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TELECOMMUNICATIONS (DISCLOSURE) REGULATIONS 1990

Financial Statements

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 1992 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, PO Box 570, Wellington.

Telecom Auckland Limited, Telecom Tower, 16 Kingston Street, Private Bag 92030, 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, PO Box 293, Wellington.

Telecom South Limited, Level Seven, Telecom House, 109 Hereford Street, PO Box 1473, Christchurch.

TELECOM AUCKLAND LIMITED

STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH 1992

	Notes	1992	1991
		$000's	$000's
Operating revenues	13	584,051	619,344
Operating expenses	2	(484,917)	(494,302)
Earnings from operations		99,134	125,042
Investment income	3	3,798	31
Interest expense	3	(53,531)	(58,927)
Earnings before income tax		49,401	66,146
Income tax	4	(11,259)	(20,519)
Net earnings	13	**38,142**	**45,627**

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 1992

	Notes	1992	1991
		$000's	$000's
ASSETS			
Current assets:			
Cash		2,746	856
Accounts receivable and prepaid expenses	5	100,804	112,463
Inventories		29,859	56,598
Prepaid income tax	4	23,435	19,800
Total current assets		156,844	189,717
Investment in fellow subsidiary company		1,600	-
Other assets	6	5,839	5,273
Fixed assets	7	1,082,880	1,073,634
Total assets		**1,247,163**	**1,268,624**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		2,370	7,994
Debt due within one year	9	6,075	-
Accounts payable and accruals	8	131,431	278,485
Total current liabilities		139,876	286,479
Deferred income tax	4	9,076	2,100
Long term debt	9	353,703	284,491
Total liabilities		502,655	573,070
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 50,466 shares		50	46
Share premium reserve		504,610	464,614
Retained earnings		40,702	31,748
Total shareholders' equity		744,508	695,554
Total liabilities and shareholders' equity		**1,247,163**	**1,268,624**

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

On behalf of the Board

P BLADES *P J HAWORTH*

DIRECTOR *DIRECTOR*

AUCKLAND, 27 MAY 1992

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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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, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. 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.

In July 1991, to satisfy partially this obligation, Ameritech and Bell Atlantic sold 724.5 million shares in Telecom (representing approximately 31% of the then outstanding share capital) to the public and institutions in a worldwide offering.

At 31 March 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

The Crown holds, and will continue to hold, one 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)

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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 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)

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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 both operating and finance leases. Expenses relating to operating leases are charged against earnings as incurred. Finance leases, which effectively transfer to the entity substantially all the risks and benefits of ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are amortised over the period the entity is expected to benefit from their use.

No material finance leases have been entered into as lessor.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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 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 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 1992 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*

	1992	1991
	$000's	$000's
	484,917	**494,302**
Included in operating expenses are:		
- Depreciation	125,435	117,228
- Audit fees	200	190
- Intercompany management fee	22,787	25,440
- Foreign exchange gains	5	(52)
- Lease and rental costs	16,265	15,376

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1992	1991
	$000's	$000's
Interest income:		
- Intercompany	141	-
- Other	3,657	31
	3,798	**31**
Interest expense:		
- Intercompany (including finance lease charges)	53,661	59,452
- Other	33	4
	53,694	59,456
- Less interest capitalised	(163)	(529)
	53,531	**58,927**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1992	1991
	$000's	$000's
The income tax expense for the period is determined as follows:		
Earnings before income tax	49,401	66,146
Tax at current rate of 33%	16,302	21,828
Adjustment for permanent differences	(5,043)	(1,309)
Total income tax expense	**11,259**	**20,519**
The income tax expense is represented by:		
-Current taxation	2,932	11,874
-Deferred taxation	8,327	8,645
	11,259	20,519

The balance sheet provisions are:

	1992	1991
	$000's	$000's
Current taxation:		
-Balance at beginning of period	19,800	23,290
-Total taxation in the current period	(2,932)	(11,874)
-Tax paid	4,176	8,384
-Other	2,391	-
Prepaid income tax	**23,435**	**19,800**
Deferred taxation:		
-Balance at beginning of period	2,100	1,264
-Provided in the current period	8,327	8,645
-Other	(1,351)	(7,809)
Deferred income tax	**9,076**	**2,100**

A deferred tax liability of $0.5 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	1992	1991
	$000's	$000's
Accounts receivable, net	60,720	73,542
Unbilled rentals and tolls	34,100	29,724
Due from fellow subsidiary companies	4,948	3,314
Prepaid expenses and other	1,036	5,883
	100,804	**112,463**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $3.6 million (31 March 1991: $5.3 million) incurred in relation to the installation of major computer systems. 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 1992 amounted to $3.4 million (31 March 1991: $2.3 million).

In addition, at 31 March 1992, other assets include $2.2 million, being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

The shares, which were purchased at the initial public offering price of $2 each, are held in trust for the employee for a restrictive period of three years, during which time voting rights will be exercised by the Trustee in its discretion.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS*

	1992	1991
	$000's	$000's
Telecommunication equipment:		
- Cost	1,168,661	1,069,665
- Accumulated depreciation	(409,281)	(344,442)
	759,380	725,223
Capital work in progress	65,821	101,135
Land	57,405	57,682
Buildings:		
- Cost	137,366	130,903
- Accumulated depreciation	(14,382)	(10,911)
	122,984	119,992
Other fixed assets:		
- Cost	132,023	115,903
- Accumulated depreciation	(54,733)	(46,301)
	77,290	69,602
Total cost	**1,561,276**	**1,475,288**
Total accumulated depreciation	**(478,396)**	**(401,654)**
Total net book value	**1,082,880**	**1,073,634**

Included in telecommunications equipment, at 31 March 1992 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $191.2 million and $180.0 million, together with accumulated depreciation of $140.1 million and $108.9 million.

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

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 31 March 1992, assets capitalised under finance leases associated with this transaction had a cost of $75.8 million and accumulated depreciation of $5.1 million.

TELECOM AUCKLAND 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 substantially all 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, with binding effect, 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 of New Zealand 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.

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	1992	1991
	$000's	$000's
Trade accounts payable and accruals	21,602	32,650
Accrued personnel costs	16,830	34,320
Rentals billed in advance	13,123	14,472
Payable to fellow subsidiary companies	65,614	22,687
Payable to parent company	14,262	174,356
	131,431	**278,485**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT*

	1992	1991
	$000's	$000's
Parent company loan	286,091	284,491
Other loans		
- Due to fellow group company	73,532	-
- Other	155	-
	73,687	-
- Less long term debt maturing within one year	(6,075)	-
	67,612	-
	353,703	**284,491**

Interest rates on the parent company loan ranged from 12.93% to 13.62% for twelve months ended 31 March 1992. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	7,377	-
Due 2 to 3 years	60,157	-
Due 3 to 4 years	38	-
Due 4 to 5 years	40	-
Total due after one year	67,612	-

Other loans are for the finance lease obligations of office equipment, with interest and principal paid monthly at 18.5% p.a., and telecommunication equipment, with interest and principal paid quarterly at 12.9% p.a.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1992	1991
	$000's	$000's
Balance at beginning of year	464,614	464,614
(Consisting of a premium of $9,999 on 46,466 redeemable preference shares)		
Movements during year		
-Premium of $9,999 on 4,000 redeemable preference shares	39,996	-
	504,610	**464,614**

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

	1992	1991
	$000's	$000's
Balance at beginning of year	31,748	3,144
Net earnings	38,142	45,627
	69,890	48,771
Dividends	(29,188)	(17,023)
Balance at end of year	**40,702**	**31,748**

DIVIDENDS

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

	1992	1991
	$000's	$000's
Interim dividends	29,188	17,023
Final dividend	-	-
	29,188	17,023

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	12.9
Payable within 1-2 years	12.7
Payable within 2-3 years	12.7
Payable within 3-4 years	12.4
Payable within 4-5 years	11.9
Payable thereafter	29.6
	$92.2

CAPITAL COMMITMENTS

As at 31 March 1992 capital expenditure amounting to $15.9 million (31 March 1991: $50.0 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 believes that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

In addition to the above, a competitor filed proceedings in August 1991, against Telecom, including Telecom Auckland, in connection with a request for a local service interconnection arrangement. The substantive issues are to be heard by the Court commencing in June 1992. The basis of claim is that the Telecom Group, in offering certain terms and conditions of service, is in breach of section 36 of the Commerce Act 1986. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome if this action were to proceed, Telecom cannot ascertain the likelihood of such action being successful or the potential impact any judgement against it might have upon the trend of future net earnings.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,533 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1992, principally under the following agreements:

(i) $466.3 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.

(ii) $542.0 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.

(iii) British pounds 122.6 million (NZ$388.1 million) under a deed poll dated 12 November 1990.

(iv) $137.0 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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.

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 (approximately 8%) 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. Such expenses represented approximately 15% of total operating expenses.

Outstanding intercompany balances as at 31 March 1992 are:

- Intercompany receivable	$4.9 million
- Intercompany payable and current account	$79.9 million
- Intercompany term liabilities	$359.6 million

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 RELATED PARTY TRANSACTIONS (Continued)

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

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the twelve months ended 31 March 1992 was to reduce reported operating revenues by approximately $36.8 million and net earnings by approximately $24.7 million from that which would otherwise have been reported.

With effect from 1 April 1991, a new group company was formed to provide national network and other operational services to the Regional Operating Companies. As a result of this restructuring, certain fixed assets, personnel (and related accrued personnel costs) and services previously associated with the Company were transferred at net book value to the new company. The net book value of the fixed assets transferred amounted to approximately $5.2 million.

14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1992 the principal fellow subsidiaries of the Company were as follows:

-Telecom Central Limited
-Telecom Wellington Limited
-Telecom South Limited
-Telecom Networks and Operations Limited
-Telecom New Zealand International Limited (formerly 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
-TCNZ (United Kingdom) Securities Limited
-TCNZ Finance Limited
-TCNZ Financial Services Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-TCNZ Equities Limited (formerly Mokuso Holdings Limited)
-Teleco Insurance, Inc

In-substance subsidiaries

-Netway Communications 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 predominantly 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 1992 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, 27 MAY 1992

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH 1992

	Notes	1992	1991
		$000's	$000's
Operating revenues	13	514,064	500,081
Operating expenses	2	(359,421)	(369,608)
Earnings from operations		154,643	130,473
Investment income	3	1,594	1,982
Interest expense	3	(41,854)	(37,963)
Earnings before income tax		114,383	94,492
Income tax	4	(38,205)	(32,138)
Net earnings	13	**76,178**	**62,354**

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 1992

	Notes	1992	1991
		$000's	$000's
ASSETS			
Current assets:			
Cash		1,268	1,055
Accounts receivable and prepaid expenses	5	68,257	72,824
Inventories		13,080	26,922
Prepaid income tax	4	-	6,648
Total current assets		82,605	107,449
Investment in fellow subsidiary company		1,180	-
Other assets	6	6,823	10,008
Fixed assets	7	877,758	897,393
Total assets		**968,366**	**1,014,850**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		-	2,848
Debt due within one year	9	4,805	727
Taxation payable	4	6,450	-
Accounts payable and accruals	8	70,253	224,787
Total current liabilities		81,508	228,362
Deferred income tax	4	6,418	8,419
Long term debt	9	300,010	254,772
Total liabilities		387,936	491,553
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 45,910 shares		46	42
Share premium reserve		459,054	419,058
Retained earnings		32,874	15,741
Total shareholders' equity		580,430	523,297
Total liabilities and shareholders' equity		**968,366**	**1,014,850**

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

On behalf of the Board

R J BESWICK *S E GLENN*
DIRECTOR *DIRECTOR*

HAMILTON, 27 MAY 1992

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 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, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. 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.

In July 1991, to satisfy partially this obligation, Ameritech and Bell Atlantic sold 724.5 million shares in Telecom (representing approximately 31% of the then outstanding share capital) to the public and institutions in a worldwide offering.

At 31 March 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

The Crown holds, and will continue to hold, one 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)

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 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 both operating and finance leases. Expenses relating to operating leases are charged against earnings as incurred. Finance leases, which effectively transfer to the entity substantially all the risks and benefits of ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are amortised over the period the entity is expected to benefit from their use.

No material finance leases have been entered into as lessor.

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 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 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 1992 classifications.

(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*

	1992	1991
	$000's	$000's
	359,421	**369,608**
Included in operating expenses are:		
- Depreciation	109,754	104,711
- Audit fees	200	156
- Intercompany management fee	18,816	19,860
- Foreign exchange (gains)/losses	(27)	(178)
- Lease and rental costs	5,495	5,749

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1992	1991
	$000's	$000's
Interest income:		
- Intercompany	942	1,982
- Other	652	-
	1,594	**1,982**
Interest expense:		
- Intercompany (including finance lease charges)	41,660	37,804
- Other	194	159
	41,854	**37,963**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1992	1991
	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	114,383	94,492
Tax at current rate of 33%	37,746	31,182
Adjustment for permanent differences	459	956
Total income tax expense	**38,205**	**32,138**
The income tax expense is represented by:		
-Current taxation	38,736	24,406
-Deferred taxation	(531)	7,732
	38,205	32,138

The balance sheet provisions are:

	1992	1991
	$000's	$000's
Current taxation:		
-Balance at beginning of year	6,648	(5,318)
-Balance from acquired subsidiary	-	4,527
-Total taxation in the current year	(38,736)	(24,406)
-Tax paid	26,183	31,845
-Other	(545)	-
Prepaid income tax/(Taxation payable)	**(6,450)**	**6,648**
Deferred taxation:		
-Balance at beginning of year	8,419	(13,008)
-Balance from acquired subsidiary	-	1,688
-Provided in the current year	(531)	7,732
-Other	(1,470)	12,007
Deferred income tax	**6,418**	**8,419**

A deferred tax asset of $2.3 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	1992	1991
	$000's	$000's
Accounts receivable, net	48,899	54,421
Unbilled rentals and tolls	16,762	17,650
Due from fellow subsidiary companies	2,230	588
Prepaid expenses and other	366	165
	68,257	**72,824**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $5.4 million (31 March 1991: $10.0 million) incurred in relation to the installation of major computer systems. 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 1992 amounted to $7.1 million (31 March 1991: $3.7 million).

In addition, at 31 March 1992, other assets include $1.4 million, being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

The shares, which were purchased at the initial public offering price of $2 each, are held in trust for the employee for a restrictive period of three years, during which time voting rights will be exercised by the Trustee in its discretion.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 FIXED ASSETS

	1992	1991
	$000's	$000's
Telecommunication equipment:		
- Cost	1,047,342	982,448
- Accumulated depreciation	(373,149)	(317,514)
	674,193	664,934
Capital work in progress	33,106	54,724
Land	17,520	19,327
Buildings:		
- Cost	107,382	106,764
- Accumulated depreciation	(16,688)	(13,664)
	90,694	93,100
Other fixed assets:		
- Cost	114,670	106,583
- Accumulated depreciation	(52,425)	(41,275)
	62,245	65,308
Total cost	**1,320,020**	**1,269,846**
Total accumulated depreciation	**(442,262)**	**(372,453)**
Total net book value	**877,758**	**897,393**

Included in telecommunications equipment at 31 March 1992 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $102.6 million and $98.6 million together with accumulated depreciation of $87.2 million and $69.1 million.

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

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 31 March 1992, assets capitalised under finance leases associated with this transaction had a cost of $50.3 million and accumulated depreciation of $3.6 million.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

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 substantially all 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, with binding effect, 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 of New Zealand 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.

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	1992	1991
	$000's	$000's
Trade accounts payable and accruals	18,306	24,589
Accrued personnel costs	11,662	12,046
Rentals billed in advance	9,800	11,394
Payable to fellow subsidiary companies	22,307	14,743
Payable to parent company	8,178	162,015
	70,253	**224,787**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT*

	1992	1991
	$000's	$000's
Parent company loan	255,223	254,042
Other loans		
- Due to fellow group company	48,668	-
- Other	924	1,457
	49,592	1,457
- Less long term debt maturing within one year	(4,805)	(727)
	44,787	730
	300,010	**254,772**

Interest rates on the parent company loan ranged from 12.93% to 13.62% for the twelve months ended 31 March 1992. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	5,035	438
Due 2 to 3 years	39,752	292
Total due after one year	44,787	730

Other loans are for the finance lease obligations of office equipment, with interest and principal paid monthly at 16% p.a., and telecommunications equipment, with interest and principal paid quarterly at 12.9% p.a.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1992	1991
	$000's	$000's
Balance at beginning of year	419,058	206,359
(consisting of a premium of $9,999 on 41,910 redeemable preference shares)		
Balance from acquired subsidiary	-	212,699
(consisting of a premium of $9,999 on 21,272 redeemable preference shares)		
Movements during year:		
-Dividend declared		(212,699)
-Premium of $9,999 on 4,000 redeemable preference shares	39,996	
-Premium of $9,999 on 21,272 redeemable preference shares	-	212,699
	459,054	**419,058**

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

	1992	1991
	$000's	$000's
Balance at beginning of year	15,741	9,251
Balance from acquired subsidiary	-	12,152
Net earnings	76,178	62,354
	91,919	83,757
Dividends	(59,045)	(68,016)
Balance at end of year	**32,874**	**15,741**

DIVIDENDS

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

	1992	1991
	$000's	$000's
Interim dividends	59,045	34,295
Final dividend	-	33,721
	59,045	68,016

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	4.0
Payable within 1-2 years	3.8
Payable within 2-3 years	3.6
Payable within 3-4 years	2.7
Payable within 4-5 years	2.2
Payable thereafter	5.1
	$21.4

CAPITAL COMMITMENTS

As at 31 March 1992 capital expenditure amounting to $9.6 million (31 March 1991: $27.4 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 believes that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

In addition to the above, a competitor filed proceedings in August 1991, against Telecom, in connection with a request for a local service interconnection arrangement. The substantive issues are to be heard by the Court commencing in June 1992. The basis of claim is that the Telecom Group, in offering certain terms and conditions of service, is in breach of section 36 of the Commerce Act 1986. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome if this action were to proceed, Telecom cannot ascertain the likelihood of such action being successful or the potential impact any judgement against it might have upon the trend of future net earnings.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,533 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1992, principally under the following agreements:

(i) $466.3 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.

(ii) $542.0 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.

(iii) British Pounds 122.6 million (NZ$388.1 million) under a deed poll dated 12 November 1990.

(iv) $137.0 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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.

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 (approximately 6%) 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. Such expenses represented approximately 16% of total operating expenses.

Outstanding intercompany balances as at 31 March 1992 are:

- Intercompany receivable	$2.2 million
- Intercompany payable and current account	$30.5 million
- Intercompany term liabilities	$303.9 million

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS (Continued)

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the twelve months ended 31 March 1992 was to reduce reported operating revenues by approximately $5.6 million and net earnings by approximately $3.8 million from that which would otherwise have been reported.

With effect from 1 April 1991, a new group company was formed to provide national network and other operational services to the Regional Operating Companies. As a result of this restructuring, certain fixed assets, personnel (and related accrued personnel costs) and services previously associated with the Company were transferred at net book value to the new company. The net book value of the fixed assets transferred amounted to approximately $10.1 million.

14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1992 the principal fellow subsidiaries of the Company were as follows:

-Telecom Auckland Limited
-Telecom Wellington Limited
-Telecom South Limited
-Telecom Networks and Operations Limited
-Telecom New Zealand International Limited (formerly 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
-TCNZ (United Kingdom) Securities Limited
-TCNZ Finance Limited
-TCNZ Financial Services Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-TCNZ Equities Limited (formerly Mokuso Holdings Limited)
-Teleco Insurance, Inc

In-substance subsidiaries

-Netway Communications 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 predominantly in New Zealand and is therefore within one geographical area for reporting purposes.

16 *ACQUIRIED 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 1992, 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, 27 MAY 1992

TELECOM WELLINGTON LIMITED

STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH 1992

	Notes	1992	1991
		$000's	$000's
Operating revenues	15	301,378	328,867
Operating expenses	2	(245,667)	(248,440)
Earnings from operations		55,711	80,427
Investment income	3	17,849	994
Interest expense	3	(42,188)	(20,819)
Earnings before income tax		31,372	60,602
Income tax	4	(980)	(19,931)
Net earnings	15	**30,392**	**40,671**

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 1992

	Notes	1992	1991
		$000's	$000's
ASSETS			
Current assets:			
Cash		1,647	21
Short term investments	6	3,123	3,123
Accounts receivable and prepaid expenses	5	58,231	76,992
Inventories		12,259	16,820
Prepaid income tax	4	2,993	794
Total current assets		78,253	97,750
Future tax benefit	4	7,877	5,780
Investments	7	226,120	54,000
Other assets	8	1,972	-
Fixed assets	9	420,217	432,614
Total assets		**734,439**	**590,144**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		-	1,635
Accounts payable and accruals	10	55,032	93,646
Total current liabilities		55,032	95,281
Long term debt	11	361,695	139,575
Total liabilities		416,727	234,856
Commitments and contingent liabilities	13,14		
Shareholders' equity:	12		
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 17,154 shares		17	22
Share premium reserve		171,523	216,318
Capital redemption reserve		4	-
Retained earnings		53,454	46,234
Total shareholders' equity		317,712	355,288
Total liabilities and shareholders' equity		**734,439**	**590,144**

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

On behalf of the Board

G A HODDINOTT *D M LOCKE*

DIRECTOR *DIRECTOR*

WELLINGTON, 27 MAY 1992

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, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. 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.

In July 1991, to satisfy partially this obligation, Ameritech and Bell Atlantic sold 724.5 million shares in Telecom (representing approximately 31% of the then outstanding share capital) to the public and institutions in a worldwide offering.

At 31 March 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

The Crown holds, and will continue to hold, one 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.

TELECOM WELLINGTON LIMITED

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 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.

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.

TELECOM WELLINGTON 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.

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.

TELECOM WELLINGTON LIMITED

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 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 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.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

RECLASSIFICATIONS

Certain reclassifications of prior years' data have been made to conform to 1992 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

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

2 *OPERATING EXPENSES*

	1992	1991
	$000's	$000's
	245,667	**248,440**
Included in operating expenses are:		
- Depreciation	56,113	50,271
- Audit fees	200	190
- Intercompany management fee	12,532	12,510
- Lease and rental costs	11,863	13,301

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1992	1991
	$000's	$000's
Interest income:		
- Intercompany	2,045	125
- Other	596	-
	2,641	125
Dividend income from fellow subsidiary company	15,208	869
Total investment income	**17,849**	**994**
Interest expense:		
- Intercompany	**42,188**	**20,819**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	1992	1991
	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	31,372	60,602
Tax at current rate of 33%	10,353	19,999
Adjustment for permanent differences:		
Dividends received	(5,019)	(287)
Group tax loss offset	(3,221)	-
Other	(1,133)	219
Total income tax expense	**980**	**19,931**
The income tax expense is represented by:		
-Current taxation	2,926	16,268
-Deferred taxation	(1,946)	3,663
	980	19,931

The balance sheet provisions are:

	1992	1991
	$000's	$000's
Current taxation:		
-Balance at beginning of year	794	10,366
-Total taxation in the current year	(2,926)	(16,268)
-Tax paid	4,529	6,696
-Other	596	-
Prepaid income tax	**2,993**	**794**
Deferred taxation:		
-Balance at beginning of year	5,780	11,009
-Provided in the current year	1,946	(3,663)
-Other	151	(1,566)
Future tax benefit	**7,877**	**5,780**

A deferred tax asset of $0.4 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	1992	1991
	$000's	$000's
Accounts receivable, net	24,990	51,709
Unbilled rentals and tolls	18,636	13,498
Due from fellow subsidiary companies	2,141	10,846
Due from parent company	11,744	-
Prepaid expenses and other	720	939
	58,231	**76,992**

6 *SHORT TERM INVESTMENTS*

	1992	1991
	$000's	$000's
Redeemable preference units	3,123	3,123
	3,123	**3,123**

7 *INVESTMENTS*

	1992	1991
	$000's	$000's
Redeemable preference shares:		
- Fellow subsidiary companies	215,520	54,000
Redeemable preference units	10,600	-
	226,120	**54,000**

8 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $1.1 million incurred in relation to the installation of major computer systems. 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 1992 amounted to $0.5 million.

At 31 March 1992, other assets include $0.9 million, being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

The shares, which were purchased at the initial public offering price of $2 each, are held in trust for the employee for a restrictive period of three years, during which time voting rights will be exercised by the Trustee in its discretion.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *FIXED ASSETS*

	1992	1991
	$000's	$000's
Telecommunication equipment:		
- Cost	473,667	448,989
- Accumulated depreciation	(209,263)	(173,361)
	264,404	275,628
Capital work in progress	16,964	12,187
Land	41,903	41,896
Buildings:		
- Cost	64,054	63,520
- Accumulated depreciation	(8,993)	(5,930)
	55,061	57,590
Other fixed assets:		
- Cost	70,332	68,560
- Accumulated depreciation	(28,447)	(23,247)
	41,885	45,313
Total cost	**666,920**	**635,152**
Total accumulated depreciation	**(246,703)**	**(202,538)**
Total net book value	**420,217**	**432,614**

Included in telecommunications equipment at 31 March 1992 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $101.0 million and $99.6 million, together with accumulated depreciation of $79.1 million and $67.5 million.

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 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 substantially all 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, with binding effect, 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 of New Zealand 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.

10 ACCOUNTS PAYABLE AND ACCRUALS

	1992	1991
	$000's	$000's
Trade accounts payable and accruals	11,362	13,915
Accrued personnel costs	9,652	7,205
Rentals billed in advance	3,417	5,369
Payable to fellow subsidiary companies	30,601	7,527
Payable to parent company	-	59,630
	55,032	**93,646**

11 LONG TERM DEBT

	1992	1991
	$000's	$000's
Parent company loan	**361,695**	**139,575**

Interest rates on the parent company loan ranged from 8.15% to 13.62% for the twelve months ended 31 March 1992. The parent company loan has no fixed date for repayment.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1992	1991
	$000's	$000's
Balance at beginning of year	216,318	216,318
(consisting of a premium of $9,999 on 21,634 redeemable preference shares)		
Movements during year		
-Premium of $9,999 on 4,480 redeemable preference shares	(44,795)	-
	171,523	**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.

CAPTIAL REDEMPTION RESERVE

	1992	1991
	$000's	$000's
Balance at beginning of year	-	-
Movements during year		
-Transfer from retained earnings	4	-
	4	**-**

RETAINED EARNINGS

	1992	1991
	$000's	$000's
Balance at beginning of year	46,234	19,155
Net earnings	30,392	40,671
	76,626	59,826
Transfer to capital redemption reserve	(4)	-
Dividends	(23,168)	(13,592)
Balance at end of year	**53,454**	**46,234**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 SHAREHOLDERS' EQUITY (Continued)

DIVIDENDS

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

	1992	1991
	$000's	$000's
Interim dividends	23,168	13,592
Final dividend	-	-
	23,168	13,592

13 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	9.4
Payable within 1-2 years	8.9
Payable within 2-3 years	8.7
Payable within 3-4 years	8.2
Payable within 4-5 years	8.0
Payable thereafter	27.5
	$70.7

CAPITAL COMMITMENTS

As at 31 March 1992 capital expenditure amounting to $1.7 million (31 March 1991: $14.6 million) has been committed under contractual arrangements.

14 CONTINGENT LIABILITIES

LAND CLAIMS

As stated in Note 9, 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 believes that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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14 CONTINGENT LIABILITIES (Continued)

In addition to the above, a competitor filed proceedings, in August 1991, against Telecom, including Telecom Wellington, in connection with a request for a local service interconnection arrangement. The substantive issues are to be heard by the Court commencing in June 1992. The basis of claim is that the Telecom Group, in offering certain terms and conditions of service, is in breach of section 36 of the Commerce Act 1986. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome if this action were to proceed, Telecom cannot ascertain the likelihood of such action being successful or the potential impact any judgement against it might have upon the trend of future net earnings.

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,533 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1992, principally under the following agreements:

(i) $466.3 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.

(ii) $542.0 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.

(iii) British pounds 122.6 million (NZ$388.1 million) under a deed poll dated 12 November 1990.

(iv) $137.0 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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.

15 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 (approximately 7%) 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. Such expenses represented approximately 21% of total operating expenses.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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15 RELATED PARTY TRANSACTIONS (Continued)
Outstanding intercompany balances as at 31 March 1992 are:

- Intercompany receivable and current account	$13.9 million
- Intercompany payable	$30.6 million
- Intercompany term liabilities	$361.7 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.

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP
With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the twelve months ended 31 March 1992 was to reduce reported operating revenues by approximately $12.5 million and net earnings by approximately $8.4 million from that which would otherwise have been reported.

With effect from 1 April 1991, a new group company was formed to provide national network and other operational services to the Regional Operating Companies. As a result of this restructuring, certain fixed assets, personnel (and related accrued personnel costs) and services previously associated with the Company were transferred at net book value to the new company. The net book value of the fixed assets transferred amounted to approximately $4.1 million.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

16 FELLOW SUBSIDIARY COMPANIES

At 31 March 1992 the principal fellow subsidiaries of the Company were as follows:

-Telecom Auckland Limited
-Telecom Central Limited
-Telecom South Limited
-Telecom Networks and Operations Limited
-Telecom New Zealand International Limited (formerly 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
-TCNZ (United Kingdom) Securities Limited
-TCNZ Finance Limited
-TCNZ Financial Services Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-TCNZ Equities Limited (formerly Mokuso Holdings Limited)
-Teleco Insurance, Inc

In-substance subsidiaries

-Netway Communications Limited

17 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 predominantly in New Zealand and is therefore within one geographical area for reporting purposes.

AUDITORS' REPORT

REPORT OF THE AUDITORS
TO THE MEMBERS OF TELECOM WELLINGTON LIMITED

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 31 March 1992 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, 27 MAY 1992

TELECOM SOUTH LIMITED

STATEMENT OF EARNINGS

FOR THE YEAR ENDED 31 MARCH 1992

	Notes	1992	1991
		$000's	$000's
Operating revenues	13	449,827	436,366
Operating expenses	2	(330,065)	(328,719)
Earnings from operations		119,762	107,647
Investment income	3	1,557	174
Interest expense	3	(30,938)	(32,540)
Earnings before income tax		90,381	75,281
Income tax	4	(29,855)	(25,057)
Net earnings	13	**60,526**	**50,224**

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 1992

	Notes	1992	1991
		$000's	$000's
ASSETS			
Current assets:			
Cash		855	2,519
Accounts receivable and prepaid expenses	5	62,855	58,533
Inventories		15,319	23,339
Prepaid income tax	4	-	1,780
Total current assets		79,029	86,171
Investment in fellow subsidiary company		1,780	-
Other assets	6	5,916	6,213
Fixed assets	7	878,567	875,679
Total assets		**965,292**	**968,063**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		-	4,963
Debt due within one year	9	4,719	-
Taxation payable	4	3,296	-
Accounts payable and accruals	8	62,565	110,749
Total current liabilities		70,580	115,712
Deferred income tax	4	9,630	5,651
Long term debt	9	289,560	244,881
Total liabilities		369,770	366,244
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 37,997 shares		38	40
Share premium reserve		379,932	399,930
Capital redemption reserve		2	-
Retained earnings		44,139	30,438
Total shareholders' equity		595,522	601,819
Total liabilities and shareholders' equity		**965,292**	**968,063**

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

On behalf of the Board

R B ASH
DIRECTOR

S R SMITH
DIRECTOR

CHRISTCHURCH, 27 MAY 1992

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, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. 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.

In July 1991, to satisfy partially this obligation, Ameritech and Bell Atlantic sold 724.5 million shares in Telecom (representing approximately 31% of the then outstanding share capital) to the public and institutions in a worldwide offering.

At 31 March 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

The Crown holds, and will continue to hold, one 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)

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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 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 both operating and finance leases. Expenses relating to operating leases are charged against earnings as incurred. Finance leases, which effectively transfer to the entity substantially all the risks and benefits of ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are amortised over the period the entity is expected to benefit from their use.

No material finance leases have been entered into as lessor.

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 within accrued personnel costs.

TELECOM SOUTH 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 1992 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)

2 *OPERATING EXPENSES*

	1992	1991
	$000's	$000's
	330,065	**328,719**
Included in operating expenses are:		
- Depreciation	105,767	101,303
- Audit fees	200	190
- Intercompany management fee	17,148	15,431
- Lease and rental costs	4,316	5,849

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1992	1991
	$000's	$000's
Interest income:		
- Intercompany	1,097	174
- Other	460	-
	1,557	**174**
Interest expense:		
- Intercompany (including finance lease charges)	37,558	35,898
- Other	(14)	(10)
	37,544	35,888
- Less interest capitalised	(6,606)	(3,348)
	30,938	**32,540**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1992	1991
	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	90,381	75,281
Tax at current rate of 33%	29,826	24,843
Adjustment for permanent differences	29	214
Total income tax expense	**29,855**	**25,057**
The income tax expense is represented by:		
-Current taxation	24,159	15,940
-Deferred taxation	5,696	9,117
	29,855	25,057

The balance sheet provisions are:

	1992	1991
	$000's	$000's
Current taxation:		
-Balance at beginning of year	1,780	3,095
-Total taxation in the current year	(24,159)	(15,940)
-Tax paid	20,403	14,625
-Other	(1,320)	-
Prepaid income tax/(Taxation payable)	**(3,296)**	**1,780**
Deferred taxation:		
-Balance at beginning of year	5,651	3,891
-Provided in the current year	5,696	9,117
-Other	(1,717)	(7,357)
Deferred income tax	**9,630**	**5,651**

A deferred tax asset of $1.3 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	1992	1991
	$000's	$000's
Accounts receivable, net	29,179	37,672
Unbilled rentals and tolls	18,885	16,825
Due from fellow subsidiary companies	9,686	3,130
Due from parent company	3,910	-
Prepaid expenses and other	1,195	906
	62,855	**58,533**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $4.3 million (31 March 1991: $6.2 million) incurred in relation to the installation of major computer systems. 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 1992 amounted to $4.2 million (31 March 1991 $1.5 million).

In addition, at 31 March 1992, other assets include $1.6 million, being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

The shares, which were purchased at the initial public offering price of $2 each, are held in trust for the employee for a restrictive period of three years, during which time voting rights will be exercised by the Trustee in its discretion.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS*

	1992	1991
	$000's	$000's
Telecommunication equipment:		
- Cost	1,003,223	923,002
- Accumulated depreciation	(343,180)	(294,485)
	660,043	628,517
Capital work in progress	37,056	96,231
Land	35,186	38,055
Buildings:		
- Cost	91,595	69,533
- Accumulated depreciation	(10,004)	(10,915)
	81,591	58,618
Other fixed assets:		
- Cost	112,785	92,483
- Accumulated depreciation	(48,094)	(38,225)
	64,691	54,258
Total cost	**1,279,845**	**1,219,304**
Total accumulated depreciation	**(401,278)**	**(343,625)**
Total net book value	**878,567**	**875,679**

Included in telecommunications equipment, at 31 March 1992 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $117.6 million and $117.1 million, together with accumulated depreciation of $97.2 million and $78.3 million.

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

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 31 March 1992, assets capitalised under finance leases associated with this transaction had a cost of $49.1 million and accumulated depreciation of $3.4 million.

REGISTRATION OF TITLE TO LAND

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

TELECOM SOUTH 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, with binding effect, 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 of New Zealand 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.

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	1992	1991
	$000's	$000's
Trade accounts payable and accruals	24,850	32,784
Accrued personnel costs	11,402	13,795
Rentals billed in advance	6,751	7,255
Payable to fellow subsidiary companies	19,562	6,597
Payable to parent company	-	50,318
	62,565	**110,749**

9 *LONG TERM DEBT*

	1992	1991
	$000's	$000's
Parent company loan	246,661	244,881
Other loans		
-Due to fellow group company	47,618	-
-Less long term debt maturing within one year	(4,719)	-
	42,899	-
	289,560	**244,881**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT (Continued)*

Interest rates on the parent company loan ranged from 12.93% to 13.62% for the twelve months ended 31 March 1992. The parent company loan has no fixed date for repayment.

	1992	1991
	$000's	$000's
SCHEDULE OF MATURITIES - Other loans		
Due 1 to 2 years	5,363	-
Due 2 to 3 years	37,536	-
Total due after one year	42,899	-

Other loans are for the finance lease obligations of telecommunication equipment, with interest and principal paid quarterly at 12.9% p.a.

10 *SHAREHOLDERS' EQUITY*

SHARE PREMIUM RESERVE

	1992	1991
Balance at beginning of year	399,930	399,930
(consisting of a premium of $9,999 on 39,997 redeemable preference shares)		
Movements during year		
-Premium of $9,999 on 2,000 redeemable preference shares	(19,998)	-
	379,932	**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.

CAPITAL REDEMPTION RESERVE

	1992	1991
	$000's	$000's
Balance at beginning of year	-	-
Movements during year		
-Transfer from retained earnings	2	-
	2	-

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY (Continued)
RETAINED EARNINGS

	1992	1991
	$000's	$000's
Balance at beginning of year	30,438	7,903
Net earnings	60,526	50,224
	90,964	58,127
Transfer to capital redemption reserve	(2)	-
Dividends	(46,823)	(27,689)
Balance at end of year	**44,139**	**30,438**

DIVIDENDS

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

	1992	1991
	$000's	$000's
Interim dividends	46,823	27,689
Final dividend	-	-
	46,823	27,689

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	2.8
Payable within 1-2 years	2.1
Payable within 2-3 years	1.5
Payable within 3-4 years	1.3
Payable within 4-5 years	0.8
Payable thereafter	4.3
	$12.8

CAPITAL COMMITMENTS

As at 31 March 1992 capital expenditure amounting to $21.8 million (31 March 1991: $32.4 million) has been committed under contractual arrangements.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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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 believes that in the event of an unfavourable outcome, such matters will not have a material adverse effect upon the Company's financial position.

In addition to the above, a competitor filed proceedings in August 1991, against Telecom, in connection with a request for a local service interconnection arrangement. The substantive issues are to be heard by the Court commencing in June 1992. The basis of claim is that the Telecom Group, in offering certain terms and conditions of service, is in breach of section 36 of the Commerce Act 1986. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome if this action were to proceed, Telecom cannot ascertain the likelihood of such action being successful or the potential impact any judgement against it might have upon the trend of future net earnings.

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,533 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1992, principally under the following agreements:

(i) $466.3 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.

(ii) $542.0 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.

(iii) British pounds 122.6 million (NZ$388.1 million) under a deed poll dated 12 November 1990.

(iv) $137.0 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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)

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 (approximately 8%) 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. Such expenses represented approximately 18% of total operating expenses.

Outstanding intercompany balances as at 31 March 1992 are:

- Intercompany receivable and current account	$13.6 million
- Intercompany payable	$19.6 million
- Intercompany term liabilities	$294.3 million

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

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the twelve months ended 31 March 1992 was to reduce reported operating revenues by approximately $7.3 million and net earnings by approximately $4.9 million from that which would otherwise have been reported.

With effect from 1 April 1991, a new group company was formed to provide national network and other operational services to the Regional Operating Companies. As a result of this restructuring, certain fixed assets, personnel (and related accrued personnel costs) and services previously associated with the Company were transferred at net book value to the new company. The net book value of the fixed assets transferred amounted to approximately $12.1 million.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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14 FELLOW SUBSIDIARY COMPANIES

At 31 March 1992 the principal fellow subsidiaries of the Company were as follows:

-Telecom Auckland Limited
-Telecom Central Limited
-Telecom Wellington Limited
-Telecom Networks and Operations Limited
-Telecom New Zealand International Limited (formerly 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
-TCNZ (United Kingdom) Securities Limited
-TCNZ Finance Limited
-TCNZ Financial Services Limited
-Telecom Wellington Investments Limited
-Telecom Operations Limited
-TCNZ Equities Limited (formerly Mokuso Holdings Limited)
-Teleco Insurance, Inc

In-substance subsidiaries

-Netway Communications Limited

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 predominantly 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 1992 and of the earnings for the year ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

CHRISTCHURCH, 27 MAY 1992

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