The New Zealand

Gazette

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TELECOMMUNICATIONS (DISCLOSURE) REGULATIONS 1990

This publication sets out material required to be published by Telecom in the *New Zealand Gazette* by the Telecommunications (Disclosure) Regulations 1990.

The information provides financial statements for the 6 months ended 30 September 1990 for the following subsidiaries:

Telecom Auckland Limited;

Telecom Central Limited;

Telecom Wellington Limited;

Telecom South Limited.

The information in this publication was prepared by Telecom Corporation of New Zealand Limited after making all reasonable inquiry and to the best of the knowledge of the Corporation complies with the requirements of regulation 3 of the Telecommunications (Disclosure) Regulations 1990.

This information is also available on request at the following principal offices of the Corporation and its subsidiaries:

Telecom Corporation of New Zealand Limited, Telecom House, 13–27 Manners Street, P.O. Box 570, Wellington.

Telecom Auckland Limited, Telecom Tower, 16 Kingston Street, Private Bag, Auckland.

Telecom Central Limited, Regional Office, Fifth Floor, Housing Corporation Building, 500 Victoria Street, Private Bag 3100, Hamilton.

Telecom Wellington Limited, Ninth Floor, Hewlett-Packard Building, 186–190 Willis Street, P.O. Box 293, Wellington.

Telecom South Limited, Fifth Floor, NML Building, 152–156 Hereford Street, P.O. Box 1473, Christchurch.

TELECOM AUCKLAND LIMITED

EARNINGS STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1990

	Notes	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
Revenue	2	314,093	605,632
Operating expenses	3	(250,767)	(475,266)
Earnings from operations		63,326	130,366
Interest income	4	2	1,536
Interest expense	4	(28,356)	(37,280)
Net earnings before taxation		34,972	94,622
Taxation	5	(12,905)	(31,742)
Net earnings after taxation		22,067	62,880
Retained earnings from the previous year		3,144	–
Available for appropriation		25,211	62,880
Dividends	6	(6,263)	(59,736)
Retained earnings at end of period		18,948	3,144

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

TELECOM AUCKLAND LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 1990

	Notes	30 September 1990 $000's	31 March 1990 $000's
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Bank overdraft (unsecured)		4,227	3,211
Accounts payable and accruals	7	260,880	207,505
Provision for restructuring costs	10	–	–
Proposed dividend	6	6,263	41,136
Total current liabilities		271,370	251,852
Deferred tax provision	9	–	1,264
Term liabilities	8	284,491	284,491
Commitments and contingent liabilities	15,16		
Shareholders' funds			
Ordinary shares, $1 each			
–Authorised, issued and fully paid 199,146,000 shares		199,146	199,146
Redeemable preference shares, $1 each			
–Authorised, issued and fully paid 46,466 shares		46	46
Share premium reserve	11	464,614	464,614
Retained earnings		18,948	3,144
Total shareholders' funds		682,754	666,950
Total liabilities and shareholders' funds		**1,238,615**	**1,204,557**
ASSETS			
Current assets			
Cash and bank		740	583
Accounts receivable and prepayments	12	129,947	132,661
Prepaid taxation	9	16,108	23,290
Inventories	13	55,649	54,609
Total current assets		202,444	211,143
Future tax benefit	9	287	–
Fixed assets	14	1,035,884	993,414
Total assets		**1,238,615**	**1,204,557**

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

On behalf of the Board

DR P TROUGHTON
CHAIRMAN

D H SLEDGE
MANAGING DIRECTOR

AUCKLAND, 28 NOVEMBER 1990

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(i) CONSTITUTION, OWNERSHIP AND ACTIVITIES

Telecom Auckland Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom").

With effect from 1 April 1989 Telecom was restructured into a number of Regional Operating and New Venture companies and as a result, transferred to certain subsidiaries, including Telecom Auckland Limited, at net book value, the telecommunication equipment and other assets and liabilities relating to business previously conducted by Telecom. Telecom and its subsidiaries now together form the Telecom "Group".

The parent company was wholly owned by the Crown until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to a consortium consisting of two American companies, American Information Technologies Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic") and two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Fay, Richwhite Holdings Ltd ("Fay, Richwhite"). To comply with this agreement, Ameritech and Bell Atlantic will reduce their combined ownership of Telecom to 49.9% over the next three years by selling a combined 10% interest to Freightways and Fay, Richwhite and 40.1% to the public via stock offerings. At the completion of this transaction period, Ameritech and Bell Atlantic will each own 24.95% of Telecom.

The Crown will continue to hold a special rights convertible preference share (the "Kiwi share") in Telecom which assures that:

–Local free calling will be maintained for all residential customers

–The Standard Residential Rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the Consumers' Price Index unless Telecom's Regional Operating Company profits are unreasonably affected

–Line rentals for residential customers in rural areas will be no higher than the Standard Residential Rental, and ordinary residential telephone service will remain as widely available as it is as at 11 September 1990.

These financial statements are published to comply with the Telecommunications (Disclosure) Regulations 1990 which came into force on the 1st of July 1990. As separate financial statements for the six months ended 30 September 1989 had not been prepared, no comparative figures for that period are included in these financial statements.

The principal activity of Telecom Auckland Limited is the provision of telecommunication services in the Auckland and Northland regions.

(ii) GENERAL ACCOUNTING POLICIES

These financial statements report on the affairs of the company as a going concern.

The measurement basis adopted is historical cost. Accrual accounting is used to match income and expenses.

(iii) SPECIFIC ACCOUNTING POLICIES

(A) FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom Auckland Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs. For each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and get the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(B) DEPRECIATION

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their estimated economic lives, which are as follows:

Telecommunication equipment and plant:	
Customer local loop	5–30 years
Junctions and trunk transmission systems	10–30 years
Switching equipment	5–15 years
Customer premises equipment	5 years
Other network equipment	5–25 years
Buildings	40–100 years
Motor vehicles	5 years
Furniture and fittings	5–10 years
Computer equipment	3–5 years

Land and capital work in progress are not depreciated.

(C) INVENTORIES

Inventories are comprised of materials for self constructed network assets, critical maintenance spares and customer premises equipment held for rental or resale. They are stated at the lower of cost and net realisable value after provision for excess and obsolete items. Cost is determined on a first in first out basis.

Inventories also include revenue work in progress. Profit is recognised on completion of the contract.

(D) ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for doubtful debts.

(E) LEASES

The Company is lessor of customer premises equipment. Rental income applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are taken to revenue as earned.

Additionally the Company is lessee of certain plant, equipment, land and buildings under operating leases. Expenses relating to operating leases are charged against earnings as incurred.

No material finance leases have been entered into as lessor or lessee.

(F) COMPENSATED ABSENCES

The liability for employees' compensation for future absences is accrued in respect of employees' services already rendered and where the obligation relates to rights which have vested. Such liability is reflected as personnel accruals within accounts payable and accruals.

(G) LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Employees whose services with the Company are terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Such liabilities are reflected as personnel accruals within accounts payable and accruals.

(H) PENSIONS

Contributions are made into the Government Superannuation Fund (the "Fund") in respect of those employees who are members of the Fund at a rate specified under the Sale and Purchase Agreement whereby Telecom acquired the telecommunication business of the New Zealand Post Office on 1 April 1987. Additionally, full provision is made for the accrued pension costs relating to members of the Telecom Employees' Pension Plan (the "Plan") upon the basis of actuarial valuations which are to be made at least once every three years. Contributions to the Fund and the Plan are charged against earnings.

(I) FOREIGN CURRENCIES

The financial statements are expressed in New Zealand dollars. Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction except for hedged transactions which are recorded at the hedged exchange rate. Monetary assets and liabilities denominated in foreign currencies have been translated to New Zealand currency at the spot rates of exchange ruling at balance date. Realised and unrealised profits and losses on foreign exchange transactions are recognised in earnings for the period.

The Company enters into contracts with Telecom (as the Group's central treasury operation) to manage the Company's foreign exchange exposure.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(J) TAXATION

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences. Deferred taxation calculated using the liability method is accounted for on all significant timing differences between the earnings stated in the financial statements and the assessable income computed for taxation purposes. Deferred taxation is recognised only on those timing differences which are expected to reverse within the foreseeable future.

(iv) CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
2 REVENUE		
	314,093	**605,632**

Revenue includes rental from telephone lines and customer premises equipment, national calls, telex, leased circuit, telegraph, radio and support centre service revenue, and sales of customer premises equipment.

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
3 OPERATING EXPENSES		
	250,767	**475,266**
Included in Operating expenses are:		
Depreciation	56,277	106,629
Audit fees	95	152
Intercompany management fee	13,433	29,731
Foreign exchange losses	–	2,212
Lease and rental costs	16,543	33,428

The formula used in determining the amount of labour and overhead capitalised to the cost of self constructed assets has been varied with the effect that for the six months ended 30 September 1990 an additional $4.1 million of overhead which otherwise would have been charged to earnings, after taxation, was capitalised.

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
4 INTEREST		
Interest income:		
–Intercompany	–	1,509
–Other	2	27
	2	**1,536**
Interest expense:		
–Intercompany	28,659	43,455
–Other	4	7
	28,663	43,462
–Less interest capitalised	(307)	(6,182)
	28,356	**37,280**
5 TAXATION EXPENSE		
Net earnings before taxation	34,972	94,622
Tax at current rate of 33%	11,541	31,225
Adjustment for permanent differences	1,364	517
Total taxation	**12,905**	**31,742**
The tax expense is represented by:		
–Current taxation (Note 9)	7,182	18,236
–Deferred taxation (Note 9)	5,723	13,506
	12,905	31,742
6 DIVIDENDS		
Interim dividend proposed	6,263	–
Interim dividend paid	–	18,600
Final dividend proposed	–	41,136
Dividends for period	**6,263**	**59,736**
Proposed dividend at end of period	**6,263**	**41,136**
7 ACCOUNTS PAYABLE AND ACCRUALS		
Trade accounts payable and accruals	33,069	47,709
Personnel accruals	20,518	20,683
Rentals billed in advance	14,445	13,616
Payable to fellow subsidiary companies	25,771	39,672
Payable to parent company	167,077	85,825
	260,880	**207,505**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
8 TERM LIABILITIES (UNSECURED)		
Parent company loan	**284,491**	**284,491**

Interest rates on the parent company loan ranged from 14.14% to 14.28% for the six months ended 30 September 1990. The parent company loan has no fixed date for repayment.

	30 September 1990 $000's	31 March 1990 $000's
9 TAXATION		
Current taxation:		
–Balance at beginning of period	23,290	–
–Total taxation in the current period (Note 5)	(7,182)	(18,236)
–Tax paid	–	41,526
Prepaid taxation	**16,108**	**23,290**
Deferred taxation:		
–Balance at beginning of period	(1,264)	12,242
–Provided in the current period (Note 5)	(5,723)	(13,506)
–Other movements	7,274	–
Future tax benefit/(Deferred tax provision)	**287**	**(1,264)**
10 PROVISION FOR RESTRUCTURING COSTS		
Transferred from Telecom	–	26,334
Charges against provision	–	(36,257)
	–	(9,923)
Transfer from earnings	–	9,923
	–	–
11 SHARE PREMIUM RESERVE		
Balance at beginning of period	464,614	–
(Consisting of a premium of $9,999 on 46,466 redeemable preference shares)		
Movements during period	–	464,614
	464,614	**464,614**

The redeemable preference shares are subject to redemption, at the issue price, five days after written notice from the holder.

	30 September 1990 $000's	31 March 1990 $000's
12 ACCOUNTS RECEIVABLE AND PREPAYMENTS		
Accounts receivable	92,772	91,278
Unbilled rentals and tolls	26,621	33,838
Due from fellow subsidiary companies	5,066	1,324
House mortgage loans to employees	126	177
Other accounts receivable and prepayments	5,362	6,044
	129,947	**132,661**

Included in other accounts receivable and prepayments is an amount of $3.0 million (31 March 1990; $4.4 million) being the deferral of certain expenditure incurred in relation to the installation of a major computer system. These costs are progressively charged to earnings as each phase of the system becomes fully operational.

	30 September 1990 $000's	31 March 1990 $000's
13 INVENTORIES		
Revenue work in progress	7,980	14,289
Inventories	47,669	40,320
	55,649	**54,609**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
14 FIXED ASSETS		
Telecommunication equipment:		
–Cost	988,036	899,984
–Accumulated depreciation	(297,773)	(267,841)
	690,263	632,143
Capital work in progress	113,365	189,452
Land	58,054	58,219
Buildings:		
–Cost	125,167	71,596
–Accumulated depreciation	(8,812)	(6,764)
	116,355	64,832
Other fixed assets:		
–Cost	94,308	81,532
–Accumulated depreciation	(36,461)	(32,764)
	57,847	48,768
Total cost	**1,378,930**	**1,300,783**
Total accumulated depreciation	**(343,046)**	**(307,369)**
Total net book value	**1,035,884**	**993,414**

Other fixed assets include tools and plant, vehicles, office equipment, furniture and fittings and computer equipment.

Included in telecommunication equipment at 30 September 1990 and 31 March 1990 respectively, is equipment leased to customers under operating leases with a cost of $189.9 million and $184.2 million, together with accumulated depreciation of $94.6 million and $92.2 million.

REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for more than half the freehold interests have been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all land or interest in land included in the assets purchased from the Crown is subject to claims to the Waitangi Tribunal which has the power to recommend in appropriate circumstances that the land be resumed by the Crown in order that it be returned to Maori claimants. In the event that land is resumed by the Crown, compensation will be paid to Telecom under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss certain additional compensation is payable under the provisions of the Sale and Purchase Agreement between Telecom and the Crown.

Under the State Owned Enterprises Act 1986 the Governor General may if satisfied that any land or interest in land held by Telecom is Wahi Tapu (being land of special spiritual, cultural or historical tribal significance) declare by order in Council that the land be resumed by the Crown, with compensation payable to Telecom under the provisions of the Public Works Act 1981.

15 COMMITMENTS

(A) OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1990 for all non-cancellable operating leases for the years ended 30 September are:

–1991	12.0	
–1992	12.6	
–1993	12.4	
–1994	12.2	
–1995	11.4	
–Thereafter	38.7	
	$99.3	million

(B) CAPITAL COMMITMENTS

As at 30 September 1990 capital expenditure amounting to $60.9 million has been committed under contractual arrangements.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

16 CONTINGENT LIABILITIES

(A) LAND CLAIMS

As stated in Note 14, land or interest in land included in assets purchased from the Crown is subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown, with provision for compensation to Telecom.

Certain claims have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land transfers to Telecom by the Crown and/or by Telecom to its subsidiary companies.

(B) LAWSUITS AND OTHER CLAIMS

Various lawsuits and claims have been brought or asserted against the Company. The Directors do not consider them to be material to the Company's financial position.

(C) GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $780 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1990, principally under the following agreements:

(i) $29.7 million under a facility agreement dated 31 August 1988 with the Bank of New Zealand establishing a $400 million promissory note facility in favour of the parent company.

(ii) $474.7 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) $275 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

Under the Trust Deeds referred to in (ii) and (iii) above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not create or permit to exist any charge over any of its assets, subject to the exceptions provided within the Trust Deeds.

17 FELLOW SUBSIDIARY COMPANIES

At 30 September 1990 the principal fellow subsidiaries of the Company were as follows:

- Telecom Central Limited
- Telecom Wellington Limited
- Telecom South Limited
- Telecom Networks and International Limited
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- Telecom Operations Limited
- Telecom North Limited

18 RELATED PARTY TRANSACTIONS

The Company is wholly owned by Telecom Corporation of New Zealand Limited which in turn was owned by the Crown until 12 September 1990. During that time the Company undertook many transactions with other State Owned Enterprises and government departments which were carried out at arm's length and in the normal course of business.

During the period the Company derived revenue from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

Outstanding intercompany balances as at 30 September 1990 are:

Intercompany Receivable	$5.1 million
Intercompany Payable and current account	$192.8 million
Intercompany Term Liabilities	$284.5 million

With the exception of the current account and the term liability, the balances are payable on normal trading terms. The current account is on call and the term liability has no fixed date for repayment. No related party debts have been written off or forgiven during the year.

19 SEGEMENTAL REPORTING

The Company's principal business activity is the provision of telecommunication services, constituting more than 90% of total operating revenues, operating earnings and identifiable assets.

The Company's business is conducted in New Zealand and is therefore within one geographical area for reporting purposes.

AUDITORS' REPORT

REPORT OF THE AUDITORS

TO THE MEMBERS OF TELECOM AUCKLAND LIMITED

The financial statements are in agreement with the accounting records which, in our opinion, have been properly kept. We obtained the information and explanations we required.
In our opinion, the financial statements give, under the historical cost convention, a true and fair view of the state of the Company's affairs at 30 September 1990 and of the earnings for the 6 months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
AUCKLAND, 28 NOVEMBER 1990

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED EARNINGS STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1990

	Notes	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
Revenue	2	249,620	232,243
Operating expenses	3	(185,490)	(172,277)
Earnings from operations		64,130	59,966
Interest income	4	1,982	2,828
Interest expense	4	(18,631)	(18,281)
Net earnings before taxation		47,481	44,513
Taxation	5	(15,893)	(13,790)
Net earnings after taxation		31,588	30,723
Retained earnings from the previous year		9,251	–
Retained earnings of acquired subsidiary		12,152	–
Available for appropriation		52,991	30,723
Dividends	6	(13,646)	(21,472)
Retained earnings at end of period		39,345	9,251

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 1990

	Notes	30 September 1990 $000's	31 March 1990 $000's
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Bank overdraft (unsecured)		5,566	715
Accounts payable and accruals	7	177,999	41,919
Taxation payable	9	13,583	5,318
Provision for restructuring costs	10	–	–
Proposed dividend	6	8,192	19,602
Total current liabilities		205,340	67,554
Deferred tax provision	9	3,789	–
Term liabilities	8	255,447	126,358
Commitments and contingent liabilities	15,16		
Shareholders' funds			
Ordinary shares, $1 each			
–Authorised, issued and fully paid 88,456,000 shares		88,456	88,456
Redeemable preference shares, $1 each			
–Authorised, issued and fully paid 20,638 shares		21	21
Share premium reserve	11	419,058	206,359
Retained earnings		39,345	9,251
Total shareholders' funds		546,880	304,087
Total liabilities and shareholders' funds		**1,011,456**	**497,999**
ASSETS			
Current assets			
Cash and bank		37	730
Accounts receivable and prepayments	12	102,189	53,853
Inventories	13	31,336	13,537
Total current assets		133,562	68,120
Future tax benefit	9	–	13,008
Fixed assets	14	877,894	416,871
Total assets		**1,011,456**	**497,999**

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

On behalf of the Board

D R CAMPBELL
CHAIRMAN

N R NICHOLLS
MANAGING DIRECTOR

HAMILTON, 28 NOVEMBER 1990

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(i) CONSTITUTION, OWNERSHIP AND ACTIVITIES

Telecom Central Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom").

With effect from 1 April 1989 Telecom was restructured into a number of Regional Operating and New Venture companies and as a result, transferred to certain subsidiaries, including Telecom Central Limited, at net book value, the telecommunication equipment and other assets and liabilities relating to business previously conducted by Telecom. Telecom and its subsidiaries now together form the Telecom "Group".

Telecom Central Limited acquired the shares and net assets of Telecom Midland Limited with effect from 1 April 1990, and now provides telecommunication services in the area previously serviced by Telecom Midland Limited as well as its own previously designated area. The comparative figures for the year ended 31 March 1990 are those of Telecom Central Limited.

The parent company was wholly owned by the Crown until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to a consortium consisting of two American companies, American Information Technologies Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic") and two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Fay, Richwhite Holdings Ltd ("Fay, Richwhite"). To comply with this agreement, Ameritech and Bell Atlantic will reduce their combined ownership of Telecom to 49.9% over the next three years by selling a combined 10% interest to Freightways and Fay, Richwhite and 40.1% to the public via stock offerings. At the completion of this transaction period, Ameritech and Bell Atlantic will each own 24.95% of Telecom.

The Crown will continue to hold a special rights convertible preference share (the "Kiwi share") in Telecom which assures that:

- Local free calling will be maintained for all residential customers
- The Standard Residential Rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the Consumers' Price Index unless Telecom's Regional Operating Company profits are unreasonably affected
- Line rentals for residential customers in rural areas will be no higher than the Standard Residential Rental, and ordinary residential telephone service will remain as widely available as it is as at 11 September 1990.

These financial statements are published to comply with the Telecommunications (Disclosure) Regulations 1990 which came into force on the 1st of July 1990. As separate financial statements for the six months ended 30 September 1989 had not been prepared, no comparative figures for that period are included in these financial statements.

The principal activity of Telecom Central Limited is the provision of telecommunication services in the North Island excluding the Auckland, Northland and Wellington regions.

(ii) GENERAL ACCOUNTING POLICIES

These financial statements report on the affairs of the company as a going concern.

The measurement basis adopted is historical cost. Accrual accounting is used to match income and expenses.

(iii) SPECIFIC ACCOUNTING POLICIES

(A) FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom Central Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs.

For each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and get the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(B) DEPRECIATION

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their estimated economic lives, which are as follows:

Telecommunication equipment and plant:	
Customer local loop	5–30 years
Junctions and trunk transmission systems	10–30 years
Switching equipment	5–15 years
Customer premises equipment	5 years
Other network equipment	5–25 years
Buildings	40–100 years
Motor vehicles	5 years
Furniture and fittings	5–10 years
Computer equipment	3–5 years

Land and capital work in progress are not depreciated.

(C) INVENTORIES

Inventories are comprised of materials for self constructed network assets, critical maintenance spares and customer premises equipment held for rental or resale. They are stated at the lower of cost and net realisable value after provision for excess and obsolete items. Cost is determined on a first in first out basis.

Inventories also include revenue work in progress. Profit is recognised on completion of the contract.

(D) ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for doubtful debts.

(E) LEASES

The Company is lessor of customer premises equipment. Rental income applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are taken to revenue as earned.

Additionally the Company is lessee of certain plant, equipment, land and buildings under operating leases. Expenses relating to operating leases are charged against earnings as incurred.

No material finance leases have been entered into as lessor or lessee.

(F) COMPENSATED ABSENCES

The liability for employees' compensation for future absences is accrued in respect of employees' services already rendered and where the obligation relates to rights which have vested. Such liability is reflected as personnel accruals within accounts payable and accruals.

(G) LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Employees whose services with the Company are terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Such liabilities are reflected as personnel accruals within accounts payable and accruals.

(H) PENSIONS

Contributions are made into the Government Superannuation Fund (the "Fund") in respect of those employees who are members of the Fund at a rate specified under the Sale and Purchase Agreement whereby Telecom acquired the telecommunication business of the New Zealand Post Office on 1 April 1987. Additionally, full provision is made for the accrued pension costs relating to members of the Telecom Employees' Pension Plan (the "Plan") upon the basis of actuarial valuations which are to be made at least once every three years. Contributions to the Fund and the Plan are charged against earnings.

(I) FOREIGN CURRENCIES

The financial statements are expressed in New Zealand dollars. Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction except for hedged transactions which are recorded at the hedged exchange rate. Monetary assets and liabilities denominated in foreign currencies have been translated to New Zealand currency at the spot rates of exchange ruling at balance date. Realised and unrealised profits and losses on foreign exchange transactions are recognised in earnings for the period.

The Company enters into contracts with Telecom (as the Group's central treasury operation) to manage the Company's foreign exchange exposure.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(J) TAXATION
The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences. Deferred taxation calculated using the liability method is accounted for on all significant timing differences between the earnings stated in the financial statements and the assessable income computed for taxation purposes. Deferred taxation is recognised only on those timing differences which are expected to reverse within the foreseeable future.

(iv) CHANGES IN ACCOUNTING POLICIES
There have been no material changes in accounting policies during the period.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
2 REVENUE		
	249,620	**232,243**

Revenue includes rental from telephone lines and customer premises equipment, national calls, telex, leased circuit, telegraph, radio and support centre service revenue, and sales of customer premises equipment.

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
3 OPERATING EXPENSES		
	185,490	**172,277**
Included in Operating expenses are:		
Depreciation	51,007	46,936
Audit fees	95	106
Intercompany management fee	10,487	10,819
Foreign exchange losses	2	67
Lease and rental costs	2,849	1,965
4 INTEREST		
Interest income:		
–Intercompany	**1,982**	**2,828**
Interest expense:		
–Intercompany	18,605	18,281
–Other	26	–
	18,631	**18,281**
5 TAXATION EXPENSE		
Net earnings before taxation	47,481	44,513
Tax at current rate of 33%	15,669	14,689
Adjustment for permanent differences	224	(899)
Total taxation	**15,893**	**13,790**
The tax expense is represented by:		
–Current taxation (Note 9)	12,792	11,565
–Deferred taxation (Note 9)	3,101	2,225
	15,893	13,790
6 DIVIDENDS		
Interim dividend proposed	8,192	–
Interim dividend paid	5,454	1,870
Final dividend proposed	–	19,602
Dividends for period	**13,646**	**21,472**
Proposed dividend at end of period	**8,192**	**19,602**
7 ACCOUNTS PAYABLE AND ACCRUALS		
Trade accounts payable and accruals	22,458	12,649
Personnel accruals	12,215	4,740
Rentals billed in advance	14,691	9,014
Payable to fellow subsidiary companies	22,194	15,516
Payable to parent company	106,441	–
	177,999	**41,919**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
8 TERM LIABILITIES (UNSECURED)		
Parent company loan	254,042	126,358
Other	1,405	–
	255,447	**126,358**

Interest rates on the parent company loan ranged from 14.14% to 14.28% for the six months ended 30 September 1990. The parent company loan has no fixed date for repayment.

	30 September 1990 $000's	31 March 1990 $000's
9 TAXATION		
Current taxation:		
–Balance at beginning of period	(5,318)	–
–Balance from acquired subsidiary	4,527	–
–Total taxation in the current period (Note 5)	(12,792)	(11,565)
–Tax paid	–	6,247
Taxation payable	**(13,583)**	**(5,318)**
Deferred taxation:		
–Balance at beginning of period	13,008	15,233
–Balance from acquired subsidiary	(1,689)	–
–Provided in the current period (Note 5)	(3,101)	(2,225)
–Other movements	(12,007)	–
Future tax benefit/(Deferred tax provision)	**(3,789)**	**13,008**
10 PROVISION FOR RESTRUCTURING COSTS		
Transferred from Telecom	–	12,390
Charges against provision	–	(16,039)
	–	(3,649)
Transfer from earnings	–	3,649
	–	–
11 SHARE PREMIUM RESERVE		
Balance at beginning of period	206,359	–
Balance from acquired subsidiary	212,699	–
(Consisting of a premium of $9,999 on 20,638 and 21,272 redeemable preference shares respectively)		
Movements during period	–	206,359
	419,058	**206,359**

The redeemable preference shares are subject to redemption, at the issue price, five days after written notice from the holder.

	30 September 1990 $000's	31 March 1990 $000's
12 ACCOUNTS RECEIVABLE AND PREPAYMENTS		
Accounts receivable	78,147	28,258
Unbilled rentals and tolls	15,591	6,044
Due from fellow subsidiary companies	1,063	6,588
Due from parent company	–	12,475
Other accounts receivable and prepayments	7,388	488
	102,189	**53,853**

Included in other accounts receivable and prepayments is an amount of $7.3 million being the deferral of certain expenditure incurred in relation to the installation of a major computer system. These costs are progressively charged to earnings as each phase of the system becomes fully operational.

	30 September 1990 $000's	31 March 1990 $000's
13 INVENTORIES		
Revenue work in progress	4,908	858
Inventories	26,428	12,679
	31,336	**13,537**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
14 FIXED ASSETS		
Telecommunication equipment:		
–Cost	934,844	439,310
–Accumulated depreciation	(276,498)	(129,962)
	658,346	309,348
Capital work in progress	56,396	35,017
Land	19,489	10,757
Buildings:		
–Cost	102,232	45,745
–Accumulated depreciation	(11,960)	(4,633)
	90,272	41,112
Other fixed assets:		
–Cost	88,829	34,576
–Accumulated depreciation	(35,438)	(13,939)
	53,391	20,637
Total cost	**1,201,790**	**565,405**
Total accumulated depreciation	**(323,896)**	**(148,534)**
Total net book value	**877,894**	**416,871**

Other fixed assets include tools and plant, vehicles, office equipment, furniture and fittings and computer equipment.

Included in telecommunication equipment at 30 September 1990 and 31 March 1990 respectively, is equipment leased to customers under operating leases with a cost of $100.4 million and $49.9 million, together with accumulated depreciation of $59.5 million and $29.3 million.

REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for more than half the freehold interests have been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all land or interest in land included in the assets purchased from the Crown is subject to claims to the Waitangi Tribunal which has the power to recommend in appropriate circumstances that the land be resumed by the Crown in order that it be returned to Maori claimants. In the event that land is resumed by the Crown, compensation will be paid to Telecom under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss certain additional compensation is payable under the provisions of the Sale and Purchase Agreement between Telecom and the Crown.

Under the State Owned Enterprises Act 1986 the Governor General may if satisfied that any land or interest in land held by Telecom is Wahi Tapu (being land of special spiritual, cultural or historical tribal significance) declare by order in Council that the land be resumed by the Crown, with compensation payable to Telecom under the provisions of the Public Works Act 1981.

15 COMMITMENTS

(A) OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1990 for all non-cancellable operating leases for the years ended 30 September are:

–1991	0.3	
–1992	0.1	
–1993	0.7	
–1994	0.2	
–1995	4.1	
–Thereafter	21.3	
	$26.7	million

(B) CAPITAL COMMITMENTS

As at 30 September 1990 capital expenditure amounting to $35.3 million has been committed under contractual arrangements.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

16 CONTINGENT LIABILITIES

(A) LAND CLAIMS

As stated in Note 14, land or interest in land included in assets purchased from the Crown is subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown, with provision for compensation to Telecom.

Certain claims have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land transfers to Telecom by the Crown and/or by Telecom to its subsidiary companies.

(B) LAWSUITS AND OTHER CLAIMS

Various lawsuits and claims have been brought or asserted against the Company. The Directors do not consider them to be material to the Company's financial position.

(C) GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $780 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1990, principally under the following agreements:

(i) $29.7 million under a facility agreement dated 31 August 1988 with the Bank of New Zealand establishing a $400 million promissory note facility in favour of the parent company.

(ii) $474.7 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) $275 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

Under the Trust Deeds referred to in (ii) and (iii) above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not create or permit to exist any charge over any of its assets, subject to the exceptions provided within the Trust Deeds.

17 FELLOW SUBSIDIARY COMPANIES

At 30 September 1990 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Wellington Limited
- Telecom South Limited
- Telecom Networks and International Limited
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- Telecom Operations Limited
- Telecom North Limited

18 RELATED PARTY TRANSACTIONS

The Company is wholly owned by Telecom Corporation of New Zealand Limited which in turn was owned by the Crown until 12 September 1990. During that time the Company undertook many transactions with other State Owned Enterprises and government departments which were carried out at arm's length and in the normal course of business.

During the period the Company derived revenue from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries.

Outstanding intercompany balances as at 30 September 1990 are:

Intercompany Receivable	$1.1 million
Intercompany Payable and current account	$128.6 million
Intercompany Term Liabilities	$254.0 million

With the exception of the current account and the term liability, the balances are payable on normal trading terms. The current account is on call and the term liability has no fixed date for repayment. No related party debts have been written off or forgiven during the year.

19 SEGEMENTAL REPORTING

The Company's principal business activity is the provision of telecommunication services, constituting more than 90% of total operating revenues, operating earnings and identifiable assets.

The Company's business is conducted in New Zealand and is therefore within one geographical area for reporting purposes.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS—*continued*

20 ACQUIRED SUBSIDIARY

As stated in Note 1 (i) Telecom Central Limited acquired with effect from 1 April 1990 the shares and net assets of Telecom Midland Limited. The effect of the acquisition on the assets and liabilities of the Company as at 1 April 1990 was:

Increase in Assets	*$ Million*
Cash, accounts receivable and prepayments	95.1
Prepaid taxation	4.5
Inventories	14.5
Fixed Asset	429.1
	543.2
Increase in Liabilities and Shareholders' Funds	
Accounts payable and accruals	45.9
Proposed dividends	24.4
Deferred tax provision	1.7
Pre-acquisition retained earnings	12.2
	84.2
	459.0

The purchase price was $373.8 million for those net assets purchased and $85.2 million for the ordinary and preference shares acquired, with settlement to be in cash, funded by debt and shares.

AUDITORS' REPORT

REPORT OF THE AUDITORS

TO THE MEMBERS OF TELECOM CENTRAL LIMITED

The financial statements are in agreement with the accounting records which, in our opinion, have been properly kept. We obtained the information and explanations we required.
In our opinion, the financial statements give, under the historical cost convention, a true and fair view of the state of the Company and its subsidiary's affairs at 30 September 1990 and of the earnings for the 6 months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
HAMILTON, 28 NOVEMBER 1990

TELECOM WELLINGTON LIMITED

EARNINGS STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1990

	Notes	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
Revenue	2	166,336	344,888
Operating expenses	3	(135,047)	(241,422)
Earnings from operations		31,289	103,466
Interest income	4	36	3,972
Interest expense	4	(9,669)	(19,212)
Net earnings before taxation		21,656	88,226
Taxation	5	(7,203)	(29,448)
Net earnings after taxation		14,453	58,778
Retained earnings from the previous year		19,155	–
Available for appropriation		33,608	58,778
Dividends	6	(4,086)	(39,623)
Retained earnings at end of period		29,522	19,155

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

TELECOM WELLINGTON LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 1990

	Notes	30 September 1990 $000's	31 March 1990 $000's
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Bank overdraft (unsecured)		1,569	2,994
Accounts payable and accruals	7	59,132	84,621
Provision for restructuring costs	10	–	–
Proposed dividend	6	4,086	20,223
Total current liabilities		64,787	107,838
Term liabilities	8	132,452	132,452
Commitments and contingent liabilities	15,16		
Shareholders' funds			
Ordinary shares, $1 each			
–Authorised, issued and fully paid 92,714,000 shares		92,714	92,714
Redeemable preference shares, $1 each			
–Authorised, issued and fully paid 21,634 shares		22	22
Share premium reserve	11	216,318	216,318
Retained earnings		29,522	19,155
Total shareholders' funds		338,576	328,209
Total liabilities and shareholders' funds		**535,815**	**568,499**
ASSETS			
Current assets			
Cash and bank		25	–
Accounts receivable and prepayments	12	69,710	104,241
Prepaid taxation	9	4,826	10,366
Inventories	13	20,299	23,161
Total current assets		94,860	137,768
Future tax benefit	9	7,780	11,009
Fixed assets	14	433,175	419,722
Total assets		**535,815**	**568,499**

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

On behalf of the Board

DR P TROUGHTON
CHAIRMAN

A J BORREN
MANAGING DIRECTOR

WELLINGTON, 28 NOVEMBER 1990

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(i) CONSTITUTION, OWNERSHIP AND ACTIVITIES

Telecom Wellington Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom").

With effect from 1 April 1989 Telecom was restructured into a number of Regional Operating and New Venture companies and as a result, transferred to certain subsidiaries, including Telecom Wellington Limited, at net book value, the telecommunication equipment and other assets and liabilities relating to business previously conducted by Telecom. Telecom and its subsidiaries now together form the Telecom "Group".

The parent company was wholly owned by the Crown until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to a consortium consisting of two American companies, American Information Technologies Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic") and two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Fay, Richwhite Holdings Ltd ("Fay, Richwhite"). To comply with this agreement, Ameritech and Bell Atlantic will reduce their combined ownership of Telecom to 49.9% over the next three years by selling a combined 10% interest to Freightways and Fay, Richwhite and 40.1% to the public via stock offerings. At the completion of this transaction period, Ameritech and Bell Atlantic will each own 24.95% of Telecom.

The Crown will continue to hold a special rights convertible preference share (the "Kiwi share") in Telecom which assures that:

- Local free calling will be maintained for all residential customers
- The Standard Residential Rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the Consumers' Price Index unless Telecom's Regional Operating Company profits are unreasonably affected
- Line rentals for residential customers in rural areas will be no higher than the Standard Residential Rental, and ordinary residential telephone service will remain as widely available as it is as at 11 September 1990.

These financial statements are published to comply with the Telecommunications (Disclosure) Regulations 1990 which came into force on the 1st of July 1990. As separate financial statements for the six months ended 30 September 1989 had not been prepared, no comparative figures for that period are included in these financial statements.

The principal activity of Telecom Wellington Limited is the provision of telecommunication services in the Wellington region.

(ii) GENERAL ACCOUNTING POLICIES

These financial statements report on the affairs of the company as a going concern.

The measurement basis adopted is historical cost. Accrual accounting is used to match income and expenses.

(iii) SPECIFIC ACCOUNTING POLICIES

(A) FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom Wellington Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs.

For each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and get the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(B) DEPRECIATION

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their estimated economic lives, which are as follows:

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Computer equipment	3–5 years

Land and capital work in progress are not depreciated.

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Inventories are comprised of materials for self constructed network assets, critical maintenance spares and customer premises equipment held for rental or resale. They are stated at the lower of cost and net realisable value after provision for excess and obsolete items. Cost is determined on a first in first out basis.

Inventories also include revenue work in progress. Profit is recognised on completion of the contract.

(D) ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for doubtful debts.

(E) LEASES

The Company is lessor of customer premises equipment. Rental income applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are taken to revenue as earned.

Additionally the Company is lessee of certain plant, equipment, land and buildings under operating leases. Expenses relating to operating leases are charged against earnings as incurred.

No material finance leases have been entered into as lessor or lessee.

(F) COMPENSATED ABSENCES

The liability for employees' compensation for future absences is accrued in respect of employees' services already rendered and where the obligation relates to rights which have vested. Such liability is reflected as personnel accruals within accounts payable and accruals.

(G) LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Employees whose services with the Company are terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Such liabilities are reflected as personnel accruals within accounts payable and accruals.

(H) PENSIONS

Contributions are made into the Government Superannuation Fund (the "Fund") in respect of those employees who are members of the Fund at a rate specified under the Sale and Purchase Agreement whereby Telecom acquired the telecommunication business of the New Zealand Post Office on 1 April 1987. Additionally, full provision is made for the accrued pension costs relating to members of the Telecom Employees' Pension Plan (the "Plan") upon the basis of actuarial valuations which are to be made at least once every three years. Contributions to the Fund and the Plan are charged against earnings.

(I) FOREIGN CURRENCIES

The financial statements are expressed in New Zealand dollars. Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction except for hedged transactions which are recorded at the hedged exchange rate. Monetary assets and liabilities denominated in foreign currencies have been translated to New Zealand currency at the spot rates of exchange ruling at balance date. Realised and unrealised profits and losses on foreign exchange transactions are recognised in earnings for the period.

The Company enters into contracts with Telecom (as the Group's central treasury operation) to manage the Company's foreign exchange exposure.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(J) TAXATION

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences. Deferred taxation calculated using the liability method is accounted for on all significant timing differences between the earnings stated in the financial statements and the assessable income computed for taxation purposes. Deferred taxation is recognised only on those timing differences which are expected to reverse within the foreseeable future.

(iv) CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
2 REVENUE		
	166,336	**344,888**

Revenue includes rental from telephone lines and customer premises equipment, national calls, telex, leased circuit, telegraph, radio and support centre service revenue, and sales of customer premises equipment.

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
3 OPERATING EXPENSES		
	135,047	**241,422**
Included in Operating expenses are:		
Depreciation	24,736	52,580
Audit fees	95	135
Intercompany management fee	7,927	15,466
Lease and rental costs	6,847	6,493
4 INTEREST		
Interest income:		
–Intercompany	36	3,972
Interest expense:		
–Intercompany	9,669	19,347
–Less interest capitalised	–	(135)
	9,669	**19,212**
5 TAXATION EXPENSE		
Net earnings before taxation	21,656	88,226
Tax at current rate of 33%	7,146	29,115
Adjustment for permanent differences	57	333
Total taxation	**7,203**	**29,448**
The tax expense is represented by:		
–Current taxation (Note 9)	5,540	25,635
–Deferred taxation (Note 9)	1,663	3,813
	7,203	29,448
6 DIVIDENDS		
Interim dividend proposed	4,086	–
Interim dividend paid	–	19,400
Final dividend proposed	–	20,223
Dividends for period	**4,086**	**39,623**
Proposed dividend at end of period	**4,086**	**20,223**
7 ACCOUNTS PAYABLE AND ACCRUALS		
Trade accounts payable and accruals	16,238	20,704
Personnel accruals	6,616	7,472
Rentals billed in advance	5,093	3,141
Payable to fellow subsidiary companies	5,312	16,893
Payable to parent company	25,873	36,411
	59,132	**84,621**
8 TERM LIABILITIES (UNSECURED)		
Parent company loan	132,452	132,452

Interest rates on the parent company loan ranged from 14.14% to 14.28% for the six months ended 30 September 1990. The parent company loan has no fixed date for repayment.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
9 TAXATION		
Current taxation:		
–Balance at beginning of period	10,366	–
–Total taxation in the current period (Note 5)	(5,540)	(25,635)
Tax paid	–	36,001
Prepaid taxation	4,826	10,366
Deferred taxation:		
–Balance at beginning of period	11,009	14,822
–Provided in the current period (Note 5)	(1,663)	(3,813)
Other movements	(1,566)	–
Future tax benefit	**7,780**	**11,009**
10 PROVISION FOR RESTRUCTURING COSTS		
Transferred from Telecom	–	8,069
Charges against provision	–	(8,069)
Transfer from earnings	–	–
11 SHARE PREMIUM RESERVE		
Balance at beginning of period	216,318	–
(Consisting of a premium of $9,999 on 21,634 redeemable preference shares)		
Movements during period	–	216,318
	216,318	**216,318**

The redeemable preference shares are subject to redemption, at the issue price, five days after written notice from the holder.

	30 September 1990 $000's	31 March 1990 $000's
12 ACCOUNTS RECEIVABLE AND PREPAYMENTS		
Accounts receivable	52,454	60,760
Unbilled rentals and tolls	13,397	14,358
Due from fellow subsidiary companies	3,694	28,006
Other accounts receivable and prepayments	165	1,117
	69,710	**104,241**
13 INVENTORIES		
Revenue work in progress	2,510	3,928
Inventories	17,789	19,233
	20,299	**23,161**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
14 FIXED ASSETS		
Telecommunication equipment:		
–Cost	429,829	419,644
–Accumulated depreciation	(154,959)	(146,964)
	274,870	272,680
Capital work in progress	17,691	19,013
Land	41,900	43,747
Buildings:		
–Cost	61,464	58,743
–Accumulated depreciation	(4,537)	(5,096)
	56,927	53,647
Other fixed assets:		
–Cost	59,776	44,414
–Accumulated depreciation	(17,989)	(13,779)
	41,787	30,635
Total cost	**610,660**	**585,561**
Total accumulated depreciation	**(177,485)**	**(165,839)**
Total net book value	**433,175**	**419,722**

Other fixed assets include tools and plant, vehicles, office equipment, furniture and fittings and computer equipment.

Included in telecommunication equipment at 30 September 1990 and 31 March 1990 respectively, is equipment leased to customers under operating leases with a cost of $95.0 million and $102.1 million, together with accumulated depreciation of $61.4 million and $64.6 million.

REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for more than half the freehold interests have been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all land or interest in land included in the assets purchased from the Crown is subject to claims to the Waitangi Tribunal which has the power to recommend in appropriate circumstances that the land be resumed by the Crown in order that it be returned to Maori claimants. In the event that land is resumed by the Crown, compensation will be paid to Telecom under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss certain additional compensation is payable under the provisions of the Sale and Purchase Agreement between Telecom and the Crown.

Under the State Owned Enterprises Act 1986 the Governor General may if satisfied that any land or interest in land held by Telecom is Wahi Tapu (being land of special spiritual, cultural or historical tribal significance) declare by order in Council that the land be resumed by the Crown, with compensation payable to Telecom under the provisions of the Public Works Act 1981.

15 COMMITMENTS

(A) OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1990 for all non-cancellable operating leases for the years ended 30 September are:

–1991	10.5	
–1992	9.6	
–1993	9.0	
–1994	8.7	
–1995	8.4	
–Thereafter	44.6	
	$90.8	million

(B) CAPITAL COMMITMENTS

As at 30 September 1990 capital expenditure amounting to $8.7 million has been committed under contractual arrangements.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

16 CONTINGENT LIABILITIES

(A) LAND CLAIMS

As stated in Note 14, land or interest in land included in assets purchased from the Crown is subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown, with provision for compensation to Telecom.

Certain claims have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land transfers to Telecom by the Crown and/or by Telecom to its subsidiary companies.

(B) LAWSUITS AND OTHER CLAIMS

Various lawsuits and claims have been brought or asserted against the Company. The Directors do not consider them to be material to the Company's financial position.

(C) GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $780 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1990, principally under the following agreements:

(i) $29.7 million under a facility agreement dated 31 August 1988 with the Bank of New Zealand establishing a $400 million promissory note facility in favour of the parent company.

(ii) $474.7 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) $275 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

Under the Trust Deeds referred to in (ii) and (iii) above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not create or permit to exist any charge over any of its assets, subject to the exceptions provided within the Trust Deeds.

17 FELLOW SUBSIDIARY COMPANIES

At 30 September 1990 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Central Limited
- Telecom South Limited
- Telecom Networks and International Limited
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- Telecom Operations Limited
- Telecom North Limited

18 RELATED PARTY TRANSACTIONS

The Company is wholly owned by Telecom Corporation of New Zealand Limited which in turn was owned by the Crown until 12 September 1990. During that time the Company undertook many transactions with other State Owned Enterprises and government departments which were carried out at arm's length and in the normal course of business.

During the period the Company derived revenue from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries.

Outstanding intercompany balances as at 30 September 1990 are:

Intercompany Receivable	$3.7 million
Intercompany Payable and current account	$31.2 million
Intercompany Term Liabilities	$132.4 million

With the exception of the current account and the term liability, the balances are payable on normal trading terms. The current account is on call and the term liability has no fixed date for repayment. No related party debts have been written off or forgiven during the year.

19 SEGEMENTAL REPORTING

The Company's principal business activity is the provision of telecommunication services, constituting more than 90% of total operating revenues, operating earnings and identifiable assets.

The Company's business is conducted in New Zealand and is therefore within one geographical area for reporting purposes.

AUDITORS' REPORT

REPORT OF THE AUDITORS

TO THE MEMBERS OF TELECOM WELLINGTON LIMITED

The financial statements are in agreement with the accounting records which, in our opinion, have been properly kept. We obtained the information and explanations we required.
In our opinion, the financial statements give, under the historical cost convention, a true and fair view of the state of the Company's affairs at 30 September 1990 and of the earnings for the 6 months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
WELLINGTON, 28 NOVEMBER 1990

TELECOM SOUTH LIMITED

EARNINGS STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1990

	Notes	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
Revenue	2	214,459	399,859
Operating expenses	3	(169,520)	(326,919)
Earnings from operations		44,939	72,940
Interest income	4	173	787
Interest expense	4	(16,572)	(34,509)
Net earnings before taxation		28,540	39,218
Taxation	5	(9,794)	(11,030)
Net earnings after taxation		18,746	28,188
Retained earnings from the previous year		7,903	–
Available for appropriation		26,649	28,188
Dividends	6	(3,373)	(20,285)
Retained earnings at end of period		23,276	7,903

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

TELECOM SOUTH LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 1990

	Notes	30 September 1990 $000's	31 March 1990 $000's
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Bank overdraft (unsecured)		1,752	3,237
Accounts payable and accruals	7	100,525	88,537
Taxation payable	9	3,018	–
Provision for restructuring costs	10	–	–
Proposed dividend	6	3,373	20,285
Total current liabilities		108,668	112,059
Deferred tax provision	9	834	3,891
Term liabilities	8	244,881	244,881
Commitments and contingent liabilities	15,16		
Shareholders' funds			
Ordinary shares, $1 each			
–Authorised, issued and fully paid 171,411,000 shares		171,411	171,411
Redeemable preference shares, $1 each			
–Authorised, issued and fully paid 39,997 shares		40	40
Share premium reserve	11	399,930	399,930
Retained earnings		23,276	7,903
Total shareholders' funds		594,657	579,284
Total liabilities and shareholders' funds		**949,040**	**940,115**
ASSETS			
Current assets			
Cash and bank		703	266
Accounts receivable and prepayments	12	87,825	97,096
Prepaid taxation	9	–	3,095
Inventories	13	25,782	27,586
Total current assets		114,310	128,043
Fixed assets	14	834,730	812,072
Total assets		**949,040**	**940,115**

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

On behalf of the Board

J A CARTER

CHAIRMAN

W J HARRISON

MANAGING DIRECTOR

CHRISTCHURCH, 28 NOVEMBER 1990

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(i) CONSTITUTION, OWNERSHIP AND ACTIVITIES

Telecom South Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom").

With effect from 1 April 1989 Telecom was restructured into a number of Regional Operating and New Venture companies and as a result, transferred to certain subsidiaries, including Telecom South Limited, at net book value, the telecommunication equipment and other assets and liabilities relating to business previously conducted by Telecom. Telecom and its subsidiaries now together form the Telecom "Group".

The parent company was wholly owned by the Crown until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to a consortium consisting of two American companies, American Information Technologies Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic") and two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Fay, Richwhite Holdings Ltd ("Fay, Richwhite"). To comply with this agreement, Ameritech and Bell Atlantic will reduce their combined ownership of Telecom to 49.9% over the next three years by selling a combined 10% interest to Freightways and Fay, Richwhite and 40.1% to the public via stock offerings. At the completion of this transaction period, Ameritech and Bell Atlantic will each own 24.95% of Telecom.

The Crown will continue to hold a special rights convertible preference share (the "Kiwi share") in Telecom which assures that:

–Local free calling will be maintained for all residential customers

–The Standard Residential Rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the Consumers' Price Index unless Telecom's Regional Operating Company profits are unreasonably affected

–Line rentals for residential customers in rural areas will be no higher than the Standard Residential Rental, and ordinary residential telephone service will remain as widely available as it is as at 11 September 1990.

These financial statements are published to comply with the Telecommunications (Disclosure) Regulations 1990 which came into force on the 1st of July 1990. As separate financial statements for the six months ended 30 September 1989 had not been prepared, no comparative figures for that period are included in these financial statements.

The principal activity of Telecom South Limited is the provision of telecommunication services in the South Island.

(ii) GENERAL ACCOUNTING POLICIES

These financial statements report on the affairs of the company as a going concern.

The measurement basis adopted is historical cost. Accrual accounting is used to match income and expenses.

(iii) SPECIFIC ACCOUNTING POLICIES

(A) FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom South Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs. For each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and get the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(B) DEPRECIATION

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their estimated economic lives, which are as follows:

Telecommunication equipment and plant:	
Customer local loop	5–30 years
Junctions and trunk transmission systems	10–30 years
Switching equipment	5–15 years
Customer premises equipment	5 years
Other network equipment	5–25 years
Buildings	40–100 years
Motor vehicles	5 years
Furniture and fittings	5–10 years
Computer equipment	3–5 years

Land and capital work in progress are not depreciated.

(C) INVENTORIES

Inventories are comprised of materials for self constructed network assets, critical maintenance spares and customer premises equipment held for rental or resale. They are stated at the lower of cost and net realisable value after provision for excess and obsolete items. Cost is determined on a first in first out basis.

Inventories also include revenue work in progress. Profit is recognised on completion of the contract.

(D) ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for doubtful debts.

(E) LEASES

The Company is lessor of customer premises equipment. Rental income applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are taken to revenue as earned.

Additionally the Company is lessee of certain plant, equipment, land and buildings under operating leases. Expenses relating to operating leases are charged against earnings as incurred.

No material finance leases have been entered into as lessor or lessee.

(F) COMPENSATED ABSENCES

The liability for employees' compensation for future absences is accrued in respect of employees' services already rendered and where the obligation relates to rights which have vested. Such liability is reflected as personnel accruals within accounts payable and accruals.

(G) LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Employees whose services with the Company are terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Such liabilities are reflected as personnel accruals within accounts payable and accruals.

(H) PENSIONS

Contributions are made into the Government Superannuation Fund (the "Fund") in respect of those employees who are members of the Fund at a rate specified under the Sale and Purchase Agreement whereby Telecom acquired the telecommunication business of the New Zealand Post Office on 1 April 1987. Additionally, full provision is made for the accrued pension costs relating to members of the Telecom Employees' Pension Plan (the "Plan") upon the basis of actuarial valuations which are to be made at least once every three years. Contributions to the Fund and the Plan are charged against earnings.

(I) FOREIGN CURRENCIES

The financial statements are expressed in New Zealand dollars. Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction except for hedged transactions which are recorded at the hedged exchange rate. Monetary assets and liabilities denominated in foreign currencies have been translated to New Zealand currency at the spot rates of exchange ruling at balance date. Realised and unrealised profits and losses on foreign exchange transactions are recognised in earnings for the period.

The Company enters into contracts with Telecom (as the Group's central treasury operation) to manage the Company's foreign exchange exposure.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(J) TAXATION

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences. Deferred taxation calculated using the liability method is accounted for on all significant timing differences between the earnings stated in the financial statements and the assessable income computed for taxation purposes. Deferred taxation is recognised only on those timing differences which are expected to reverse within the foreseeable future.

(iv) CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	Six Months Ended 30 September 1990 $000's	Year Ended 31 March 1990 $000's
2 REVENUE		
	214,459	**399,859**

Revenue includes rental from telephone lines and customer premises equipment, national calls, telex, leased circuit, telegraph, radio and support centre service revenue, and sales of customer premises equipment.

3 OPERATING EXPENSES		
	169,520	**326,919**
Included in Operating expenses are:		
Depreciation	49,342	90,233
Audit fees	95	145
Intercompany management fee	8,873	19,471
Lease and rental costs	2,863	5,187

The formula used in determining the amount of labour and overhead capitalised to the cost of self constructed assets has been varied with the effect that for the six months ended 30 September 1990 an additional $2.7 million of overhead which otherwise would have been charged to earnings, after taxation, was capitalised.

4 INTEREST		
Interest income:		
–Intercompany	**173**	**787**
Interest expense:		
–Intercompany	16,328	34,990
–Other	1,127	20
	17,455	35,010
–Less interest capitalised	(883)	(501)
	16,572	**34,509**
5 TAXATION EXPENSE		
Net earnings before taxation	28,540	39,218
Tax at current rate of 33%	9,418	12,942
Adjustment for permanent differences	376	(1,912)
Total taxation	**9,794**	**11,030**
The tax expense is represented by:		
–Current taxation (Note 9)	6,113	5,911
–Deferred taxation (Note 9)	3,681	5,119
	9,794	11,030
6 DIVIDENDS		
Interim dividend proposed	3,373	–
Final dividend proposed	–	20,285
Dividends for period	**3,373**	**20,285**
Proposed dividend at end of period	**3,373**	**20,285**
7 ACCOUNTS PAYABLE AND ACCRUALS		
Trade accounts payable and accruals	31,597	39,720
Personnel accruals	16,368	9,349
Rentals billed in advance	10,348	15,538
Payable to fellow subsidiary companies	7,361	17,680
Payable to parent company	34,851	6,250
	100,525	**88,537**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
8 TERM LIABILITIES (UNSECURED)		
Parent company loan	**244,881**	**244,881**

Interest rates on the parent company loan ranged from 14.14% to 14.28% for the six months ended 30 September 1990. The parent company loan has no fixed date for repayment.

9 TAXATION		
Current taxation:		
–Balance at beginning of period	3,095	–
–Total taxation in the current period (Note 5)	(6,113)	(5,911)
–Tax paid		9,006
Prepaid taxation/(Taxation payable)	**(3,018)**	**3,095**
Deferred taxation:		
–Balance at beginning of period	(3,891)	1,228
–Provided in the current period (Note 5)	(3,681)	(5,119)
–Other movements	6,738	–
Deferred tax provision	**(834)**	**(3,891)**
10 PROVISION FOR RESTRUCTURING COSTS		
Transferred from Telecom	–	28,732
Charges against provision	–	(38,422)
	–	(9,690)
Transfer from earnings	–	9,690
	–	–
11 SHARE PREMIUM RESERVE		
Balance at beginning of period	399,930	–
(Consisting of a premium of $9,999 on 39,997 redeemable preference shares)		
Movements during period	–	399,930
	399,930	**399,930**

The redeemable preference shares are subject to redemption, at the issue price, five days after written notice from the holder.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS		
Accounts receivable	46,413	31,439
Unbilled rentals and tolls	18,444	28,351
Due from fellow subsidiary companies	14,022	32,319
Other accounts receivable and prepayments	8,946	4,987
	87,825	**97,096**

Included in other accounts receivable and prepayments is an amount of $7.3 million (31 March 1990: $4.3 million) being the deferral of certain expenditure incurred in relation to the installation of a major computer system. These costs are progressively charged to earnings as each phase of the system becomes fully operational.

13 INVENTORIES		
Revenue work in progress	1,760	2,941
Inventories	24,022	24,645
	25,782	**27,586**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

	30 September 1990 $000's	31 March 1990 $000's
14 FIXED ASSETS		
Telecommunication equipment:		
–Cost	847,659	811,818
–Accumulated depreciation	(256,938)	(232,643)
	590,721	579,175
Capital work in progress	100,341	90,699
Land	38,356	38,410
Buildings:		
–Cost	67,664	66,646
–Accumulated depreciation	(9,498)	(8,291)
	58,166	58,355
Other fixed assets:		
–Cost	81,239	74,746
–Accumulated depreciation	(34,093)	(29,313)
	47,146	45,433
Total cost	**1,135,259**	**1,082,319**
Total accumulated depreciation	**(300,529)**	**(270,247)**
Total net book value	**834,730**	**812,072**

Other fixed assets include tools and plant, vehicles, office equipment, furniture and fittings and computer equipment.

Included in telecommunication equipment at 30 September 1990 and 31 March 1990 respectively, is equipment leased to customers under operating leases with a cost of $116.9 million and $113.0 million, together with accumulated depreciation of $66.9 million and $64.5 million.

REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for more than half the freehold interests have been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all land or interest in land included in the assets purchased from the Crown is subject to claims to the Waitangi Tribunal which has the power to recommend in appropriate circumstances that the land be resumed by the Crown in order that it be returned to Maori claimants. In the event that land is resumed by the Crown, compensation will be paid to Telecom under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss certain additional compensation is payable under the provisions of the Sale and Purchase Agreement between Telecom and the Crown.

Under the State Owned Enterprises Act 1986 the Governor General may if satisfied that any land or interest in land held by Telecom is Wahi Tapu (being land of special spiritual, cultural or historical tribal significance) declare by order in Council that the land be resumed by the Crown, with compensation payable to Telecom under the provisions of the Public Works Act 1981.

15 COMMITMENTS

(A) OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1990 for all non-cancellable operating leases for the years ended 30 September are:

–1991	3.7	
–1992	3.4	
–1993	2.7	
–1994	1.5	
–1995	1.4	
–Thereafter	3.2	
	$15.9	million

(B) CAPITAL COMMITMENTS

As at 30 September 1990 capital expenditure amounting to $62.0 million has been committed under contractual arrangements.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

16 CONTINGENT LIABILITIES

(A) LAND CLAIMS

As stated in Note 14, land or interest in land included in assets purchased from the Crown is subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown, with provision for compensation to Telecom.

Certain claims have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land transfers to Telecom by the Crown and/or by Telecom to its subsidiary companies.

(B) LAWSUITS AND OTHER CLAIMS

Various lawsuits and claims have been brought or asserted against the Company. The Directors do not consider them to be material to the Company's financial position.

(C) GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $780 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1990, principally under the following agreements:

(i) $29.7 million under a facility agreement dated 31 August 1988 with the Bank of New Zealand establishing a $400 million promissory note facility in favour of the parent company.

(ii) $474.7 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) $275 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

Under the Trust Deeds referred to in (ii) and (iii) above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not create or permit to exist any charge over any of its assets, subject to the exceptions provided within the Trust Deeds.

17 FELLOW SUBSIDIARY COMPANIES

At 30 September 1990 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Central Limited
- Telecom Wellington Limited
- Telecom Networks and International Limited
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- Telecom Operations Limited
- Telecom North Limited

18 RELATED PARTY TRANSACTIONS

The Company is wholly owned by Telecom Corporation of New Zealand Limited which in turn was owned by the Crown until 12 September 1990. During that time the Company undertook many transactions with other State Owned Enterprises and government departments which were carried out at arm's length and in the normal course of business.

During the period the Company derived revenue from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries.

Outstanding intercompany balances as at 30 September 1990 are:

Intercompany Receivable	$14.0 million
Intercompany Payable and current account	$42.2 million
Intercompany Term Liabilities	$244.8 million

With the exception of the current account and the term liability, the balances are payable on normal trading terms. The current account is on call and the term liability has no fixed date for repayment. No related party debts have been written off or forgiven during the year.

19 SEGEMENTAL REPORTING

The Company's principal business activity is the provision of telecommunication services, constituting more than 90% of total operating revenues, operating earnings and identifiable assets.

The Company's business is conducted in New Zealand and is therefore within one geographical area for reporting purposes.

AUDITORS' REPORT

REPORT OF THE AUDITORS

TO THE MEMBERS OF TELECOM SOUTH LIMITED

The financial statement are in agreement with the accounting records which, in our opinion, have been properly kept. We obtained the information and explanations we required.

In our opinion, the financial statements give, under the historical cost convention, a true and fair view of the state of the Company's affairs at 30 September 1990 and of the earnings for the 6 months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
CHRISTCHURCH, 28 NOVEMBER 1990

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