



TCNZ Finance Limited

# Condensed financial statements

For the year ended 30 June 2012

## Income Statement

For the years ended 30 June 2012 and 2011

Year ended 30 June	Notes	2012 \$m	2011 \$m
Finance income	2	831	902
Finance expense	2	(464)	(648)
<b>Net finance income</b>		<b>367</b>	<b>254</b>
Other income	3	60	132
Other expenses	3	(53)	(12)
Debt restructuring costs	5	(170)	-
Fellow subsidiary debt forgiveness	6	(546)	-
<b>Net earnings/(loss) before income tax</b>		<b>(342)</b>	<b>374</b>
Income tax expense		(61)	(71)
<b>Net earnings/(loss) for the year</b>		<b>(403)</b>	<b>303</b>

## Statement of Comprehensive Income

For the years ended 30 June 2012 and 2011

Year ended 30 June	2012 \$m	2011 \$m
Net earnings/(loss) for the year	(403)	303
Other comprehensive income		
Translation of foreign branches	-	(2)
Cash flow hedges	67	(44)
Reclassification to income statement of disposal of foreign operation	(28)	-
Income tax relating to components of other comprehensive income	(21)	25
Other comprehensive income/(loss) for the year, net of tax	18	(21)
<b>Total comprehensive income/(loss) for the year</b>	<b>(385)</b>	<b>282</b>

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

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**Statement of Changes in Equity**

For the years ended 30 June 2012 and 2011

	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
<b>Balance as at 1 July 2011</b>	<b>883</b>	<b>883</b>	<b>949</b>	<b>(52)</b>	<b>28</b>	<b>1,808</b>
Net earnings/(loss) for the year	-	-	(403)	-	-	(403)
Other comprehensive income for the year <sup>1</sup>	-	-	-	46	(28)	18
Total recognised income and expenses			(403)	46	(28)	(385)
<b>Balance as at 30 June 2012</b>	<b>883</b>	<b>883</b>	<b>546</b>	<b>(6)</b>	<b>-</b>	<b>1,423</b>

	Contributed capital Number (m)	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Foreign currency translation reserve \$m	Total equity \$m
<b>Balance as at 1 July 2010</b>	<b>883</b>	<b>883</b>	<b>646</b>	<b>(21)</b>	<b>18</b>	<b>1,526</b>
Net earnings for the year	-	-	303	-	-	303
Other comprehensive loss for the year <sup>1</sup>	-	-	-	(31)	10	(21)
Total recognised income and expenses	-	-	303	(31)	10	282
<b>Balance as at 30 June 2011</b>	<b>883</b>	<b>883</b>	<b>949</b>	<b>(52)</b>	<b>28</b>	<b>1,808</b>

<sup>1</sup>Other comprehensive income components are shown net of tax.

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

# Statement of Financial Position

## Condensed financial statements

As at 30 June 2012 and 2011

As at 30 June	2012 \$m	2011 \$m
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	34	207
Collateral funds	-	110
Prepayments	2	-
Due from other Telecom Group companies	969	2,269
Short-term derivative assets	4	15
<b>Total current assets</b>	<b>1,009</b>	<b>2,601</b>
<b>Non-current assets:</b>		
Due from other Telecom Group companies	9,664	11,430
Long-term derivative assets	14	132
Deferred tax asset	-	25
Investments	540	540
<b>Total non-current assets</b>	<b>10,218</b>	<b>12,127</b>
<b>Total assets</b>	<b>11,227</b>	<b>14,728</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Income tax payable	52	26
Due to other Telecom Group companies	8,704	10,099
Short-term derivative liabilities	4	334
Debt due within one year	407	397
Accrued interest	7	35
<b>Total current liabilities</b>	<b>9,174</b>	<b>10,891</b>
<b>Non-current liabilities:</b>		
Long-term derivative liabilities	23	329
Deferred tax liabilities	2	-
Long-term debt	605	1,700
<b>Total non-current liabilities</b>	<b>630</b>	<b>2,029</b>
<b>Total liabilities</b>	<b>9,804</b>	<b>12,920</b>
<b>Equity:</b>		
Share capital	883	883
Reserves	(6)	(24)
Retained earnings	546	949
<b>Total equity</b>	<b>1,423</b>	<b>1,808</b>
<b>Total liabilities and equity</b>	<b>11,227</b>	<b>14,728</b>

On behalf of the Board



**John van Woerkom**  
DIRECTOR

Authorised for issue on 24 August 2012



**Mark Laing**  
DIRECTOR

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

## Statement of Cash flow

### Condensed financial statements

For the years ended 30 June 2012 and 2011

Year ended 30 June	Note	2012 \$m	2011 \$m
<b>Cash flows from operating activities</b>			
Interest income		831	902
Interest paid on debt		(478)	(640)
Net cash flows from operating activities		353	262
<b>Cash flows from investing activities</b>			
Net advances (to)/from other Telecom Group companies		547	(40)
Payments on settlement of forward exchange contracts		(27)	(13)
Receipts from settlement of forward exchange contracts		-	2
Net cash flow applied (to)/from investing activities		520	(51)
<b>Cash flows from financing activities</b>			
Debt Restructuring costs		(205)	-
Decrease/(Increase) in collateral funds		110	(89)
Proceeds from long-term debt		300	-
Repayment of long-term debt		(964)	(28)
Proceeds from short-term debt		1,532	663
Repayment of short-term debt		(1,511)	(749)
Proceeds from derivatives		961	-
Repayment of derivatives		(1,271)	-
Net cash flow applied to financing activities		(1,048)	(203)
Net cash flow		(175)	8
Foreign exchange movements		2	4
Net cash at beginning of period		207	195
<b>Net cash position at end of period</b>		<b>34</b>	<b>207</b>

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

## Notes to the financial statements

### Condensed financial statements

For the year ended 30 June 2012

#### Note 1 Statement of accounting policies

The condensed financial statements of TCNZ Finance, as at and for the year ended 30 June 2012, 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 audited financial statements were authorised for issue on 24 August 2012. The auditors of the financial statements of TCNZ Finance issued an unqualified opinion. These condensed financial statements should be read in conjunction with the audited financial statements which can be found in the TCNZ Finance annual report at <http://investor.telecom.co.nz>.

These condensed financial statements include the activities of TCNZ Finance, its Australian Branch and its Bermudian Branch (each branch up to the date of closure). These branches closed their operations in the period ended 30 June 2012 as part of a group restructure following Telecom's demerger of Chorus Limited ('demerger').

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

#### Changes in Accounting Policies

There have been no changes in accounting policies during the year ended 30 June 2012.

#### Note 2 Finance income and expense

Year ended 30 June	2012 \$m	2011 \$m
Finance income:		
Interest income on loans to other Telecom Group companies	828	897
Interest income from deposits	3	5
<b>Total finance income</b>	<b>831</b>	<b>902</b>
Finance expense:		
Finance expense on long-term debt:		
- Euro Medium Term Notes ('EMTN') <sup>1</sup>	68	157
- TeleBonds	40	41
Revaluation of interest rate derivatives	3	3
Interest expense on loans from other Telecom Group companies	333	434
Other interest and finance expense	20	13
<b>Total finance expense</b>	<b>464</b>	<b>648</b>

<sup>1</sup> Includes \$24 million reclassified from the cash flow hedge reserve for the year ended 30 June 2012 (30 June 2011: \$73 million).

## Notes to the financial statements

### Condensed financial statements

For the year ended 30 June 2012

#### Note 3 Other income and expenses

Year ended 30 June	2012 \$m	2011 \$m
Other income:		
Net realised foreign exchange gains	20	-
Net unrealised foreign exchange gains	-	126
Revaluation of derivatives	12	6
Gain on winding up of foreign operation	28	-
<b>Total other income</b>	<b>60</b>	<b>132</b>
Other expenses:		
Net unrealised foreign exchange losses	52	-
Net realised foreign exchange losses	-	11
Other operating expenses	1	1
<b>Total other expenses</b>	<b>53</b>	<b>12</b>

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

No fees or other remuneration have been paid to the directors by TCNZ Finance in respect of services provided by the directors to TCNZ Finance. The directors of TCNZ Finance receive remuneration from a fellow subsidiary company.

In the year ended 30 June 2012 a gain of \$28 million was recognised on the winding up of the Australian Branch. This gain relates to recycling the foreign currency translation reserve balance relating to accumulated foreign exchange gains on translation of the Australian Branch assets and liabilities to the income statement.

#### Note 4 Segmental reporting

TCNZ Finance operates with one operating segment. The principal activity of TCNZ Finance is that of a finance company for the Telecom Group. TCNZ Finance's financial statements are reviewed by the directors of TCNZ Finance in assessing the Company's performance. The geographical information below is not used by the directors to decide how to allocate resources or to assess performance.

Geographical information

30 June 2012	New Zealand operations \$m	Australian operations \$m	Other operations \$m	Consolidated \$m
Finance income	761	36	34	831
Net earnings / (loss) for the year	(511)	138	(30)	(403)
Investments	540	-	-	540
Total assets	11,227	-	-	11,227
Total liabilities	(9,804)	-	-	(9,804)

## Notes to the financial statements

### Condensed financial statements

For the year ended 30 June 2012

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#### Note 4 Segmental reporting (continued)

30 June 2011	New Zealand operations \$m	Australian operations \$m	Other operations \$m	Consolidated \$m
Finance income	794	22	86	902
Net earnings for the year	367	(68)	4	303
Investments	540	-	-	540
Total assets	11,136	1,131	2,461	14,728
Total liabilities	(9,263)	(1,266)	(2,391)	(12,920)

#### Note 5 Debt restructuring costs

Telecom successfully demerged Chorus Limited ('Chorus') effective from 1 December 2011 after 99.8% of all votes cast by the Parent Company's shareholders were in favour of the demerger proposal.

As part of demerger and related refinancing, TCNZ Finance incurred costs of \$170 million in relation to the novation or repayment of TCNZ Finance's GBP, CHF, and CAD bonds and associated derivatives. This \$170 million comprised \$36 million of economic financing costs along with \$134 million of accounting costs being realised in closing out debt and derivative positions. These economic positions had previously either been accumulating in the cash flow hedge reserve, or not recognised due to debt instruments being measured at amortised cost. These positions would have been recognised in the income statement over time had the instruments been held to maturity.

#### Note 6 Fellow subsidiary debt forgiveness

As part of TCNZ Finance's closure of its Australian Branch, TCNZ Finance forgave \$546 million (A\$416 million) of debentures and other loans from a fellow subsidiary.



## Contact Information

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### *Registered office*

The registered office of TCNZ Finance is:

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### *Inquiries*

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Enquiries about the operating and financial performance of TCNZ Finance or the Telecom Group can be emailed to [investor-info@telecom.co.nz](mailto:investor-info@telecom.co.nz) or addressed to:

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