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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 1993 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 principal office of the Corporation and its subsidiaries:

Telecom House
13-27 Manners Street
PO Box 570
Wellington

TELECOM AUCKLAND LIMITED

STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1993	1992
		$000's	$000's
Operating revenues		577,524	584,051
Operating expenses	2		
Abnormal redundancy and restructuring costs		(164,619)	(21,787)
Other operating expenses		(455,870)	(463,130)
Total operating expenses		(620,489)	(484,917)
Earnings/(loss) from operations		(42,965)	99,134
Investment income	3	489	3,798
Interest expense	3	(45,728)	(53,531)
Earnings/(loss) before income tax		(88,204)	49,401
Income tax credit/(expense)	4	25,383	(11,259)
Net earnings/(loss)		**(62,821)**	**38,142**

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

TELECOM AUCKLAND LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1993	1992
		$000's	$000's
ASSETS			
Current assets:			
Cash		5,794	2,746
Accounts receivable and prepaid expenses	5	141,131	100,804
Inventories		19,251	29,859
Prepaid income tax	4	4,978	23,435
Total current assets		171,154	156,844
Future tax benefit	4	35,976	-
Investment in fellow subsidiary company		1,300	1,600
Other assets	6	3,118	5,839
Fixed assets	7	1,016,733	1,082,880
Total assets		**1,228,281**	**1,247,163**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		17,817	2,370
Debt due within one year	10	7,157	6,075
Accounts payable and accruals	9	89,875	131,431
Provision for restructuring costs	8	130,739	-
Total current liabilities		245,588	139,876
Deferred income tax	4	-	9,076
Long term debt	10	346,026	353,703
Total liabilities		591,614	502,655
Commitments and contingent liabilities	12,13		
Shareholders' equity:	11		
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 47,466 shares		47	50
Share premium reserve		474,613	504,610
Capital redemption reserve		3	-
Retained earnings/(accumulated deficit)		(37,142)	40,702
Total shareholders' equity		636,667	744,508
Total liabilities and shareholders' equity		**1,228,281**	**1,247,163**

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

On behalf of the Board

MARTIN WYLIE *JEFF WHITE*

DIRECTOR *DIRECTOR*

WELLINGTON, 13 MAY 1993

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 *STATEMENT OF ACCOUNTING POLICIES*

(a) *CONSTITUTION, OWNERSHIP AND ACTIVITIES*

Telecom Auckland Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom"). Telecom and its subsidiaries 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"), which then agreed to sell a combined 10% interest to companies, controlled by two New Zealand companies, Freightways Holdings Limited and Midavia Holdings Limited, 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 1994 (following the granting of a one year extension).

At 31 March 1993, following a joint worldwide offering in July 1991 and a further sale by Bell Atlantic in March 1993, Ameritech and Bell Atlantic held 34.18% and 29.56% of the outstanding share capital, respectively.

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.

(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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

(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 exchange difference on the hedging transaction up to the date of purchase and all costs associated with the hedging transaction are capitalised.

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 together with 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. No material finance leases have been entered into as lessor.

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 and are amortised over the period the entity is expected to benefit from their use.

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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

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 with the Crown. 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 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 crystalise within the foreseeable future.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing 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 prevailing at financial year-end. 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 1993 classifications.

(d) *CHANGES IN ACCOUNTING POLICIES*

There have been no material changes in accounting policies during the year. All significant accounting policies have been applied on a consistent basis.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 OPERATING EXPENSES

OTHER OPERATING EXPENSES

	1993	1992
	$000's	$000's
Other operating expenses	**455,870**	**463,130**
Included in other operating expenses are:		
- Depreciation	129,965	125,435
- Audit fees	216	200
- Intercompany management fee	26,259	22,787
- Foreign exchange gains	-	5
- Lease and rental costs	15,123	16,265

ABNORMAL REDUNDANCY AND RESTRUCTURING COSTS

A strategic restructuring of Telecom was announced towards the end of the financial year, aimed at rationalising the company structure, substantially improving service quality and reducing operating costs. For Telecom Auckland it is estimated that the cost of implementing this restructuring, which will take up to four years, is $157 million. This has been charged against earnings for the year ended 31 March 1993 as an abnormal restructuring cost. The estimate includes $77 million of employee redundancy costs associated with workforce reductions, with the balance related to the consolidation of both owned and leased premises, asset writedowns and costs incidental to the restructuring process.

Redundancy costs incurred in the first six months, prior to the announcement of the strategic restructuring, were included in the interim financial statements as normal operating costs, consistent with the treatment in prior years. These costs, along with redundancy costs incurred in the third quarter, have now been aggregated with the costs of the strategic restructuring and are reported as an abnormal charge amounting to approximately $164.6 million ($114.3 million after tax).

For comparative purposes, redundancy costs of approximately $21.8 million for the year ended 31 March 1992, previously reported as a normal operating cost, have been reclassified as an abnormal charge.

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1993	1992
	$000's	$000's
Interest income:		
- Intercompany	-	141
- Other	489	3,657
Total investment income	**489**	**3,798**
Interest expense:		
- Intercompany (including finance lease charges)	45,693	53,661
- Other	35	33
	45,728	53,694
- Less interest capitalised	-	(163)
Total interest expense	**45,728**	**53,531**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1993	1992
	$000's	$000's
The income tax (credit)/expense for the period is determined as follows:		
Earnings/(loss) before income tax	(88,204)	49,401
Tax at current rate of 33%	(29,107)	16,302
Adjustment for permanent differences	3,724	(5,043)
Total income tax (credit)/expense	**(25,383)**	**11,259**
The income tax (credit)/expense is represented by:		
-Current taxation	19,669	2,932
-Deferred taxation	(45,052)	8,327
	(25,383)	11,259

Income tax attributable to the abnormal redundancy and restructuring costs amounts to a credit of $50.3 million in the year ended 31 March 1993. This consists of a credit of $54.3 million (being tax at the rate of 33% on the gross abnormal charge of $164.6 million) less permanent differences of $4.0 million, which are principally related to the costs associated with the rationalisation of properties.

The balance sheet provisions are:

	1993	1992
	$000's	$000's
Current taxation:		
-Balance at beginning of period	23,435	19,800
-Total taxation in the current period	(19,669)	(2,932)
-Tax paid	-	4,176
-Other	1,212	2,391
Prepaid income tax	**4,978**	**23,435**
Deferred taxation:		
-Balance at beginning of period	(9,076)	(2,100)
-Provided in the current period	45,052	(8,327)
-Other	-	1,351
Future tax benefit/(Deferred income tax)	**35,976**	**(9,076)**

A deferred tax liability at 31 March 1993 of $0.4 million (1992: $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*

	1993	1992
	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $3.5 million, (1992: $4.8 million)	52,648	60,720
Unbilled rentals and tolls	49,243	34,100
Due from fellow subsidiary companies	747	4,948
Due from parent company	31,717	-
Prepaid expenses and other	6,776	1,036
	141,131	**100,804**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $2.0 million (1992: $3.6 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 1993 amounted to $2.4 million (1992: $3.4 million).

In addition, at 31 March 1993, other assets include $1.1 million (1992: $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*

	1993	1992
	$000's	$000's
Telecommunication equipment:		
- Cost	1,259,587	1,168,661
- Accumulated depreciation	(510,574)	(409,281)
	749,013	759,380
Capital work in progress	33,747	65,821
Land	53,223	57,405
Buildings:		
- Cost	151,511	137,366
- Accumulated depreciation	(24,626)	(14,382)
	126,885	122,984
Other fixed assets:		
- Cost	109,356	132,023
- Accumulated depreciation	(55,491)	(54,733)
	53,865	77,290
Total cost	**1,607,424**	**1,561,276**
Total accumulated depreciation	**(590,691)**	**(478,396)**
Total net book value	**1,016,733**	**1,082,880**

At 31 March 1993 the net book value of freehold land and buildings exceeded the aggregate of the latest available government valuations, together with the cost of subsequent additions (excluding properties designated for disposal). Telecom Auckland's properties consist primarily of special purpose network buildings. The economic value to Telecom Auckland of these network buildings is not fully reflected in government valuations.

Included in telecommunications equipment, at 31 March 1993, and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $199.6 million and $191.2 million, together with accumulated depreciation of $158.7 million and $140.1 million.

During the year ended 31 March 1993, there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the years ended 31 March 1992 and 31 March 1993, the Company entered into the sale and leaseback of telecommunications equipment with a fellow group company and a third party respectively. At 31 March 1993, assets capitalised under finance leases associated with these transactions had a cost of $86.1 million (1992: $75.8 million) and accumulated depreciation of $13.9 million (1992: $5.1 million).

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (Continued)*

LAND CLAIMS

Under the Treaty of Waitangi Act 1975, all interests in land included in the assets purchased from the Crown may be subject to claims to the Waitangi Tribunal, which has the power to recommend in appropriate circumstances, 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, 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) may 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 *PROVISION FOR RESTRUCTURING COSTS*

	1993	1992
	$000's	$000's
Balance at beginning of year	-	-
Additions charged against earnings in year (Note 2)	157,216	-
Utilised in year	(26,477)	-
Balance at end of year	**130,739**	-

The amount utilised in the year ended 31 March 1993 includes redundancy costs of approximately $5.5 million (incurred in the fourth quarter) and property and asset writedowns of approximately $21.0 million.

9 *ACCOUNTS PAYABLE AND ACCRUALS*

	1993	1992
	$000's	$000's
Trade accounts payable and accruals	13,574	21,602
Accrued personnel costs	11,983	16,830
Rentals billed in advance	12,500	13,123
Payable to fellow subsidiary companies	51,818	65,614
Payable to parent company	-	14,262
	89,875	**131,431**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 LONG TERM DEBT

	1993	1992
	$000's	$000's
Parent company loan	285,791	286,091
Other loans		
- Due to fellow group company	67,257	73,532
- Other	135	155
	67,392	73,687
- Less long term debt maturing within one year	(7,157)	(6,075)
	60,235	67,612
	346,026	**353,703**

Interest rates on the parent company loan ranged from 11.97% to 12.77% for the year ended 31 March 1993. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	60,157	7,377
Due 2 to 3 years	38	60,157
Due 3 to 4 years	40	38
Due 4 to 5 years	-	40
Total due after one year	60,235	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 an average interest rate for the period of 12.5% p.a.

LEASE LIABILITY

During the year ended 31 March 1993 Telecom Auckland entered into a sale and leaseback of fixed assets. The future rental obligations have been legally defeased, and the liability thus extinguished, by the payment of $10.6 million in cash to a third party in return for which that third party has assumed responsibility for repayment of the lease liability.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1993	1992
	$000's	$000's
Balance at beginning of year	504,610	464,614
(Consisting of a premium of $9,999 on 50,466 redeemable preference shares)		
Movements during the year		
-Premium of $9,999 on 3,000 redeemable preference shares	(29,997)	-
-Premium of $9,999 on 4,000 redeemable preference shares	-	39,996
	474,613	**504,610**

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

	1993	1992
	$000's	$000's
Balance at beginning of year	-	-
Movements during year		
-Transfer from retained earnings	3	-
	3	**-**

RETAINED EARNINGS/(ACCUMULATED DEFICIT)

	1993	1992
	$000's	$000's
Balance at beginning of year	40,702	31,748
Transfer to capital redemption reserve	(3)	-
Dividends	(15,020)	(29,188)
Net earnings/(loss)	(62,821)	38,142
	(37,142)	**40,702**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 SHAREHOLDERS' EQUITY (Continued)

DIVIDENDS

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

	1993	1992
	$000's	$000's
Interim dividends	15,020	29,188
Final dividend	-	-
	15,020	29,188

12 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1993 for all non-cancellable operating leases (excluding amounts provided for in respect of restructuring) are (in millions):

Payable within 1 year	4.8
Payable within 1-2 years	4.8
Payable within 2-3 years	4.8
Payable within 3-4 years	4.7
Payable within 4-5 years	4.9
Payable thereafter	8.4
	$32.4

CAPITAL COMMITMENTS

As at 31 March 1993 capital expenditure amounting to $12.7 million (1992: $15.9 million) has been committed under contractual arrangements.

13 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 transferred 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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 CONTINGENT LIABILITIES (Continued)

LAWSUITS AND OTHER CLAIMS

As previously disclosed, a competitor had filed proceedings against Telecom, including Telecom Auckland, in connection with a request for a local service interconnection arrangement. The basis of claim was that Telecom, in offering certain terms and conditions of service including a proposed access levy to be paid by the competing operator, was in breach of Section 36 of the Commerce Act 1986. Substantive hearings in the suit were completed in October 1992 and judgement was given in December 1992. The High Court of New Zealand held that Telecom is entitled to charge an access levy, and recover from competing operators, a contribution to the residential cross-subsidy. The High Court also accepted that the cost of operating the residential telecommunications service in New Zealand is currently being subsidised by revenue from national calls and business customers. Finally, while the High Court found Telecom to be in breach of Section 36 of the Commerce Act in respect of some aspects of its offer to the competing operator, damages were not quantified. The Court suggested that Telecom and the competing operator should address the question of damages as part of continuing negotiations. On 5th February 1993 the competing operator filed with the Court of Appeal an appeal against the decision of the High Court, with the date for hearing of the appeal set for August 1993. In the light of the competing operator's appeal, Telecom is also cross-appealing the finding of breach of Section 36 of the Commerce Act. Telecom is unable to assess the likely outcome of these appeals.

The same competitor has commenced an arbitration against Telecom in respect of non-code access. The competitor is claiming damages for alleged misrepresentation and delay in provision of non-code access. The likelihood of the competitor succeeding in its claim or the amount of damages is at present not possible to assess. Telecom vigorously denies these claims.

This same competitor has also threatened or commenced a number of other pieces of litigation and/or arbitrations against Telecom. Telecom vigorously denies these claims.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,263 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1993, together with, in each case, interest thereon, principally under the following agreements:

(i) $436.8 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) $367 million under a trust deed made as of 20 September 1989 and 3 April 1992 and subsequent 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 120.5 million (NZ$336.6 million) under a deed poll dated 12 November 1990.

(iv) $122.2 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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 CONTINGENT LIABILITIES (Continued)

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.

14 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 11.7%) 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 17.6% of total operating expenses.

Outstanding intercompany balances as at 31 March 1993 are:

- Intercompany receivable	$32.5 million
- Intercompany payable and current account	$51.8 million
- Intercompany term liabilities	$353.0 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.

15 FELLOW SUBSIDIARY COMPANIES

At 31 March 1993 the principal fellow subsidiaries were as follows:

Telecom Central Limited
Telecom Wellington Limited
Telecom South Limited
Telecom Networks and Operations Limited
Telecom New Zealand 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
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
Teleco Insurance, Inc
Telecom Purchasing Limited
Jetstream Technology Limited
Netway Communications Limited

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

16 *SEGMENTAL REPORTING*

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

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

17 *SUBSEQUENT EVENTS*

As part of the strategic restructuring of Telecom, Telecom New Zealand Limited (formerly Telecom Wellington Limited) acquired the business and assets of Telecom Auckland Limited, at net book value, with effect from 1 April 1993.

Telecom New Zealand Limited now provides telecommunications services in the area previously serviced by Telecom Auckland Limited.

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 1993 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, 13 May 1993

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1993	1992
		$000's	$000's
Operating revenues		511,598	514,064
Operating expenses	2		
Abnormal redundancy and restructuring costs		(94,359)	(13,048)
Other		(329,272)	(346,373)
Total operating expenses		(423,631)	(359,421)
Earnings from operations		87,967	154,643
Investment income	3	2,980	1,594
Interest expense	3	(36,641)	(41,854)
Earnings before income tax		54,306	114,383
Income tax	4	(14,401)	(38,205)
Net earnings		**39,905**	**76,178**

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Notes	1993	1992
		$000's	$000's
ASSETS			
Current assets:			
Cash		587	1,268
Accounts receivable and prepaid expenses	5	134,861	68,257
Inventories		8,217	13,080
Total current assets		143,665	82,605
Future tax benefit	4	11,805	-
Investment in fellow subsidiary company		840	1,180
Other assets	6	4,157	6,823
Fixed assets	7	850,207	877,758
Total assets		**1,010,674**	**968,366**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Debt due within one year	10	5,035	4,805
Taxation payable	4	2,275	6,450
Accounts payable and accruals	9	48,409	70,253
Provision for restructuring costs	8	73,756	-
Proposed dividend		32,211	-
Total current liabilities		161,686	81,508
Deferred income tax	4	-	6,418
Long term debt	10	294,634	300,010
Total liabilities		456,320	387,936
Commitments and contingent liabilities	12,13		
Shareholders' equity:	11		
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 45,560 shares		46	46
Share premium reserve		455,554	459,054
Retained earnings		10,298	32,874
Total shareholders' equity		554,354	580,430
Total liabilities and shareholders' equity		**1,010,674**	**968,366**

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

On behalf of the Board

MARTIN WYLIE *JEFF WHITE*
DIRECTOR *DIRECTOR*

WELLINGTON, 13 May 1993

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"). Telecom and its subsidiaries 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"), which then agreed to sell a combined 10% interest to companies, controlled by two New Zealand companies, Freightways Holdings Limited and Midavia Holdings Limited, 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 1994 (following the granting of a one year extension).

At 31 March 1993, following a joint worldwide offering in July 1991 and a further sale by Bell Atlantic in March 1993, Ameritech and Bell Atlantic held 34.18% and 29.56% of the outstanding share capital, respectively.

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.

(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.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

(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 exchange difference on the hedging transaction up to the date of purchase and all costs associated with the hedging transaction are capitalised.

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 together with 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. No material finance leases have been entered into as lessor.

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, and are amortised over the period the entity is expected to benefit from their use.

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.

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.

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 with the Crown. 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 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 crystalise within the foreseeable future.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing 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 prevailing at financial year-end. 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 1993 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the year. All significant accounting policies have been applied on a consistent basis.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

OTHER OPERATING EXPENSES

	1993	1992
	$000's	$000's
Other operating expenses	**329,272**	**346,373**
Included in other operating expenses are:		
- Depreciation	100,282	109,754
- Audit fees	229	200
- Intercompany management fee	23,730	18,816
- Foreign exchange gains	-	(27)
- Lease and rental costs	5,161	5,495

ABNORMAL REDUNDANCY AND RESTRUCTURING COSTS

A strategic restructuring of Telecom was announced towards the end of the financial year, aimed at rationalising the company structure, substantially improving service quality and reducing operating costs. For Telecom Central it is estimated that the cost of implementing this restructuring, which will take up to four years, is $82 million. This has been charged against earnings for the year ended 31 March 1993 as an abnormal restructuring cost. The estimate includes $59 million for employee redundancy costs associated with workforce reductions, with the balance related to the consolidation of both owned and leased premises, asset writedowns and costs incidental to the restructuring process.

Redundancy costs incurred in the first six months, prior to the announcement of the strategic restructuring, were included in the interim financial statements as normal operating costs, consistent with the treatment in prior years. These costs, along with redundancy costs incurred in the third quarter, have now been aggregated with the costs of the strategic restructuring and are reported as an abnormal charge amounting to approximately $94.4 million ($64.5 million after tax).

For comparative purposes, redundancy costs of approximately $13.0 million for the year ended 31 March 1992, previously reported as a normal operating cost, have been reclassified as an abnormal charge.

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1993	1992
	$000's	$000's
Interest income:		
- Intercompany	2,825	942
- Other	155	652
Total investment income	**2,980**	**1,594**
Interest expense:		
- Intercompany (including finance lease charges)	37,209	41,660
- Other	-	194
	37,209	41,854
Less interest capitalised	(568)	-
Total interest expense	**36,641**	**41,854**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1993 $000's	1992 $000's
The income tax expense for the period is determined as follows:		
Earnings before income tax	54,306	114,383
Tax at current rate of 33%	17,921	37,746
Adjustment for permanent differences:		
-Group tax loss offset	(3,901)	-
-Other	381	459
Total income tax expense	**14,401**	**38,205**

Income tax attributable to the abnormal redundancy and restructuring costs amounts to a credit of $29.9 million in the year ended 31 March 1993. This consists of a credit of $31.2 million (being tax at the rate of 33% on the gross abnormal charge of $94.4 million) less permanent differences of $1.3 million, which are principally related to the costs associated with the rationalisation of properties.

The income tax expense is represented by:		
-Current taxation	32,624	38,736
-Deferred taxation	(18,223)	(531)
	14,401	38,205

The balance sheet provisions are:

	1993 $000's	1992 $000's
Current taxation:		
-Balance at beginning of period	(6,450)	6,648
-Total taxation in the current period	(32,624)	(38,736)
-Tax paid	36,392	26,183
-Other	407	(545)
Taxation payable	**(2,275)**	**(6,450)**
Deferred taxation:		
-Balance at beginning of period	(6,418)	(8,419)
-Provided in the current period	18,223	531
-Other	-	1,470
Future tax benefit/(Deferred income tax)	**11,805**	**(6,418)**

A deferred tax asset at 31 March 1993 of $2.4 million (1992: $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*

	1993	1992
	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $4.2 million (1992: $6.2 million)	40,474	48,899
Unbilled rentals and tolls	15,395	16,762
Due from fellow subsidiary companies	2,574	2,230
Due from parent	75,172	-
Prepaid expenses and other	1,246	366
	134,861	**68,257**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $2.5 million (1992: $5.4 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 1993 amounted to $3.8 million (1992: $7.1 million).

In addition, at 31 March 1993, other assets include $0.8 million (1992: $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

	1993	1992
	$000's	$000's
Telecommunication equipment:		
- Cost	1,126,290	1,047,342
- Accumulated depreciation	(455,018)	(373,149)
	671,272	674,193
Capital work in progress	33,178	33,106
Land	15,332	17,520
Buildings:		
- Cost	120,349	107,382
- Accumulated depreciation	(25,555)	(16,688)
	94,794	90,694
Other fixed assets:		
- Cost	81,378	114,670
- Accumulated depreciation	(45,747)	(52,425)
	35,631	62,245
Total cost	**1,376,527**	**1,320,020**
Total accumulated depreciation	**(526,320)**	**(442,262)**
Total net book value	**850,207**	**877,758**

The aggregate of the latest available government valuations, together with the cost of land and buildings subsequently acquired, approximates the net book value of land and buildings.

Included in telecommunications equipment, at 31 March 1993 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $104.0 million and $102.6 million, together with accumulated depreciation of $89.2 million and $87.2 million.

During the year ended 31 March 1993 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the year ended 31 March 1992 and 31 March 1993, the Company entered into the sale and leaseback of telecommunications equipment with a fellow group company and a third party respectively. At 31 March 1993, assets capitalised under finance leases associated with these transactions had a cost of $59.6 million (1992: $50.3 million) and accumulated depreciation of $9.9 million (1992: $3.6 million).

TELECOM CENTRAL LIMITED AND SUBSIDIARY

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), may 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 *PROVISION FOR RESTRUCTURING COSTS*	1993	1992
	$000's	$000's
Balance at beginning of year	-	-
Additions charged against earnings in year (Note 2)	82,314	-
Utilised in year	(8,558)	-
Balance at end of year	**73,756**	**-**

The amount utilised in the year ended 31 March 1993 includes redundancy costs of approximately $1.7 million (incurred in the fourth quarter) and property and asset writedowns of approximately $6.9 million.

9 *ACCOUNTS PAYABLE AND ACCRUALS*	1993	1992
	$000's	$000's
Trade accounts payable and accruals	17,703	18,306
Accrued personnel costs	8,352	11,662
Rentals billed in advance	9,189	9,800
Payable to fellow subsidiary companies	13,165	22,307
Payable to parent company	-	8,178
	48,409	**70,253**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 LONG TERM DEBT

	1993	1992
	$000's	$000's
Parent company loan	254,882	255,223
Other loans		
- Due to fellow group company	44,495	48,668
- Other	292	924
	44,787	49,592
- Less long term debt maturing within one year	(5,035)	(4,805)
	39,752	44,787
	294,634	**300,010**

Interest rates on the parent company loan ranged from 11.97% to 12.77% for year ended 31 March 1993. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

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

Other loans are for the finance lease obligations of office equipment, with average interest and principal paid monthly at 16% p.a., and telecommunication equipment, with an average interest rate for the period of 12.5% p.a.

LEASE LIABILITY

During the year ended 31 March 1993 Telecom Central entered into a sale and leaseback of fixed assets. The future rental obligations have been legally defeased, and the liability thus extinguished, by the payment of $9.9 million in cash to a third party in return for which that third party has assumed responsibility for repayment of the lease liability.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1993	1992
	$000's	$000's
Balance at beginning of year	459,054	419,058
(Consisting of a premium of $9,999 on 45,910 redeemable preference shares)		
Movements during the year		
-Premium of $9,999 on 350 redeemable preference shares	(3,500)	-
-Premium of $9,999 on 4,000 redeemable preference shares	-	39,996
	455,554	**459,054**

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

	1993	1992
	$000's	$000's
Balance at beginning of year	32,874	15,741
Net earnings	39,905	76,178
Dividends	(62,481)	(59,045)
	10,298	**32,874**

DIVIDENDS

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

	1993	1992
	$000's	$000's
Interim dividends	30,270	59,045
Final dividend	32,211	-
	62,481	59,045

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1993 for all non-cancellable operating leases (excluding amount provided for in respect of restructuring) are (in millions):

Payable within 1 year	0.3
Payable within 1-2 years	0.3
Payable within 2-3 years	0.2
Payable within 3-4 years	0.1
Payable within 4-5 years	0.1
Payable thereafter	-
	$1.0

CAPITAL COMMITMENTS

As at 31 March 1993 capital expenditure amounting to $7.1 million (1992: $9.6 million) has been committed under contractual arrangements.

13 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 transferred 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

As previously disclosed, a competitor had filed proceedings against Telecom, in connection with a request for a local service interconnection arrangement. The basis of claim was that Telecom, in offering certain terms and conditions of service including a proposed access levy to be paid by the competing operator, was in breach of Section 36 of the Commerce Act 1986. Substantive hearings in the suit were completed in October 1992 and judgement was given in December 1992. The High Court of New Zealand held that Telecom is entitled to charge an access levy, and recover from competing operators, a contribution to the residential cross-subsidy. The High Court also accepted that the cost of operating the residential telecommunications service in New Zealand is currently being subsidised by revenue from national calls and business customers. Finally, while the High Court found Telecom to be in breach of Section 36 of the Commerce Act in respect of some aspects of its offer to the competing operator, damages were not quantified. The Court suggested that Telecom and the competing operator should address the question of damages as part of continuing negotiations. On 5th February 1993 the competing operator filed with the Court of Appeal an appeal against the decision of the High Court, with the date for hearing of the appeal set for August 1993. In the light of the competing operator's appeal, Telecom is also cross-appealing the finding of breach of Section 36 of the Commerce Act. Telecom is unable to assess the likely outcome of these appeals.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 *CONTINGENT LIABILITIES (Continued)*

The same competitor has commenced an arbitration against Telecom in respect of non-code access. The competitor is claiming damages for alleged misrepresentation and delay in provision of non-code access. The likelihood of the competitor succeeding in its claim or the amount of damages is at present not possible to assess. Telecom vigorously denies these claims.

This same competitor has also threatened or commenced a number of other pieces of litigation and/or arbitrations against Telecom. Telecom vigorously denies these claims.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,263 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1993 together with, in each case, interest thereon, principally under the following agreements:

(i) $436.8 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) $367 million under trust deeds made as of 20 September 1989 and 3 April 1992 and subsequent 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 120.5 million (NZ$336.6 million) under a deed poll dated 12 November 1990.

(iv) $122.2 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.

14 *RELATED PARTY TRANSACTIONS*

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 9.2%) 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 19.6% of total operating expenses.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14 RELATED PARTY TRANSACTIONS

Outstanding intercompany balances as at 31 March 1993 are:

- Intercompany receivable and current account	$77.7 million
- Intercompany payable	$13.2 million
- Intercompany term liabilities	$299.4 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.

15 FELLOW SUBSIDIARY COMPANIES

At 31 March 1993 the principal fellow subsidiaries were as follows:

Telecom Auckland Limited
Telecom Wellington Limited
Telecom South Limited
Telecom Networks and Operations Limited
Telecom New Zealand 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
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
Teleco Insurance, Inc
Telecom Purchasing Limited
Jetstream Technology Limited
Netway Communications Limited

16 SEGMENTAL REPORTING

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

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

17 SUBSEQUENT EVENTS

As part of the strategic restructuring of Telecom, Telecom New Zealand Limited (formerly Telecom Wellington) acquired the business and assets of Telecom Central Limited, at net book value, with effect from 1 April 1993.

Telecom New Zealand Limited now provides telecommunications services in the area previously serviced by Telecom Central Limited.

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 1993 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, 13 MAY 1993

TELECOM WELLINGTON LIMITED

STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1993	1992
		$000's	$000's
Operating revenues		271,590	301,378
Operating expenses	2		
Abnormal redundancy and restructuring costs		(91,366)	(10,181)
Other operating expenses		(221,448)	(235,486)
Total operating expenses		(312,814)	(245,667)
Earnings/(loss) from operations		(41,224)	55,711
Investment income	3	17,104	17,849
Interest expense	3	(43,592)	(42,188)
Earnings/(loss) before income tax		(67,712)	31,372
Income tax credit/(expense)	4	19,640	(980)
Net earnings/(loss)		**(48,072)**	**30,392**

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

TELECOM WELLINGTON LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1993	1992
		$000's	$000's
ASSETS			
Current assets:			
Cash		-	1,647
Short term investments	6	3,123	3,123
Accounts receivable and prepaid expenses	5	65,123	58,231
Inventories		8,273	12,259
Prepaid income tax	4	7,621	2,993
Total current assets		84,140	78,253
Future tax benefit	4	23,106	7,877
Investments	7	194,260	226,120
Other assets	8	1,546	1,972
Fixed assets	9	357,216	420,217
Total assets		**660,268**	**734,439**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		1,771	-
Accounts payable and accruals	11	33,950	55,032
Provision for restructuring costs	10	53,322	-
Total current liabilities		89,043	55,032
Long term debt	12	329,835	361,695
Total liabilities		418,878	416,727
Commitments and contingent liabilities	14,15		
Shareholders' equity:	13		
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 15,034 shares		15	17
Share premium reserve		150,325	171,523
Capital redemption reserve		7	4
Retained earnings/(accumulated deficit)		(1,671)	53,454
Total shareholders' equity		241,390	317,712
Total liabilities and shareholders' equity		**660,268**	**734,439**

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

On behalf of the Board

MARTIN WYLIE
DIRECTOR

JEFF WHITE
DIRECTOR

WELLINGTON, 13 May 1993

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"). Telecom and its subsidiaries 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"), which then agreed to sell a combined 10% interest to companies controlled by two New Zealand companies, Freightways Holdings Limited and Midavia Holdings Limited, 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 1994 (following the granting of a one year extension).

At 31 March 1993, following a joint worldwide offering in July 1991 and a further sale by Bell Atlantic in March 1993, Ameritech and Bell Atlantic held 34.18% and 29.56% of the outstanding share capital, respectively.

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.

(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.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(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 exchange difference on the hedging transaction up to the date of purchase and all costs associated with the hedging transaction are capitalised.

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

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. 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 and are amortised over the period the entity is expected to benefit from their use.

TELECOM WELLINGTON 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.

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.

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 with the Crown. 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 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 crystalise within the foreseeable future.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing 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 prevailing at financial year-end. 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 1993 classifications.

(d) *CHANGES IN ACCOUNTING POLICIES*

There have been no material changes in accounting policies during the year. All significant accounting policies have been applied on a consistent basis.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

OTHER OPERATING EXPENSES

	1993	1992
	$000's	$000's
Other operating expenses	**221,448**	**235,486**
Included in other operating expenses are:		
- Depreciation	53,245	56,113
- Audit fees	204	200
- Intercompany management fee	13,689	12,532
- Lease and rental costs	9,572	11,863

ABNORMAL REDUNDANCY AND RESTRUCTURING COSTS

A strategic restructuring of Telecom was announced towards the end of the financial year, aimed at rationalising the company structure, substantially improving service quality and reducing operating costs. For Telecom Wellington it is estimated that the cost of implementing this restructuring, which will take up to four years, is $86 million. This has been charged against earnings for the year ended 31 March 1993 as an abnormal restructuring cost. The estimate included $38 million of employee redundancy costs associated with workforce reductions, with the balance related to the consolidation of both owned and leased premises, asset writedowns and costs incidental to the restructuring process.

Redundancy costs incurred in the first six months, prior to the announcement of the strategic restructuring, were included in the interim financial statements as normal operating costs, consistent with the treatment in prior years. These costs along with redundancy costs incurred in the third quarter have now been aggregated with the costs of the strategic restructuring and are reported as an abnormal charge amounting to approximately $91.4 million ($70.0 million after tax).

For comparative purposes, redundancy costs of approximately $10.2 million for the year ended 31 March 1992, previously reported as a normal operating cost, have been reclassified as an abnormal charge.

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1993	1992
	$000's	$000's
Interest income:		
- Intercompany	869	2,045
- Other	234	596
	1,103	2,641
Dividend income from fellow subsidiary company	16,001	15,208
Total investment income	**17,104**	**17,849**
Interest expense:		
- Intercompany	**43,592**	**42,188**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 INCOME TAX

	1993	1992
	$000's	$000's
The income tax (credit)/expense for the year is determined as follows:		
Earnings/(loss) before income tax	(67,712)	31,372
Tax at current rate of 33%	(22,345)	10,353
Adjustment for permanent differences:		
Dividends received	(5,280)	(5,019)
Group tax loss offset	-	(3,221)
Other	7,985	(1,133)
Total income tax (credit)/expense	**(19,640)**	**980**
The income tax (credit)/expense is represented by:		
-Current taxation	(4,407)	2,926
-Deferred taxation	(15,233)	(1,946)
	(19,640)	980

Income tax attributable to the abnormal redundancy and restructuring costs amounts to a credit of $21.4 million in the year ended 31 March 1993. This consists of a credit of $30.2 million (being tax at the rate of 33% on the gross abnormal charge of $91.4 million) less permanent differences of $8.8 million, which are principally related to the costs associated with the rationalisation of properties.

The balance sheet provisions are:

	1993	1992
	$000's	$000's
Current taxation:		
-Balance at beginning of year	2,993	794
-Total taxation in the current year	4,407	(2,926)
-Tax paid	-	4,529
-Other	221	596
Prepaid income tax	**7,621**	**2,993**
Deferred taxation:		
-Balance at beginning of year	7,877	5,780
-Provided in the current year	15,233	1,946
-Other	(4)	151
Future tax benefit	**23,106**	**7,877**

A deferred tax asset at 31 March 1993 and 31 March 1992 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

	1993	1992
	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $1.4 million (1992: $3.5 million)	16,470	24,990
Unbilled rentals and tolls	16,060	18,636
Due from fellow subsidiary companies	6,370	2,141
Due from parent company	18,562	11,744
Prepaid expenses and other	7,661	720
	65,123	**58,231**

6 SHORT TERM INVESTMENTS

	1993	1992
	$000's	$000's
Redeemable preference units	**3,123**	**3,123**

7 INVESTMENTS

	1993	1992
	$000's	$000's
Redeemable preference shares:		
- Fellow subsidiary companies	183,660	215,520
- Other	10,600	10,600
	194,260	**226,120**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

8 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $1.1 million (1992: $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 1993 amounted to $0.6 million (1992: $0.5 million).

In addition, at 31 March 1993, other assets include $0.5 million (1992: $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.

9 *FIXED ASSETS*

	1993	1992
	$000's	$000's
Telecommunication equipment:		
- Cost	494,228	473,667
- Accumulated depreciation	(247,623)	(209,263)
	246,605	264,404
Capital work in progress	8,069	16,964
Land	34,311	41,903
Buildings:		
- Cost	54,897	64,054
- Accumulated depreciation	(14,925)	(8,993)
	39,972	55,061
Other fixed assets:		
- Cost	59,163	70,332
- Accumulated depreciation	(30,904)	(28,447)
	28,259	41,885
Total cost	**650,668**	**666,920**
Total accumulated depreciation	**(293,452)**	**(246,703)**
Total net book value	**357,216**	**420,217**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *FIXED ASSETS (Continued)*

At 31 March 1993 the net book value of freehold land and buildings exceeded the aggregate of the latest available government valuations, together with the cost of subsequent additions (excluding properties designated for disposal). Telecom Wellington's properties consist primarily of special purpose network buildings. The economic value to Telecom Wellington of these network buildings is not fully reflected in government valuations.

Included in telecommunications equipment, at 31 March 1993 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $101.3 million and $101.0 million, together with accumulated depreciation of $85.2 million and $79.1 million.

During the year ended 31 March 1993, the Company entered into a sale and leaseback of telecommunications equipment with a third party. At 31 March 1993, assets capitalised under finance leases associated with this transaction had a cost of $4.8 million and accumulated depreciation of $0.4 million.

During the year to 31 March 1993 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

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), may 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 *PROVISION FOR RESTRUCTURING COSTS*

	1993	1992
	$000's	$000's
Balance at beginning of year	-	-
Additions charged against earnings in year (Note 2)	85,608	-
Utilised in year	(32,286)	-
Balance at end of year	**53,322**	-

The amount utilised in the year ended 31 March 1993 includes redundancy costs of approximately $0.6 million (incurred in the fourth quarter) and property and asset writedowns of approximately $31.7 million.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 ACCOUNTS PAYABLE AND ACCRUALS

	1993	1992
	$000's	$000's
Trade accounts payable and accruals	10,989	11,362
Accrued personnel costs	6,345	9,652
Rentals billed in advance	3,336	3,417
Payable to fellow subsidiary companies	13,280	30,601
	33,950	**55,032**

12 LONG TERM DEBT

	1993	1992
	$000's	$000's
Parent company loan	**329,835**	**361,695**

Interest rates on the parent company loan ranged from 10.34% to 12.77% for the year ended 31 March 1993. The parent company loan has no fixed date for repayment.

LEASE LIABILITY

During the year ended 31 March 1993 Telecom Wellington entered into a sale and leaseback of fixed assets. The future rental obligations have been legally defeased, and the liability thus extinguished, by the payment of $5.1 million in cash to a third party in return for which that third party has assumed responsibility for repayment of the lease liability.

13 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	1993	1992
	$000's	$000's
Balance at beginning of year	171,523	216,318
(Consisting of a premium of $9,999 on 17,154 redeemable preference shares)		
Movements during the period		
-Premium of $9,999 on 2,120 redeemable preference shares	(21,198)	-
-Premium of $9,999 on 4,480 redeemable preference shares	-	(44,795)
	150,325	**171,523**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 SHAREHOLDERS' EQUITY (Continued)

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

CAPITAL REDEMPTION RESERVE

	1993	1992
	$000's	$000's
Balance at beginning of year	4	-
Movements during the year		
-Transfer from retained earnings	3	4
	7	**4**

RETAINED EARNINGS/(ACCUMULATED DEFICIT)

	1993	1992
	$000's	$000's
Balance at beginning of year	53,454	46,234
Transfer to capital redemption reserve	(3)	(4)
Dividends	(7,050)	(23,168)
Net earnings/(loss)	(48,072)	30,392
	(1,671)	**53,454**

DIVIDENDS

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

	1993	1992
	$000's	$000's
Interim dividends	7,050	23,168
Final dividend	-	-
	7,050	23,168

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1993 for all non-cancellable operating leases (excluding those provided for in respect of restructuring) are:

	(in millions)
Payable within 1 year	4.5
Payable within 1-2 years	4.3
Payable within 2-3 years	4.5
Payable within 3-4 years	5.0
Payable within 4-5 years	4.5
Payable thereafter	21.2
	$44.0

CAPITAL COMMITMENTS

As at 31 March 1993 capital expenditure amounting to $3.9 million (1992: $1.7 million) has been committed under contractual arrangements.

15 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

As previously disclosed, a competitor had filed proceedings against Telecom, including Telecom Wellington, in connection with a request for a local service interconnection arrangement. The basis of claim was that Telecom, in offering certain terms and conditions of service including a proposed access levy to be paid by the competing operator, was in breach of Section 36 of the Commerce Act 1986. Substantive hearings in the suit were completed in October 1992 and judgement was given in December 1992. The High Court of New Zealand held that Telecom is entitled to charge an access levy, and recover from competing operators, a contribution to the residential cross-subsidy. The High Court also accepted that the cost of operating the residential telecommunications service in New Zealand is currently being subsidised by revenue from national calls and business customers. Finally, while the High Court found Telecom to be in breach of Section 36 of the Commerce Act in respect of some aspects of its offer to the competing operator, damages were not quantified. The Court suggested that Telecom and the competing operator should address the question of damages as part of continuing negotiations. On 5th February 1993 the competing operator filed with the Court of Appeal an appeal against the decision of the High Court, with the date for hearing of the appeal set for August 1993. In the light of the competing operator's appeal, Telecom is also cross-appealing the finding of breach of Section 36 of the Commerce Act. Telecom is unable to assess the likely outcome of these appeals.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

15 CONTINGENT LIABILITIES (Continued)

The same competitor has commenced an arbitration against Telecom in respect of non-code access. The competitor is claiming damages for alleged misrepresentation and delay in provision of non-code access. The likelihood of the competitor succeeding in its claim or the amount of damages is at present not possible to assess. Telecom vigorously denies these claims.

This same competitor has also threatened or commenced a number of other pieces of litigation and/or arbitrations against Telecom. Telecom vigorously denies these claims.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,263 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1993, together with, in each case, interest thereon, principally under the following agreements:

(i) $436.8 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) $367 million under a trust deed made as of 20 September 1989 and 3 April 1992 and subsequent 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 120.5 million (NZ$336.6 million) under a deed poll dated 12 November 1990.

(iv) $122.2 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.

16 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 9.4%) 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 21.2% of total operating expenses.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

16 *RELATED PARTY TRANSACTIONS (Continued)*

Outstanding intercompany balances as at 31 March 1993 are:

- Intercompany receivable and current account	$24.9 million
- Intercompany payable	$13.3 million
- Intercompany term liabilities	$329.8 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.

17 *FELLOW SUBSIDIARY COMPANIES*

At 31 March 1993 the principal fellow subsidiaries were as follows:

Telecom Auckland Limited
Telecom Central Limited
Telecom South Limited
Telecom Networks and Operations Limited
Telecom New Zealand 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
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
Teleco Insurance, Inc
Telecom Purchasing Limited
Jetstream Technology Limited
Netway Communications Limited

18 *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.

19 *SUBSEQUENT EVENTS*

Telecom Wellington Limited has changed its name to Telecom New Zealand Limited effective from 1 April 1993.

As part of the strategic restructuring of Telecom, Telecom New Zealand Limited (formerly Telecom Wellington Limited) acquired the business and assets of Telecom Auckland Limited, Telecom Central Limited and its subsidiary, Telecom South Limited, Telecom Repair Services Limited, Telecom Equipment Supplies Limited, Telecom Networks and Operations Limited and Telecom Operations Limited at net book value, with effect from 1 April 1993.

Telecom New Zealand Limited now provides the services previously provided by these companies.

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 1993 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, 13 May 1993

TELECOM SOUTH LIMITED

STATEMENT OF EARNINGS

FOR THE YEARS ENDED 31 MARCH

	Notes	1993	1992
		$000's	$000's
Operating revenues		445,686	449,827
Operating expenses	2		
Abnormal redundancy and restructuring costs		(82,704)	(12,615)
Other		(300,533)	(317,450)
Total operating expenses		(383,237)	(330,065)
Earnings from operations		62,449	119,762
Investment income	3	2,269	1,557
Interest expense	3	(35,285)	(30,938)
Earnings before income tax		29,433	90,381
Income tax	4	(11,021)	(29,855)
Net earnings		**18,412**	**60,526**

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

TELECOM SOUTH LIMITED

BALANCE SHEET

AS AT 31 MARCH

	Notes	1993	1992
		$000's	$000's
ASSETS			
Current assets:			
Cash		-	855
Accounts receivable and prepaid expenses	5	121,491	62,855
Inventories		6,850	15,319
Total current assets		128,341	79,029
Investment in fellow subsidiary company		960	1,780
Other assets	6	3,311	5,916
Fixed assets	7	846,735	878,567
Total assets		**979,347**	**965,292**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdraft		1,619	-
Debt due within one year	10	5,363	4,719
Taxation payable	4	6,210	3,296
Accounts payable and accruals	9	44,125	62,565
Provision for restructuring costs	8	58,279	-
Proposed dividend		30,467	-
Total current liabilities		146,063	70,580
Deferred income tax	4	50	9,630
Long term debt	10	283,377	289,560
Total liabilities		429,490	369,770
Commitments and contingent liabilities	12,13		
Shareholders' equity:	11		
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 36,797 shares		37	38
Share premium reserve		367,933	379,932
Capital redemption reserve		3	2
Retained earnings		10,473	44,139
Total shareholders' equity		549,857	595,522
Total liabilities and shareholders' equity		**979,347**	**965,292**

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

On behalf of the Board

MARTIN WYLIE *JEFF WHITE*
DIRECTOR *DIRECTOR*

WELLINGTON, 13 MAY 1993

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"). Telecom and its subsidiaries 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"), which then agreed to sell a combined 10% interest to companies, controlled by two New Zealand companies, Freightways Holdings Limited and Midavia Holdings Limited, 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 1994 (following the granting of a one year extension).

At 31 March 1993, following a joint worldwide offering in July 1991 and a further sale by Bell Altantic in March 1993, Ameritech and Bell Atlantic held 34.18% and 29.56% of the outstanding share capital, respectively.

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.

(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.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

(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 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 exchange difference on the hedging transaction up to the date of purchase and all costs associated with the hedging transaction are capitalised.

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 together with 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. No material finance leases have been entered into as lessor.

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, and are amortised over the period the entity is expected to benefit from their use.

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.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 *STATEMENT OF ACCOUNTING POLICIES (Continued)*

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Employees whose services with the Company are so terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

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 with the Crown. 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 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 crystalise within the foreseeable future.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing 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 prevailing at financial year-end. 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 1993 classifications.

(d) CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the year. All significant accounting policies have been applied on a consistent basis.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*	1993	1992
OTHER OPERATING EXPENSES	$000's	$000's
Other operating expenses	**300,533**	**317,450**
Included in other operating expenses are:		
- Depreciation	97,719	105,767
- Audit fees	205	200
- Intercompany management fee	20,238	17,148
- Lease and rental costs	3,746	4,316

ABNORMAL REDUNDANCY AND RESTRUCTURING COSTS

A strategic restructuring of Telecom was announced towards the end of the financial year, aimed at rationalising the company structure, substantially improving service quality and reducing operating costs. For Telecom South it is estimated that the cost of implementing this restructuring which will take up to four years, is $69 million. This has been charged against earnings for the year ended 31 March 1993 as an abnormal restructuring cost. The estimate includes $52 million for employee redundancy costs associated with workforce reductions, with the balance related to the consolidation of both owned and leased premises, asset writedowns and costs incidental to the restructuring process.

Redundancy costs incurred in the first six months, prior to the announcement of the strategic restructuring, were included in the interim financial statements as normal operating costs, consistent with the treatment in prior years. These costs, along with redundancy costs incurred in the third quarter, have now been aggregated with the costs of the strategic restructuring and are reported as an abnormal charge amounting to approximately $82.7 million ($56.8 million after tax).

For comparative purposes, redundancy costs of approximately $12.6 milllion for the year ended 31 March 1992, previously reported as a normal operating cost, have been reclassified as an abnormal charge.

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	1993	1992
	$000's	$000's
Interest income:		
- Intercompany	2,257	1,097
- Other	12	460
Total investment income	**2,269**	**1,557**
Interest expense:		
- Intercompany (including finance lease charges)	36,121	37,558
- Other	-	(14)
	36,121	37,544
- Less interest capitalised	(836)	(6,606)
Total interest expense	**35,285**	**30,938**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	1993	1992
	$000's	$000's
The income tax expense for the year is determined as follows:		
Earnings before income tax	29,433	90,381
Tax at current rate of 33%	9,713	29,826
Adjustment for permanent differences	1,308	29
Total income tax expense	**11,021**	**29,855**

Income tax attributable to the abnormal redundancy and restructuring costs amounts to a credit of $25.9 million in the year ended 31 March 1993. This consists of a credit of $27.3 million (being tax at the rate of 33% on the gross abnormal charge of $82.7 million) less permanent differences of $1.4 million, which are principally related to the costs associated with the rationalisation of properties.

The income tax expense is represented by:		
-Current taxation	20,601	24,159
-Deferred taxation	(9,580)	5,696
	11,021	29,855

The balance sheet provisions are:

	1993	1992
	$000's	$000's
Current taxation:		
-Balance at beginning of period	(3,296)	1,780
-Total taxation in the current period	(20,601)	(24,159)
-Tax paid	17,687	20,403
-Other	-	(1,320)
Taxation payable	**(6,210)**	**(3,296)**
Deferred taxation:		
-Balance at beginning of period	(9,630)	(5,651)
-Provided in the current period	9,580	(5,696)
-Other	-	1,717
Deferred income tax	**(50)**	**(9,630)**

A deferred tax asset at 31 March 1993 of $0.6 million (1992: $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*

	1993	1992
	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $2.6 million (1992: $3.0 million)	27,745	29,179
Unbilled rentals and tolls	14,176	18,885
Due from fellow subsidiary companies	2,176	9,686
Due from parent company	76,541	3,910
Prepaid expenses and other	853	1,195
	121,491	**62,855**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $2.5 million (1992: $4.3 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 1993 amounted to $3.2 million (1992: $4.2 million).

In addition, at 31 March 1993, other assets include $0.8 million (1992: $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*

	1993	1992
	$000's	$000's
Telecommunication equipment:		
- Cost	1,082,824	1,003,223
- Accumulated depreciation	(423,055)	(343,180)
	659,769	660,043
Capital work in progress	30,220	37,056
Land	33,024	35,186
Buildings:		
- Cost	107,269	91,595
- Accumulated depreciation	(18,015)	(10,004)
	89,254	81,591
Other fixed assets:		
- Cost	76,100	112,785
- Accumulated depreciation	(41,632)	(48,094)
	34,468	64,691
Total cost	**1,329,437**	**1,279,845**
Total accumulated depreciation	**(482,702)**	**(401,278)**
Total net book value	**846,735**	**878,567**

At 31 March 1993 the net book value of freehold land and buildings exceeded the aggregate of the latest available government valuations, together with the cost of subsequent additions (excluding properties designated for disposal). Telecom South's properties consist primarily of special purpose network buildings. The economic value to Telecom South of these network buildings is not fully reflected in government valuations.

Included in telecommunications equipment, at 31 March 1993 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $120.8 million and $117.6 million, together with accumulated depreciation of $102.4 million and $97.2 million.

During the year to 31 March 1993 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the years ended 31 March 1992 and 31 March 1993, the Company entered into the sale and leaseback of telecommunications equipment with a fellow group company and a third party respectively. At 31 March 1993, assets capitalised under finance leases associated with these transactions had a cost of $56.1 million (1992: $49.1 million) and accumulated depreciation of $11.5 million (1992: $3.4 million).

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), may 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 *PROVISION FOR RESTRUCTURING COSTS*	1993	1992
	$000's	$000's
Balance at beginning of year	-	-
Additions charged against earnings in year (Note 2)	69,010	-
Utilised in year	(10,731)	-
Balance at end of year	**58,279**	-

The amount utilised in the year ended 31 March 1993 includes redundancy costs of approximately $2.7 million (incurred in the fourth quarter) and property and asset writedowns of approximately $8.0 million.

9 *ACCOUNTS PAYABLE AND ACCRUALS*	1993	1992
	$000's	$000's
Trade accounts payable and accruals	17,521	24,850
Accrued personnel costs	8,936	11,402
Rentals billed in advance	6,827	6,751
Payable to fellow subsidiary companies	10,841	19,562
	44,125	**62,565**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 LONG TERM DEBT

	1993	1992
	$000's	$000's
Parent company loan	245,841	246,661
Other loans		
-Due to fellow group company	42,899	47,618
-Less long term debt maturing within one year	(5,363)	(4,719)
	37,536	42,899
	283,377	**289,560**

Interest rates on the parent company loan ranged from 11.97% to 12.77% for the year ended 31 March 1993. The parent company loan has no fixed date for repayment.

	1993	1992
	$000's	$000's
SCHEDULE OF MATURITIES - Other loans		
Due 1 to 2 years	37,536	5,363
Due 2 to 3 years	-	37,536
Total due after one year	37,536	42,899

Other loans are for the finance lease obligations of telecommunication equipment, with average interest rate for the period of 12.5% p.a.

LEASE LIABILITY

During the year ended 31 March 1993 Telecom South entered into a sale and leaseback of fixed assets. The future rental obligations have been legally defeased, and the liability thus extinguished, by the payment of $7.5 million in cash to a third party in return for which that third party has assumed responsibility for repayment of the lease liability.

11 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE	1993	1992
	$000's	$000's
Balance at beginning of year (consisting of a premium of $9,999 on 37,997 redeemable preference shares)	379,932	399,930
Movements during the year		
-Premium of $9,999 on 1,200 redeemable preference shares	(11,999)	-
-Premium of $9,999 on 2,000 redeemable preference shares	-	(19,998)
	367,933	**379,932**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 SHAREHOLDERS' EQUITY (Continued)

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

CAPITAL REDEMPTION RESERVE

	1993	1992
	$000's	$000's
Balance at beginning of period	2	-
Movements during the period		
-Transfer from retained earnings	1	2
	3	**2**

RETAINED EARNINGS

	1993	1992
	$000's	$000's
Balance at beginning of year	44,139	30,438
Net earnings	18,412	60,526
Transfer to capital redemption reserve	(1)	(2)
Dividends	(52,077)	(46,823)
	10,473	**44,139**

DIVIDENDS

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

	1993	1992
	$000's	$000's
Interim dividends	21,610	46,823
Final dividend	30,467	-
	52,077	46,823

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 *COMMITMENTS*

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 31 March 1993 for all non-cancellable operating leases (excluding amounts provided for in respect of restructuring) are (in millions):

Payable within 1 year	-
Payable within 1-2 years	0.5
Payable within 2-3 years	0.2
Payable within 3-4 years	0.2
Payable within 4-5 years	0.3
Payable thereafter	2.7
	$3.9

CAPITAL COMMITMENTS

As at 31 March 1993 capital expenditure amounting to $12.5 million (1992: $21.8 million) has been committed under contractual arrangements.

13 *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 transferred 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.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 *CONTINGENT LIABILITIES (Continued)*

LAWSUITS AND OTHER CLAIMS

As previously disclosed, a competitor had filed proceedings against Telecom in connection with a request for a local service interconnection arrangement. The basis of claim was that Telecom, in offering certain terms and conditions of service including a proposed access levy to be paid by the competing operator, was in breach of Section 36 of the Commerce Act 1986. Substantive hearings in the suit were completed in October 1992 and judgement was given in December 1992. The High Court of New Zealand held that Telecom is entitled to charge an access levy, and recover from competing operators, a contribution to the residential cross-subsidy. The High Court also accepted that the cost of operating the residential telecommunications service in New Zealand is currently being subsidised by revenue from national calls and business customers. Finally, while the High Court found Telecom to be in breach of Section 36 of the Commerce Act in respect of some aspects of its offer to the competing operator, damages were not quantified. The Court suggested that Telecom and the competing operator should address the question of damages as part of continuing negotiations. On 5th February 1993 the competing operator filed with the Court of Appeal an appeal against the decision of the High Court, with the date for hearing of the appeal set for August 1993. In the light of the competing operator's appeal, Telecom is also cross-appealing the finding of breach of Section 36 of the Commerce Act. Telecom is unable to assess the likely outcome of these appeals.

The same competitor has commenced an arbitration against Telecom in respect of non-code access. The competitor is claiming damages for alleged misrepresentation and delay in provision of non-code access. The likelihood of the competitor succeeding in its claim or the amount of damages is at present not possible to assess. Telecom vigorously denies these claims.

This same competitor has also threatened or commenced a number of other pieces of litigation and/or arbitrations against Telecom. Telecom vigorously denies these claims.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,263 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1993, together with, in each case, interest thereon, principally under the following agreements:

(i) $436.8 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) $367 million under trust deeds made as of 20 September 1989 and 3 April 1992 and subsequent 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 120.5 million (NZ$336.6 million) under a deed poll dated 12 November 1990.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 *CONTINGENT LIABILITIES (Continued)*

(iv) $122.2 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.

14 *RELATED PARTY TRANSACTIONS*

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 8.1%) 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 19.4% of total operating expenses.

Outstanding intercompany balances as at 31 March 1993 are:

- Intercompany receivable and current account	$78.7 million
- Intercompany payable	$10.8 million
- Intercompany term liabilities	$288.7 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.

15 *FELLOW SUBSIDIARY COMPANIES*

At 31 March 1993 the principal fellow subsidiaries were as follows:

Telecom Auckland Limited
Telecom Central Limited
Telecom Wellington Limited
Telecom Networks and Operations Limited
Telecom New Zealand 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
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
Teleco Insurance, Inc
Telecom Purchasing Limited
Jetstream Technology Limited
Netway Communications Limited

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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16 *SEGMENTAL REPORTING*

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

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

17 *SUBSEQUENT EVENTS*

As part of the strategic restructuring of Telecom, Telecom New Zealand Limited (formerly Telecom Wellington Limited) acquired the business and assets of Telecom South Limited, at net book value, with effect from 1 April 1993.

Telecom New Zealand Limited now provides telecommunications services in the area previously serviced by Telecom South Limited.

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 1993 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, 13 MAY 1993

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

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