TCNZ Finance Limited

Annual Report

For the year ended 30 June 2013

Directors' report

For the year ended 30 June 2013

TCNZ Finance Limited ('TCNZ Finance' or 'the Company') 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 in the period ended 30 June 2012 as part of a group restructure following Telecom's demerger of Chorus Limited ('demerger').

Principal activities

The principal activity of TCNZ Finance is that of a finance company for the parent company and its subsidiaries (the 'Telecom group'). TCNZ Finance raises debt funding in New Zealand and internationally. These funds are then advanced to other members of the Telecom group in order to assist in funding their operations.

Principal risks and uncertainties

The key risks to TCNZ Finance are foreign exchange rate, interest rate, credit, liquidity, and equity price risks. A summary of those risks and TCNZ Finance's risk management objectives and policies are set out in notes 13 to 15 to these financial statements. The directors of TCNZ Finance do not believe there is any significant net risk to TCNZ Finance as financial assets are matched by financial liabilities with similar characteristics. There have been no material events or circumstances that have occurred subsequent to balance date that require disclosure. 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. As the proceeds of debt are advanced to other members of the Telecom group, the ability of TCNZ Finance to meet its obligations under the debt issues depends upon the payment of the principal and interest due from the other Telecom group companies.

Business review

TCNZ Finance recorded a net profit for the year ended 30 June 2013 of $136 million compared to a net loss of $403 million for the year ended 30 June 2012. The majority of the prior year loss related to debt forgiveness of $546 million of debentures and other loans from a fellow subsidiary, in addition to $170 million debt restructuring costs following demerger.

Volatility in earnings is also caused by TCNZ Finance's exposure to movements in foreign exchange rates on derivative financial instruments that are held on behalf of the Telecom group. The net foreign exchange loss for the year ended 30 June 2013 was $167 million (30 June 2012: $32 million loss).

The net assets of TCNZ Finance as at 30 June 2013 were $1,563 million compared to $1,423 million as at 30 June 2012. The share capital of TCNZ Finance is $883 million (30 June 2012: $883 million) consisting of 882,872,600 issued and fully paid shares, of which 342,872,600 are ordinary shares. TCNZ Finance did not acquire any of its own shares during the year ended 30 June 2013 (30 June 2012: nil).

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 for the year ended 30 June 2013 can be found at http://investor.telecom.co.nz or a copy can be requested from the registered office of TCNZ Finance.

General

Based on current expectations TCNZ Finance will continue to operate as the principal finance company for the Telecom group. TCNZ Finance does not engage in research and development activities.

On behalf of the Board

John van Woerkom	Mark Laing
DIRECTOR	DIRECTOR
27 August 2013	

Directors' report

For the year ended 30 June 2013

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

We, John van Woerkom and Mark Laing, both directors of TCNZ Finance (herein after the 'Issuer') hereby declare that, to the best of our knowledge, the financial statements for the year ended 30 June 2013, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and income statement 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	Mark Laing
DIRECTOR	DIRECTOR

27 August 2013

Other information

For the year ended 30 June 2013

Directors

The directors of TCNZ Finance as at 30 June 2013 were:
Laura Byrne
Jolie Hodson
John van Woerkom
Mark Laing

This means the gender composition of TCNZ Finance's directors as at 30 June 2013 was 50% male and 50% female (30 June 2012: 100% male). The directors of TCNZ Finance are all employees of the Telecom group and, accordingly, are not independent directors.

The following directors were appointed during the year ended 30 June 2013:

Simon Moutter	appointed as director effective 13 August 2012
Laura Byrne	appointed as director effective 01 November 2012
Jolie Hodson	appointed as director effective 04 June 2013

The following directors resigned during the year ended 30 June 2013:

Simon Moutter	resigned as director effective 10 September 2012
Tristan Gilbertson	resigned as director effective 01 November 2012
Nicholas Olson	resigned as director effective 18 March 2013

Corporate governance

The board of Telecom is committed to ensuring that the Telecom group maintains international best practice governance structures and adheres to the highest ethical standards. TCNZ Finance operates within the corporate governance policies, practices and processes of the Telecom group. Full descriptions of these, including with respect to the Telecom group's diversity policy, are provided in the corporate governance section of the Telecom group annual report, which can be found at: http://investor.telecom.co.nz.

Interest register

Deeds of indemnity have been given to the directors of TCNZ Finance in relation to potential liabilities and costs that they may incur for acts or omissions in their capacities as directors of TCNZ Finance and as employees of the Telecom group. In addition, the directors of Telecom have approved directors and officers liability insurance to cover risks normally covered by such policies arising out of acts or omissions of directors of Telecom and its subsidiaries, including TCNZ Finance, and of employees of the Telecom group. The insurance does not cover dishonest, fraudulent, malicious or wilful acts.

Credit rating

Telecom (which guarantees TCNZ Finance's debt) has credit ratings from Standard & Poor's and Moody's Investors Service on its indebtedness. Details of current ratings as at 30 June 2013 are as follows:

Standard & Poor's
Long-term senior debt: A-
Short-term debt: A-2
Outlook: Stable

Moody's Investors Service
Long-term senior debt: A3
Short-term debt: P-2
Outlook: Stable

Other statutory information

As at 30 June 2013 TCNZ Finance had no employees (30 June 2012: nil). TCNZ Finance made no charitable donations during the year.

Net tangible assets per security

Net tangible assets per security as at 30 June 2013 were $1.77 (30 June 2012: $1.61).

Net earnings per security

Net earnings per security for the year ended 30 June 2013 were $0.154 (30 June 2012: $0.324 net of one-off demerger costs).

NZDX Waivers applicable to 30 June 2013

On 20 June 2008 TCNZ Finance was granted a waiver from NZDX Listing Rule 11.1.1 to allow TCNZ Finance to refuse a transfer of TeleBonds if it is not for a minimum of a principal amount of $2,000 TeleBonds of one maturity date, and in multiples of $500 thereafter.

TCNZ FINANCE LIMITED

Income Statement

For the years ended 30 June 2013 and 2012

Year ended 30 June	**Notes**	**2013 $m**	**2012 $m**
Finance income	2	884	831
Finance expense	2	(464)	(464)
Net finance income		**420**	**367**
Other income	3	6	60
Other expenses	3	(173)	(53)
Debt restructuring costs		-	(170)
Fellow subsidiary debt forgiveness		-	(546)
Net earnings/(loss) before income tax		253	(342)
Income tax expense	4	(117)	(61)
Net earnings/(loss) for the year		**136**	**(403)**

Statement of Comprehensive Income

For the years ended 30 June 2013 and 2012

Year ended 30 June	**Notes**	**2013 $m**	**2012 $m**
Net earnings/(loss) for the year		136	(403)
Other comprehensive income			
Cash flow hedges		5	67
Reclassification to income statement on disposal of foreign operation	3	-	(28)
Income tax relating to components of other comprehensive income	11	(1)	(21)
Other comprehensive income/(loss) for the year, net of tax		4	18
Total comprehensive income/(loss) for the year		**140**	**(385)**

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

Statement of Changes in Equity

For the years ended 30 June 2013 and 2012

	Contributed capital Number (m)	Contributed capital $m	Retained earnings $m	Hedge reserve $m	Foreign currency translation reserve $m	Total equity $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 recognised income and expenses			136	4	-	140
Balance as at 30 June 2013	**883**	**883**	**682**	**(2)**	**-**	**1,563**

	Contributed capital Number (m)	Contributed capital $m	Retained earnings $m	Hedge reserve $m	Foreign currency translation reserve $m	Total equity $m
Balance as at 1 July 2011	**883**	**883**	**949**	**(52)**	**28**	**1,808**
Net loss for the year	-	-	(403)	-	-	(403)
Other comprehensive loss for the year	-	-	-	46	(28)	18
Total recognised income and expenses			(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.

TCNZ FINANCE LIMITED

Statement of Financial Position

As at 30 June 2013 and 2012

As at 30 June	Notes	2013 $m	2012 $m
ASSETS			
Current assets:			
Cash		-	34
Prepayments		2	2
Due from other Telecom group companies	5	997	1,333
Short-term derivative assets	6	6	4
Total current assets		1,005	1,373
Non-current assets:			
Due from other Telecom group companies	5	9,201	9,664
Long-term derivative assets	6	16	14
Investments	7	540	540
Total non-current assets		9,757	10,218
Total assets		**10,762**	**11,591**
LIABILITIES AND EQUITY			
Current liabilities:			
Bank overdraft		2	-
Sundry creditors		1	-
Income tax payable		118	52
Due to other Telecom group companies	8	8,069	9,068
Short-term derivative liabilities	6	6	4
Debt due within one year	9	225	407
Accrued interest		5	7
Total current liabilities		8,426	9,538
Non-current liabilities:			
Long-term derivative liabilities	6	22	23
Deferred tax liabilities	11	-	2
Long-term debt	10	751	605
Total non-current liabilities		773	630
Total liabilities		**9,199**	**10,168**
Equity:			
Share capital		883	883
Reserves		(2)	(6)
Retained earnings		682	546
Total equity		1,563	1,423
Total liabilities and equity		**10,762**	**11,591**

On behalf of the Board

John van Woerkom
DIRECTOR

Mark Laing
DIRECTOR

Authorised for issue on 27 August 2013

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

TCNZ FINANCE LIMITED

Statement of Cash flow

For the years ended 30 June 2013 and 2012

Year ended 30 June	Note	2013 $m	2012 $m
Cash flows from operating activities			
Interest income		884	831
Interest paid on debt		(463)	(478)
Net cash flows from operating activities	20	421	353
Cash flows from investing activities			
Net advances (to)/from other Telecom group companies		(418)	547
Payments on settlement of forward exchange contracts		-	(27)
Net cash flow applied (to)/from investing activities		(418)	520
Cash flows from financing activities			
Debt restructuring costs		-	(205)
Decrease in collateral funds		-	110
Proceeds from long-term debt		750	300
Repayment of long-term debt		(812)	(964)
Proceeds from short-term debt		694	1,532
Repayment of short-term debt		(670)	(1,511)
Proceeds from derivatives		-	961
Repayment of derivatives		-	(1,271)
Net cash flow applied to financing activities		(38)	(1,048)
Net cash flow		(35)	(175)
Foreign exchange movements		(1)	2
Net cash at beginning of period		34	207
Net cash position at end of period		**(2)**	**34**

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

Note 1 Statement of accounting policies

(a) Constitution, ownership and activities

TCNZ Finance is a profit-oriented company registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993. These financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993, the Securities Act 1978 and the Securities Regulations 2009. In these accounts the term 'fellow subsidiaries' is used to describe other subsidiaries of Telecom. The financial statements (for the period ended 30 June 2012) include the activities of TCNZ Finance, the Australian Branch and the Bermudian Branch (each branch up to the date of closure)

These financial statements are expressed in New Zealand dollars, which is TCNZ Finance's functional currency. References in these financial statements to '$' and 'NZ$' are to New Zealand dollars, references to 'US$' and 'USD' are to US dollars, references to 'A$' and 'AUD' are to Australian dollars, references to 'EUR' are to Euros, and references to 'GBP' are to Pounds Sterling. All financial information presented in New Zealand dollars, US Dollars, Australian dollars, Euros and Pounds Sterling has been rounded to the nearest million, unless otherwise stated.

(b) Basis of preparation

These financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. They have been prepared in accordance with the Financial Reporting Act 1993, which requires compliance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') as appropriate for profit-oriented entities. The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of financial instruments as identified in the specific accounting policies below and the accompanying notes. The financial statements were approved by the directors of TCNZ Finance on 27 August 2013.

(c) Specific accounting policies

The below accounting policies have been applied consistently to all periods presented in these financial statements.

Finance income and expense

Interest income and expense is recognised using the effective interest rate method.

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 asset's unamortised cost and the present value of estimated future cash flows discounted at the effective interest rate. Any 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.

Cash

Cash is considered to be cash on hand, in banks and short-term investments or deposits with an original maturity date of less than three months. Bank overdrafts that are repayable on demand and form an integral part of TCNZ Finance's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method. 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

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. Subsequent to initial recognition, investments in fellow subsidiaries (classified as available for sale) are held at cost and tested for impairment annually (see note 13). 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 rate method.

Debt

Debt is recognised initially at fair value less attributable transactions 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 using the 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. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at year end. 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. Current tax and deferred tax are recognised in the income statement except when the tax relates to items charged or credited directly to other comprehensive income or equity, in which case the tax is also recognised in other comprehensive income or equity.

Impairment of non-derivative financial assets

The carrying amount of TCNZ Finance's non-derivative financial assets is reviewed at year end to determine whether there is any objective evidence of impairment.

Derivative financial instruments

TCNZ Finance uses derivative financial instruments to reduce the Telecom group's exposure to fluctuations in foreign currency exchange rates and interest rates. Cash flow hedges are designated as hedges of highly probable forecast transactions. Derivatives are initially recognised at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. 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 other comprehensive income and held in the hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified 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 the cash flow hedge reserve at that time remains in the hedge reserve until the underlying physical exposure occurs. 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 statement of cash flow 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 net earnings for the year.

Comparatives

Certain comparative information has been reclassified to conform to the current year's presentation.

(d) Use of estimates and judgement

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

Valuation of investments

Management performs assessments of the carrying value of long-term investments. In assessing whether there has been impairment, consideration is given to the financial performance of the investee and other factors that impact 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 year ended 30 June 2013.

(f) Restructuring

Due to the demerger of Telecom and Chorus Limited effective from 1 December 2011, TCNZ Finance incurred restructure costs resulting from branch closures and the reorganisation of its debt during the year ended 30 June 2012. During the year ended 30 June 2012, as part of its Australian Branch closure, TCNZ Finance forgave $546 million (A$416 million) of debentures and other loans to a fellow subsidiary. TCNZ Finance also incurred costs of $170 million in relation to the novation and repayment of bonds and associated derivatives.

Note 2 Finance income and expense

Year ended 30 June	2013 $m	2012 $m
Finance income:		
Interest income on loans to other Telecom group companies	882	828
Interest income from deposits	2	3
Total finance income	**884**	**831**
Finance expense:		
Finance expense on long-term debt:		
- Euro Medium Term Notes ('EMTN') [1]	6	68
- TeleBonds	35	40
- Domestic Bonds	9	-
- Bank Debt	12	-
Revaluation of interest rate derivatives	-	3
Interest expense on loans from other Telecom group companies	389	333
Other interest and finance expense	13	20
Total finance expense	**464**	**464**

[1] Includes $2 million reclassified from the cash flow hedge reserve for the year ended 30 June 2013 (30 June 2012: $24 million).

Note 3 Other income and expenses

Year ended 30 June	2013 $m	2012 $m
Other income:		
Net realised foreign exchange gains	5	20
Revaluation of derivatives	1	12
Gain on winding up of foreign operation	-	28
Total other income	6	**60**
Other expenses:		
Net unrealised foreign exchange losses	172	52
Other operating expenses	1	1
Total other expenses	173	**53**

Administration costs, including audit fees estimated for the period, of $23,759 (30 June 2012: $26,399) 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 in respect of services provided by the directors to TCNZ Finance. The directors of TCNZ Finance receive remuneration from a fellow subsidiary company.

Note 4 Income tax

Year ended 30 June	**2013 $m**	**2012 $m**
Current tax expense	119	55
Adjustments in respect of prior periods	1	-
Deferred tax expense/(credit)	(1)	7
Adjustments in respect of prior periods	(2)	(1)
	117	**61**
Reconciliation of income tax expense:		
Net earnings/(loss) before income tax	253	(342)
Tax at 28%	71	(96)
Adjustments to taxation:		
Non-taxable foreign exchange losses	47	4
Non-deductible expenses	-	1
Non-deductible debt forgiveness	-	153
Adjustment in respect of prior periods	(1)	(1)
Income tax expense	**117**	**61**

Note 5 Due from other Telecom group companies

30 June	**2013 $m**	**2012 $m**
Current assets:		
Advances to the parent company	124	554
Advances to fellow subsidiaries	873	779
	997	**1,333**
Non-current assets:		
Advances to the parent company	4,008	4,083
Debentures issued by fellow subsidiary	2,329	2,496
Advances to fellow subsidiaries	2,864	3,085
	9,201	**9,664**
Total due from other Telecom group companies	**10,198**	**10,997**

Current amounts due from the parent company and fellow subsidiary companies have interest rates of between 3.25% and 10% (30 June 2012: between 2.75% and 10%). These amounts are repayable at the option of TCNZ Finance and the parent company and fellow subsidiary companies (as applicable). The term advances to the parent company and fellow subsidiary companies have interest rates between 3.65% and 10% (30 June 2012: 5.5% and 10.0%). These advances can be redeemed at book value at the option of either party. For the purposes of classification between current and non-current assets in the statement of financial position these items have been allocated based upon expected realisation. The debentures pay interest according to either the profitability of the fellow subsidiary or the payment of dividends on certain classes of shares issued by the fellow subsidiary. The debentures are denominated in Australian dollars and are redeemable at the option of TCNZ Finance.

Note 6 Derivative assets and liabilities

30 June	2013 Fair value $m	2012 Fair value $m
Short-term derivative assets:		
Forward exchange contracts	6	4
	6	**4**
Long-term derivative assets:		
Forward exchange contracts	-	1
Cross-currency interest rate swaps	15	13
Interest rate swaps	1	-
	16	**14**
Short-term derivative liabilities:		
Forward exchange contracts	(6)	(4)
	(6)	**(4)**
Long-term derivative liabilities:		
Cross-currency interest rate swaps	(21)	(17)
Interest rate swaps	(1)	(6)
	(22)	**(23)**

Notional amounts of derivative financial instruments:

30 June	Currency	Maturities	2013 $m	2012 $m
Cross-currency interest rate swaps	NZD:GBP	2018-2020	110	110
Interest rate swaps	NZD	2018-2020	210	110
Forward exchange contracts	NZD:AUD	2013-2014	40	49
	NZD:USD	2013-2014	195	190
	NZD:EUR	2013-2014	87	54
	Other	2013-2014	51	70
Currency options	NZD:EUR	2013-2014	3	19
	NZD:USD	2013-2014	9	24
	NZD:AUD	2013-2014	1	8

Certain derivatives are in cash flow hedging relationships where those derivatives meet certain criteria and are deemed an effective hedge. The change in the mark-to-market fair value of these derivatives is recognised directly in the hedge reserve within other comprehensive income. 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 30 June 2013 the expected net contractual settlement, being the contractual amounts at current foreign exchange and interest rates, was a liability of $15 million (30 June 2012: $17 million) compared to a fair value liability of $6 million (June 2012: $9 million).

Note 7 Investments

30 June	2013 $m	2012 $m
Redeemable shares held in fellow subsidiary	540	540
	540	**540**

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. The investment has been classified as a non-current asset based upon expected realisation.

Note 8 Due to other Telecom group companies

30 June	2013 $m	2012 $m
Due to the parent company	386	364
Due to fellow subsidiary companies	7,683	8,704
	8,069	**9,068**

Current amounts due to the parent company and fellow subsidiary companies have interest rates of between 2.3% and 8.1% (30 June 2012: between 2.5% and 8.1%). 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 (as applicable). Amounts due to Telecom group companies are expected to be held to maturity.

Note 9 Debt due within one year

30 June	2013 $m	2012 $m
Long-term debt maturing within one year (see Note 10)	103	312
Promissory notes	95	95
Short-term borrowings	27	-
	225	**407**

At 30 June 2013 the promissory notes had a weighted average interest rate of 3.0% (30 June 2012: 3.0%). Notes are issued under TCNZ Finance's $500 million Note Facility. At 30 June 2013 the short-term borrowings had a weighted average interest rate of 2.8% (30 June 2012: nil). TCNZ Finance's US$1 billion European Commercial Paper programme is still maintained. However, at 30 June 2013 no commercial paper was on issue.

Note 10 Long-term debt

30 June	2013 $m	2012 $m
TeleBonds	226	539
Euro Medium Term Notes	79	79
Domestic Notes	250	-
Bank funding	300	300
	855	918
Less unamortised discount	(1)	(1)
	854	917
Less long-term debt maturing within one year (see Note 9)	(103)	(312)
	751	**605**

None of the Company's debt is secured; it all ranks equally with other liabilities. There are no financial covenants over TCNZ Finance's debt. However, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over TCNZ Finance's debt in the years ended 30 June 2013 and 30 June 2012.

TeleBonds

TeleBonds are issued under a trust deed between the parent company and The New Zealand Guardian Trust Company Limited dated 25 October 1988 (as amended and restated), 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 or lien over any of their respective assets ('NZGT Deed'). 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 7.0% to 8.7% (30 June 2012: 6.9% to 8.7%) and maturity dates between July 2013 and April 2016. During the year ended 30 June 2013 NZ$312 million of TeleBonds matured and were repaid (30 June 2012: NZ$3 million).

Domestic Notes

During the financial year, TCNZ Finance issued NZ$250 million of notes in New Zealand under the NZGT Deed, maturing in October 2019. The notes are unsecured and pay a coupon of 5.25%.

Euro Medium Term Notes

TCNZ Finance 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. Both public debt transactions and private placements can be issued under the programme.

Interest rate	Due	Face value $m	Currency	Hedged currency rate	30 June 2013 $m	30 June 2012 $m
5.6%	14 May 2018	22m	GBP	0.36	44	44
5.8%	6 Apr 2020	18m	GBP	0.39	35	35
					79	**79**

Bank funding

During March 2013, TCNZ Finance entered into a new five-year NZ$100 million revolving bank facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd. This facility is unsecured. The facility was fully drawn at 30 June 2013.

Note 11 Deferred tax

30 June	2013 $m	2012 $m
Balance at beginning of the year	(2)	25
Amounts recognised in profit and loss:		
Relating to current period	1	(7)
Adjustments in respect of prior periods	2	1
Amounts recognised in equity:		
Relating to current period	(1)	(21)
Deferred tax asset/(liability)	-	**(2)**
The deferred tax balance consists of:		
Fair value of derivatives	-	(2)

Following the closure of TCNZ Finance's Australian Branch, and an agreement with tax authorities, the use of TCNZ Finance's previously unrecognised tax losses is now restricted. TCNZ Finance has therefore not recognised in its deferred tax balance the tax effect of accumulated tax loss carry forwards amounting to $89 million at 30 June 2013 (30 June 2012: $96 million) based on the relevant corporation tax rate because future realisation of the asset is not considered probable.

Note 12 Equity

Contributed capital

As at 30 June 2013 contributed capital consisted of 882,872,600 issued and fully paid shares, of which 342,872,600 were 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. No other conditions are attached to the ordinary and redeemable shares. There is no par value on the ordinary shares issued by TCNZ Finance.

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 reclassified in the income statement in the periods when the hedged item will affect profit or loss.

Dividend

During the year ending 30 June 2013 TCNZ Finance paid no dividends to the parent company (30 June 2012: nil).

Note 13 Financial instruments and risk management

TCNZ Finance manages its treasury activities through Telecom's board-approved Treasury policy. TCNZ Finance is exposed to foreign currency, interest rate, credit, liquidity and equity risks. Each of these risks, the associated financial instruments and the management of those risks are detailed in this note.

Financial instruments
TCNZ Finance's financial instruments are classified under NZ IFRS as follows:

30 June 2013	Held for trading $m	Available for sale $m	Loans and receivables $m	Designated in hedging relationships $m	Amortised cost $m	Total carrying amount $m
Assets						
Current assets						
Due from other Telecom group companies	-	-	997	-	-	997
Short-term derivative assets	6	-	-	-	-	6
	6	**-**	**997**	**-**	**-**	**1,003**
Non-current assets						
Due from other Telecom group companies	-	-	9,201	-	-	9,201
Long-term derivative assets	15	-	-	1	-	16
Investments	-	540	-	-	-	540
	15	**540**	**9,201**	**1**	**-**	**9,757**
Liabilities						
Current liabilities						
Cash	-	-	-	-	(2)	(2)
Due to other Telecom group companies	-	-	-	-	(8,069)	(8,069)
Short-term derivative liabilities	(6)	-	-	-	-	(6)
Long-term debt due within one year	-	-	-	-	(225)	(225)
	(6)	**-**	**-**	**-**	**(8,296)**	**(8,302)**
Non-current liabilities						
Long-term derivative liabilities	-	-	-	(22)	-	(22)
Long-term debt	-	-	-	-	(751)	(751)
	-	**-**	**-**	**(22)**	**(751)**	**(773)**

30 June 2012	Held for trading $m	Available for sale $m	Loans and receivables $m	Designated in hedging relationships $m	Amortised cost $m	Total carrying amount $m
Assets						
Current assets						
Cash	-	-	-	-	34	34
Due from other Telecom group companies	-	-	1,333	-	-	1,333
Short-term derivative assets	4	-	-	-	-	4
	4	**-**	**1,333**	**-**	**34**	**1,371**
Non-current assets						
Due from other Telecom group companies	-	-	9,664	-	-	9,664
Long-term derivative assets	14	-	-	-	-	14
Investments	-	540	-	-	-	540
	14	**540**	**9,664**	**-**	**-**	**10,218**
Liabilities						
Current liabilities						
Due to other Telecom group companies	-	-	-	-	(9,068)	(9,068)
Short-term derivative liabilities	(4)	-	-	-	-	(4)
Long-term debt due within one year	-	-	-	-	(407)	(407)
	(4)	**-**	**-**	**-**	**(9,475)**	**(9,479)**
Non-current liabilities						
Long-term derivative liabilities	(1)	-	-	(22)	-	(23)
Long-term debt	-	-	-	-	(605)	(605)
	(1)	**-**	**-**	**(22)**	**(605)**	**(628)**

Reclassifications

The $2 million negative cash balance has been reclassified from held to maturity to amortised cost at 30 June 2013. The $34 million cash balance at 30 June 2012 has also been reclassified from held to maturity to amortised cost for consistent presentation. The fair value of the cash reclassified is equal to its carrying value and no gain or loss has been recognised in profit and loss or other comprehensive income relating to the reclassification. The reclassification is for presentation purposes and has no other impact on the financial statements at 30 June 2013.

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 IFRS 7:

- 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).

30 June 2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Short-term derivative assets	-	6	-	6
Long-term derivative assets	-	16	-	16
	-	**22**	**-**	**22**
Financial Liabilities				
Short-term derivative liabilities	-	(6)	-	(6)
Long-term derivative liabilities	-	(22)	-	(22)
	-	(28)	-	(28)

30 June 2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Short-term derivative assets	-	4	-	4
Long-term derivative assets	-	14	-	14
	-	**18**	**-**	**18**
Financial Liabilities				
Short-term derivative liabilities	-	(4)	-	(4)
Long-term derivative liabilities	-	(23)	-	(23)
	-	**(27)**	**-**	**(27)**

There were no transfers between level 1 and level 2 in the period.

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

Long-term investments

Long-term investments held in a fellow subsidiary company of $540 million (30 June 2012: $540 million) consisted of investments in equity. The fair value of TCNZ Finance's long-term investment is difficult to value as there is no active market price. As the Telecom group's telecommunications network is highly integrated it is difficult to separately identify and measure the cash flows of the investment in the fellow subsidiary company. The range of fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore the Company is precluded from measuring its investment at fair value. Given the lack of a reliable fair value, TCNZ Finance continues to hold its investment at cost.

Long-term debt

The fair value of long-term debt (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was $891 million compared to a carrying value of $855 million (30 June 2012: fair value of $957 million compared to a carrying value of $917 million). In addition to the above carrying value of long-term debt, accrued interest payable of $5 million (30 June 2011: $7 million) is recorded in the statement of financial position. Based on currently available information, TCNZ Finance anticipates long-term debt will remain outstanding until maturity and, accordingly, settlement at the reported fair value of these financial instruments is unlikely.

Cash, collateral funds, short-term investments, short-term debt and amounts due to/from other Telecom group companies

The carrying amounts of these balances are approximately equivalent to their fair value because of the short term to maturity.

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.

Other assumptions

NZD forward interest rates used to determine fair values range from 2.6% to 5.4%.

Guarantees

TCNZ Finance has issued guarantees in relation to the lease payments of other Telecom group companies totalling A$10 million as at 30 June 2013 (30 June 2012: A$10 million). TCNZ Finance has also granted an indemnity in relation to a performance bank guarantee of NZ$17 million for a fellow subsidiary company. As at 30 June 2013 it is considered unlikely that these guarantees will be called upon.

Risk management

TCNZ Finance is exposed to market risk due to foreign currency, interest rates, credit risk, liquidity risk and equity price risk.

Market risk

TCNZ Finance is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates. TCNZ Finance employs risk management strategies, including the use of derivatives, such as interest rate swaps, forward exchange contracts, foreign currency options and cross-currency interest rate swaps to manage these exposures. TCNZ Finance monitors the use of derivative financial instruments through the use of well-defined market and credit risk limits and timely reports to senior management. TCNZ Finance does not hold or issue derivative financial instruments for trading purposes. All contracts have been entered into with major creditworthy financial institutions. The risk associated with these transactions is the risk that the financial instrument's fair value or cash flows will change due to movements in market rates, coupled with the cost of replacing these agreements at the current market rates in the event of default by the counterparts. TCNZ Finance's financial instruments do not have significant concentration of risk with any single party.

Currency risk

Some of TCNZ Finance's long term debt has been issued in foreign currency under TCNZ Finance's Euro Medium Term Note programme. TCNZ Finance enters into cross-currency interest rate swaps to convert the foreign currency borrowings into a floating rate New Zealand dollar exposure. All debt not denominated in New Zealand dollars is hedged. Debt denominated in foreign currencies is translated to New Zealand dollars with currency translation recognised in the income statement. These movements are offset by the translation of the principal value of the related cross-currency interest rate swaps.

TCNZ Finance enters into forward exchange contracts and foreign currency options to protect the Telecom group from the risk that the eventual New Zealand dollar net cash flows will be adversely affected by changes in foreign currency exchange rates. Forward exchange contracts and foreign currency options are used to hedge the Telecom group's forecast transactions that have a high probability of occurrence and firm purchase commitments in fellow subsidiaries (mainly denominated in US dollars). Forward exchange contracts are also used to hedge foreign currency assets and net investments in foreign operations held by the Telecom group. These foreign currency options and forward exchange contracts are not designated as hedging instruments and are therefore classified as held for trading.

TCNZ Finance's exposures to foreign currencies arising from financial instruments is:

30 June 2013	AUD NZ$m	USD NZ$m	GBP NZ$m	Total NZ$m
Exposures				
Long-term debt	-	-	(78)	(78)
Due from other Telecom group companies	2,346	-	-	2,346
Due to other Telecom group companies	-	(47)	-	(47)
Net balance sheet exposure	**2,346**	**(47)**	**(78)**	**2,221**
Hedging instruments				
Foreign exchange contracts	(14)	27	-	13
NZD cross-currency interest rate swaps	-	-	35	35
Total hedged amounts	(14)	27	35	48
Net unhedged exposures	**2,332**	**(20)**	**(43)**	**2,269**

30 June 2012	AUD NZ$m	USD NZ$m	GBP NZ$m	Total NZ$m
Exposures				
Cash	-	27	-	27
Long-term debt	-	-	(79)	(79)
Due from other Telecom group companies	2,513	-	-	2,513
Due to other Telecom group companies	-	(27)	-	(27)
Total exposure from non-derivative financial instruments	**2,513**	**-**	**(79)**	**2,434**
Hedging instruments				
Foreign exchange contracts	(19)	-	-	(19)
NZD cross-currency interest rate swaps	-	-	35	35
Total exposure from hedging instruments	**(19)**	**-**	**35**	**16**

Certain Australian dollar-denominated assets of the Telecom group were hedged by TCNZ Finance. As at 30 June 2013 a movement of 10% in the New Zealand dollar would impact TCNZ Finance's income statement and statement of changes in equity as detailed in the table below:

30 June	**2013**		**2012**	
	-10%	**+10%**	**-10%**	**+10%**
Impact on:	**$m**	**$m**	**$m**	**$m**
Net earnings before income tax	253	(207)	281	(230)
Equity (before income tax)	2	(2)	-	-

This analysis assumes a movement in the New Zealand dollar across all currencies and only includes the effect of foreign exchange movements on financial instruments. All other variables remain constant.

The effects of foreign exchange movements on certain financial instruments before tax were as follows:

Year ended 30 June	**2013**		**2012**	
	Recognised in the income statement	**Recognised in equity**	**Recognised in the income statement**	**Recognised in equity**
	$m	**$m**	**$m**	**$m**
Foreign exchange was recognised on the following financial instruments gain/(loss):				
Cash	(3)	-	(2)	-
Currency options	-	-	-	-
Forward exchange contracts	7	-	(35)	-
Due from other Telecom group companies	(167)	-	(24)	-
Due to other Telecom group companies	(5)	-	(2)	-
Short-term debt	-	-	26	-
Foreign exchange on cross-currency interest rate swaps	-	-	382	-
Long-term debt	1	-	(377)	-
	(167)	-	**(32)**	**-**

Interest rate risk

TCNZ Finance employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates. TCNZ Finance has used cross-currency interest rate swaps with a contract value of $110 million (30 June 2012: $110 million) to hedge long-term debt denominated in Pounds Sterling into New Zealand dollar exposures. New Zealand dollar interest rate swaps are used to convert certain floating rate positions into fixed rate positions. As a consequence, TCNZ Finance's interest rate positions are limited to New Zealand yield curves. TCNZ Finance's objectives of interest rate risk management are to minimise the cost of net borrowings and to minimise the impact of interest rate movements on TCNZ Finance's interest expense and net earnings while acting within policies approved by the board of the parent company. The Treasury policy of the parent company requires that the maximum amount of long-term debt maturing in any financial year is not to exceed NZ$400 million. Net debt must have a weighted average life between 2.5 and 6.0 years. As at 30 June 2013 Telecom management considered that it was in compliance with its Treasury policy as reported to Telecom's board of directors.

Interest rate repricing profile

The following table indicates the effective interest rates and the earliest period in which recognised financial instruments reprice. Fixed rate balances are presented, including the effect of derivative financial instruments, hedging both interest rates and foreign exchange.

30 June 2013	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
Floating								
Cash	0.0%	(2)	-	-	-	-	-	(2)
Short-term debt	3.0%	(122)	-	-	-	-	-	(122)
Long-term debt	4.1%	(200)	-	-	-	-	-	(200)
Fixed								
Due from other Telecom group companies	7.6%	10,198	-	-	-	-	-	10,198
Due to other Telecom group companies	5.5%	(8,069)	-	-	-	-	-	(8,069)
Long-term debt	6.0%	(3)	(73)	(150)	-	(164)	(296)	(686)
		1,802	(73)	(150)	-	(164)	(296)	1,119

TCNZ Finance has not entered into any interest rate swaps to hedge interest payments of forecast short-term debt (30 June 2012: nil).

30 June 2012	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
Floating								
Cash	0.1%	34	-	-	-	-	-	34
Long-term debt	3.0%	(95)	-	-	-	-	-	(95)
Short-term debt	4.2%	(300)	-	-	-	-	-	(300)
Fixed								
Due from other Telecom group companies	7.6%	10,997	-	-	-	-	-	10,997
Due to other Telecom group companies	5.8%	(9,068)	-	-	-	-	-	(9,068)
Long-term debt	7.0%	(312)	(3)	(73)	(150)	-	(110)	(648)
		1,256	**(3)**	**(73)**	**(150)**	**-**	**(110)**	**920**

Financial instruments with rates fixed for 90 days or less are included as floating rate exposures.

As at 30 June 2013 a movement of 100 basis points would impact TCNZ Finance's income statement and statement of changes in equity (after hedging) as detailed in the table below:

30 June	2013		2012	
	-100 bp	+100 bp	-100 bp	+100 bp
Impact on:	$m	$m	$m	$m
Net earnings before income tax	(3)	3	(4)	3
Equity (before income tax)	(5)	5	(1)	1

This analysis assumes all other variables remain constant.

Credit risk
In the normal course of its business, TCNZ Finance incurs credit risk from financial instruments, including cash, short-term investments, advances to associate companies, and derivative financial instruments. TCNZ Finance has a credit policy that is used to manage this exposure to credit risk. As part of this policy limits on exposures with significant counterparties have been set and approved by the board of directors and are monitored on a regular basis. TCNZ Finance's financial instruments do not have significant concentration of risk with any single party. TCNZ Finance has certain derivative and debt agreements that are subject to bilateral credit support agreements that require TCNZ Finance or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2013 no collateral was posted (30 June 2012: nil). TCNZ Finance places its cash, short-term investments and derivative financial instruments with high credit quality financial institutions and sovereign bodies. These limits are monitored daily.

Liquidity risk
Liquidity risk represents TCNZ Finance's ability to meet its contractual obligations. TCNZ Finance evaluates its liquidity requirements on an ongoing basis. Generally, TCNZ Finance generates sufficient cash flows from its operating activities to meet financing costs on external debt. If this is not the case TCNZ Finance would have to recall funds advanced to other Telecom group companies in order to repay its short- and long-term debt. In the event of any shortfalls, TCNZ Finance has two short-term financing programmes in place; a US$1 billion European commercial paper programme and a NZ$500 million Note facility (see Note 10). In addition to the short-term financing programmes, at 30 June 2013 TCNZ Finance had a committed standby facility of NZ$400 million (30 June 2012: NZ$600 million) with a number of banks and a committed two- and three-year bank facility totalling NZ$400 million, of which NZ$200 million was drawn at 30 June 2013 (30 June 2012: NZ$300 million) and a committed five-year bank facility (effective March 2013) totalling $100 million of which $100 million was drawn as at 30 June 2013. As at 30 June 2013 TCNZ Finance also had committed overdraft facilities of NZ$20 million with New Zealand banks. There are no compensating balance requirements associated with these facilities. TCNZ Finance does not have a significant concentration of risk with any single party. In the event that TCNZ Finance is liquidated or ceases to trade, all non-preferential external creditors rank equally in their claims to the financial assets of TCNZ Finance.

TCNZ Finance's maximum exposure to liquidity risk based on contractual cash flows relating to financial instruments is summarised below:

30 June 2013	Carrying amount $m	Contractual cash flows $m	0-6 months $m	6-12 months $m	1-2 years $m	2-3 years $m	3-4 years $m	4-5 years $m	5+ years $m
Non-derivative financial assets									
Due from other Telecom group companies	10,198	10,198	10,198	-	-	-	-	-	-
Investments	540	540	540	-	-	-	-	-	-
	10,738	**10,738**	**10,738**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial assets									
Interest rate swaps	1	1	(1)	-	-	-	1	1	-
Cross-currency interest rate swaps - (gross settled)	15	-	-	-	-	-	-	-	-
Inflows	-	80	1	1	3	3	4	68	-
Outflows	-	(56)	-	(2)	(2)	(2)	(3)	(47)	-
Forward exchange contracts - (gross settled)	6	-	-	-	-	-	-	-	-
Inflows	-	199	159	40	-	-	-	-	-
Outflows	-	(194)	(155)	(39)	-	-	-	-	-
	22	**30**	**4**	**-**	**1**	**1**	**2**	**22**	**-**
Non-derivative financial liabilities									
Cash	(2)	(2)	(2)	-	-	-	-	-	-
Due to other Telecom group companies	(8,069)	(8,069)	(8,069)	-	-	-	-	-	-
Short-term debt	(122)	(122)	(122)	-	-	-	-	-	-
Long-term debt	(855)	(1,014)	(20)	(120)	(208)	(178)	(18)	(161)	(309)
	(9,048)	**(9,207)**	**(8,213)**	**(120)**	**(208)**	**(178)**	**(18)**	**(161)**	**(309)**
Derivative financial liabilities									
Interest rate swaps - (net settled)	(1)	(1)	(1)	(1)	(1)	-	-	1	1
Cross-currency interest rate swaps	(21)	-	-	-	-	-	-		
- (gross settled)								-	-
Inflows		105	-	5	4	4	5	48	39
Outflows	-	(143)	(2)	(2)	(5)	(6)	(6)	(70)	(52)
Forward exchange contracts -	(6)								
(gross settled)		-	-	-	-	-	-	-	-
Inflows		176	137	39	-	-	-	-	-
Outflows	-	(182)	(142)	(40)	-	-	-	-	-
	(28)	**(45)**	**(8)**	**1**	**(2)**	**(2)**	**(1)**	**(21)**	**(12)**
Total	**1,684**	**1,516**	**2,521**	**(119)**	**(209)**	**(179)**	**(17)**	**(160)**	**(321)**

30 June 2012	Carrying amount $m	Contractual cash flows $m	0-6 months $m	6-12 months $m	1-2 years $m	2-3 years $m	3-4 years $m	4-5 years $m	5+ years $m
Non-derivative financial assets									
Cash	34	34	34	-	-	-	-	-	-
Due from other Telecom group companies	10,997	10,997	10,997	-	-	-	-	-	-
Investments	540	540	540	-	-	-	-	-	-
	11,571	11,571	11,571	-	-	-	-	-	-
Derivative financial assets									
Cross-currency interest rate swaps - (gross settled)									
Inflows	13	81	1	1	2	3	3	4	67
Outflows		(59)	-	(2)	(2)	(2)	(3)	(3)	(47)
Forward exchange contracts - (gross settled)									
Inflows	5	172	86	70	16	-	-	-	-
Outflows		(166)	(83)	(68)	(15)	-	-	-	-
	18	28	4	1	1	1	-	1	20
Non-derivative financial liabilities									
Due to other Telecom group companies	(9,068)	(9,068)	(9,068)	-	-	-	-	-	-
Short-term debt	(95)	(95)	(95)	-	-	-	-	-	-
Long-term debt	(917)	(1,037)	(20)	(336)	(125)	(296)	(167)	(5)	(88)
	(10,080)	(10,200)	(9,183)	(336)	(125)	(296)	(167)	(5)	(88)
Derivative financial liabilities									
Interest rate swaps	(6)	(6)	(1)	(1)	(2)	(1)	(1)	-	-
Cross-currency interest rate swaps - (gross settled)									
Inflows		110	-	4	4	4	5	5	88
Outflows	(16)	(144)	(2)	(2)	(4)	(5)	(5)	(5)	(121)
Forward exchange contracts - (gross settled)									
Inflows		186	103	68	15	-	-	-	-
Outflows	(5)	(191)	(105)	(70)	(16)	-	-	-	-
	(27)	(45)	(5)	(1)	(3)	(2)	(1)	-	(33)
Total	**1,482**	**1,354**	**2,387**	**(336)**	**(127)**	**(297)**	**(168)**	**(4)**	**(101)**

Carrying amounts are as disclosed on the balance sheet as per TCNZ Finance's accounting policies. Contractual cash flows include undiscounted principal and interest payments and are presented at the earliest date on which the entity could be required to repay contractually.

Equity price risk

Investments that subject TCNZ Finance to equity price risk include long-term investments in a fellow subsidiary company. TCNZ Finance's exposure to equity risk at 30 June 2013 was $540 million (30 June 2012: $540 million).

Hedging activities: Derivative financial instruments
Each derivative that is designated as a hedge is classified as a hedge of a highly probable forecast transaction (a cash flow hedge). TCNZ Finance does not currently hold or issue derivative financial instruments for trading purposes, although under the classifications of IFRS derivative financial instruments are classified as 'held for trading' unless they are designated hedges. Currency options and certain cross-currency interest rate swaps held by TCNZ Finance are classified under IFRS as held for trading. All other derivative financial instruments classified as held for trading are designated hedges of exposures in other Telecom group companies.

The fair values of derivatives are as follows:

30 June	**2013**		**2012**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	$m	**$m**	**$m**	**$m**
Cash flow hedges:				
Interest rate swaps	1	(1)	-	(6)
Cross-currency interest rate swaps	-	(21)	-	(17)
	1	(22)	-	(23)
Designated as held for trading:				
Forward exchange contracts	6	(6)	5	(4)
Cross-currency interest rate swaps	15	-	13	-
	21	(6)	18	(4)
Total net derivatives	22	(28)	**18**	**(27)**

Cash flow hedges
TCNZ Finance uses cross-currency interest rate swaps and interest rate swaps to manage interest and foreign exchange risk on foreign denominated debt. These swaps are jointly designated as hedges of the forecast interest and principal cash flows of the debt. The changes in the fair values of interest rate derivatives accumulated in equity is expected to be reclassified to finance expense as interest payments occur over the remaining term of the derivatives. At 30 June 2013 derivatives with a fair value deferred in equity of NZ$6 million are due to mature in 2018 (30 June 2012: $4 million) and NZ$5 million in 2020 (30 June 2012 NZ$5 million). 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 any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to 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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement. During the period all hedged forecast transactions occurred as expected. There has been no material ineffectiveness on cash flow hedging relationships during the period (30 June 2012: nil).

Reconciliation of movements in the hedge reserve are as follows:

Year ended 30 June	**2013**			**2012**		
	Before tax	**Tax (expense)/ credit**	**Net of tax**	**Before tax**	**Tax (expense)/ credit**	**Net of tax**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Balance at the beginning of the year			(6)			(52)
Gain/(loss) recognised in other comprehensive income	3	(1)	2	43	(14)	29
Amount reclassified from cash flow hedge reserve to finance expense	2	-	2	24	(7)	17
Balance at the end of the year			(2)			**(6)**

Note 14 Concentration of funding

30 June	**2013**	**2012**
	$m	**$m**
Funding consists of:		
Debt due within one year	225	407
Due to other Telecom group companies	8,069	9,068
Long-term debt	751	605
Total funding	**9,045**	**10,080**
Concentration of funding by economic sector:		
Commercial and financial	976	1,012
Due to other Telecom group companies	8,069	9,068
Total funding	**9,045**	**10,080**
Concentration of funding by geographical areas:		
Within New Zealand	7,823	8,925
Overseas:		
Bermuda	253	224
Europe	969	931
Total funding	**9,045**	**10,080**

Note 15 Concentration of credit exposures

In the normal course of its business TCNZ Finance incurs credit risk from financial instruments, including cash, advances to fellow subsidiary companies, trade receivables and derivative financial instruments.

TCNZ Finance has a credit policy that 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 Telecom and are monitored on a regular basis.

30 June	2013 $m	2012 $m
Credit exposures consist of:		
Cash	-	34
Due from other Telecom group companies	7,869	8,501
Debentures issued by fellow subsidiary	2,329	2,496
Derivative financial instruments	22	18
Total credit exposure	**10,220**	**11,049**
Credit exposures by economic sector:		
Commercial and financial	22	52
Due from other Telecom group companies	10,198	10,997
Total credit exposure	**10,220**	**11,049**
Credit exposures by geographical areas:		
New Zealand	7,860	8,505
Australia	2,346	2,516
USA	-	27
Other	14	1
Total credit exposure	**10,220**	**11,049**

TCNZ Finance has no financial assets that are overdue and none that are impaired. TCNZ Finance has certain derivative transactions and debt agreements that are subject to bilateral credit support agreements that require TCNZ Finance or the counterparty to post collateral to support mark-to-market valuation differences. As at 30 June 2013 no collateral was posted (30 June 2012: nil). In the event of a downgrade of Telecom's credit rating to either Baa1 (Moody's Investors Services) or BBB+ (Standard & Poor's) TCNZ Finance would be required to post US$6 million (based on rates at 30 June 2013) of additional collateral. Collateral calls can be made by either party if the fair value of the agreement changes due to market conditions.

Note 16 Related party transactions

TCNZ Finance provides financing for the Telecom group. 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:

30 June	2013 $m	2012 $m
Cross-currency interest rate swaps	64	64
Forward exchange contracts	146	171

Note 17 Fellow subsidiary companies

At 30 June 2013 the significant fellow subsidiaries of TCNZ Finance were as follows:

	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
TCNZ Australia Investments Pty Limited	Australia	100%	A holding company.
Telecom New Zealand International Australia	Australia	100%	Provides international wholesale telecommunications.
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services.
AAPT Limited	Australia	100%	Provides value-added telecommunications services.
PowerTel Limited	Australia	100%	Provides wholesale telecommunications services.
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company.
Telecom Cook Islands Limited	Cook Islands	60%	Provides telecommunications services in the Cook Islands.
Telecom New Zealand Limited	New Zealand	100%	Provides local, national and international telephone services.
Telecom Mobile Limited	New Zealand	100%	Provides mobile telecommunications services.
Xtra Limited	New Zealand	100%	Internet service provider.
Telecom Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services.
Telecom IP Limited	New Zealand	100%	Owns group intellectual property.
Telecom Southern Cross Limited	New Zealand	100%	A holding company.
Telecom New Zealand UK Limited	United Kingdom	100%	Provides international wholesale telecommunications.
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications.
Telecom Rentals Limited	New Zealand	100%	Leases telecommunications equipment to third parties.
Telecom Leasing Limited	New Zealand	100%	Procures and leases assets.
Teleco Insurance Limited	Bermuda	100%	A group insurance company.
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Blaxton Properties Limited	New Zealand	100%	NZ Property investment

Note 18 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 2013	New Zealand operations $m	Australian operations $m	Other operations $m	Consolidated $m
Finance income	884	-	-	884
Net earnings for the year	136	-	-	136
Investments	540	-	-	540
Total assets	10,762	-	-	10,762
Total liabilities	(9,199)	-	-	(9,199)

Note 18 Segmental reporting (continued)

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	11,591	-	-	11,591
Total liabilities	(10,168)	-	-	(10,168)

Note 19 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. Overseas shareholders in general are not entitled to claim the benefit of any imputation credit. Overseas shareholders may benefit from supplementary dividends. TCNZ Finance has elected to be a member of the Telecom Imputation Group. As at 30 June 2013, the Telecom Imputation Group imputation credit account had a closing debit balance of $3 million (30 June 2012 credit balance: $14 million).

Note 20 Reconciliation of net earnings to net cash flows from operating activities

Year ended 30 June	2013 $m	2012 $m
Net earnings	136	(403)
Adjustments to reconcile net earnings to net cash flows from operating activities		
Amortisation of discount	2	12
Foreign exchange loss	169	32
Revaluation of derivatives	(2)	(11)
Debt restructuring costs	-	170
Fellow subsidiary debt forgiveness	-	546
Foreign exchange gain relating to wind up of foreign operation	-	(28)
Other	-	2
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Increase in interest payable	(2)	(28)
Increase in current taxation	117	61
Decrease in accounts payable	1	-
Net cash flows from operating activities	**421**	**353**

Note 21 Commitments and Contingencies
There are no commitments or contingencies other than those outlined in the above notes (2012: nil).

Note 22 Significant events after balance date
There were no significant events after balance date (2012: nil).

Note 23 New accounting standards not yet adopted
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for TCNZ Finance's accounting periods beginning on or after 1 July 2013 but which TCNZ Finance has not yet adopted. TCNZ Finance does not consider any other standards or interpretations in issue, but not yet applicable, to have a significant impact on its financial statements. Those which are relevant to TCNZ Finance are as follows:

NZ IFRS 9 (2010) Financial instruments

Effective for periods beginning on or after 1 January 2015

The standard adds the requirements related to the classification and measurement of financial liabilities and derecognition of financial assets and liabilities.

NZ IFRS 12 Disclosure of interests in other entities

Effective for periods beginning on or after 1 January 2013

The standard applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives.

NZ IFRS 13 Fair value measurement

Effective for periods beginning on or after 1 January 2013

The standard establishes a single framework for measuring fair value where that is required by other standards and is applicable to both financial and non-financial items.

Amendments to NZ IFRS 7 Financial instruments: disclosures – offsetting financial assets and financial liabilities

Effective for periods beginning on or after 1 January 2013

These amendments require information about all recognised financial instruments that are set off in accordance with NZ IAS 32 'Financial instruments: presentation' and also information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under NZ IAS 32.

Amendments to NZ IAS 32 Financial instruments: disclosures – offsetting financial assets and financial liabilities

Effective for periods beginning on or after 1 January 2014

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and also clarify the application of NZ IAS 32 offsetting criteria to settlement systems, which apply gross settlement mechanisms that are not simultaneous.

Note 24 Audit

This report is based on financial statements which have been audited. The auditors have not made any qualifications to the financial statements.

Auditor's Report

To the Shareholder of TCNZ Finance Limited

We have audited the accompanying financial statements of TCNZ Finance Limited (''the company'') on pages 4 to 29. The financial statements comprise the statement of financial position as at 30 June 2013, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.

Opinion

In our opinion the financial statements on pages 4 to 29:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by TCNZ Finance Limited as far as appears from our examination of those records.

Luxembourg Regulatory Statement

In accordance with the Fourth Council Directive of the European Communities, Section 11, Article 51, we confirm that the annual report is consistent with the annual accounts for the financial year.

KPMG

27 August 2013

Wellington

Registered office
The registered office of TCNZ Finance is:

Level 2
Telecom Place
167 Victoria Street West
Auckland 1010
New Zealand

Inquiries
TeleBond holders with inquiries about transactions, changes of address or interest payments should contact:

Computershare Investor Services
Private Bag 92119
Auckland 1142
Ph: 09 488 8777
Fax: 09 488 8788
NZ Toll Free: 0800 737 100
Email: enquiry@computershare.co.nz
Website: www.computershare.com

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

General Manager Capital Markets and Investor Relations
TCNZ Finance Limited
Private Bag 92028
Auckland 1142
New Zealand

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

telecom[nz]

www.telecom.co.nz