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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 year ended 31 March 1991 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

STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1991	1990
		$000's	$000's
Operating revenues		619,344	605,632
Operating expenses	2	(494,302)	(475,266)
Earnings from operations		125,042	130,366
Interest income	3	31	1,536
Interest expense	3	(58,927)	(37,280)
Earnings before income tax		66,146	94,622
Income tax	4	(20,519)	(31,742)
Net earnings		45,627	62,880

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

TELECOM AUCKLAND LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1991	1990
		$000's	$000's
ASSETS			
Current assets:			
Cash		856	583
Accounts receivable and prepaid expenses	5	112,463	128,042
Inventories		56,598	54,609
Prepaid income tax	4	19,800	23,290
Total current assets		189,717	206,524
Other assets	6	5,273	4,619
Fixed assets	7	1,073,634	993,414
Total assets		**1,268,624**	**1,204,557**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		7,994	3,211
Accounts payable and accruals	8	278,485	207,505
Proposed dividend	10	-	41,136
Total current liabilities		286,479	251,852
Deferred income tax	4	2,100	1,264
Long term debt	9	284,491	284,491
Total liabilities		573,070	537,607
Commitments and contingent liabilities	11,12		
Shareholders' equity:	10		
Ordinary shares, $1.00 each			
-Authorised, issued and fully paid 199,146,000 shares		199,146	199,146
Redeemable preference shares, $1.00 each			
-Authorised, issued and fully paid 46,466 shares		46	46
Share premium reserve		464,614	464,614
Retained earnings		31,748	3,144
Total shareholders' equity		695,554	666,950
Total liabilities and shareholders' equity		**1,268,624**	**1,204,557**

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

On behalf of the Board

W J HARRISON
CHAIRMAN

P BLADES
MANAGING DIRECTOR

AUCKLAND, 7 JUNE 1991

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(a) 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 Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company controlled by two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Midavia Holdings Ltd ("Midavia"), formerly Fay, Richwhite Holdings Ltd. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

- A local free-calling option 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 New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- 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 was as at 11 September 1990.

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (continued)*

(b) *GENERAL ACCOUNTING POLICIES*

The measurement basis adopted in the preparation of these financial statements is historical cost. Accrual accounting is used to match income and expenses.

(c) *SPECIFIC ACCOUNTING POLICIES*

REVENUE RECOGNITION

Revenues for all services are recognised when earned. Billings for telephone services are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue recognition is deferred in respect of that portion of fixed monthly charges which have been billed in advance.

Revenue principally includes telephone line rental, national calls, leased circuits, and the rental, sale, maintenance and installation of customer premises equipment and related products.

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.

Effective 1 April 1989 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 prepare 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)

1 *STATEMENT OF ACCOUNTING POLICIES (CONTINUED)*

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

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses on disposal are recognised in earnings.

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts.

INVENTORIES

Inventories are comprised principally 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 due consideration for excess and obsolete items. Cost is determined on a first in first out basis.

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.

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 accrued personnel costs.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (continued)*

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so 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.

Such liabilities are reflected within accrued personnel costs.

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.

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 that are expected to reverse within the foreseeable future.

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.

RECLASSIFICATIONS

Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*	1991 $000's	1990 $000's
	494,302	**475,266**
Included in operating expenses are:		
Depreciation	117,228	106,629
Audit fees	190	152
Intercompany management fee	25,440	29,731
Foreign exchange (gains)/losses	(52)	2,212
Lease and rental costs	32,196	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 year ended 31 March 1991 an additional $8.5 million of overhead which otherwise would have been charged to earnings after taxation, was capitalised.

3 *INTEREST*	1991 $000's	1990 $000's
Interest income:		
- Intercompany	-	1,509
- Other	31	27
	31	**1,536**
Interest expense:		
- Intercompany	59,452	43,455
- Other	4	7
	59,456	43,462
- Less interest capitalised	(529)	(6,182)
	58,927	**37,280**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
4 *INCOME TAX*	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	66,146	94,622
Tax at current rate of 33%	21,828	31,225
Adjustment for permanent differences	(1,312)	517
Other	3	-
Total income tax expense	**20,519**	**31,742**
The income tax expense is represented by:		
-Current taxation	11,874	18,236
-Deferred taxation	8,645	13,506
	20,519	31,742
The balance sheet provisions as at 31 March are:		
Current taxation:		
-Balance at beginning of year	23,290	-
-Total taxation in the current year	(11,874)	(18,236)
-Tax paid	8,384	41,526
Prepaid income tax	**19,800**	**23,290**
Deferred taxation:		
-Balance at beginning of year	(1,264)	12,242
-Provided in the current year	(8,645)	(13,506)
-Other movements	7,809	-
Deferred income tax	**(2,100)**	**(1,264)**

	1991	1990
5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*	$000's	$000's
Accounts receivable, net	73,542	91,278
Unbilled rentals and tolls	29,724	33,838
Due from fellow subsidiary companies	3,314	1,324
Prepaid expenses and other	5,883	1,602
	112,463	**128,042**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $5.3 million (1990:$4.4 million) incurred in relation to the installation of a major computer system. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the year ended 31 March 1991 amounted to $2.3 million (1990:$0). Also included in other assets as at 31 March 1990 were house mortgage loans to employees of $0.2 million.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
7 *FIXED ASSETS*	$000's	$000's
Telecommunication equipment:		
- Cost	1,069,665	899,984
- Accumulated depreciation	(344,442)	(267,841)
	725,223	632,143
Capital work in progress	101,135	189,452
Land	57,682	58,219
Buildings:		
- Cost	130,903	71,596
- Accumulated depreciation	(10,911)	(6,764)
	119,992	64,832
Other fixed assets:		
- Cost	115,903	81,532
- Accumulated depreciation	(46,301)	(32,764)
	69,602	48,768
Total cost	**1,475,288**	**1,300,783**
Total accumulated depreciation	**(401,654)**	**(307,369)**
Total net book value	**1,073,634**	**993,414**

Included in telecommunications equipment is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $191.4 million (1990:$184.2 million), together with accumulated depreciation of $110.1 million (1990:$92.2 million).

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

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 approximately 90% (1990: less than 50%) of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (continued)*

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all interests in land included in the assets purchased from the Crown may be 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.

Telecom would expect to negotiate with the new Maori owners for continued occupancy rights of any sites resumed by the Crown.

	1991	1990
8 *ACCOUNTS PAYABLE AND ACCRUALS*	$000's	$000's
Trade accounts payable and accruals	32,650	47,709
Accrued personnel costs	34,320	20,683
Rentals billed in advance	14,472	13,616
Payable to fellow subsidiary companies	22,687	39,672
Payable to parent company	174,356	85,825
	278,485	**207,505**

	1991	1990
9 *LONG TERM DEBT*	$000's	$000's
Parent company loan	**284,491**	**284,491**

Interest rates on the parent company loan ranged from 13.56% to 14.28% for the year ended 31 March 1991. The parent company loan has no fixed date for repayment.

10 *SHAREHOLDERS' EQUITY*

	1991	1990
SHARE PREMIUM RESERVE	$000's	$000's
Balance at beginning of period (Consisting of a premium of $9,999 on 46,466 redeemable preference shares)	464,614	-
Movements during period	-	464,614
	464,614	**464,614**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY (continued)

Dividends declared apply to redeemable preference shares as if they were ordinary shares. On winding up of the company preference shareholders rank in priority to ordinary shareholders in respect of outstanding dividends and the issue price of the redeemable preference shares. The redeemable preference shares are subject to redemption, at the issue price five days after written notice from the holder.

	1991	1990
RETAINED EARNINGS	$000's	$000's
Balance at beginning of year	3,144	-
Net earnings	45,627	62,880
	48,771	62,880
Dividends	(17,023)	(59,736)
Balance at end of year	**31,748**	**3,144**

DIVIDENDS

Interim and final dividends declared from the retained earnings of the Company are as follows:

	1991	1990
	$000's	$000's
Interim dividends	17,023	18,600
Final dividend	-	41,136
	17,023	59,736

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	9.7
Payable within 1-2 years	10.3
Payable within 2-3 years	10.0
Payable within 3-4 years	9.7
Payable within 4-5 years	8.8
Payable thereafter	47.4
	$95.9

CAPITAL COMMITMENTS

As at 31 March 1991 capital expenditure amounting to $50.0 million (1990:$64.8 million) has been committed under contractual arrangements.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 *CONTINGENT LIABILITIES*

LAND CLAIMS

As stated in Note 7, interests in land included in assets purchased from the Crown may be 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.

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.

In the event that land is resumed by the Crown, there is provision for compensation to Telecom.

LAWSUITS AND OTHER CLAIMS

Various lawsuits, claims and investigations have been brought by or against the Company. The Board of Directors believe that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $1,445 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1991, principally under the following agreements:

(i) $9.9 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) $590.7 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) $475 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.

(iv) British pounds 124.5 million (NZ$369.2 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to 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, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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.

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

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 31 March 1991 are:

Intercompany Receivable	$3.3 million
Intercompany Payable and current account	$197.0 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.

14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1991 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
-TCNZ (UK) Investments Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-Telecom North Limited

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

15 SEGMENTAL 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 31 March 1991 and of the earnings for the year ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

AUCKLAND, 7 JUNE 1991

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1991 $000's	1990 $000's
Operating revenues		500,081	232,243
Operating expenses	2	(369,608)	(172,277)
Earnings from operations		130,473	59,966
Interest income	3	1,982	2,828
Interest expense	3	(37,963)	(18,281)
Earnings before income tax		94,492	44,513
Income tax	4	(32,138)	(13,790)
Net earnings		62,354	30,723

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Notes	1991	1990
		$000's	$000's
ASSETS			
Current assets:			
Cash		1,055	730
Accounts receivable and prepaid expenses	5	72,824	53,853
Inventories		26,922	13,537
Prepaid income tax	4	6,648	-
Total current assets		107,449	68,120
Future tax benefit	4	-	13,008
Other assets	6	10,008	-
Fixed assets	7	897,393	416,871
Total assets		**1,014,850**	**497,999**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		2,848	715
Accounts payable and accruals	8	224,787	41,919
Debt due within one year		727	-
Taxation payable	4	-	5,318
Proposed dividend	10	-	19,602
Total current liabilities		228,362	67,554
Deferred income tax	4	8,419	-
Long term debt	9	254,772	126,358
Total liabilities		491,553	193,912
Commitments and contingent liabilities	11,12		
Shareholders' equity:	10		
Ordinary shares, $1.00 each			
-Authorised, issued and fully paid 88,456,000 shares		88,456	88,456
Redeemable preference shares, $1.00 each			
-Authorised, issued and fully paid 41,910 shares		42	21
Share premium reserve		419,058	206,359
Retained earnings		15,741	9,251
Total shareholders' equity		523,297	304,087
Total liabilities and shareholders' equity		**1,014,850**	**497,999**

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

On behalf of the Board

W J HARRISON — *CHAIRMAN*

N R NICHOLLS — *MANAGING DIRECTOR*

HAMILTON, 7 JUNE 1991

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

1 *STATEMENT OF ACCOUNTING POLICIES*

(a) 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 Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company controlled by two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Midavia Holdings Ltd ("Midavia"), formerly Fay, Richwhite Holdings Ltd. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

- A local free-calling option 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 New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- 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 was as at 11 September 1990.

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(b) GENERAL ACCOUNTING POLICIES

The measurement basis adopted in the preparation of these financial statements is historical cost. Accrual accounting is used to match income and expenses.

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenues for all services are recognised when earned. Billings for telephone services are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue recognision is deferred in respect of that portion of fixed monthly charges which have been billed in advance.

Revenue principally includes telephone line rental, national calls, leased circuits, and the rental, sale, maintenance and installation of customer premises equipment and related products.

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.

Effective 1 April 1989 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 prepare 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)

1 *STATEMENT OF ACCOUNTING POLICIES (CONTINUED)*

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

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses on disposal are recognised in earnings.

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts.

INVENTORIES

Inventories are comprised principally 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 due consideration for excess and obsolete items. Cost is determined on a first in first out basis.

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.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 accrued personnel costs.

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so 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.

Such liabilities are reflected within accured personnel costs.

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.

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 that are expected to reverse within the foreseeable future.

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.

RECLASSIFICATIONS

Certain reclassification of prior years' data have been made to conform to 1991 classification.

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*	1991 $000's	1990 $000's
	369,608	**172,277**
Included in Operating expenses are:		
Depreciation	104,711	46,936
Audit fees	156	106
Intercompany management fee	19,860	10,819
Foreign exchange (gains)/losses	(178)	67
Lease and rental costs	5,749	1,965

3 *INTEREST*	1991 $000's	1990 $000's
Interest income:		
- Intercompany	**1,982**	**2,828**
Interest expense:		
- Intercompany	37,804	18,281
- Other	159	-
	37,963	**18,281**

4 *INCOME TAX*	1991 $000's	1990 $000's
The income tax expense for the year is determined as follows:		
Net earnings before income tax	94,492	44,513
Tax at current rate of 33%	31,182	14,689
Adjustment for permanent differences	956	(899)
Total income tax expense	**32,138**	**13,790**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
4 *INCOME TAX (continued)*	$000's	$000's
The tax expense is represented by:		
-Current taxation	24,406	11,565
-Deferred taxation	7,732	2,225
	32,138	13,790
The balance sheet provisions as at 31 March are:		
Current taxation:		
-Balance at beginning of period	(5,318)	-
-Balance from acquired subsidiary	4,527	-
-Total taxation in the current period	(24,406)	(11,565)
-Tax paid	31,845	6,247
Prepaid income tax/(Taxation payable)	**6,648**	**(5,318)**
Deferred taxation:		
-Balance at beginning of period	13,008	15,233
-Balance from acquired subsidiary	(1,688)	-
-Provided in the current period	(7,732)	(2,225)
-Other movements	(12,007)	-
Future tax benefit/(Deferred income tax)	**(8,419)**	**13,008**

	1991	1990
5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*	$000's	$000's
Accounts receivable, net	54,421	28,258
Unbilled rentals and tolls	17,650	6,044
Due from fellow subsidiary companies	588	6,588
Due from parent company	-	12,475
Prepaid expenses and other	165	488
	72,824	**53,853**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $10.0 million incurred in relation to the installation of a major computer system. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. The corresponding amount at 31 March 1990 of $4.7 million was included in prepaid expenses and other, and capital work in progress. Deferred costs amortised during the year ended 31 March 1991 amounted to $3.7 million (1990:$0).

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
7 FIXED ASSETS	$000's	$000's
Telecommunication equipment:		
- Cost	982,448	439,310
- Accumulated depreciation	(317,514)	(129,962)
	664,934	309,348
Capital work in progress	54,724	35,017
Land	19,327	10,757
Buildings:		
- Cost	106,764	45,745
- Accumulated depreciation	(13,664)	(4,633)
	93,100	41,112
Other fixed assets:		
- Cost	106,583	34,576
- Accumulated depreciation	(41,275)	(13,939)
	65,308	20,637
Total cost	**1,269,846**	**565,405**
Total accumulated depreciation	**(372,453)**	**(148,534)**
Total net book value	**897,393**	**416,871**

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

Included in telecommunications equipment is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $105.5 million (1990:$49.9 million), together with accumulated depreciation of $69.9 million (1990:$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 progressivel raised by the Crown and transferred to Group companies. Titles for approximately 90% (1990: less than 50%) of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all interests in land included in the assets purchased from the Crown may be subject to claims to the Waitangi Tribunal which has the power to recommend in appropriate circumstances that the lanc 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.

Telecom would expect to negotiate with the new Maori owners for continued occupancy rights of any sites resumed by the Crown.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

8 *ACCOUNTS PAYABLE AND ACCURALS*	1991 $000's	1990 $000's
Trade accounts payable and accruals	24,589	12,649
Accrued personnel costs	12,046	4,740
Rentals billed in advance	11,394	9,014
Payable to fellow subsidiary companies	14,743	15,516
Payable to parent company	162,015	-
	224,787	**41,919**

9 *LONG TERM DEBT*	1991 $000's	1990 $000's
Parent company loan	254,042	-
Other	730	126,358
	254,772	**126,358**

Interest rates on the parent company loan ranged from 13.56% to 14.28% for the year ended 31 March 1991. The parent company loan has no fixed date for repayment.

10 SHAREHOLDER'S EQUITY
SHARE PREMIUM RESERVE

	1991 $000's	1990 $000's
Balance at beginning of period	206,359	-
Balance from acquired subsidiary (consisting of a premium of $9,999 on 21,272 redeemable preference shares)	212,699	
Movements during period:		
-Premium of $9,999 on 20,638 redeemable preference shares	-	206,359
-Dividend declared	(212,699)	-
-Premium of $9,999 on 21,272 redeemable preference shares	212,699	-
	419,058	**206,359**

Dividends declared apply to redeemable preference shares as if they were ordinary shares. On winding up of the company preference shareholders rank in priority to ordinary shareholders in respect of outstanding dividends and the issue price of the redeemable preference shares. The redeemable preference shares are subject to redemption, at the issue price five days after written notice from the holder.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDER'S EQUITY (continued)

RETAINED EARNINGS	1991 $000's	1990 $000's
Balance at beginning of year	9,251	-
Balance from acquired subsidiary	12,152	-
Net earnings	62,354	30,723
	83,757	30,723
Dividends	(68,016)	(21,472)
Balance at end of year	**15,741**	**9,251**

DIVIDENDS

Interim and final dividends declared from the retained earnings of the Company are as follows:

	1991 $000's	1990 $000's
Interim dividends	34,295	1,870
Final dividend	33,721	19,602
	68,016	21,472

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	0.3
Payable within 1-2 years	0.3
Payable within 2-3 years	0.2
Payable within 3-4 years	0.3
Payable within 4-5 years	5.9
Payable thereafter	16.9
	$23.9

CAPITAL COMMITMENTS

As at 31 March 1991 capital expenditure amounting to $27.4 million (1990:$15.0 million) has been committed under contractual arrangements.

TELECOM CENTRAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 CONTINGENT LIABILITIES

LAND CLAIMS

As stated in Note 7, interests in land included in assets purchased from the Crown may be 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.

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.

In the event that land is resumed by the Crown, there is provision for compensation to Telecom.

LAWSUITS AND OTHER CLAIMS

Various lawsuits, claims and investigations have been brought by or against the Company. The Board of Directors believe that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $1445 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1991, principally under the following agreements:

(i) $9.9 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) $590.7 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) $475 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.

(iv) British Pounds 124.5 million (NZ$369.2 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to 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, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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.

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

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 31 March 1991 are:

Intercompany Receivable	$0.6 million
Intercompany Payable and current account	$176.7 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.

14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1991 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
TCNZ (UK) Investments Limited
Telecom Wellington Investments Limited
-Telecom Operations Limited
-Telecom North Limited

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

15 SEGMENTAL 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.

16 ACQUIRED SUBSIDIARY

As stated in Note 1 (a) 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 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 31 March 1991 and of the earnings for the year ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

HAMILTON, 7 JUNE 1991

TELECOM WELLINGTON LIMITED

STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH

	Notes	1991	1990
		$000's	$000's
Operating revenues		328,867	344,888
Operating expenses	2	(248,440)	(241,422)
Earnings from operations		80,427	103,466
Investment income	3	994	3,972
Interest expense	3	(20,819)	(19,212)
Earnings before income tax		60,602	88,226
Income tax	4	(19,931)	(29,448)
Net earnings		40,671	58,778

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

TELECOM WELLINGTON LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1991	1990
		$000's	$000's
ASSETS			
Current assets:			
Cash		21	-
Short term investments	6	3,123	-
Accounts receivable and prepaid expenses	5	76,992	104,241
Inventories		16,820	23,161
Prepaid income tax	4	794	10,366
Total current assets		97,750	137,768
Future tax benefit	4	5,780	11,009
Investment in fellow subsidiary company	7	54,000	-
Fixed assets	8	432,614	419,722
Total assets		**590,144**	**568,499**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		1,635	2,994
Accounts payable and accruals	9	93,646	84,621
Proposed dividend	11	-	20,223
Total current liabilities		95,281	107,838
Long term debt	10	139,575	132,452
Total liabilities		234,856	240,290
Commitments and contingent liabilities	12,13		
Shareholders' equity:	11		
Ordinary shares, $1.00 each			
-Authorised, issued and fully paid 92,714,000 shares		92,714	92,714
Redeemable preference shares, $1.00 each			
-Authorised, issued and fully paid 21,634 shares		22	22
Share premium reserve		216,318	216,318
Retained earnings		46,234	19,155
Total shareholders' equity		355,288	328,209
Total liabilities and shareholders' equity		**590,144**	**568,499**

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

On behalf of the Board

W J HARRISON — *CHAIRMAN*

G HODDINOTT — *MANAGING DIRECTOR*

WELLINGTON, 7 JUNE 1991

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 *STATEMENT OF ACCOUNTING POLICIES*

(a) 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 Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company controlled by two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Midavia Holdings Ltd ("Midavia"), formerly Fay, Richwhite Holdings Ltd. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

- A local free-calling option 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 New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- 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 was as at 11 September 1990.

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

(b) GENERAL ACCOUNTING POLICIES

The measurement basis adopted in the preparation of these financial statements is historical cost modified by the revaluation of certain investments. Accrual accounting is used to match income and expenses.

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenues for all services are recognised when earned. Billings for telephone services are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue recognition is deferred in respect of that portion of fixed monthly charges which have been billed in advance.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (continued)*

Revenue principally includes telephone line rental, national calls, leased circuits, and the rental, sale, maintenance and installation of customer premises equipment and related products.

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.

Effective 1 April 1989 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 prepare 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.

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses on disposal are recognised in earnings.

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts.

INVENTORIES

Inventories are comprised principally 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 due consideration for excess and obsolete items. Cost is determined on a first in first out basis.

INVESTMENTS

Short term investments consist of investments which mature or are otherwise realisable within not more than 12 months from the date of purchase and are stated at market value (where available), with the resulting gains or losses taken to earnings.

Non-current investments (and short term investments where no market value is available) are stated at the lower of cost or, where the directors consider that there has been a permanent diminution in value, at directors' valuation.

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.

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 accrued personnel costs.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 *STATEMENT OF ACCOUNTING POLICIES (CONTINUED)*

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so 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.

Such liabilities are reflected within accrued personnel costs.

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.

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 that are expected to reverse within the foreseeable future.

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.

RECLASSIFICATIONS

Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*	1991 $000's	1990 $000's
	248,440	**241,422**
Included in Operating expenses are:		
Depreciation	50,271	52,580
Audit fees	190	135
Intercompany management fee	12,510	15,466
Lease and rental costs	13,301	6,493

3 *INVESTMENT INCOME/INTEREST EXPENSE*	1991 $000's	1990 $000's
Investment income:		
- Intercompany interest	125	3,972
- Intercompany dividends	869	-
	994	**3,972**
Interest expense:		
- Intercompany	20,819	19,347
- Less interest capitalised	-	(135)
	20,819	**19,212**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
4 *INCOME TAX*	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before taxation	60,602	88,226
Tax at current rate of 33%	19,999	29,115
Adjustment for permanent differences	(68)	333
Total income tax expense	**19,931**	**29,448**
The income tax expense is represented by:		
-Current taxation	16,268	25,635
-Deferred taxation	3,663	3,813
	19,931	29,448
The balance sheet provisions as at 31 March are:		
Current taxation:		
-Balance at beginning of year	10,366	-
-Total taxation in the current year	(16,268)	(25,635)
-Tax paid	6,696	36,001
Prepaid income tax	**794**	**10,366**
Deferred taxation:		
-Balance at beginning of year	11,009	14,822
-Provided in the current year	(3,663)	(3,813)
-Other movements	(1,566)	-
Future tax benefit	**5,780**	**11,009**

	1991	1990
5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*	$000's	$000's
Accounts receivable, net	51,709	60,760
Unbilled rentals and tolls	13,498	14,358
Due from fellow subsidiary companies	10,846	28,006
Prepaid expenses and other	939	1,117
	76,992	**104,241**

	1991	1990
6 *SHORT TERM INVESTMENTS*	$000's	$000's
Redeemable preference units	**3,123**	-

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
7 *INVESTMENT IN FELLOW SUBSIDIARY COMPANY*	$000's	$000's
Redeemable preference shares	**54,000**	-

	1991	1990
8 *FIXED ASSETS*	$000's	$000's
Telecommunication equipment:		
- Cost	448,989	419,644
- Accumulated depreciation	(173,361)	(146,964)
	275,628	272,680
Capital work in progress	12,187	19,013
Land	41,896	43,747
Buildings:		
- Cost	63,520	58,743
- Accumulated depreciation	(5,930)	(5,096)
	57,590	53,647
Other fixed assets:		
- Cost	68,560	44,414
- Accumulated depreciation	(23,247)	(13,779)
	45,313	30,635
Total cost	**635,152**	**585,561**
Total accumulated depreciation	**(202,538)**	**(165,839)**
Total net book value	**432,614**	**419,722**

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

Included in telecommunications equipment is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $105.5 million (1990:$102.1 million), together with accumulated depreciation of $70.2 million (1990:$64.6 million).

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

8 FIXED ASSETS (CONTINUED)

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 approximately 90% (1990: less than 50%) of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all interests in land included in the assets purchased from the Crown may be 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.

Telecom would expect to negotiate with the new Maori owners for continued occupancy rights on any sites resumed by the Crown.

9 ACCOUNTS PAYABLE AND ACCRUALS	1991 $000's	1990 $000's
Trade accounts payable and accruals	13,915	20,704
Accrued personnel costs	7,205	7,472
Rentals billed in advance	5,369	3,141
Payable to fellow subsidiary companies	7,527	16,893
Payable to parent company	59,630	36,411
	93,646	**84,621**

10 LONG TERM DEBT	1991 $000's	1990 $000's
Parent company loan	**139,575**	**132,452**

Interest rates on the parent company loan ranged from 13.56% to 14.28% for the year ended 31 March 1991. The parent company loan has no fixed date for repayment.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE	1991 $000's	1990 $000's
Balance at beginning of period (Consisting of a premium of $9,999 on 21,634 redeemable preference shares)	216,318	-
Movements during period	-	216,318
	216,318	**216,318**

Dividends declared apply to redeemable preference shares as if they were ordinary shares. On winding up of the company preference shareholders rank in priority to ordinary shareholders in respect of outstanding dividends and the issue price of the redeemable preference shares. The redeemable preference shares are subject to redemption, at the issue price five days after written notice from the holder.

RETAINED EARNINGS	1991 $000's	1990 $000's
Balance at beginning of year	19,155	-
Net earnings	40,671	58,778
	59,826	58,778
Dividends	(13,592)	(39,623)
Balance at end of year	46,234	19,155

DIVIDENDS

Interim and final dividends declared from the retained earnings of the Company are as follows:

	1991 $000's	1990 $000's
Interim dividends	13,592	19,400
Final dividend	-	20,223
	13,592	39,623

12 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	11.8
Payable within 1-2 years	11.3
Payable within 2-3 years	10.8
Payable within 3-4 years	10.6
Payable within 4-5 years	9.8
Payable thereafter	50.4
	$104.7

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 COMMITMENTS (continued)

CAPITAL COMMITMENTS

As at 31 March 1991 capital expenditure amounting to $14.6 million (1990:$6.0 million) has been committed under contractual arrangements.

13 CONTINGENT LIABILITIES

LAND CLAIMS

As stated in Note 8, interests in land included in assets purchased from the Crown may be 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.

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.

In the event that land is resumed by the Crown, there is provision for compensation to Telecom.

LAWSUITS AND OTHER CLAIMS

Various lawsuits, claims and investigations have been brought by or against the Company. The Board of Directors believe that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $1445 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1991, principally under the following agreements:

(i) $9.9 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) $590.7 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) $475 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.

(iv) British Pounds 124.5 million (NZ$369.2 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to 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 subject to certain exceptions create or permit to exist any charge or lien over any of its assets.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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.

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

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 31 March 1991 are:

Intercompany Receivable	$10.8 million
Intercompany Payable and current account	$67.2 million
Intercompany Term Liabilities	$139.6 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.

15 FELLOW SUBSIDIARY COMPANIES

At 31 March 1991 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
-TCNZ (UK) Investments Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-Telecom North Limited

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

16 SEGMENTAL 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 (including the revaluation of certain assets) a true and fair view of the state of the Company's affairs at 31 March 1991, and of the earnings for the year ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

WELLINGTON, 7 JUNE 1991

TELECOM SOUTH LIMITED

STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH

	Notes	1991	1990
		$000's	$000's
Operating revenues		436,366	399,859
Operating expenses	2	(328,719)	(326,919)
Earnings from operations		107,647	72,940
Interest income	3	174	787
Interest expense	3	(32,540)	(34,509)
Earnings before income tax		75,281	39,218
Income tax	4	(25,057)	(11,030)
Net earnings		50,224	28,188

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

TELECOM SOUTH LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1991	1990
		$000's	$000's
ASSETS			
Current assets:			
Cash		2,519	266
Accounts receivable and prepaid expenses	5	58,533	92,756
Inventories		23,339	27,586
Prepaid income tax	4	1,780	3,095
Total current assets		86,171	123,703
Other assets	6	6,213	4,340
Fixed assets	7	875,679	812,072
Total assets		**968,063**	**940,115**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		4,963	3,237
Accounts payable and accruals	8	110,749	88,537
Proposed dividend	10	-	20,285
Total current liabilities		115,712	112,059
Deferred income tax	4	5,651	3,891
Long term debt	9	244,881	244,881
Total liabilities		366,244	360,831
Commitments and contingent liabilities	11,12		
Shareholders' equity:	10		
Ordinary shares, $1.00 each			
-Authorised, issued and fully paid 171,411,000 shares		171,411	171,411
Redeemable preference shares, $1.00 each			
-Authorised, issued and fully paid 39,997 shares		40	40
Share premium reserve		399,930	399,930
Retained earnings		30,438	7,903
Total shareholders' equity		601,819	579,284
Total liabilities and shareholders' equity		**968,063**	**940,115**

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

On behalf of the Board

W J HARRISON — *CHAIRMAN*

B ASH — *MANAGING DIRECTOR*

CHRISTCHURCH, 7 JUNE 1991

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 *STATEMENT OF ACCOUNTING POLICIES*

(a) 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 Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company controlled by two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Midavia Holdings Ltd ("Midavia"), formerly Fay, Richwhite Holdings Ltd. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

- A local free-calling option 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 New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- 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 was as at 11 September 1990.

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (continued)*

(b) GENERAL ACCOUNTING POLICIES

The measurement basis adopted in the preparation of these financial statements is historical cost. Accrual accounting is used to match income and expenses.

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenues for all services are recognised when earned. Billings for telephone services are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue recognition is deferred in respect of that portion of fixed monthly charges which have been billed in advance.

Revenue principally includes telephone line rental, national calls, leased circuits, and the rental, sale, maintenance and installation of customer premises equipment and related products.

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.

Effective 1 April 1989 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 prepare 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)

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses on disposal are recognised in earnings.

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts.

INVENTORIES

Inventories are comprised principally 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 due consideration for excess and obsolete items. Cost is determined on a first in first out basis.

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.

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 accrued personnel costs.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (continued)*

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so 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.

Such liabilities are reflected within accrued personnel costs.

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.

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 that are expected to reverse within the foreseeable future.

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.

RECLASSIFICATIONS

Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
2 *OPERATING EXPENSES*	$000's	$000's
	328,719	**326,919**
Included in operating expenses are:		
Depreciation	101,303	90,233
Audit fees	190	145
Intercompany management fee	15,431	19,471
Lease and rental costs	5,849	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 year ended 31 March 1991 an additional $4.3 million of overhead which otherwise would have been charged to earnings after taxation, was capitalised.

	1991	1990
3 *INTEREST*	$000's	$000's
Interest income:		
- Intercompany	**174**	**787**
Interest expense:		
- Intercompany	35,898	34,990
- Other	(10)	20
	35,888	35,010
- Less interest capitalised	(3,348)	(501)
	32,540	**34,509**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

	1991	1990
4 *INCOME TAX*	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	75,281	39,218
Tax at current rate of 33%	24,843	12,942
Adjustment for permanent differences	214	(1,912)
Total income tax expense	**25,057**	**11,030**
The income tax expense is represented by:		
-Current taxation	15,940	5,911
-Deferred taxation	9,117	5,119
	25,057	11,030
The balance sheet provisions as at 31 March are:		
Current taxation:		
-Balance at beginning of year	3,095	-
-Total taxation in the current year	(15,940)	(5,911)
-Tax paid	14,625	9,006
Prepaid income tax	**1,780**	**3,095**
Deferred taxation:		
-Balance at beginning of year	(3,891)	1,228
-Provided in the current year	(9,117)	(5,119)
-Other movements	7,357	-
Deferred income tax	**(5,651)**	**(3,891)**

	1991	1990
5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*	$000's	$000's
Accounts receivable, net	37,672	31,439
Unbilled rentals and tolls	16,825	28,351
Due from fellow subsidiary companies	3,130	32,319
Prepaid expenses and other	906	647
	58,533	**92,756**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $6.2 million (1990:$4.3 million) incurred in relation to the installation of a major computer system. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the year ended 31 March 1991 amounted to $1.5 million (1990:$0).

	1991	1990
7 *FIXED ASSETS*	$000's	$000's
Telecommunication equipment:		
- Cost	923,002	811,818
- Accumulated depreciation	(294,485)	(232,643)
	628,517	579,175
Capital work in progress	96,231	90,699
Land	38,055	38,410
Buildings:		
- Cost	69,533	66,646
- Accumulated depreciation	(10,915)	(8,291)
	58,618	58,355
Other fixed assets:		
- Cost	92,483	74,746
- Accumulated depreciation	(38,225)	(29,313)
	54,258	45,433
Total cost	**1,219,304**	**1,082,319**
Total accumulated depreciation	**(343,625)**	**(270,247)**
Total net book value	**875,679**	**812,072**

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

Included in telecommunications equipment is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $121.4 million (1990:$113.0 million), together with accumulated depreciation of $78.8 million (1990:$64.5 million).

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (CONTINUED)*

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 approximately 90% (1990:less than 50%) of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

Under the Treaty of Waitangi Act 1975 all interests in land included in the assets purchased from the Crown may be 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.

Telecom would expect to negotiate with the new Maori owners for continued occupancy rights of any sites resumed by the Crown.

	1991	1990
8 *ACCOUNTS PAYABLE AND ACCRUALS*	$000's	$000's
Trade accounts payable and accruals	32,784	39,720
Accrued personnel costs	13,795	9,349
Rentals billed in advance	7,255	15,538
Payable to fellow subsidiary companies	6,597	17,680
Payable to parent company	50,318	6,250
	110,749	**88,537**

	1991	1990
9 *LONG TERM DEBT*	$000's	$000's
Parent company loan	**244,881**	**244,881**

Interest rates on the parent company loan ranged from 13.56% to 14.25% for the year ended 31 March 1991. The parent company loan has no fixed date for repayment.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE	1991 $000's	1990 $000's
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**

Dividends declared apply to redeemable preference shares as if they were ordinary shares. On winding up of the company preference shareholders rank in priority to ordinary shareholders in respect of outstanding dividends and the issue price of the redeemable preference shares. The redeemable preference shares are subject to redemption, at the issue price five days after written notice from the holder.

RETAINED EARNINGS	1991 $000's	1990 $000's
Balance at beginning of year	7,903	-
Net earnings	50,224	28,188
	58,127	28,188
Dividends	(27,689)	(20,285)
Balance at end of year	**30,438**	**7,903**

DIVIDENDS

Interim and final dividends declared from the retained earnings of the company are as follows:

	1991 $000's	1990 $000's
Interim dividends	27,689	-
Final dividend	-	20,285
	27,689	20,285

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	3.2
Payable within 1-2 years	2.9
Payable within 2-3 years	2.0
Payable within 3-4 years	1.5
Payable within 4-5 years	1.3
Payable thereafter	2.3
	$13.2

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 COMMITMENTS (continued)

CAPITAL COMMITMENTS

As at 31 March 1991 capital expenditure amounting to $32.4 million (1990:$62.0 million) has been committed under contractual arrangements.

12 CONTINGENT LIABILITIES

LAND CLAIMS

As stated in Note 7, interests in land included in assets purchased from the Crown may be 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.

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.

In the event that land is resumed by the Crown, there is provision for compensation to Telecom.

LAWSUITS AND OTHER CLAIMS

Various lawsuits, claims and investigations have been brought by or against the Company. The Board of Directors believe that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately $1,445 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1991, principally under the following agreements:

(i) $9.9 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) $590.7 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) $475 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.

(iv) British Pounds 124.5 million (NZ$369.2 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to 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 subject to certain exceptions create or permit to exist any charge or lien over any of its assets.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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.

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

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 31 March 1991 are:

Intercompany Receivable	$3.1 million
Intercompany Payable and current account	$56.9 million
Intercompany Term Liabilities	$244.9 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.

14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1991 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
-TCNZ (UK) Investments Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-Telecom North Limited

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

15 SEGMENTAL 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 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 31 March 1991 and the earnings for the year ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

CHRISTCHURCH, 7 JUNE 1991

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