

Condensed consolidated income statement**For the six months ended 31 December 2010**

		Six months ended 31 December		Year ended 30 June
		2010	2009	2010
		Unaudited	Unaudited	Audited
(Dollars in millions, except per share amounts)	note	NZ\$	NZ\$	NZ\$
Operating revenues and other gains				
Local service		499	516	1,026
Calling		479	518	1,003
Interconnection		100	83	178
Mobile		405	426	826
Data		299	324	638
Broadband and internet		290	297	594
IT services		274	234	486
Resale		124	147	278
Other operating revenue	3	99	126	215
Other gains	4	32	-	27
		2,601	2,671	5,271
Operating expenses				
Labour		(439)	(457)	(893)
Intercarrier costs		(490)	(493)	(957)
Other operating expenses	5	(786)	(849)	(1,657)
Other expenses	4	(16)	-	-
Earnings before interest, taxation, depreciation and amortisation		870	872	1,764
Depreciation		(389)	(376)	(757)
Amortisation		(141)	(134)	(275)
Earnings before interest and taxation		340	362	732
Finance income		10	17	22
Finance expense		(99)	(102)	(202)
Share of associates' profits / (losses)		1	-	1
Earnings before income tax		252	277	553
Income tax expense	10	(87)	(34)	(171)
Net earnings for the period		165	243	382
Net earnings attributable to equity holders of the Company		164	242	380
Net earnings attributable to non controlling interest		1	1	2
		165	243	382
Basic net earnings per share (in cents)		9	13	20
Diluted net earnings per share (in cents)		9	13	20
Weighted average number of ordinary shares outstanding (in millions)		1,923	1,874	1,891

See accompanying notes to the financial statements.

Condensed consolidated statement of comprehensive income**For the six months ended 31 December 2010**

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
<i>(Dollars in millions)</i>	NZ\$	NZ\$	NZ\$
Net earnings for the period	165	243	382
Other comprehensive income ¹ :			
Translation of foreign operations	2	(5)	(6)
Net investment hedges	(15)	8	10
Revaluation of long-term investments	8	31	30
Cash flow hedges	(13)	10	9
Other comprehensive income / (loss) for the period	(18)	44	43
Total comprehensive income / (loss) for the period	147	287	425
Total comprehensive income / (loss) attributable to equity holders of the Company	146	286	423
Total comprehensive income attributable to non controlling interest	1	1	2
	147	287	425

See accompanying notes to the financial statements.

¹ Components of other comprehensive income are shown net of tax.

Condensed consolidated statement of changes in equity**For the six months ended 31 December**

Unaudited (Dollars in millions)	Share capital NZ\$	Retained earnings NZ\$	Hedge reserve NZ\$	Deferred compensation NZ\$	Revaluation reserve NZ\$	Foreign currency translation reserve NZ\$	Total equity holders of the Company NZ\$	Non controlling interest NZ\$	Total equity NZ\$
Balance at 1 July 2009 as restated for adoption of IFRS 9 (refer Note 1)	1,384	1,369	(41)	11	(259)	(24)	2,440	5	2,445
Change in accounting policy for the adoption of IFRS 9 (refer Note 1)	-	-	-	-	(4)	-	(4)	-	(4)
Balance at 1 July 2009 restated	1,384	1,369	(41)	11	(263)	(24)	2,436	5	2,441
Net earnings for the period	-	242	-	-	-	-	242	1	243
Other comprehensive income ¹	-	-	10	-	31	3	44	-	44
Total comprehensive income for the period, net of tax	-	242	10	-	31	3	286	1	287
Contributions by and distributions to owners:									
Dividends	-	(225)	-	-	-	-	(225)	(1)	(226)
Dividend reinvestment plan	72	-	-	-	-	-	72	-	72
Issuance of shares under share schemes	8	-	-	(1)	-	-	7	-	7
Total transactions with owners	80	(225)	-	(1)	-	-	(146)	(1)	(147)
Balance at 31 December 2009	1,464	1,386	(31)	10	(232)	(21)	2,576	5	2,581
Balance at 1 July 2010	1,515	1,296	(32)	13	(233)	(20)	2,539	6	2,545
Net earnings for the period	-	164	-	-	-	-	164	1	165
Other comprehensive income ¹	-	-	(13)	-	8	(13)	(18)	-	(18)
Transfer to retained earnings on disposal of long-term investments ²	-	64	-	-	(64)	-	-	-	-
Total comprehensive income for the period, net of tax	-	228	(13)	-	(56)	(13)	146	1	147
Contributions by and distributions to owners:									
Ordinary dividends	-	(182)	-	-	-	-	(182)	(1)	(183)
Supplementary dividends	-	(9)	-	-	-	-	(9)	-	(9)
Tax credit on supplementary dividend	-	9	-	-	-	-	9	-	9
Dividend reinvestment plan	7	-	-	-	-	-	7	-	7
Issuance of shares under share schemes	6	-	-	(1)	-	-	5	-	5
Total transactions with owners	13	(182)	-	(1)	-	-	(170)	(1)	(171)
Balance at 31 December 2010	1,528	1,342	(45)	12	(289)	(33)	2,515	6	2,521

See accompanying notes to the financial statements.

¹ Other comprehensive income is presented net of tax.² Relates to the sale of Telecom's investments in iiNet Limited and Macquarie Telecom Group Limited shares transferred from revaluation reserve to retained earnings (refer note 4).

Condensed consolidated statement of changes in equity (continued)
For the year ended 30 June 2010

Audited	Share capital	Retained earnings	Hedge reserve	Deferred compensation	Revaluation reserve	Foreign currency translation reserve	Total equity holders of the Company	Non controlling interest	Total equity
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Balance at 1 July 2009 as restated for adoption of IFRS 9 (refer Note 1)	1,384	1,369	(41)	11	(259)	(24)	2,440	5	2,445
Change in accounting policy for the adoption of IFRS 9 (refer Note 1)	-	-	-	-	(4)	-	(4)	-	(4)
Balance at 1 July 2009 restated	1,384	1,369	(41)	11	(263)	(24)	2,436	5	2,441
Net earnings for the period	-	380	-	-	-	-	380	2	382
Other comprehensive income ¹	-	-	9	-	30	4	43	-	43
Total comprehensive income for the period, net of tax	-	380	9	-	30	4	423	2	425
Contributions by and distributions to owners:									
Dividends	-	(453)	-	-	-	-	(453)	(1)	(454)
Dividend reinvestment plan	128	-	-	-	-	-	128	-	128
Issuance of shares under share schemes	3	-	-	2	-	-	5	-	5
Total transactions with owners	131	(453)	-	2	-	-	(320)	(1)	(321)
Balance at 30 June 2010	1,515	1,296	(32)	13	(233)	(20)	2,539	6	2,545

See accompanying notes to the financial statements.

¹ Other comprehensive income is presented net of tax.

Condensed consolidated statement of financial position**As at 31 December 2010**

		31 December		30 June
		2010	2009	2010
		Unaudited	Unaudited	Audited
(Dollars in millions)	note	NZ\$	NZ\$	NZ\$
ASSETS				
Current assets:				
Cash		376	296	360
Short-term derivative assets		3	1	4
Receivables and prepayments		744	683	702
Taxation recoverable		1	-	-
Inventories		91	101	61
Total current assets		1,215	1,081	1,127
Non-current assets:				
Long-term investments	1	186	291	276
Long-term receivables		41	9	31
Long-term derivative assets		30	30	51
Intangible assets		1,096	978	1,106
Property, plant and equipment		4,224	4,235	4,274
Total non-current assets		5,577	5,543	5,738
Total assets		6,792	6,624	6,865
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accruals		979	868	1,170
Taxation payable		-	5	15
Short-term derivative liabilities		326	32	22
Short-term provisions		18	22	19
Debt due within one year		611	349	184
Total current liabilities		1,934	1,276	1,410
Non-current liabilities:				
Deferred tax liability		285	180	285
Long-term derivative liabilities		287	431	440
Long-term provisions		44	27	48
Long-term debt		1,721	2,129	2,137
Total non-current liabilities		2,337	2,767	2,910
Total liabilities		4,271	4,043	4,320
Equity:				
Share capital		1,528	1,464	1,515
Reserves	1	(355)	(274)	(272)
Retained earnings		1,342	1,386	1,296
Total equity attributable to equity holders of the Company		2,515	2,576	2,539
Non controlling interest		6	5	6
Total equity		2,521	2,581	2,545
Total liabilities and equity		6,792	6,624	6,865

See accompanying notes to the financial statements.

Condensed consolidated statement of cash flows**For the six months ended 31 December 2010**

		Six months ended 31 December		Year ended 30 June
		2010	2009	2010
		Unaudited	Unaudited	Audited
(Dollars in millions)	note	NZ\$	NZ\$	NZ\$
Cash flows from operating activities				
Cash received from customers		2,495	2,716	5,257
Interest income		10	12	21
Payments to suppliers and employees		(1,840)	(1,870)	(3,389)
Income tax (paid) / refunded		(74)	12	1
Interest paid on debt		(97)	(97)	(195)
Dividend income		39	45	66
Net cash flow from operating activities	7	533	818	1,761
Cash flows from investing activities				
Sale of property, plant and equipment		3	-	3
Sale of business	4	76	-	-
Sale of long-term investments	4	100	6	6
Purchase of property, plant and equipment and intangibles		(589)	(570)	(1,080)
Capitalised interest paid		(10)	(10)	(20)
Net cash flow from investing activities		(420)	(574)	(1,091)
Cash flows from financing activities				
Repayment of long-term debt		(9)	-	(15)
Repayment of derivatives		(11)	(10)	(34)
Proceeds from derivatives		1	12	12
Repayment of short-term debt		(307)	(1,334)	(1,842)
Proceeds from short-term debt		413	1,294	1,651
Dividends paid		(177)	(153)	(327)
Net cash flow from financing activities		(90)	(191)	(555)
Net cash flow		23	53	115
Opening cash position		360	261	261
Foreign exchange movement		(7)	(18)	(16)
Closing cash position		376	296	360

See accompanying notes to the financial statements.

Notes to the Condensed consolidated interim financial statements

NOTE 1 FINANCIAL STATEMENTS

The condensed consolidated interim financial statements of Telecom Corporation of New Zealand Limited ("the Company") together with its subsidiaries and associates ("Telecom"), as at and for the six months ended 31 December 2010, have been prepared in accordance with the New Zealand Equivalent to International Accounting Standard No. 34: "Interim Financial Reporting", issued by the New Zealand Institute of Chartered Accountants. These financial statements also comply with International Accounting Standard IAS 34, Interim Financial Reporting.

The New Zealand Government is currently working on an initiative for the deployment of Ultra Fast Broadband ('UFB') and has established Crown Fibre Holdings ('CFH') to select partners for the UFB initiative. During 2010 CFH announced its selection of parties for priority negotiations, including Telecom for 25 of the 33 regions where UFB is planned to be deployed. Any structural separation of Telecom, to enable it to partner with the Government in the UFB process, is predicated on agreeing a commercial and regulatory framework that together delivers an acceptable outcome from a shareholder value perspective. Structural separation could occur by way of demerger of Chorus (and certain parts of Wholesale) into a new and entirely separate company with its own stockmarket listing. Such a change would require 75% of the shares that are voted by shareholders to be in favour of the demerger proposal. If this demerger were to occur, it would result in the issue to Telecom's shareholders of shares in a new entity that would contain the related network assets and network business owned by Telecom prior to demerger. This would result in a significant change in Telecom's consolidated financial statements. Pending the outcome of any regulatory relief or any future changes to the regulatory environment, whether related to the UFB proposal or not, there is also the potential for certain assets to be impaired. While there are currently no matters arising from the UFB process that would affect the H1 FY11 financial statements, this may not be the case in the future.

Telecom has restated its comparative segment results to reflect changes during the current year to its internal trading and internal reporting. Certain other comparative information has also been reclassified to conform with the current period's presentation. There is no change to the underlying segments or to the overall Group reported result.

During the year ended 30 June 2010, Telecom elected to early adopt Part 1 of NZ IFRS 9 ('IFRS 9') (and its accompanying amendments to other existing NZ IFRS standards) with date of initial application of 31 December 2009. IFRS 9 applies only to financial assets and specifies that financial assets should be measured at either amortised cost or fair value on the basis of both the business model for managing these investments and any contractual cash flows. Consequently, Telecom now measures certain financial assets that were previously held at cost, being its investment in Hutchison Telecommunications Australia Limited ('Hutchison') and in TMT Ventures ('TMT'), at fair value. Telecom chose to measure the fair value of Hutchison under IFRS 9 using the observable market share price. For TMT, the difference between the previous carrying amount at the date of initial application and its fair value under IFRS 9 was recognised in the opening revaluation reserve at 1 July 2009. For Hutchison, the difference between the previous carrying amount at the date of initial application and its fair value under IFRS 9 was recognised in the opening revaluation reserve at 1 July 2007. All details are as previously disclosed.

Except for the adoption of the Standards and Interpretations described below, these condensed consolidated interim financial statements of the Company and Telecom have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in Telecom's annual report for the year ended 30 June 2010. The preparation of interim financial statements also requires management to make judgements, estimates and assumptions. Telecom has been consistent in applying the judgements, estimates and assumptions adopted in the annual report for the year ended 30 June 2010.

NZ IFRS 2 'Group cash settled share based payment transactions' and NZ IFRS 5 'Non current assets held for sale and discontinued operations'

These revised standards have been adopted prospectively from 1 July 2010, but have had no impact on the condensed consolidated interim financial statements.

Notes to the Condensed consolidated interim financial statements (continued)**NOTE 1 FINANCIAL STATEMENTS (continued)**

The presentation currency of the financial statements is New Zealand dollars which is also the Company's functional currency. References in these financial statements to '\$' or 'NZ\$' are to New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

These condensed consolidated interim financial statements were approved by the board of directors on 10 February 2011 and are unaudited.

NOTE 2 SEGMENTAL REPORTING*Segmental information for the six months ended 31 December 2010*

Unaudited	Wholesale & Chorus International		Retail	Gen-i	T&SS	AAPT	Total
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
External revenue and other gains	25	432	951	676	18	438	2,540
Internal revenue	513	229	61	38	287	41	1,169
Total revenue and other gains	538	661	1,012	714	305	479	3,709
Segment result	391	46	240	105	-	48	830

Segmental information for the six months ended 31 December 2009

Unaudited Restated	Wholesale & Chorus International		Retail	Gen-i	T&SS	AAPT	Total
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
External revenue and other gains	23	389	991	688	5	515	2,611
Internal revenue	499	259	58	34	301	55	1,206
Total revenue and other gains	522	648	1,049	722	306	570	3,817
Segment result	385	109	176	99	-	67	836

Segmental information for the year ended 30 June 2010

Unaudited Restated	Wholesale & Chorus International		Retail	Gen-i	T&SS	AAPT	Total
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
External revenue and other gains	44	789	1,960	1,368	18	1,011	5,190
Internal revenue	1,006	503	116	81	585	98	2,389
Total revenue and other gains	1,050	1,292	2,076	1,449	603	1,109	7,579
Segment result	767	206	406	223	(2)	136	1,736

Notes to the Condensed consolidated interim financial statements (continued)**NOTE 2 SEGMENTAL REPORTING (continued)**

The segment results disclosed are based on those reported to Telecom's Chief Executive Officer and are how Telecom analyses its business results. Segment result is measured based on net earnings before depreciation, amortisation, other gains and expenses not allocated to segments, finance income and costs, associates profit / losses and taxation expense. None of these other items are assessed on a segment basis by Telecom's Chief Executive Officer.

Included within the segment results disclosed above for AAPT are the results of its consumer division, which has been disposed of in the six months ended 31 December 2010 (refer to note 4).

Reconciliation from segment result to earnings before income tax

		Six months ended		Year ended
		31 December		30 June
		2010	2009	2010
		Unaudited	Unaudited	Audited
<i>(Dollars in millions)</i>	<i>notes</i>	<i>NZ\$</i>	<i>NZ\$</i>	<i>NZ\$</i>
Segment result		830	836	1,736
Net result of Corporate revenue and expenses		38	36	28
Other gains not allocated to segments	4	18	-	-
Other expenses	4	(16)	-	-
Depreciation		(389)	(376)	(757)
Amortisation		(141)	(134)	(275)
Finance income		10	17	22
Finance expense		(99)	(102)	(202)
Share of associates' profits / (losses)		1	-	1
Earnings before income tax		252	277	553

NOTE 3 OTHER OPERATING REVENUE

	Six months ended		Year ended
	31 December		30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
<i>(Dollars in millions)</i>	<i>NZ\$</i>	<i>NZ\$</i>	<i>NZ\$</i>
Other operating revenue			
Dividends	39	45	66
Sale of equipment	12	25	36
Miscellaneous other	48	56	113
	99	126	215

Dividend income includes dividends received from Southern Cross Cables Holdings Limited, a related party by way of Telecom's 50% shareholding in the company.

Notes to the Condensed consolidated interim financial statements (continued)

NOTE 4 OTHER GAINS & OTHER EXPENSES

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Other gains			
Gain on sale of business	18	-	-
Various resolutions and settlements with supplier	14	-	27
	32	-	27
Other expenses			
Costs relating to UFB process	12	-	-
Natural disaster costs	4	-	-
	16	-	-

In the six months ended 31 December 2010, other gains of \$32 million represented:

- \$18 million (A\$15 million) gain on the sale of AAPT's consumer division to iiNet Limited for \$76 million (A\$60 million) in September 2010; and
- \$14 million relating to a resolution and settlement reached with a supplier.

In the year ended 30 June 2010, other gains of \$27 million represented various resolutions and settlements reached with a supplier.

Telecom also sold its investments in Macquarie Telecom Group Limited and iiNet Limited for cash of \$100 million. This has no impact on the condensed consolidated income statement due to the movements in fair value of these investments (including the difference between sales proceeds and carrying value) being recognised directly in equity in accordance with IFRS 9.

In the six months ended 31 December 2010, other expenses of \$16 million represented:

- \$12 million of costs incurred in relation to Telecom's proposal for the Government's UFB initiative and process; and
- \$4 million of costs recognised in relation to the Canterbury earthquakes.

Notes to the Condensed consolidated interim financial statements (continued)

NOTE 5 OTHER OPERATING EXPENSES

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Provisioning	20	20	40
Network support	47	47	81
Maintenance and other direct costs	87	82	168
Mobile acquisitions, upgrades and dealer commissions	126	168	295
Procurement and IT services	164	140	292
Broadband, internet and other	43	42	93
Computer costs	101	104	200
Advertising, promotions and communications	42	62	99
Accommodation costs	73	69	146
Outsourcing	12	20	36
Travel	13	13	24
Bad debts	10	7	17
Other expenses	48	75	166
	786	849	1,657

NOTE 6 DIVIDENDS AND EQUITY

Shares Issued in Lieu of Dividends

In respect of the six months ended 31 December 2010, 3,388,197 shares with a total value of \$7 million were issued in lieu of a cash dividend (six months ended 31 December 2009: 28,975,633 shares with a total value of \$72 million; year ended 30 June 2010: 55,196,482 shares with a total value of \$128 million).

Dividends paid

On 19 August 2010, the Board of Directors approved the payment of a fourth quarter dividend for the financial year ended 30 June 2010 of \$115 million, representing 6.0 cents per share. No imputation credits were attached to the dividend and no supplementary dividend was declared.

On 4 November 2010, the Board of Directors approved the payment of a first quarter dividend of \$67 million, representing 3.5 cents per share. The dividend was fully imputed (at a ratio of 30/70) in line with the corporate income tax rate. In addition, a supplementary dividend totalling approximately \$9 million was payable to shareholders who were not resident in New Zealand. In accordance with the Income Tax Act 2007, Telecom will receive a tax credit from the Inland Revenue Department equivalent to the amount of supplementary dividends paid.

Declaration of dividend

On 10 February 2011, the Board of Directors approved the payment of a second quarter dividend of \$67 million, representing 3.5 cents per share. The dividend has been fully imputed (at a ratio of 30/70) in line with the corporate income tax rate. In addition, a supplementary dividend totalling approximately \$9 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, Telecom will receive a tax credit from the Inland Revenue Department equivalent to the amount of supplementary dividends paid.

Notes to the Condensed consolidated interim financial statements (continued)

NOTE 7 RECONCILIATION OF NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended 31 December		Year ended 30 June
	2010	2009	2010
	Unaudited	Unaudited	Audited
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Net earnings for the period	165	243	382
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortisation	530	510	1,032
Bad and doubtful accounts	10	10	22
Increase / (decrease) in deferred tax liability	(7)	(9)	104
Share of associates' (profits) / losses	(1)	-	(1)
Other	(23)	2	(8)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:			
Decrease / (increase) in accounts receivable and related items	(52)	88	56
Decrease / (increase) in inventories	(30)	(4)	36
Decrease / (increase) in current taxation	20	55	67
Increase / (decrease) in accounts payable and related items	(79)	(77)	71
Net cash flows from operating activities	533	818	1,761

NOTE 8 CONTINGENCIES

For further historic detail on the specific matters referred to below, please refer to Telecom's 2010 Annual Report, as well as the previously published versions of the condensed consolidated interim financial statements, all of which are available online at: <http://investor.telecom.co.nz>

New Zealand Commerce Act Litigation

The proceeding brought by the Commission under section 36 of the Commerce Act in relation to Telecom's implementation and maintenance of high speed data transmission service pricing remains active. In September 2010, Telecom filed its proposed evidence on data revenue for the penalty hearing in the High Court, and the Commission subsequently advised that it does not object to that evidence. The High Court hearing on penalty was held on 6 and 7 December 2010. The Commission sought a penalty in the range of \$20 to \$25 million, while Telecom submitted that the Court should decline to impose a pecuniary penalty or, alternatively, that a low penalty was appropriate. The Court's judgment has been reserved. The hearing of the appeal from the High Court's liability judgment of 14 October 2009, and any appeal from the High Court's judgment on penalty, has been set down for 26 September 2011 to 4 October 2011.

The proceeding commenced by the Commission in relation to Telecom's introduction of the 0867 service under section 36 of the Commerce Act was concluded with the delivery of the Supreme Court judgment on 1 September 2010, following a hearing in June 2010. The Supreme Court dismissed the Commission's appeal from the lower Courts' finding that Telecom had not breached section 36, and ordered the Commission to pay Telecom costs of \$50,000 in the Supreme Court. Telecom is reviewing its entitlement to costs in the High Court.

Notes to the Condensed consolidated interim financial statements (continued)**NOTE 8 CONTINGENCIES (continued)****Other litigation and investigations**

The proceeding brought by Asia Pacific Telecommunications Limited ('APT') remains active. In June 2010 the High Court vacated the February 2011 hearing as APT had only provided Telecom with part of its calculation of damages for the alleged fiduciary duty cause of action. APT has subsequently provided its calculation of damages for the alleged fiduciary duty cause of action on a without prejudice basis, which is being reviewed by Telecom. Telecom also applied for discovery by APT of documents arising out of Telecom's inspection of certain documents located in Hong Kong. That application was subsequently dealt with by consent, with APT agreeing to provide discovery of the documents located in Hong Kong without the need for a hearing. The Court has set down a conference to review progress on this matter for March 2011.

Effect of outstanding claims

Telecom cannot reasonably estimate the adverse effect (if any) on Telecom if any of the foregoing outstanding claims are ultimately resolved against Telecom's interests. There can be no assurance that such litigation will not have a significant effect on Telecom's business, financial condition, position, results of operations or profitability.

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

Capital commitments

At 31 December 2010, capital expenditure amounting to \$160 million (31 December 2009: \$173 million) had been committed under contractual arrangements, with substantially all payments due within one year. The capital expenditure commitments principally relate to telecommunications network equipment.

NOTE 9 SIGNIFICANT EVENTS AFTER BALANCE DATE

As described in Note 6, Telecom has declared a dividend in respect of the three months ended 31 December 2010.

Telecom's Australian operations were affected by the flood and cyclone disasters that took place in Queensland, Northern New South Wales, Victoria and Tasmania in January and February 2011. However, Telecom's provisional assessment indicates that no significant damage or costs have been sustained as a result.

No other material subsequent events have arisen since 31 December 2010.

NOTE 10 TAXATION

The tax expense of \$87 million for the six months ended 31 December 2010 was \$53 million higher than the tax expense recognised for the six months ended 31 December 2009. This movement is principally due to changes in New Zealand tax legislation. The first change impacted the comparative period, where the abolition of the conduit relief regime resulted in a \$43 million increase in the value of certain tax credits arising from tax paid in New Zealand and overseas in respect of offshore companies. The second impact arose in the current period, where the enactment of the Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver, and Remedial Matters) Bill resulted in \$23 million of these recognised tax credits having to be written down. The effect of this \$23 million write-down on the tax expense in the current period was reduced by \$6 million relating to tax adjustments in respect of prior periods, as well as a decrease of \$7 million principally due to the tax effect of the change in profits.

Notes to the Condensed consolidated interim financial statements (continued)**NOTE 10 TAXATION (continued)**

The tax expense for the year ended 30 June 2010 of \$171 million resulted in an effective tax rate of 30.9%, which was affected by a number of matters which largely offset, being:

- tax changes announced in May 2010 from the Taxation (Budget Measures) Act 2010 which resulted in a \$38 million increased tax charge (being a \$56 million increase relating to the future removal of tax depreciation on certain buildings partially offset by an \$18 million decrease from the future reduction in the New Zealand company tax rate from 30% to 28%);
- an increase in the value of certain tax credits as a result of tax legislation which abolished the conduit tax relief regime (with certain such credits being utilised against FY10 foreign income);
- receipt of Southern Cross dividends which are not subject to tax;
- the impact of Australian losses which were not recognised for tax purposes; and
- the impact of prior period adjustments.