts	16	33	22
Currency options	2	-	3
Interest rate swaps	2	-	2
	<b>20</b>	<b>76</b>	<b>27</b>
<i>Long term derivative assets:</i>			
Cross-currency interest rate swaps	46	58	87
Interest rate swaps	59	68	9
	<b>105</b>	<b>126</b>	<b>96</b>
<i>Short term derivative liabilities:</i>			
Foreign exchange contracts	66	25	16
Cross-currency interest rate swaps	191	43	124
Interest rate swaps	-	1	1
	<b>257</b>	<b>69</b>	<b>141</b>
<i>Long term derivative liabilities:</i>			
Cross-currency interest rate swaps	337	574	328
Interest rate swaps	-	1	48
	<b>337</b>	<b>575</b>	<b>376</b>

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 10 Derivative Assets and Liabilities (continued)

Notional amounts of derivative financial instruments:

			31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
	Currency	Maturities			
Cross currency interest rate swaps	AUD:USD	2011	560	532	591
	NZD:GBP	2008-2020	1,772	1,772	1,772
	NZD:JPY	2009	41	41	453
	NZD:USD	2008	-	361	361
	NZD:CAD	2013	378	378	-
Interest rate swaps	AUD	2011	432	411	456
	NZD	2008-2020	2,182	2,542	2,575
Forward exchange contracts	NZD:AUD	2008	331	340	899
	NZD:USD	2008	418	552	597
	NZD:DKK	2008	661	-	-
	NZD:EUR	2008	182	-	-
	USD:AUD	2008	89	-	-
	Other	2008	28	57	24
Currency options	NZD:USD	2008	57	121	64
	Other	2008	35	34	34

All derivatives financial assets or liabilities are designated as financial assets or liabilities at fair value through profit and loss. Certain derivatives are in cash flow hedging relationships where those derivatives meet certain criteria and are deemed an effective hedge. The fair value of derivatives in a hedging relationship at 31 March 2008 is a liability of \$471 million (30 June 2007: liability of \$507 million, 30 June 2006: liability of \$365 million). The change in the mark to market fair value of these derivatives is recognised directly in equity. The movement in the fair value of all other derivatives has been recognised in the income statement.

All derivative financial assets and liabilities are expected to be held to maturity. As at 31 March 2008 the expected net contractual settlement was \$395 million compared to a fair value of \$469 million.

### 11 Due to Telecom Group

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Due to the parent company	669	785	950
Due to fellow subsidiary companies	8,736	8,574	6,115
	<b>9,405</b>	<b>9,359</b>	<b>7065</b>

Current amounts due to Australian subsidiary companies have interest rates of 6.65% (30 June 2006: 5.38%, 30 June 2007: 5.84%). Current amounts due to the parent company and New Zealand subsidiary companies have interest rates of 6% for all periods disclosed above. The amounts due to the parent company and the balance due to fellow subsidiary companies are repayable at book value at the option of either the parent company, fellow subsidiary companies or TCNZ Finance.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 12 Equity

	Contributed capital \$m	Retained earnings \$m	Hedging reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
<b>Balance as at 1 July 2005</b>	550	207	(43)	1	715
Net profit for the period		230	-	-	230
<i>Amount recognised directly in equity:</i>					
Translation of foreign branches	-	-	-	12	12
Cash flow hedges		-	7	-	7
Total recognised income and expenses	-	230	7	12	249
<b>Balance as at 30 June 2006</b>	<b>550</b>	<b>437</b>	<b>(36)</b>	<b>13</b>	<b>964</b>
Net loss for the period	-	(58)	-	-	(58)
<i>Amount recognised directly in equity:</i>					
Translation of foreign branches	-	-	-	(9)	(9)
Cash flow hedges	-	-	12	-	12
Total recognised income and expenses	-	(58)	12	(9)	(55)
<b>Balance as at 30 June 2007</b>	<b>550</b>	<b>379</b>	<b>(24)</b>	<b>4</b>	<b>909</b>
Net profit for the period	-	142	-	-	142
<i>Amount recognised directly in equity:</i>					
Translation of foreign branches	-	-	-	2	2
Cash flow hedges	-	-	69	-	69
Total recognised income and expenses	-	142	69	2	213
<b>Balance as at 31 March 2008</b>	<b>550</b>	<b>521</b>	<b>45</b>	<b>6</b>	<b>1,122</b>

#### *Contributed capital*

Contributed capital consists of 550,000,000 issued and fully paid shares, of which 10,000,000 are 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. All shares have the right to an equal share in dividends authorised by the Board. No other conditions are attached to the ordinary and redeemable shares.

There is no par value on the ordinary shares issued by TCNZ Finance. There have been no movements in contributed capital during the nine months ended 31 March 2008.

#### *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 included 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.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

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### 13 Financial Instruments and Risk Management

#### *Interest Rate and Currency Risk*

TCNZ Finance employs the use of derivative financial instruments for the purpose of reducing the Telecom Group's exposure to fluctuations in interest rates and foreign exchange rates. Cross currency interest rate swaps and interest rate swaps are designated as cash flow or fair value hedges. TCNZ Finance effectively monitors the use of derivative financial instruments through the use of well-defined market and credit risk limits and timely reports to senior management. Gains and losses on cash flows hedges are recognised in the income statement in the same period as the underlying instrument.

The majority of TCNZ Finance's long-term debt has been issued in foreign currencies. TCNZ Finance enters into cross currency interest rate swaps to convert issue proceeds into a floating rate New Zealand dollar or Australian dollar exposure.

New Zealand dollar and Australian dollar interest rate swaps are used to convert floating rate exposure into fixed rate exposure where it is considered appropriate. As a result of these hedging activities the majority of TCNZ Finance's long-term debt is subject to fixed interest rates. A\$110 million of long-term debt is maintained on a floating rate basis.

TCNZ Finance enters into forward exchange contracts to hedge the foreign currency risk of short-term borrowing from foreign issuers. These contracts are designated as a cash-flow hedge.

TCNZ Finance enters into forward exchange contracts and currency options to protect the Telecom Group from the risk that the eventual New Zealand dollar net cash flows resulting from purchases from foreign suppliers will be adversely affected by changes in exchange rates. Forward exchange contracts are also used to hedge foreign currency assets held by the Telecom Group. These options and forward exchange contracts are not designated as a hedging instrument and are therefore classified as held for trading.

#### *Concentration of Credit Risk*

In the normal course of its business, TCNZ Finance incurs credit risk from transactions with financial institutions. TCNZ Finance has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis.

TCNZ Finance has certain derivative transactions that are subject to bilateral credit support agreements that require Telecom or the counterparty to post collateral to support mark-to-market valuation differences

Financial instruments which potentially subject TCNZ Finance to concentrations of credit risk consist principally of cash, short-term investments, advances to fellow subsidiaries, debentures issued by fellow subsidiaries and various derivative financial instruments. TCNZ Finance places its cash, short-term investments and derivative hedging instruments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution. As at 31 March 2008 TCNZ Finance has a concentration of credit exposure which exceeds 10% of equity with three financial institutions (30 June 2007: seven, 30 June 2006: one). TCNZ Finance also has a significant concentration of credit risk by virtue of its lending to other Telecom Group companies.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 13 Financial Instruments and Risk Management (continued)

#### Fair Values

	31 March 2008		30 June 2007		30 June 2006	
	Carrying Amount \$m	Fair Value \$m	Carrying Amount \$m	Fair Value \$m	Carrying Amount \$m	Fair Value \$m
<i>Carried at amortised cost:</i>						
Long-term debt	(2,440)	(2,540)	(2,468)	(2,483)	(2,870)	(2,958)
<i>Carried at fair value:</i>						
Long-term debt	-	-	-	-	(131)	(131)

The fair values of long-term debt is calculated based on market prices for interest rate swaps with similar maturities plus a credit margin to reflect the rates available to TCNZ Finance for similar debt securities.

TCNZ Finance anticipates that long-term debt will be held to maturity, and accordingly settlement at the reported fair value of these financial instruments is unlikely.

There is accrued interest payable of \$60 million (31 June 2006: \$36 million, 30 June 2007: \$35 million) recorded in the balance sheet

#### Other Assets and Liabilities

The carrying amounts of all other assets and liabilities are approximately equivalent to their fair value because of the short term to maturity.

#### Contingent Liabilities

TCNZ Finance has issued bank guarantees totalling A\$5 million as at 31 March 2008 (30 June 2006: \$5 million, 30 June 2007: A\$5 million) in relation to the lease payments of another Telecom Group company. As at 31 March 2008 it is considered unlikely that this guarantee will be called upon.

**Notes to the Financial Statements**

For the nine months ended 31 March 2008 (Unaudited)

**14 Concentration of Funding**

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
<i>Funding consists of:</i>			
Bank overdraft	-	-	3
Debt due within one year	1,161	360	956
Due to other Telecom Group companies	9,405	9,359	7,065
Long-term debt	1,822	2,395	2,419
<b>Total funding</b>	<b>12,388</b>	<b>12,114</b>	<b>10,443</b>
<i>Concentration of funding by economic sector:</i>			
Commercial and financial	2,983	2,755	3,378
Due to other Telecom Group companies	9,405	9,359	7,065
<b>Total funding</b>	<b>12,388</b>	<b>12,114</b>	<b>10,443</b>
<i>Concentration of funding by geographical areas:</i>			
Within New Zealand	8,852	8,882	7,800
Overseas:			
Australia	472	362	334
Bermuda	1,195	960	112
Europe	1,869	1,910	2,197
<b>Total funding</b>	<b>12,388</b>	<b>12,114</b>	<b>10,443</b>

**15 Concentration of Credit Exposures**

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
<i>Credit exposures consist of:</i>			
Cash	7	333	1
Income tax receivable	17	5	31
Due from other Telecom Group companies	10,521	9,783	8,499
Debentures issued by fellow subsidiary	2,977	2,833	2,747
Derivative financial instruments	125	202	107
<b>Total credit exposure</b>	<b>13,647</b>	<b>13,156</b>	<b>11,385</b>
<i>Credit exposures by economic sector:</i>			
Commercial and financial	149	540	138
Due from other Telecom Group companies	13,498	12,616	11,247
<b>Total credit exposure</b>	<b>13,647</b>	<b>13,156</b>	<b>11,385</b>
<i>Credit exposures by geographical areas:</i>			
Within New Zealand	10,590	10,281	8,604
Overseas:			
Australia	3,048	2,857	2,769
Bermuda	1	-	12
Other	8	18	-
<b>Total credit exposure</b>	<b>13,647</b>	<b>13,156</b>	<b>11,385</b>

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 16 Related Party Transactions

TCNZ Finance provides financing for the Telecom Group of companies. These entities are all related parties by virtue of their common control. Transactions and amounts owing to and from these companies are separately disclosed throughout these financial statements.

TCNZ Finance also enters into derivative financial instruments with fellow subsidiaries. These arrangements are matched with similar derivative financial instruments obtained from the external market.

The notional principal or contract amounts outstanding are as follows:

	31 March 2008 \$m	30 June 2007 \$m	30 June 2006 \$m
Cross currency interest rate swaps	346	527	527
Interest rate swaps	-	180	180
Foreign currency forward exchange contracts	361	284	153

### 17 Fellow Subsidiary Companies

At 31 March 2008 the principal fellow operating subsidiaries of TCNZ Finance were as follows:

Telecom New Zealand Limited	Telecom Southern Cross Finance Limited
Telecom Mobile Limited	TCNZ Australia Pty Limited
Telecom Directories Holdings Limited	Teleco Insurance (NZ) Limited
Xtra Limited	Telecom Enterprises Limited
TCNZ (UK) Investments Limited	Telecom Cook Islands Limited
TCNZ (United Kingdom) Securities Limited	Telecom Europe ApS
Telecom Investments Limited	Telecom Europe Holdings ApS
Telecom New Zealand Finance Limited	Telecom Europe 3G ApS
TCNZ Financial Services Limited	Telecom Corporation of New Zealand (Overseas Finance) Limited
Telecom Wellington Investments Limited	AAPT Limited
Telecom Pacific Limited	Telecom IP Limited
TCNZ Australia Investments Pty Limited	Telecom New Zealand Finance (No. 2) Limited
Telecom Southern Cross Limited	Teleco Insurance Investments Limited
TCNZ (Bermuda) Limited	

**Notes to the Financial Statements**

For the nine months ended 31 March 2008 (Unaudited)

**18 Liquidity Profile**

	Within 6 months \$m	6-12 months \$m	12-24 months \$m	24-60 months \$m	60+ months \$m	Total \$m
<b>31 March 2008</b>						
Cash	7	-	-	-	-	7
Due from other Telecom Group companies	13,498	-	-	-	-	13,498
Derivative assets	14	7	-	26	78	125
	<b>13,519</b>	<b>7</b>	<b>-</b>	<b>26</b>	<b>78</b>	<b>13,630</b>
Accrued interest	(60)	-	-	-	-	(60)
Due to other Telecom Group companies	(9,405)	-	-	-	-	(9,405)
Short term debt	(555)	-	-	-	-	(555)
Long term debt	(103)	(503)	(36)	(605)	(1,180)	(2,427)
Derivative liabilities	(62)	(195)	(15)	(229)	(93)	(594)
	<b>(10,185)</b>	<b>(698)</b>	<b>(51)</b>	<b>(834)</b>	<b>(1,273)</b>	<b>(13,041)</b>
	<b>3,334</b>	<b>(691)</b>	<b>(51)</b>	<b>(808)</b>	<b>(1,195)</b>	<b>589</b>

	Within 6 months \$m	6-12 Months \$m	12-24 months \$m	24-60 months \$m	60+ months \$m	Total \$m
<b>30 June 2007</b>						
Cash	333	-	-	-	-	333
Income tax receivable	5	-	-	-	-	5
Due from other Telecom Group companies	12,616	-	-	-	-	12,616
Derivative assets	27	49	3	7	116	202
	<b>12,981</b>	<b>49</b>	<b>3</b>	<b>7</b>	<b>116</b>	<b>13,156</b>
Bank overdraft	-	-	-	-	-	-
Accrued interest	(35)	-	-	-	-	(35)
Due to other Telecom Group companies	(9,359)	-	-	-	-	(9,359)
Short term debt	(287)	-	-	-	-	(287)
Long term debt	-	(73)	(580)	(22)	(1,793)	(2,468)
Derivative liabilities	(19)	(50)	(205)	(222)	(147)	(643)
	<b>(9,700)</b>	<b>(123)</b>	<b>(785)</b>	<b>(244)</b>	<b>(1,940)</b>	<b>(12,792)</b>
	<b>3,281</b>	<b>(74)</b>	<b>(782)</b>	<b>(237)</b>	<b>(1,824)</b>	<b>364</b>

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 18 Liquidity Profile (continued)

	Within 6 months	6-12 months	12-24 months	24-60 months	60+ months	Total
	\$m	\$m	\$m	\$m	\$m	\$m
<b>30 June 2006</b>						
Cash	1	-	-	-	-	1
Income tax receivable	31	-	-	-	-	31
Due from other Telecom Group companies	11,246	-	-	-	-	11,246
Derivative assets	24	3	7	1	88	123
	<b>11,302</b>	<b>3</b>	<b>7</b>	<b>1</b>	<b>88</b>	<b>11,401</b>
Bank overdraft	(3)	-	-	-	-	(3)
Accrued interest	(36)	-	-	-	-	(36)
Due to other Telecom Group companies	(7,065)	-	-	-	-	(7,065)
Short term debt	(374)	-	-	-	-	(374)
Long term debt	(241)	(341)	(73)	(712)	(1,634)	(3,001)
Derivative liabilities	(16)	(125)	(7)	(133)	(236)	(517)
	<b>(7,735)</b>	<b>(466)</b>	<b>(80)</b>	<b>(845)</b>	<b>(1,870)</b>	<b>(10,996)</b>
	<b>3,567</b>	<b>(463)</b>	<b>(73)</b>	<b>(844)</b>	<b>(1,782)</b>	<b>405</b>

All of the TCNZ Finance's intercompany assets and liabilities are capable of being called by TCNZ Finance at any time. For the purposes of the liquidity profile these items have been included within the six months category. For the purposes of classification between current and non-current assets in the balance sheet these items have been allocated based upon expected realisation.

At 31 March 2008 TCNZ Finance has undrawn standby credit facilities of \$647 million (30 June 2006: \$825 million, 30 June 2007: \$692 million) with major banks. There are no significant commitment fees or material compensating balance requirements associated with these facilities.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 19 Repricing Profile

TCNZ Finance has entered into derivative financial instruments to fix the interest rate of all of its debt, with the exception of A\$110 million that has been left at a floating rate. The following tables show the period in which interest bearing assets and liabilities are subject to change in interest rates. The balances include the effect of the economic hedges that have been entered into to manage the foreign exchange and interest rate risk of these balances.

	Weighted average interest rate %	Within 1 year \$m	1-2 years \$m	2-3 years \$m	3-4 years \$m	4-5 years \$m	Greater than 5 years \$m	Total \$m
<b>31 March 2008</b>								
<i>Floating</i>								
Cash	7.04	7	-	-	-	-	-	7
Long term debt	8.81	(127)	-	-	-	-	-	(127)
<i>Fixed</i>								
Due from other Telecom Group companies	7.49	13,498	-	-	-	-	-	13,498
Due to other Telecom Group companies	6.00	(9,405)	-	-	-	-	-	(9,405)
Short term debt	6.75	(555)	-	-	-	-	-	(555)
Long term debt	8.36	(792)	(52)	(35)	(536)	(251)	(1,133)	(2,799)
		<b>2,626</b>	<b>(52)</b>	<b>(35)</b>	<b>(536)</b>	<b>(251)</b>	<b>(1,133)</b>	<b>619</b>

	Weighted average interest rate %	Within 1 year \$m	1-2 years \$m	2-3 years \$m	3-4 years \$m	4-5 years \$m	Greater than 5 years \$m	Total \$m
<b>30 June 2007</b>								
<i>Floating</i>								
Cash	7.80	333	-	-	-	-	-	333
Bank overdraft								
Long term debt	7.77	(121)	-	-	-	-	-	(121)
<i>Fixed</i>								
Due from other Telecom Group companies	7.74	12,616	-	-	-	-	-	12,616
Due to other Telecom Group companies	5.63	(9,359)	-	-	-	-	-	(9,359)
Short term debt	6.45	(287)	-	-	-	-	-	(287)
Long term debt	7.95	(73)	(769)	(20)	(550)	(3)	(1,509)	(2,924)
		<b>3,109</b>	<b>(769)</b>	<b>(20)</b>	<b>(550)</b>	<b>(3)</b>	<b>(1,509)</b>	<b>258</b>

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 19 Repricing Profile (continued)

	Weighted average interest rate %	Within 1 year \$m	1-2 years \$m	2-3 years \$m	3-4 years \$m	4-5 years \$m	Greater than 5 years \$m	Total \$m
<b>30 June 2006</b>								
<i>Floating</i>								
Cash	5.94	1	-	-	-	-	-	1
Bank overdraft	9.15	(3)	-	-	-	-	-	(3)
Long-term debt	7.24	(134)	-	-	-	-	-	(134)
<i>Fixed</i>								
Due from other Telecom Group companies	7.65	11,246	-	-	-	-	-	11,246
Due to other Telecom Group companies	5.95	(7,065)	-	-	-	-	-	(7,065)
Short-term debt	6.81	(373)	-	-	-	-	-	(373)
Long-term debt	8.16	(707)	(73)	(768)	(20)	(22)	(1,586)	(3,176)
		<b>2,965</b>	<b>(73)</b>	<b>(768)</b>	<b>(20)</b>	<b>(22)</b>	<b>(1,586)</b>	<b>496</b>

### 20 Translation of Foreign Currencies to New Zealand Dollars

The following interest rates were used to translate amounts held in foreign currencies at each balance sheet date:

	31 March 2008 \$000's	30 June 2007 \$000's	30 June 2006 \$000's
Australian Dollars	0.8640	0.9077	0.8183
US Dollars	0.7914	0.7687	0.6061
Yen	78.451	94.754	69.711
Euro	0.5014	0.5720	0.4773
Canadian Dollars	0.8093	0.8148	0.6725
Great British Pound	0.3970	0.3839	0.3309

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 21 Segmental Reporting

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

Geographical segments

	New Zealand Operations	Australian Operations	Other Operations	Consolidated
	\$m	\$m	\$m	\$m
<b>31 March 2008</b>				
Interest income	642	16	119	777
Segment net earnings	146	(59)	55	142
Segment total assets	12,204	1,086	898	14,188
Segment total liabilities	(10,832)	(1,344)	(890)	(13,066)
	New Zealand Operations	Australian Operations	Other Operations	Consolidated
	\$m	\$m	\$m	\$m
<b>30 June 2007</b>				
Interest income	812	21	73	906
Segment net earnings	22	(31)	(49)	(58)
Segment total assets	11,068	981	1,653	13,702
Segment total liabilities	(9,876)	(1,216)	(1,701)	(12,793)
	New Zealand Operations	Australian Operations	Other Operations	Consolidated
	\$m	\$m	\$m	\$m
<b>30 June 2006</b>				
Interest income	828	43	41	912
Segment net earnings	296	(53)	(13)	230
Segment total assets	10,677	1,100	183	11,960
Segment total liabilities	(9,115)	(1,310)	(571)	(10,996)

### 22 Imputation Credit Account

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Company on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to dividends.

In 2005 TCNZ Finance Limited elected to become a member of the Telecom Imputation Group with effect from 1 April 2004. As a result, the imputation credit was transferred to the Telecom Imputation Group imputation credit account in 2005. As at 31 March 2008, the Telecom Imputation Group account had a closing credit balance of \$82 million (30 June 2007: \$190 million, 30 June 2006: \$297 million). These imputation credits are available to attach to dividends paid by TCNZ Finance Limited.

## Notes to the Financial Statements

For the nine months ended 31 March 2008 (Unaudited)

### 23 Reconciliation of Net Earnings to Net Cash flows from Operating Activities

	31 March 2008 \$000's	30 June 2007 \$000's	30 June 2006 \$000's
Net earnings/(loss)	142	(58)	230
Adjustments to reconcile net earnings/(loss) to net cash flows from operating activities			
Amortisation of discount	7	11	26
Foreign exchange gain/(loss)	(62)	124	(90)
Revaluation of derivatives	10	-	-
Other	(11)	(2)	(21)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities			
Increase in accounts receivable and related items	1	(1)	-
Decrease in deferred tax	0	10	-
Decrease in current taxation	3	(5)	(1)
Decrease/(Increase) in accounts payable and related items	27	(1)	2
Net cash flows from operating activities	<u>117</u>	<u>78</u>	<u>146</u>

### 24 New Accounting Standards

In December 2006, the ASRB approved the issue of NZ IFRS 8 'Operating Segments'. NZ IFRS 8 introduces a management reporting approach to identifying and measuring the results of reportable operating segments and replaces IAS 14. NZ IFRS 8 is effective for annual periods beginning on or after 1 January 2009, with early application permitted. TCNZ Finance intends to adopt this standard in the 2009 financial year. The standard is not expected to significantly impact the Company but may change the Company's disclosure in relation to segment information.

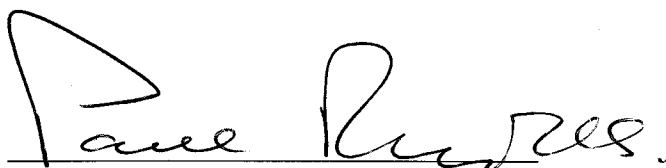
## **APPOINTMENT OF AGENT**

I, Paul Joseph Reynolds being a director of TCNZ Finance Limited **HEREBY AUTHORISE** any one of the following officers of Telecom Corporation of New Zealand Limited, namely:

- (a) Russ Houlden of Auckland, Chief Financial Officer,
- (b) Mark John Verbiest of Wellington, General Counsel,
- (c) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June 2008**.

**DATED** 20<sup>th</sup> day of **June 2008**

A handwritten signature in black ink, appearing to read "Paul Reynolds", written over a horizontal line.

Paul Joseph Reynolds  
(Director of TCNZ Finance Limited)

## **APPOINTMENT OF AGENT**

I, Anthony Graeme Parker being a director of TCNZ Finance Limited **HEREBY AUTHORISE** any one of the following officers of Telecom Corporation of New Zealand Limited, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) Russ Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about *25 June* 2008.

**DATED** *20<sup>th</sup>* day of *June* *2008*



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Anthony Graeme Parker  
(Director of TCNZ Finance Limited)

## **APPOINTMENT OF AGENT**

I, Mark John Verbiest being a director of TCNZ Finance Limited **HEREBY AUTHORISE** any one of the following officers of Telecom Corporation of New Zealand Limited, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) Russ Houlden of Auckland, Chief Financial Officer,
- (c) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about *25 June* 2008.

**DATED** *20<sup>th</sup>* day of *June* 2008

  
\_\_\_\_\_  
Mark John Verbiest  
(Director of TCNZ Finance Limited)

## **APPOINTMENT OF AGENT**

I, John Russell Houlden being a director of TCNZ Finance Limited **HEREBY AUTHORISE** any one of the following officers of Telecom Corporation of New Zealand Limited, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) Mark John Verbiest of Wellington, General Counsel,
- (c) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about *25 June* 2008.

**DATED** *20<sup>th</sup>* day of *June* *2008*



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John Russell Houlden  
(Director of TCNZ Finance Limited)


**APPOINTMENT OF AGENT**

I, Ronald Joseph Spithill being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** *Sunday* of *June* 2008



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Ronald Joseph Spithill  
(Director of Telecom Corporation of  
New Zealand Limited)

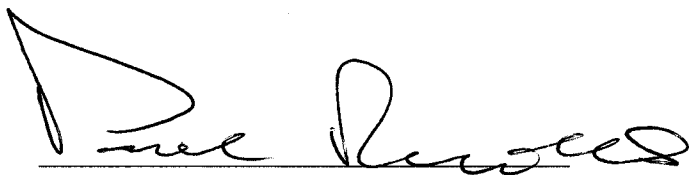
## **APPOINTMENT OF AGENT**

I, Paul Joseph Reynolds being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) John Russell Houlden of Auckland, Chief Financial Officer,
- (b) Mark John Verbiest of Wellington, General Counsel,
- (c) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** 5 day of June 2008

A handwritten signature in black ink, appearing to read 'Paul Reynolds', written over a horizontal line.

Paul Joseph Reynolds  
(Director of Telecom Corporation of  
New Zealand Limited)

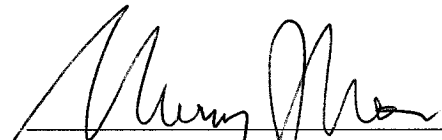
**APPOINTMENT OF AGENT**

I, Murray James Horn being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** 5 day of June 2008

  
\_\_\_\_\_  
Murray James Horn  
(Director of Telecom Corporation of  
New Zealand Limited)

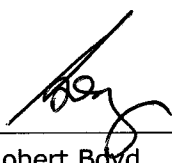
## **APPOINTMENT OF AGENT**

I, Wayne Robert Boyd being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** 5 day of June 2008



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Wayne Robert Boyd  
(Director of Telecom Corporation of  
New Zealand Limited)

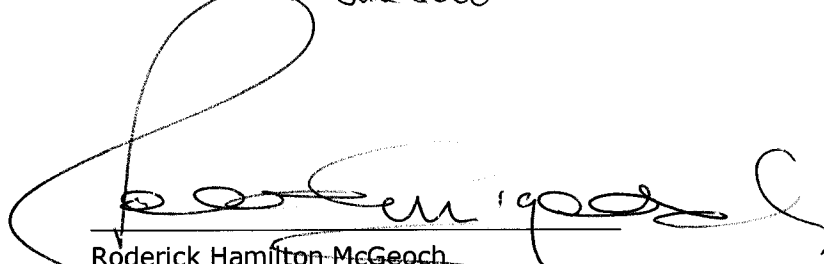
## **APPOINTMENT OF AGENT**

I, Roderick Hamilton McGeoch being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** 5 day of June 2008

A large, stylized handwritten signature in black ink, appearing to read 'Roderick Hamilton McGeoch', written over a horizontal line.

Roderick Hamilton McGeoch  
(Director of Telecom Corporation of  
New Zealand Limited)

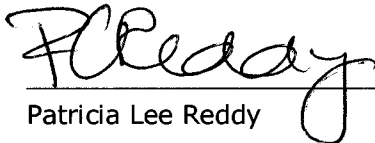
**APPOINTMENT OF AGENT**

I, Patricia Lee Reddy being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about *25 June* 2008, of which I am a promoter.

**DATED** *5* day of *June* 2008



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Patricia Lee Reddy  
(Director of Telecom Corporation of  
New Zealand Limited)

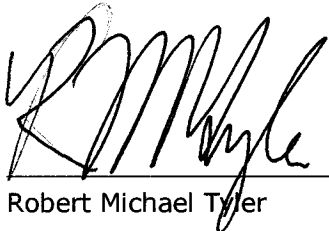
**APPOINTMENT OF AGENT**

I, Robert Michael Tyler being a director of Telecom Corporation of New Zealand Limited **HEREBY AUTHORISE** any one of the following, namely:

- (a) Paul Joseph Reynolds of Auckland, Chief Executive Officer,
- (b) John Russell Houlden of Auckland, Chief Financial Officer,
- (c) Mark John Verbiest of Wellington, General Counsel,
- (d) Craig Andrew Mulholland of Wellington, Company Secretary,

to be my agent authorised in writing to sign on my behalf the Prospectus relating to an offer to the public for subscription of Unsecured Bonds by TCNZ Finance Limited, to be dated on or about **25 June** 2008, of which I am a promoter.

**DATED** *5<sup>th</sup>* day of *June* 2008



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Robert Michael Tyler  
(Director of Telecom Corporation of  
New Zealand Limited)

*Date*

TELECOM CORPORATION OF NEW ZEALAND LIMITED

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**POWER OF ATTORNEY**

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**BY THIS POWER OF ATTORNEY** given this 8 day of August 2002, TELECOM CORPORATION OF NEW ZEALAND LIMITED, a company incorporated under the laws of New Zealand and having its registered office at Wellington (the "Company") hereby makes, constitutes and appoints each of the persons holding the following offices (or such other office howsoever designated which may replace or succeed any such office), namely:

- (v) the Chief Executive Officer of the Company;
- (vi) the General Counsel of the Company;
- (vii) the Company Secretary of the Company; and
- (viii) any Director of TCNZ Finance Limited;

severally, to be its true and lawful attorney (each of them being referred to herein as an "Attorney") for it and in its name, place and stead and on behalf of the Company and as its agent authorised in writing to sign all documents (including, without limitation, any prospectus) and to take any action necessary or considered desirable in relation to any offer by TCNZ Finance Limited of debt securities, such debt securities to be constituted and issued under a trust deed (as amended or supplemented from time to time) dated 25 October 1988 between the Company and The New Zealand Guardian Trust Company Limited.

**AND IT IS HEREBY AGREED AND DECLARED THAT:**

- 1 Any Attorney may by instrument in writing appoint, in the place and stead of the appointing Attorney, one or more substitute attorney(s) to exercise any or all of the powers and authorities conferred upon the appointing Attorney and revoke any such appointment from time to time and/or appoint any other substitute attorney(s) in the place of such attorney or attorneys, in each case as the appointing Attorney shall from time to time think fit, and the references to "Attorney" in this instrument shall include any substitute attorney appointed hereunder, provided that the power of substitution conferred by this clause 1 shall not be conferred upon any such substitute attorney;
- 2 No person dealing with an Attorney shall be concerned to see or inquire as to the propriety or expediency of any assurance, act, matter or thing which the Attorney may do or purport or agree to do or perform in the name of the Company by virtue of this Power of Attorney;

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**POWER OF ATTORNEY**

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- 3 With regard to any act, matter, thing, deed, instrument or other document the same shall as between the Company and the person or persons dealing with any one or more of the Attorneys be valid and binding on the Company to and for all intents and purposes;
- 4 The Company hereby undertakes to ratify and confirm all that any one or more of the Attorneys shall do or cause to be done by virtue of this Power of Attorney;
- 5 The powers and authorities hereby conferred on each Attorney shall remain in full force and effect until written notice of revocation by resolution of the Directors of the Company has been received by such Attorney, and any person dealing with such Attorney shall in the absence of actual knowledge to the contrary be entitled to assume that this Power of Attorney and the powers and authorities hereby conferred have not been revoked and remain in full force and effect and shall be protected in so relying;
- 6 The Company hereby agrees to indemnify and to keep indemnified each Attorney against all or any loss or damage incurred or sustained by the Attorney resulting from any act, matter, or thing done or carried out by the Attorney; and
- 7 This Power of Attorney replaces the Power of Attorney dated 14 November 1996, granted by the Company in favour of the Chief Executive Officer, General Counsel, and Manager Secretariat of the Company and the directors of TCNZ Finance Limited which was revoked by resolution of the Directors of the Company.

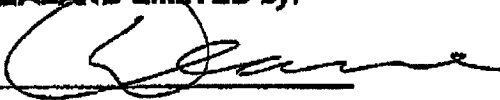
**THIS POWER OF ATTORNEY** shall be governed by and construed in accordance with New Zealand law.


**IN WITNESS WHEREOF** the Company has executed this Power of Attorney in accordance with the laws of New Zealand as at the date first written above.


POWER OF ATTORNEY

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**TELECOM CORPORATION OF  
NEW ZEALAND LIMITED by:**

  
\_\_\_\_\_  
*Director*

  
\_\_\_\_\_  
*Director*



## **CERTIFICATE OF NON-REVOCATION OF ATTORNEY**

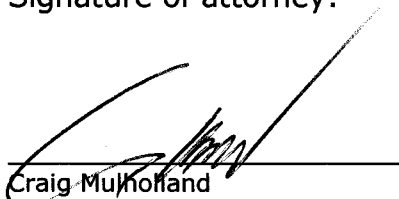
I, Craig Mulholland, of Wellington, New Zealand

HEREBY CERTIFY

1. that I am authorised, as Company Secretary of Telecom Corporation of New Zealand Limited ("TCNZ"), to act as Attorney of TCNZ under a deed dated 8 August 2002;
2. that I have executed the prospectus for an offer of Telebonds by TCNZ Finance Limited dated 25 June 2008 as Attorney of TCNZ under the said Power of Attorney and pursuant to the powers thereby conferred on me;
3. that at the date hereof I have not received any notice or information of the revocation of the said Power of Attorney by death or otherwise.

Date: 25 June 2008

Signature of attorney:



Craig Mulholland

Company Secretary (Telecom Corporation of New Zealand Limited)



25 June 2008

Registrar of Companies  
Private Bag  
AUCKLAND

Dear Sir

**TCNZ Finance Limited – Offer of Telebonds**

New Zealand Exchange Limited (“NZX”) hereby confirms that in terms of Regulation 23(2) of the Securities Regulations 1983, application has been made to NZX for permission to list the abovementioned securities and all the requirements of NZX relating thereto that can be complied with on or before the date of the prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this prospectus.

Yours faithfully

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a long, sweeping horizontal line that ends in a small hook.

Stephen Roddy  
Solicitor



10 Customhouse Quay  
Wellington 6011  
New Zealand

PO Box 996  
Wellington 6140  
New Zealand

Telephone +64 (4) 816 4500  
Fax +64 (4) 816 4600  
Internet [www.kpmg.co.nz](http://www.kpmg.co.nz)

The Directors  
TCNZ Finance Limited  
PO Box 570  
Wellington

25 June 2008

Dear Directors

**Telebond Prospectus dated 25 June 2008**

In terms of Regulation 7(1)(b)(ii) of the Securities Regulations 1983 we hereby give our consent to our audit report dated 25 June 2008 appearing in the registered Prospectus to be dated on or about 25 June 2008 in the form in which it appears. We have not authorised or caused the issue of the prospectus and take no responsibility for any part of the prospectus other than our audit report on pages 31 to 33.

We also confirm that we have not, before delivery of a copy of the Prospectus for registration, withdrawn our consent to the issue thereof.

Yours sincerely,

Brent Manning  
Partner

# CERTIFICATE OF REGISTRATION OF PROSPECTUS

(Under Section 42(5) of the Securities Act 1978)

**TCNZ FINANCE LIMITED**

**517151**

This is to certify that a Prospectus, for TCNZ FINANCE LIMITED, dated the 25th day of June 2008 was registered on the 25th day of June 2008.

*Neville Harris*

Neville Harris  
Registrar of Companies  
Dated this 2nd day of July 2008

