



TCNZ Finance Limited

Half Year Report

For the six months ended 31 December 2013

Directors' report

For the six months ended 31 December 2013

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').

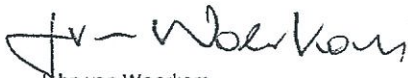
TCNZ Finance raises debt funding in New Zealand and internationally. The majority of these funds are then advanced to other members of the Telecom group to assist in funding their operations. TCNZ Finance enters into derivative financial instruments to manage the foreign exchange and interest rate risk 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 loss for the six months ended 31 December 2013 of \$43 million compared to a net gain of \$115 million for the six months ended 31 December 2012. TCNZ Finance's earnings can be volatile due to its exposure to movements in foreign exchange rates on financial instruments that are held on behalf of the Telecom group. The net foreign exchange loss for the six months ended 31 December 2013 was \$203 million, compared to a net loss of \$23 million for the six months ended 31 December 2012.

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

27 February 2014



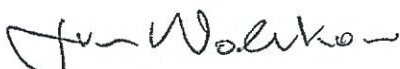
Mark Laing
DIRECTOR

Directors' report

For the six months ended 31 December 2013

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 2013 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

27 February 2014

Income Statement

For the six months ended 31 December 2013

	Notes	Six months ended	Year ended
		31 December	30 June
		2013	2013
		Unaudited	Audited
		\$m	\$m
Finance income	2	522	1,118
Finance expense	2	(300)	(698)
Net finance income		222	420
Other income and gains	3	1	6
Other expenses	3	(203)	(173)
Net earnings before income tax		20	253
Income tax expense		(63)	(117)
Net (loss)/earnings for the period		(43)	136

Statement of Comprehensive Income

For the six months ended 31 December 2013

	Six months ended	Year ended
	31 December	30 June
	2013	2013
	Unaudited	Audited
	\$m	\$m
Net (loss)/earnings for the period	(43)	136
Other comprehensive income/(loss) ¹ :		
Cash flow hedges	6	5
Income tax relating to components of other comprehensive income	(1)	(1)
Other comprehensive income for the period, net of tax	5	4
Total comprehensive (loss)/income for the period	(38)	140

¹ All of these items may be reclassified 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 2013	883	883	682	(2)	1,563
Net loss for the period	-	-	(43)	-	(43)
Other comprehensive income for the period	-	-	-	5	5
Total comprehensive (loss)/income	-	-	(43)	5	(38)
Balance as at 31 December 2013	883	883	639	3	1,525

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 for the period	-	-	115	-	115
Other comprehensive income for the period	-	-	-	2	2
Total comprehensive income	-	-	115	2	117
Balance as at 31 December 2012	883	883	661	(4)	1,540

Audited	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 for the year	-	-	136	-	136
Other comprehensive income for the year	-	-	-	4	4
Total comprehensive income	-	-	136	4	140
Balance as at 30 June 2013	883	883	682	(2)	1,563

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 2013

	Note	31 December		30 June
		2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
ASSETS				
Current assets:				
Cash		-	57	-
Prepayments		2	2	2
Due from other Telecom group companies		4,854	3,714	2,984
Short-term derivative assets		7	2	6
Total current assets		4,863	3,775	2,992
Non-current assets:				
Due from other Telecom group companies		8,411	9,577	9,201
Long-term derivative assets		23	14	16
Investments		540	540	540
Total non-current assets		8,974	10,131	9,757
Total assets		13,837	13,906	12,749
LIABILITIES AND EQUITY				
Current liabilities:				
Bank overdraft		12	-	2
Sundry creditors		1	-	1
Income tax payable		181	135	118
Due to other Telecom group companies		10,867	10,989	10,056
Short-term derivative liabilities		4	3	6
Debt due within one year	4	326	405	225
Accrued interest		6	11	5
Total current liabilities		11,397	11,543	10,413
Non-current liabilities:				
Long-term derivative liabilities		19	20	22
Deferred tax liabilities		2	1	-
Long-term debt	4	894	802	751
Total non-current liabilities		915	823	773
Total liabilities		12,312	12,366	11,186
Equity:				
Share capital		883	883	883
Reserves		3	(4)	(2)
Retained earnings		639	661	682
Total equity		1,525	1,540	1,563
Total liabilities and equity		13,837	13,906	12,749

On behalf of the Board of TCNZ Finance Limited



John van Woerkom
Director

Authorised for issue on 27 February 2014



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 2013

	Note	Six months ended		Year ended
		31 December		30 June
		2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
Cash flows from operating activities				
Interest income		522	577	1,118
Interest paid on debt		(298)	(352)	(697)
Net cash flows from operating activities	5	224	225	421
Cash flows from investing activities				
Net advances to other Telecom group companies		(472)	(394)	(418)
Receipts from settlement of forward exchange contracts		2	-	-
Net cash flows applied to investing activities		(470)	(394)	(418)
Cash flows from financing activities				
Proceeds from long-term debt		390	350	650
Repayment of long-term debt		(253)	(150)	(712)
Proceeds from short-term debt		565	276	509
Repayment of short-term debt		(466)	(282)	(485)
Net cash flows from/(applied to) financing activities		236	194	(38)
Net cash flow		(10)	25	(35)
Net cash at beginning of period		(2)	34	34
Foreign exchange movement		-	(2)	(1)
Net cash position at end of period		(12)	57	(2)

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 2013

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 2013 and 31 December 2012 are unaudited. The financial information for the year ended 30 June 2013 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 have been prepared in accordance with the Financial Reporting Act 1993, the Securities Act 1978 and the Securities Regulations 2009.

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 2013, 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 has been one new accounting policy adopted during the period. NZ IFRS 13 Fair Value Measurement explains how to measure fair value and aims to enhance fair value disclosures. Adoption of NZ IFRS 13 has resulted in a change to the valuation methodology of TCNZ Finance's financial instruments. In accordance with the transitional provisions of NZ IFRS 13, TCNZ Finance has applied the new fair value measurement prospectively from 1 July 2013 and is not required to provide any comparative information for new disclosures. The impact for TCNZ Finance adopting NZ IFRS 13 was immaterial.

All accounting policies have been applied on a consistent basis.

Notes to the Financial Statements

For the six months ended 31 December 2013

Note 2 Finance income and expense

	Six months ended 31 December		Year ended 30 June
	2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
Finance income:			
Interest income on loans to other Telecom group companies	522	576	1,116
Interest income from deposits	-	1	2
Total finance income	522	577	1,118
Finance expense:			
Finance expense on long-term debt:			
- European Medium Term Notes	3	3	6
- TeleBonds	9	20	35
- Domestic Notes	7	2	9
- Bank Funding	8	6	12
Interest expense on loans from other Telecom group companies	268	319	623
Other interest and finance expense	5	6	13
Total finance expense	300	356	698

Note 3 Other income and expenses

	Six months ended 31 December		Year ended 30 June
	2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
Other income:			
Net foreign exchange gains	-	-	5
Revaluation of derivatives	1	-	1
Total other income	1	-	6
Other expenses:			
Net foreign exchange losses	203	23	172
Other operating expenses	-	-	1
Total other expenses	203	23	173

Administration costs, including audit fees for the period of \$13,950 (31 December 2012: \$13,950, 30 June 2013: \$23,759) have been paid for and 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 2013

Note 4 Short-term and long-term debt

TCNZ Finance continues to have short-term financing programmes in place; a US\$1 billion European Commercial Paper Programme, of which EUR42 million (NZ\$70 million) of notes have been issued at 31 December 2013 (30 June 2013: nil), and a NZ\$500 million Note Facility of which NZ\$115 million of notes have been issued at 31 December 2013 (30 June 2013: NZ\$95 million). In addition to the short-term financing programmes, TCNZ Finance has a committed stand-by facility of NZ\$400 million (30 June 2013: NZ\$400 million) which is undrawn at 31 December 2013, a NZ\$400 million revolving credit facility agreement with Westpac New Zealand Limited of which NZ\$340 million has been drawn down as at 31 December 2013 (30 June 2013: NZ\$200 million) and a NZ\$100 million revolving credit facility agreement with the Bank of Tokyo Mitsubishi, UFJ Limited of which NZ\$100 million has been drawn down as at 31 December 2013 (30 June 2013: NZ\$100 million).

	31 December		30 June
	2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
European Medium Term Notes	81	79	79
TeleBonds	223	539	226
Domestic Notes	250	250	250
Bank funding	440	250	300
Short-term debt	227	90	122
Unamortised discount	(1)	(1)	(1)
Total Debt	1,220	1,207	976
Debt due within one year	326	405	225
Debt due greater than one year	894	802	751
Total Debt	1,220	1,207	976

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

	Six months ended 31 December		Year ended 30 June
	2013 Unaudited \$m	2012 Unaudited \$m	2013 Audited \$m
Net (loss)/earnings	(43)	115	136
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>			
Amortisation of discount	1	1	2
Foreign exchange loss	203	23	169
Revaluation of derivatives	(1)	-	(2)
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>			
Increase/(decrease) in interest payable	1	3	(2)
Increase/(decrease) in current tax payable	63	83	117
Decrease in accounts payable	-	-	1
Net cash flows from operating activities	224	225	421

Notes to the Financial Statements

For the six months ended 31 December 2013

Note 6 Net tangible assets per security

	31 December 2013 Unaudited \$	2012 Unaudited \$	30 June 2013 Audited \$
Net tangible assets per security	1.73	1.74	1.77

Note 7 Financial instruments

TCNZ Finance has carried out a fair assessment of its financial assets and liabilities for 31 December 2013 in accordance with NZ IFRS 13 Fair Value Measurement.

Fair value of financial instruments

Under IFRS financial instruments are either carried at cost or amortised cost, less any provision for impairment or fair value. The only significant variances between amortised cost and fair value relate to long-term debt and long-term investments.

The table below categorises TCNZ Finance's financial assets and liabilities that are measured at fair value by the significance of the inputs used in making the measurements, as prescribed in NZ IFRS 7 Financial Instruments Disclosures:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial Assets				
Short-term derivative assets	-	7	-	7
Long-term derivative assets	-	23	-	23
	-	30	-	22
Financial Liabilities				
Short-term derivative liabilities	-	(4)	-	(4)
Long-term derivative liabilities	-	(19)	-	(19)
	-	(23)	-	(23)

There were no transfers between categories in the period.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cross-currency interest rate swaps, interest rate swaps, forward exchange contracts and currency options

The fair values are estimated on the basis of the quoted market prices of these instruments. If a listed market price is unavailable, then a fair value is estimated by discounting the future cash flows of the derivative using an applicable forward rate (for the relevant interest rate, foreign exchange rate or commodity price) discount rates and market-accepted valuation models, as appropriate.

Contact Information

Registered office

The registered office of TCNZ Finance is:

Level 2
Telecom Place
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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New Zealand Toll Free: 0800 737 100
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz

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

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telecom^{nz}

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