



TCNZ Finance Limited

Half Year Report

For the six months ended 31 December 2012

Directors' report

For the six months ended 31 December 2012

TCNZ Finance Limited ('TCNZ Finance') is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited ('Telecom') and is the principal finance company for the Telecom group. TCNZ Finance was incorporated in 1991, established an Australian branch in 2001 and a Bermudian branch in 2004. These branches closed their operations, effective from 1 December 2011 as part of a group restructure following Telecom's demerger of Chorus ('demerger').

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

TCNZ Finance recorded a net gain for the six months ended 31 December 2012 of \$115 million compared to a net loss of \$465 million for the six months ended 31 December 2011. TCNZ Finance's earnings can be volatile due to its exposure to movements in foreign exchange rates on derivative financial instruments that are held on behalf of the Telecom group. The majority of the loss reported in the six months ended 31 December 2011 related to items incurred during demerger. The net foreign exchange loss for the six months ended 31 December 2012 was \$23 million, compared to a net gain of \$39 million for the six months ended 31 December 2011.

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

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

On behalf of the Board



John van Woerkom
DIRECTOR



Mark Laing
DIRECTOR

28 February 2013

Directors' report

For the six months ended 31 December 2012

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

We, Mr John van Woerkom and Mr Mark Laing, both Directors of TCNZ Finance (herein after the "Issuer"), hereby declare that, to the best of our knowledge, the condensed financial statements for the period ended 31 December 2012 which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and that the Directors' report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Issuer faces.



John van Woerkom
DIRECTOR



Mark Laing
DIRECTOR

28 February 2013

Income Statement

For the six months ended 31 December 2012

	Notes	Six months ended 31 December		Year ended 30 June
		2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
Finance income	2	441	445	831
Finance expense	2	(220)	(274)	(464)
Net finance income		221	171	367
Other income and gains	3	-	78	60
Other expenses	3	(23)	-	(53)
Debt restructuring costs		-	(170)	(170)
Fellow Subsidiary debt forgiveness		-	(546)	(546)
Net earnings/(loss) before income tax		198	(467)	(342)
Income tax benefit/(expense)		(83)	2	(61)
Net earnings/(loss) for the period		115	(465)	(403)

Statement of Comprehensive Income

For the six months ended 31 December 2012

	Six months ended 31 December		Year ended 30 June
	2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
Net earnings/(loss) for the period	115	(465)	(403)
Other comprehensive income/(loss) ¹ :			
Cash flow hedges	2	62	67
Reclassification to income statement of disposal of foreign operation	-	(28)	(28)
Income tax relating to components of other comprehensive income	-	(17)	(21)
Other comprehensive income for the period, net of tax	2	17	18
Total comprehensive income/(loss) for the period	117	(448)	(385)

¹ All of these items may be classified to profit or loss

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

Statement of Changes in Equity

For the six months ended 31 December

Unaudited	Contributed capital	Contributed capital	Retained earnings	Hedging reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m
Balance as at 1 July 2012	883	883	546	(6)	1,423
Net earnings/(loss) for the period	-	-	115	-	115
Other comprehensive income for the year	-	-	-	2	2
Total comprehensive income	-	-	115	2	117
Balance as at 31 December 2012	883	883	661	(4)	1,540

Unaudited	Contributed capital	Contributed capital	Retained earnings	Hedging reserve	Foreign currency translation reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m	\$m
Balance as at 1 July 2011	883	883	949	(52)	28	1,808
Net earnings/(loss) for the period	-	-	(465)	-	-	(465)
Other comprehensive income for the year	-	-	-	45	(28)	17
Total comprehensive income / (loss)	-	-	(465)	45	(28)	(448)
Balance as at 31 December 2011	883	883	484	(7)	-	1,360

Audited	Contributed capital	Contributed capital	Retained earnings	Hedging reserve	Foreign currency translation reserve	Total Equity
	Number (m)	\$m	\$m	\$m	\$m	\$m
Balance as at 1 July 2011	883	883	949	(52)	28	1,808
Net (loss) for the year	-	-	(403)	-	-	(403)
Other comprehensive income for the year	-	-	-	46	(28)	18
Total comprehensive income / (loss)	-	-	(403)	46	(28)	(385)
Balance as at 30 June 2012	883	883	546	(6)	-	1,423

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

Statement of Financial Position

As at 31 December 2012

	Notes	31 December		30 June
		2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
ASSETS				
Current assets:				
Cash		57	119	34
Prepayments		2	-	2
Due from other Telecom group companies		1,536	740	969
Short-term derivative assets		2	7	4
Total current assets		1,597	866	1,009
Non-current assets:				
Deferred tax asset		-	17	-
Due from other Telecom group companies		9,577	9,791	9,664
Long-term derivative assets		14	17	14
Investments		540	540	540
Total non-current assets		10,131	10,365	10,218
Total assets		11,728	11,231	11,227
LIABILITIES AND EQUITY				
Current liabilities:				
Income tax payable		135	14	52
Due to other Telecom group companies		8,811	8,769	8,704
Short-term derivative liabilities		3	15	4
Debt due within one year	4	405	420	407
Accrued interest		11	12	7
Total current liabilities		9,365	9,230	9,174
Non-current liabilities:				
Long-term derivative liabilities		20	23	23
Deferred tax liabilities		1	-	2
Long-term debt	4	802	618	605
Total non-current liabilities		823	641	630
Total liabilities		10,188	9,871	9,804
Equity:				
Share capital		883	883	883
Reserves		(4)	(7)	(6)
Retained earnings		661	484	546
Total equity		1,540	1,360	1,423
Total liabilities and equity		11,728	11,231	11,227

On behalf of the Board of TCNZ Finance Limited



John van Woerkom
Director
Authorised for issue on 28 February 2013



Mark Laing
Director

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

Statement of Cash flow

For the six months ended 31 December 2012

	Notes	Six months ended 31 December		Year ended 30 June
		2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
Cash flows from operating activities				
Interest income		441	445	831
Interest paid on debt		(216)	(297)	(478)
Net cash flows from operating activities	5	225	148	353
Cash flows from investing activities				
Net advances (to)/from other Telecom group companies		(394)	769	547
Payments on settlement of forward exchange contracts		-	-	(27)
Net cash flows applied to investing activities		(394)	769	520
Cash flows from financing activities				
Decrease in collateral funds		-	110	110
Debt restructuring costs ¹		-	(211)	(205)
Proceeds from long-term debt		350	-	300
Repayment of long-term debt		(150)	(961)	(964)
Proceeds from derivatives ²		-	1,000	961
Repayment of derivatives ²		-	(1,279)	(1,271)
Proceeds from/(repayment of) short-term debt, net		(6)	336	21
Net cash flows applied to financing activities		194	(1,005)	(1,048)
Net cash flow		25	(88)	(175)
Net cash at beginning of period		34	207	207
Foreign exchange movement		(2)	-	2
Net cash position at end of period		57	119	34

¹ For six months ended 31 December 2011 and year ended 30 June 2012, excludes an accounting gain of \$101 million realised on derivatives novated to Chorus rather than settled in cash.

² For six months ended 31 December 2011 and year ended 30 June 2012, the proceeds and repayment of derivatives relates to the cash flows arising from closing out hedges on the Group's borrowings as a result of debt repayments.

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

Notes to the Financial Statements

For the six months ended 31 December 2012

Note 1 Financial Statements

These condensed financial statements of TCNZ Finance have been prepared in accordance with the New Zealand equivalent to International Accounting Standard ('NZ IAS') No. 34: 'Interim Financial Reporting', and Generally Accepted Accounting Practice in New Zealand (NZ GAAP), issued by the New Zealand Institute of Chartered Accountants.

The condensed financial statements for the six months ended 31 December 2012 and 31 December 2011 are unaudited. The financial information for the year ended 30 June 2012 has been extracted from the audited financial statements of TCNZ Finance.

TCNZ Finance is a profit oriented company and was incorporated in New Zealand on 19 July 1991 as a wholly-owned subsidiary of Telecom. TCNZ Finance Limited Australian Branch was established in 2001 and TCNZ Finance Bermudian Branch was established in 2004. Effective from 1 December 2011 these branches closed their operations as a result of a group restructure as part of demerger. These financial statements include the activities of TCNZ Finance, the Australian Branch and the Bermudian Branch (each up to the date of closure) and have been prepared in accordance with the Financial Reporting Act 1993, the Securities Act 1978 and the Securities Regulations 1983.

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

Basis of preparation of data

These accounts have been prepared in accordance with NZ IAS 34 and in accordance with the accounting policies detailed in the Annual Report of TCNZ Finance for the year ended 30 June 2012, a copy of which is available at <http://investor.telecom.co.nz>.

The principal risks and uncertainties for TCNZ Finance relate to ongoing interest rate and foreign exchange rate movements; credit risk relating to external counterparties and for amounts due from other Telecom Group companies and equity risk for amounts invested.

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

Segmental Reporting

Following the Australian and Bermudian branch closures (effective 1 December 2011) TCNZ Finance operates solely in New Zealand. Consequently, the segmental reporting note has been withdrawn. For information on prior years' segmental reporting, please refer to the respective year's financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2012

Note 2 Finance income and expense

	Six months ended 31 December		Year ended 30 June
	2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
Finance income:			
Interest income on loans to other Telecom group companies	440	443	828
Interest income from deposits	1	2	3
Total finance income	441	445	831
Finance expense:			
Finance expense on long-term debt:			
- European Medium Term Notes	4	63	68
- TeleBonds	20	20	40
- Domestic Notes	2	-	-
- Bank Funding	6	-	-
Revaluation of interest rate derivatives	-	1	3
Interest expense on loans from other Telecom group companies	183	184	333
Other interest and finance expense	5	6	20
Total finance expense	220	274	464

Note 3 Other income and expenses

	Six months ended 31 December		Year ended 30 June
	2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
Other income:			
Net Foreign exchange gains	-	39	20
Revaluation of derivatives	-	11	12
Gain on winding up of foreign operation	-	28	28
Total other income	-	78	60
Other expenses:			
Net Foreign exchange losses	23	-	52
Other operating expenses	-	-	1
Total other expenses	23	-	53

Administration costs, including audit fees for the period of \$13,950 (31 December 2011: \$15,500, 30 June 2012: \$26,399) have been recorded by a fellow subsidiary company.

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

Notes to the Financial Statements

For the six months ended 31 December 2012

Note 4 Long-term debt

TCNZ Finance continues to have short-term financing programmes in place; a US\$1 billion European Commercial Paper Programme which is undrawn at 31 December 2012, a NZ\$500 million Note Facility of which \$90 million of notes have been issued at 31 December 2012. In addition to the short-term financing programmes, TCNZ Finance has a committed stand-by facility of NZ\$600 million (30 June 2012: NZ\$600 million) which is undrawn at 31 December 2012 and a \$400 million revolving credit facility agreement with Westpac New Zealand Limited of which \$250 million has been drawn down as at 31 December 2012.

During the six months to December 2012, TCNZ Finance issued NZ\$250 million of notes in New Zealand, maturing in 2019. The notes are unsecured and pay a coupon of 5.25%.

	31 December		30 June
	2012 Unaudited \$m	2011 Unaudited \$m	2012 Audited \$m
EMTN	79	80	79
TeleBonds	539	542	539
Domestic Notes	250	-	-
Bank funding	250	-	300
Short-term debt	90	419	95
Unamortised discount	(1)	(3)	(1)
Total Debt	1,207	1,038	1,012
Debt due within one year	405	420	407
Debt due greater than one year	802	618	605
Total Debt	1,207	1,038	1,012

Notes to the Financial Statements

For the six months ended 31 December 2012

Note 5 Reconciliation of net earnings to net cash flows from operating activities

	Six months ended 31 December		Year ended 30 June
	2012	2011	2012
	Unaudited \$m	Unaudited \$m	Audited \$m
Net earnings/(loss)	115	(465)	(403)
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>			
Amortisation of discount	1	2	12
Foreign exchange (gain)/loss	23	(39)	32
Revaluation of derivatives	-	(11)	(11)
Debt close out costs included in financing cash flows	-	170	170
Fellow subsidiary debt forgiveness	-	546	546
Foreign exchange gain relating to wind up of foreign operation	-	(28)	(28)
Other	-	-	2
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>			
Increase/(decrease) in interest payable	3	(25)	(28)
Increase/(decrease) in current tax payable	83	(2)	61
Net cash flows from operating activities	225	148	353

Note 6 Net tangible assets per security

	31 December		30 June
	2012	2011	2012
	Unaudited \$	Unaudited \$	Audited \$
Net tangible assets per security	1.74	1.54	1.61

Contact Information

Registered office

The registered office of TCNZ Finance is:

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167 Victoria Street West
Auckland 1010

Enquiries

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

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Enquiries about the operating and financial performance of TCNZ Finance or the Telecom group can be emailed to investor@telecom.co.nz or addressed to:

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Visit the Telecom website at www.telecom.co.nz



<http://investor.telecom.co.nz>