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The New Zealand  
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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 six months ended 30 September 1991 for the following subsidiaries:

Telecom Auckland Limited;

Telecom Central Limited;

Telecom Wellington Limited;

Telecom South Limited;

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

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

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

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

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

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

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

TELECOM AUCKLAND LIMITED

## STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1991

	Notes	Six months ended 30 September		Year ended 31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
Operating revenues	13	291,692	314,093	619,344
Operating expenses	2	(243,761)	(250,767)	(494,302)
Earnings from operations		47,931	63,326	125,042
Investment income	3	147	2	31
Interest expense	3	(28,422)	(28,356)	(58,927)
Earnings before income tax		19,656	34,972	66,146
Income tax	4	(5,622)	(12,905)	(20,519)
<b>Net earnings</b>	13	<b>14,034</b>	<b>22,067</b>	<b>45,627</b>

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

## TELECOM AUCKLAND LIMITED

## BALANCE SHEET

AS AT 30 SEPTEMBER 1991

	Notes	30 September		31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash		658	740	856
Accounts receivable and prepaid expenses	5	113,183	126,777	112,463
Inventories		50,339	55,649	56,598
Prepaid income tax	4	18,409	16,108	19,800
<b>Total current assets</b>		<b>182,589</b>	<b>199,274</b>	<b>189,717</b>
Future tax benefit	4	-	287	-
Investment in fellow subsidiary company		720	-	-
Other assets	6	7,661	3,170	5,273
Fixed assets	7	1,079,405	1,035,884	1,073,634
<b>Total assets</b>		<b>1,270,375</b>	<b>1,238,615</b>	<b>1,268,624</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Bank overdraft		5,250	4,227	7,994
Debt due within one year	9	4,738	-	-
Accounts payable and accruals	8	158,381	260,880	278,485
Proposed dividend		22,437	6,263	-
<b>Total current liabilities</b>		<b>190,806</b>	<b>271,370</b>	<b>286,479</b>
Deferred income tax	4	6,168	-	2,100
Long term debt	9	386,250	284,491	284,491
<b>Total liabilities</b>		<b>583,224</b>	<b>555,861</b>	<b>573,070</b>
Commitments and contingent liabilities	11,12			
<b>Shareholders' equity:</b>				
Ordinary shares, \$1.00 each	10			
-Authorised, issued and fully paid 199,146,000 shares		199,146	199,146	199,146
Redeemable preference shares, \$1.00 each				
-Authorised, issued and fully paid 46,466 shares		46	46	46
Share premium reserve		464,614	464,614	464,614
Retained earnings		23,345	18,948	31,748
<b>Total shareholders' equity</b>		<b>687,151</b>	<b>682,754</b>	<b>695,554</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,270,375</b>	<b>1,238,615</b>	<b>1,268,624</b>

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

On behalf of the Board

P J HAWORTH  
DIRECTOR

W D THORLEY  
DIRECTOR

AUCKLAND, 17 DECEMBER 1991

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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1 STATEMENT OF ACCOUNTING POLICIES

(a) CONSTITUTION, OWNERSHIP AND ACTIVITIES

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

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

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

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

At 30 September 1991, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Carla Nominees Limited held 11,058,888 ordinary shares (0.5%).

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

- A local free-calling option will be maintained for all residential customers.
- The standard residential rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- Line rentals for residential customers in rural areas will be no higher than the standard residential rental, and ordinary residential telephone service will remain as widely available as it was as at 11 September 1990.

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

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### (b) GENERAL ACCOUNTING POLICIES

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

#### (c) SPECIFIC ACCOUNTING POLICIES

##### REVENUE RECOGNITION

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

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

##### FIXED ASSETS

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

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

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

Effective 1 April 1989 for each fixed asset project having a cost in excess of \$10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and prepare the fixed asset ready for its intended use is capitalised as part of the total cost.

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

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

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

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

Telecommunication equipment and plant:

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

LEASES

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

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

No material finance leases have been entered into as lessor.

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### COMPENSATED ABSENCES

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

#### LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

#### PENSIONS

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

#### TAXATION

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

#### FOREIGN CURRENCIES

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

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

#### RECLASSIFICATIONS

Certain reclassifications of prior periods' data have been made to conform to current period classifications.

#### (d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 2 OPERATING EXPENSES

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
	<b>243,761</b>	<b>250,767</b>	<b>494,302</b>
Included in operating expenses are:			
- Depreciation	61,499	56,277	117,228
- Audit fees	100	95	190
- Intercompany management fee	11,363	13,433	25,440
- Foreign exchange gains	(8)	-	(52)
- Lease and rental costs	8,548	16,543	32,196

## 3 INVESTMENT INCOME/INTEREST EXPENSE

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interest income:			
- Intercompany	141	-	-
- Other	6	2	31
	<b>147</b>	<b>2</b>	<b>31</b>
Interest expense:			
- Intercompany (including finance lease charges)	28,565	28,659	59,452
- Other	20	4	4
	28,585	28,663	59,456
- Less interest capitalised	(163)	(307)	(529)
	<b>28,422</b>	<b>28,356</b>	<b>58,927</b>

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 4 INCOME TAX

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	19,656	34,972	66,146
Tax at current rate of 33%	6,487	11,541	21,828
Adjustment for permanent differences	(865)	1,364	(1,312)
Other	-	-	3
<b>Total income tax expense</b>	<b>5,622</b>	<b>12,905</b>	<b>20,519</b>
The income tax expense is represented by:			
-Current taxation	1,391	7,182	11,874
-Deferred taxation	4,231	5,723	8,645
	5,622	12,905	20,519
The balance sheet provisions are:			
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Current taxation:			
-Balance at beginning of period	19,800	23,290	23,290
-Total taxation in the current period	(1,391)	(7,182)	(11,874)
-Tax paid	-	-	8,384
<b>Prepaid income tax</b>	<b>18,409</b>	<b>16,108</b>	<b>19,800</b>
Deferred taxation:			
-Balance at beginning of period	(2,100)	(1,264)	(1,264)
-Provided in the current period	(4,231)	(5,723)	(8,645)
-Other movements	163	7,274	7,809
<b>Future tax benefit/(Deferred income tax)</b>	<b>(6,168)</b>	<b>287</b>	<b>(2,100)</b>

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 5 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Accounts receivable, net	66,772	92,772	73,542
Unbilled rentals and tolls	29,893	26,621	29,724
Due from fellow subsidiary companies	11,046	5,066	3,314
Prepaid expenses and other	5,472	2,318	5,883
	<b>113,183</b>	<b>126,777</b>	<b>112,463</b>

## 6 OTHER ASSETS

Other assets include certain deferred expenditure amounting to \$4.9 million (30 September 1990: \$3.0 million, 31 March 1991: \$5.3 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1991 amounted to \$1.7 million (30 September 1990: \$1.5 million, for the year ended 31 March 1991: \$2.3 million).

In addition, at 30 September 1991, other assets include \$2.8 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

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Telecommunication equipment:			
- Cost	1,110,058	988,036	1,069,665
- Accumulated depreciation	(363,652)	(297,773)	(344,442)
	746,406	690,263	725,223
Capital work in progress	91,700	113,365	101,135
Land	57,668	58,054	57,682
Buildings:			
- Cost	132,087	125,167	130,903
- Accumulated depreciation	(12,894)	(8,812)	(10,911)
	119,193	116,355	119,992
Other fixed assets:			
- Cost	114,726	94,308	115,903
- Accumulated depreciation	(50,288)	(36,461)	(46,301)
	64,438	57,847	69,602
<b>Total cost</b>	<b>1,506,239</b>	<b>1,378,930</b>	<b>1,475,288</b>
<b>Total accumulated depreciation</b>	<b>(426,834)</b>	<b>(343,046)</b>	<b>(401,654)</b>
<b>Total net book value</b>	<b>1,079,405</b>	<b>1,035,884</b>	<b>1,073,634</b>

Included in telecommunications equipment, at 30 September 1991, 30 September 1990 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of \$185.2 million, \$178.7 million and \$180.0 million, together with accumulated depreciation of \$123.8 million, \$94.2 million and \$108.9 million.

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

During the six months ended 30 September 1991, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 30 September 1991, assets capitalised under finance leases associated with this transaction had a cost of \$65.6 million and accumulated depreciation of \$1.2 million

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

**7 FIXED ASSETS (Continued)****REGISTRATION OF TITLE TO LAND**

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for approximately 90% of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

**LAND CLAIMS**

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

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

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

**8 ACCOUNTS PAYABLE AND ACCRUALS**

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Trade accounts payable and accruals	25,959	33,069	32,650
Accrued personnel costs	23,095	20,518	34,320
Rentals billed in advance	12,162	14,445	14,472
Payable to fellow subsidiary companies	40,131	25,771	22,687
Payable to parent company	57,034	167,077	174,356
	<b>158,381</b>	<b>260,880</b>	<b>278,485</b>

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 9 LONG TERM DEBT

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Parent company loan	325,211	284,491	284,491
Other loans			
- Due to fellow group company	65,614	-	-
- Other	163	-	-
	65,777	-	-
- Less long term debt maturing within one year	(4,738)	-	-
	61,039	-	-
	<b>386,250</b>	<b>284,491</b>	<b>284,491</b>

Interest rates on the parent company loan ranged from 13.21% to 13.62% for six months ended 30 September 1991 except for \$40 million which, in advance of a capital restructuring, was at nil interest from 1 July 1991. The parent company loan has no fixed date for repayment.

## SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	5,830	-	-
Due 2 to 3 years	55,114	-	-
Due 3 to 4 years	35	-	-
Due 4 to 5 years	41	-	-
Due over 5 years	19	-	-
<b>Total due after one year</b>	<b>61,039</b>	<b>-</b>	<b>-</b>

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

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY  
SHARE PREMIUM RESERVE

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning and end of period	<b>464,614</b>	<b>464,614</b>	<b>464,614</b>

(Consisting of a premium of \$9,999 on 46,466 redeemable preference shares)

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

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning of period	31,748	3,144	3,144
Net earnings	14,034	22,067	45,627
	45,782	25,211	48,771
Dividends	(22,437)	(6,263)	(17,023)
<b>Balance at end of period</b>	<b>23,345</b>	<b>18,948</b>	<b>31,748</b>

## DIVIDENDS

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

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interim dividends	22,437	6,263	17,023
Final dividend	-	-	-
	<b>22,437</b>	<b>6,263</b>	<b>17,023</b>

TELECOM AUCKLAND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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**11 COMMITMENTS***OPERATING LEASES*

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	13.1
Payable within 1-2 years	13.0
Payable within 2-3 years	12.4
Payable within 3-4 years	12.2
Payable within 4-5 years	11.6
Payable thereafter	30.4
	<u>\$92.7</u>

*CAPITAL COMMITMENTS*

As at 30 September 1991 capital expenditure amounting to \$25.3 million (30 September 1990:\$60.9 million, 31 March 1991: \$50.0 million) has been committed under contractual arrangements.

**12 CONTINGENT LIABILITIES***LAND CLAIMS*

As stated in Note 7, interests in land included in assets purchased from the Crown may be subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown.

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

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

*LAWSUITS AND OTHER CLAIMS*

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

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately \$1,545 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1991, principally under the following agreements:

- (i) \$623.0 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) \$540.0 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British pounds 124.5 million (NZ\$381.9 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 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 14% of total operating expenses.

Outstanding intercompany balances as at 30 September 1991 are:

- Intercompany receivable	\$11.0 million
- Intercompany payable and current account	\$97.2 million
- Intercompany term liabilities	\$390.8 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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS (Continued)

*GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP*

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the six months ended 30 September 1991 was to reduce reported operating revenues by approximately \$18.2 million and net earnings by approximately \$12.2 million from that which would otherwise have been reported.

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

14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1991 the principal fellow subsidiaries of the Company were as follows:

- Telecom Central Limited
- Telecom Wellington Limited
- Telecom South Limited
- Telecom Networks and Operations Limited
- Telecom New Zealand International Limited (formerly Telecom Networks and International Limited)
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- TCNZ (UK) Investments Limited
- Telecom Wellington Investments Limited
- Telecom Operations Limited
- Mokuso Holdings Limited
- Teleco Insurance, Inc

*In-substance subsidiaries*

- Netway Communications Limited

*TELECOM AUCKLAND LIMITED*

NOTES TO THE FINANCIAL STATEMENTS

*(CONTINUED)*

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15 *SEGMENTAL REPORTING*

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

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

AUDITORS' REPORT

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*REPORT OF THE AUDITORS  
TO THE MEMBERS OF TELECOM AUCKLAND LIMITED*

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 30 September 1991 and of the earnings for the six months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

*COOPERS & LYBRAND*

*CHARTERED ACCOUNTANTS*

*AUCKLAND, 17 DECEMBER 1991*

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1991

	Notes	Six months ended 30 September		Year ended 31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
Operating revenues	13	254,222	249,620	500,081
Operating expenses	2	(180,159)	(185,490)	(369,608)
Earnings from operations		74,063	64,130	130,473
Investment income	3	276	1,982	1,982
Interest expense	3	(21,744)	(18,631)	(37,963)
Earnings before income tax		52,595	47,481	94,492
Income tax	4	(17,529)	(15,893)	(32,138)
<b>Net earnings</b>	13	<b>35,066</b>	<b>31,588</b>	<b>62,354</b>

*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 30 SEPTEMBER 1991

	Notes	30 September		31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash		887	37	1,055
Accounts receivable and prepaid expenses	5	76,172	94,879	72,824
Inventories		18,520	31,336	26,922
Prepaid income tax	4	-	-	6,648
<b>Total current assets</b>		<b>95,579</b>	<b>126,252</b>	<b>107,449</b>
Investment in fellow subsidiary company		780	-	-
Other assets	6	9,679	7,310	10,008
Fixed assets	7	884,241	877,894	897,393
<b>Total assets</b>		<b>990,279</b>	<b>1,011,456</b>	<b>1,014,850</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Bank overdraft		1,059	5,566	2,848
Debt due within one year	9	4,199	450	727
Taxation payable	4	7,077	13,583	-
Accounts payable and accruals	8	69,152	177,549	224,787
Proposed dividend		31,571	8,192	-
<b>Total current liabilities</b>		<b>113,058</b>	<b>205,340</b>	<b>228,362</b>
Deferred income tax	4	8,350	3,789	8,419
Long term debt	9	342,079	255,447	254,772
<b>Total liabilities</b>		<b>463,487</b>	<b>464,576</b>	<b>491,553</b>
Commitments and contingent liabilities	11,12			
<b>Shareholders' equity:</b>	10			
Ordinary shares, \$1.00 each				
-Authorised, issued and fully paid 88,456,000 shares		88,456	88,456	88,456
Redeemable preference shares, \$1.00 each				
-Authorised, issued and fully paid 41,910 shares		42	21	42
Share premium reserve		419,058	419,058	419,058
Retained earnings		19,236	39,345	15,741
<b>Total shareholders' equity</b>		<b>526,792</b>	<b>546,880</b>	<b>523,297</b>
<b>Total liabilities and shareholders' equity</b>		<b>990,279</b>	<b>1,011,456</b>	<b>1,014,850</b>

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

On behalf of the Board

N NICHOLLS  
MANAGING DIRECTOR

P SMITHIES  
DIRECTOR

HAMILTON, 16 DECEMBER 1991

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

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1 STATEMENT OF ACCOUNTING POLICIES

(a) CONSTITUTION, OWNERSHIP AND ACTIVITIES

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

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

Telecom Central Limited acquired the shares and net assets of Telecom Midland Limited with effect from 1 April 1990, and now provides telecommunication services in the area previously serviced by Telecom Midland Limited as well as its own previously designated area.

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

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

At 30 September 1991, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Carla Nominees Limited held 11,058,888 ordinary shares (0.5%).

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

- A local free-calling option will be maintained for all residential customers.
- The standard residential rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- Line rentals for residential customers in rural areas will be no higher than the standard residential rental, and ordinary residential telephone service will remain as widely available as it was as at 11 September 1990.

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### (b) GENERAL ACCOUNTING POLICIES

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

#### (c) SPECIFIC ACCOUNTING POLICIES

##### REVENUE RECOGNITION

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

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

##### FIXED ASSETS

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

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

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

Effective 1 April 1989 for each fixed asset project having a cost in excess of \$10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and prepare the fixed asset ready for its intended use is capitalised as part of the total cost.

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

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

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

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### DEPRECIATION

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

Telecommunication equipment and plant:

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

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

Land and capital work in progress are not depreciated.

#### ACCOUNTS RECEIVABLE

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

#### INVENTORIES

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

#### LEASES

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

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

No material finance leases have been entered into as lessor.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### COMPENSATED ABSENCES

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

#### LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

#### PENSIONS

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

#### TAXATION

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

#### FOREIGN CURRENCIES

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

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

#### RECLASSIFICATIONS

Certain reclassifications of prior periods' data have been made to conform to current period classifications.

#### (d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 2 OPERATING EXPENSES

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
	<b>180,159</b>	<b>185,490</b>	<b>369,608</b>
Included in operating expenses are:			
- Depreciation	53,819	51,007	104,711
- Audit fees	100	95	156
- Intercompany management fee	9,380	10,487	19,860
- Foreign exchange (gains)/losses	(4)	2	(178)
- Lease and rental costs	2,831	2,849	5,749

## 3 INVESTMENT INCOME/INTEREST EXPENSE

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interest income:			
- Intercompany	273	1,982	1,982
- Other	3	-	-
	<b>276</b>	<b>1,982</b>	<b>1,982</b>
Interest expense:			
- Intercompany (including finance lease charges)	21,647	18,605	37,804
- Other	97	26	159
	<b>21,744</b>	<b>18,631</b>	<b>37,963</b>

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 4 INCOME TAX

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	52,595	47,481	94,492
Tax at current rate of 33%	17,356	15,669	31,182
Adjustment for permanent differences	173	224	956
<b>Total income tax expense</b>	<b>17,529</b>	<b>15,893</b>	<b>32,138</b>
The income tax expense is represented by:			
-Current taxation	17,286	12,792	24,406
-Deferred taxation	243	3,101	7,732
	17,529	15,893	32,138
The balance sheet provisions are:			
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Current taxation:			
-Balance at beginning of period	6,648	(5,318)	(5,318)
-Balance from acquired subsidiary	-	4,527	4,527
-Total taxation in the current period	(17,286)	(12,792)	(24,406)
-Tax paid	3,561	-	31,845
<b>Prepaid income tax/(Taxation payable)</b>	<b>(7,077)</b>	<b>(13,583)</b>	<b>6,648</b>
Deferred taxation:			
-Balance at beginning of period	(8,419)	13,008	13,008
-Balance from acquired subsidiary	-	(1,689)	(1,688)
-Provided in the current period	(243)	(3,101)	(7,732)
-Other movements	312	(12,007)	(12,007)
<b>Deferred income tax</b>	<b>(8,350)</b>	<b>(3,789)</b>	<b>(8,419)</b>

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 5 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Accounts receivable, net	49,517	78,147	54,421
Unbilled rentals and tolls	24,639	15,591	17,650
Due from fellow subsidiary companies	1,520	1,063	588
Prepaid expenses and other	496	78	165
	<b>76,172</b>	<b>94,879</b>	<b>72,824</b>

## 6 OTHER ASSETS

Other assets include certain deferred expenditure amounting to \$7.9 million (30 September 1990: \$7.3 million, 31 March 1991: \$10.0 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1991 amounted to \$3.3 million (30 September 1990: \$0.8 million, for the year ended 31 March 1991: \$3.7 million).

In addition, at 30 September 1991, other assets include \$1.8 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

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Telecommunication equipment:			
- Cost	1,001,235	934,844	982,448
- Accumulated depreciation	(334,556)	(276,498)	(317,514)
	666,679	658,346	664,934
Capital work in progress	50,856	56,396	54,724
Land	18,659	19,489	19,327
Buildings:			
- Cost	105,932	102,232	106,764
- Accumulated depreciation	(15,003)	(11,960)	(13,664)
	90,929	90,272	93,100
Other fixed assets:			
- Cost	103,435	88,829	106,583
- Accumulated depreciation	(46,317)	(35,438)	(41,275)
	57,118	53,391	65,308
<b>Total cost</b>	<b>1,280,117</b>	<b>1,201,790</b>	<b>1,269,846</b>
<b>Total accumulated depreciation</b>	<b>(395,876)</b>	<b>(323,896)</b>	<b>(372,453)</b>
<b>Total net book value</b>	<b>884,241</b>	<b>877,894</b>	<b>897,393</b>

Included in telecommunications equipment, at 30 September 1991, 30 September 1990 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of \$103.3 million, \$96.1 million and \$98.6 million, together with accumulated depreciation of \$79.3 million, \$59.2 million and \$69.1 million.

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

During the six months ended 30 September 1991, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company.

At 30 September 1991, assets capitalised under finance leases associated with this transaction had a cost of \$50.3 million and accumulated depreciation of \$0.6 million.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 FIXED ASSETS (Continued)

REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for approximately 90% of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

LAND CLAIMS

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

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

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

8 ACCOUNTS PAYABLE AND ACCRUALS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Trade accounts payable and accruals	18,594	22,008	24,589
Accrued personnel costs	10,987	12,215	12,046
Rentals billed in advance	9,995	14,691	11,394
Payable to fellow subsidiary companies	20,615	22,194	14,743
Payable to parent company	8,961	106,441	162,015
	<b>69,152</b>	<b>177,549</b>	<b>224,787</b>

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 9 LONG TERM DEBT

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Parent company loan	294,822	254,042	254,042
Other loans			
- Due to fellow group company	50,265	-	-
- Other	1,191	1,855	1,457
	51,456	1,855	1,457
- Less long term debt maturing within one year	(4,199)	(450)	(727)
	47,257	1,405	730
	<b>342,079</b>	<b>255,447</b>	<b>254,772</b>

Interest rates on the parent company loan ranged from 13.21% to 13.62% for the six months ended 30 September 1991 except for \$40 million which, in advance of a capital restructuring, was at nil interest from 1 July 1991. The parent company loan has no fixed date for repayment.

## SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	5,057	423	438
Due 2 to 3 years	42,200	671	292
Due 3 to 4 years	-	311	-
<b>Total due after one year</b>	<b>47,257</b>	<b>1,405</b>	<b>730</b>

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

**10 SHAREHOLDERS' EQUITY**  
**SHARE PREMIUM RESERVE**

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning of period (consisting of a premium of \$9,999 on 41,910 redeemable preference shares)	419,058	206,359	206,359
Balance from acquired subsidiary (consisting of a premium of \$9,999 on 21,272 redeemable preference shares)	-	212,699	212,699
Movements during period:			
-Dividend declared	-	-	(212,699)
-Premium of \$9,999 on 21,272 redeemable preference shares	-	-	212,699
	<b>419,058</b>	<b>419,058</b>	<b>419,058</b>

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**

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning of period	15,741	9,251	9,251
Balance from acquired subsidiary	-	12,152	12,152
Net earnings	35,066	31,588	62,354
	50,807	52,991	83,757
Dividends	(31,571)	(13,646)	(68,016)
<b>Balance at end of period</b>	<b>19,236</b>	<b>39,345</b>	<b>15,741</b>

**DIVIDENDS**

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

	Six months ended		Year ended
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interim dividends	31,571	13,646	34,295
Final dividend	-	-	33,721
	31,571	13,646	68,016

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

### 11 COMMITMENTS

#### OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	0.1
Payable within 1-2 years	0.3
Payable within 2-3 years	0.2
Payable within 3-4 years	2.6
Payable within 4-5 years	2.5
Payable thereafter	<u>18.5</u>
	<u>\$24.2</u>

#### CAPITAL COMMITMENTS

As at 30 September 1991 capital expenditure amounting to \$8.9 million (30 September 1990:\$35.3 million, 31 March 1991: \$27.4 million) has been committed under contractual arrangements.

### 12 CONTINGENT LIABILITIES

#### LAND CLAIMS

As stated in Note 7, interests in land included in assets purchased from the Crown may be subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown.

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

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

#### LAWSUITS AND OTHER CLAIMS

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

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately \$1,545 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1991, principally under the following agreements:

- (i) \$623.0 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) \$540.0 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British Pounds 124.5 million (NZ\$381.9 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 5%) 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 14% of total operating expenses.

Outstanding intercompany balances as at 30 September 1991 are:

- Intercompany receivable	\$1.5 million
- Intercompany payable and current account	\$29.6 million
- Intercompany term liabilities	\$345.1 million

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS (Continued)

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the six months ended 30 September 1991 was to reduce reported operating revenues by approximately \$2.9 million and net earnings by approximately \$1.9 million from that which would otherwise have been reported.

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

14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1991 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Wellington Limited
- Telecom South Limited
- Telecom Networks and Operations Limited
- Telecom New Zealand International Limited (formerly Telecom Networks and International Limited)
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- TCNZ (UK) Investments Limited
- Telecom Wellington Investments Limited
- Telecom Operations Limited
- Mokuso Holdings Limited
- Teleco Insurance, Inc

*In-substance subsidiaries*

- Netway Communications Limited

15 SEGMENTAL REPORTING

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

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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16 ACQUIRED SUBSIDIARY

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

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

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

AUDITORS' REPORT

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*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's affairs at 30 September 1991, and of the earnings for the six months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

*COOPERS & LYBRAND*

*CHARTERED ACCOUNTANTS*

*HAMILTON, 16 DECEMBER 1991*

TELECOM WELLINGTON LIMITED

## STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1991

	Notes	Six months ended 30 September		Year ended 31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
Operating revenues	15	152,865	166,336	328,867
Operating expenses	2	(127,065)	(135,047)	(248,440)
Earnings from operations		25,800	31,289	80,427
Investment income	3	6,368	36	994
Interest expense	3	(17,646)	(9,669)	(20,819)
Earnings before income tax		14,522	21,656	60,602
Income tax	4	(1,677)	(7,203)	(19,931)
<b>Net earnings</b>	15	<b>12,845</b>	<b>14,453</b>	<b>40,671</b>

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

TELECOM WELLINGTON LIMITED

## BALANCE SHEET

AS AT 30 SEPTEMBER 1991

	Notes	30 September		31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash		113	25	21
Short term investments	6	57,123	-	3,123
Accounts receivable and prepaid expenses	5	60,767	69,710	76,992
Inventories		15,142	20,299	16,820
Prepaid income tax	4	972	4,826	794
<b>Total current assets</b>		<b>134,117</b>	<b>94,860</b>	<b>97,750</b>
Future tax benefit	4	4,429	7,780	5,780
Investments in fellow subsidiary companies	7	221,440	-	54,000
Other assets	8	1,374	-	-
Fixed assets	9	418,316	433,175	432,614
<b>Total assets</b>		<b>779,676</b>	<b>535,815</b>	<b>590,144</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Bank overdraft		59	1,569	1,635
Accounts payable and accruals	10	95,269	59,132	93,646
Proposed dividend		14,640	4,086	-
<b>Total current liabilities</b>		<b>109,968</b>	<b>64,787</b>	<b>95,281</b>
Long term debt	11	316,215	132,452	139,575
<b>Total liabilities</b>		<b>426,183</b>	<b>197,239</b>	<b>234,856</b>
Commitments and contingent liabilities	13,14			
<b>Shareholders' equity:</b>				
Ordinary shares, \$1.00 each	12			
-Authorised, issued and fully paid 92,714 shares		92,714	92,714	92,714
Redeemable preference shares, \$1.00 each				
-Authorised, issued and fully paid 21,634 shares		22	22	22
Share premium reserve		216,318	216,318	216,318
Retained earnings		44,439	29,522	46,234
<b>Total shareholders' equity</b>		<b>353,493</b>	<b>338,576</b>	<b>355,288</b>
<b>Total liabilities and shareholders' equity</b>		<b>779,676</b>	<b>535,815</b>	<b>590,144</b>

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

On behalf of the Board

W J HARRISON  
CHAIRMAN

G HODDINOTT  
MANAGING DIRECTOR

WELLINGTON, 17 DECEMBER 1991

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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1 STATEMENT OF ACCOUNTING POLICIES

(a) CONSTITUTION, OWNERSHIP AND ACTIVITIES

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

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

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

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

At 30 September 1991, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Carla Nominees Limited held 11,058,888 ordinary shares (0.5%).

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

- A local free-calling option will be maintained for all residential customers.
- The standard residential rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- Line rentals for residential customers in rural areas will be no higher than the standard residential rental, and ordinary residential telephone service will remain as widely available as it was as at 11 September 1990.

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

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

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

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

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

FIXED ASSETS

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

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

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

Effective 1 April 1989 for each fixed asset project having a cost in excess of \$10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and prepare the fixed asset ready for its intended use is capitalised as part of the total cost.

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

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

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

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

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### DEPRECIATION

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

Telecommunication equipment and plant:

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

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

Land and capital work in progress are not depreciated.

#### ACCOUNTS RECEIVABLE

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

#### INVENTORIES

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

#### INVESTMENTS

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

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

#### LEASES

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

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

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

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

#### COMPENSATED ABSENCES

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

#### LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

#### PENSIONS

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

#### TAXATION

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

#### FOREIGN CURRENCIES

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

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

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

**1 STATEMENT OF ACCOUNTING POLICIES (Continued)****RECLASSIFICATIONS**

Certain reclassifications of prior periods' data have been made to conform to current period classifications.

**(d) CHANGES IN ACCOUNTING POLICIES**

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

**2 OPERATING EXPENSES**

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
	<b>127,065</b>	<b>135,047</b>	<b>248,440</b>
Included in operating expenses are:			
- Depreciation	27,282	24,736	50,271
- Audit fees	100	95	190
- Intercompany management fee	6,252	7,927	12,510
- Lease and rental costs	6,443	6,847	13,301

**3 INVESTMENT INCOME/INTEREST EXPENSE**

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interest income:			
- Intercompany	1,069	36	125
- Other	28	-	-
	1,097	36	125
Dividend income from fellow subsidiary company	5,271	-	869
<b>Total investment income</b>	<b>6,368</b>	<b>36</b>	<b>994</b>
Interest expense:			
- Intercompany	17,646	9,669	20,819

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 4 INCOME TAX

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	14,522	21,656	60,602
Tax at current rate of 33%	4,792	7,146	19,999
Adjustment for permanent differences	(3,115)	57	(68)
<b>Total income tax expense</b>	<b>1,677</b>	<b>7,203</b>	<b>19,931</b>
The income tax expense is represented by:			
-Current taxation	173	5,540	16,268
-Deferred taxation	1,504	1,663	3,663
	1,677	7,203	19,931
The balance sheet provisions are:			
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Current taxation:			
-Balance at beginning of period	794	10,366	10,366
-Total taxation in the current period	(173)	(5,540)	(16,268)
-Tax paid	351	-	6,696
<b>Prepaid income tax</b>	<b>972</b>	<b>4,826</b>	<b>794</b>
Deferred taxation:			
-Balance at beginning of period	5,780	11,009	11,009
-Provided in the current period	(1,504)	(1,663)	(3,663)
-Other movements	153	(1,566)	(1,566)
<b>Future tax benefit</b>	<b>4,429</b>	<b>7,780</b>	<b>5,780</b>

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 5 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Accounts receivable, net	38,386	52,454	51,709
Unbilled rentals and tolls	19,977	13,397	13,498
Due from fellow subsidiary companies	2,163	3,694	10,846
Prepaid expenses and other	241	165	939
	<b>60,767</b>	<b>69,710</b>	<b>76,992</b>

## 6 SHORT TERM INVESTMENTS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Redeemable preference units	3,123	-	3,123
Redeemable preference shares in fellow subsidiary company	54,000	-	-
	<b>57,123</b>	<b>-</b>	<b>3,123</b>

## 7 INVESTMENTS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Redeemable preference shares:			
- Fellow subsidiary companies	210,840	-	54,000
- Other	10,600	-	-
	<b>221,440</b>	<b>-</b>	<b>54,000</b>

## 8 OTHER ASSETS

At 30 September 1991, other assets include \$1.1 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 restrictive period of three years, during which time voting rights will be exercised by the Trustee in its discretion.

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 9 FIXED ASSETS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Telecommunication equipment:			
- Cost	461,579	429,829	448,989
- Accumulated depreciation	(190,726)	(154,959)	(173,361)
	<u>270,853</u>	<u>274,870</u>	<u>275,628</u>
Capital work in progress	9,401	17,691	12,187
Land	41,904	41,900	41,896
Buildings:			
- Cost	64,075	61,464	63,520
- Accumulated depreciation	(7,656)	(4,537)	(5,930)
	<u>56,419</u>	<u>56,927</u>	<u>57,590</u>
Other fixed assets:			
- Cost	64,873	59,776	68,560
- Accumulated depreciation	(25,134)	(17,989)	(23,247)
	<u>39,739</u>	<u>41,787</u>	<u>45,313</u>
<b>Total cost</b>	<b>641,832</b>	<b>610,660</b>	<b>635,152</b>
<b>Total accumulated depreciation</b>	<b>(223,516)</b>	<b>(177,485)</b>	<b>(202,538)</b>
<b>Total net book value</b>	<b>418,316</b>	<b>433,175</b>	<b>432,614</b>

Included in telecommunications equipment at 30 September 1991, 30 September 1990 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of \$102.7 million \$93.8 million and \$99.6 million, together with accumulated depreciation of \$74.3 million \$61.2 million and \$67.5 million.

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

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

**9 FIXED ASSETS (Continued)****REGISTRATION OF TITLE TO LAND**

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for approximately 90% of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

**LAND CLAIMS**

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

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

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

**10 ACCOUNTS PAYABLE AND ACCRUALS**

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Trade accounts payable and accruals	10,768	16,238	13,915
Accrued personnel costs	8,020	6,616	7,205
Rentals billed in advance	4,852	5,093	5,369
Payable to fellow subsidiary companies	20,381	5,312	7,527
Payable to parent company	51,248	25,873	59,630
	<b>95,269</b>	<b>59,132</b>	<b>93,646</b>

**11 LONG TERM DEBT**

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Parent company loan	<b>316,215</b>	<b>132,452</b>	<b>139,575</b>

Interest rates on the parent company loan ranged from 9.76% to 13.62% for the six months ended 30 September 1991 except for a \$44.8 million reduction which, in advance of a capital restructuring, was at nil interest from 1 July 1991. The parent company loan has no fixed date for repayment.

TELECOM WELLINGTON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 12 SHAREHOLDERS' EQUITY

## SHARE PREMIUM RESERVE

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
<b>Balance at beginning and end of period</b>	<b>216,318</b>	<b>216,318</b>	<b>216,318</b>

(consisting of a premium of \$9,999 on 21,634 redeemable preference shares)

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

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning of period	46,234	19,155	19,155
Net earnings	12,845	14,453	40,671
	59,079	33,608	59,826
Dividends	(14,640)	(4,086)	(13,592)
<b>Balance at end of period</b>	<b>44,439</b>	<b>29,522</b>	<b>46,234</b>

## DIVIDENDS

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

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interim dividends	14,640	4,086	13,592
Final dividend	-	-	-
	14,640	4,086	13,592

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	9.9
Payable within 1-2 years	9.0
Payable within 2-3 years	8.8
Payable within 3-4 years	8.5
Payable within 4-5 years	8.1
Payable thereafter	<u>40.1</u>
	<u>\$84.4</u>

CAPITAL COMMITMENTS

As at 30 September 1991 capital expenditure amounting to \$8.6 million (30 September 1990:\$8.7 million, 31 March 1991: \$14.6 million) has been committed under contractual arrangements.

14 CONTINGENT LIABILITIES

LAND CLAIMS

As stated in Note 9, interests in land included in assets purchased from the Crown may be subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown.

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

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

LAWSUITS AND OTHER CLAIMS

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

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately \$1,545 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1991, principally under the following agreements:

- (i) \$623.0 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) \$540.0 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British pounds 124.5 million (NZ\$381.9 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

15 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 7%) from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries. Such expenses represented approximately 19% of total operating expenses.

Outstanding intercompany balances as at 30 September 1991 are:

- Intercompany receivable	\$2.2 million
- Intercompany payable and current account	\$71.6 million
- Intercompany term liabilities	\$316.2 million

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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15 RELATED PARTY TRANSACTIONS (Continued)

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the six months ended 30 September 1991 was to reduce reported operating revenues by approximately \$6.3 million and net earnings by approximately \$4.2 million from that which would otherwise have been reported.

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

16 FELLOW SUBSIDIARY COMPANIES

At 30 September 1991 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Central Limited
- Telecom South Limited
- Telecom Networks and Operations Limited
- Telecom New Zealand International Limited (formerly Telecom Networks and International Limited)
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- TCNZ (UK) Investments Limited
- Telecom Wellington Investments Limited
- Telecom Operations Limited
- Mokuso Holdings Limited
- Teleco Insurance, Inc

*In-substance subsidiaries*

- Netway Communications Limited

*TELECOM WELLINGTON LIMITED*

NOTES TO THE FINANCIAL STATEMENTS

*(CONTINUED)*

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*17 SEGMENTAL REPORTING*

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

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

AUDITORS' REPORT

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*REPORT OF THE AUDITORS  
TO THE MEMBERS OF TELECOM WELLINGTON LIMITED*

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 30 September 1991 and of the earnings for the six months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

WELLINGTON, 17 DECEMBER 1991



TELECOM SOUTH LIMITED

## STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1991

	Notes	Six months ended 30 September		Year ended 31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
Operating revenues	13	223,781	214,459	436,366
Operating expenses	2	(164,550)	(169,520)	(328,719)
Earnings from operations		59,231	44,939	107,647
Investment income	3	2	173	174
Interest expense	3	(14,347)	(16,572)	(32,540)
Earnings before income tax		44,886	28,540	75,281
Income tax	4	(14,876)	(9,794)	(25,057)
<b>Net earnings</b>	13	<b>30,010</b>	<b>18,746</b>	<b>50,224</b>

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

TELECOM SOUTH LIMITED

## BALANCE SHEET

AS AT 30 SEPTEMBER 1991

	Notes	30 September		31 March
		1991	1990	1991
		\$000's	\$000's	\$000's
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash		57	703	2,519
Accounts receivable and prepaid expenses	5	66,599	80,567	58,533
Inventories		22,364	25,782	23,339
Prepaid income tax	4	-	-	1,780
<b>Total current assets</b>		<b>89,020</b>	<b>107,052</b>	<b>86,171</b>
Investment in fellow subsidiary company		1,160	-	-
Other assets	6	7,294	7,258	6,213
Fixed assets	7	875,523	834,730	875,679
<b>Total assets</b>		<b>972,997</b>	<b>949,040</b>	<b>968,063</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Bank overdraft		489	1,752	4,963
Debt due within one year	9	3,022	-	-
Taxation payable	4	8,250	3,018	-
Accounts payable and accruals	8	62,507	100,525	110,749
Proposed dividend		27,893	3,373	-
<b>Total current liabilities</b>		<b>102,161</b>	<b>108,668</b>	<b>115,712</b>
Deferred income tax	4	9,261	834	5,651
Long term debt	9	257,639	244,881	244,881
<b>Total liabilities</b>		<b>369,061</b>	<b>354,383</b>	<b>366,244</b>
Commitments and contingent liabilities	11,12			
<b>Shareholders' equity:</b>	10			
Ordinary shares, \$1.00 each				
-Authorised, issued and fully paid 171,411,000 shares		171,411	171,411	171,411
Redeemable preference shares, \$1.00 each				
-Authorised, issued and fully paid 39,997 shares		40	40	40
Share premium reserve		399,930	399,930	399,930
Retained earnings		32,555	23,276	30,438
<b>Total shareholders' equity</b>		<b>603,936</b>	<b>594,657</b>	<b>601,819</b>
<b>Total liabilities and shareholders' equity</b>		<b>972,997</b>	<b>949,040</b>	<b>968,063</b>

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

On behalf of the Board

W J HARRISON

CHAIRMAN

CHRISTCHURCH, 17 DECEMBER 1991

B ASH

MANAGING DIRECTOR

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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1 STATEMENT OF ACCOUNTING POLICIES

(a) CONSTITUTION, OWNERSHIP AND ACTIVITIES

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

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

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

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

At 30 September 1991, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Carla Nominees Limited held 11,058,888 ordinary shares (0.5%).

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

- A local free-calling option will be maintained for all residential customers.
- The standard residential rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the New Zealand Consumer Price Index unless Telecom's regional operating company profits are unreasonably impaired.
- Line rentals for residential customers in rural areas will be no higher than the standard residential rental, and ordinary residential telephone service will remain as widely available as it was as at 11 September 1990.

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

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

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

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

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

FIXED ASSETS

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

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

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

Effective 1 April 1989 for each fixed asset project having a cost in excess of \$10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and prepare the fixed asset ready for its intended use is capitalised as part of the total cost.

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

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

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

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

Telecommunication equipment and plant:

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

LEASES

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

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

No material finance leases have been entered into as lessor.

COMPENSATED ABSENCES

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

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 1 STATEMENT OF ACCOUNTING POLICIES (Continued)

#### LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

#### PENSIONS

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

#### TAXATION

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

#### FOREIGN CURRENCIES

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

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

#### RECLASSIFICATIONS

Certain reclassifications of prior periods' data have been made to conform to current periods classifications.

#### (d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 2 OPERATING EXPENSES

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
	<b>164,550</b>	<b>169,520</b>	<b>328,719</b>
Included in operating expenses are:			
- Depreciation	50,530	49,342	101,303
- Audit fees	100	95	190
- Intercompany management fee	8,553	8,873	15,431
- Lease and rental costs	2,483	2,863	5,849

## 3 INVESTMENT INCOME/INTEREST EXPENSE

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interest income:			
- Intercompany	-	173	174
- Other	2	-	-
	<b>2</b>	<b>173</b>	<b>174</b>
Interest expense:			
- Intercompany (including finance lease charges)	18,623	16,328	35,898
- Other	(10)	1,127	(10)
	18,613	17,455	35,888
- Less interest capitalised	(4,266)	(883)	(3,348)
	<b>14,347</b>	<b>16,572</b>	<b>32,540</b>

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 4 INCOME TAX

	Six months ended		Year ended
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	44,886	28,540	75,281
Tax at current rate of 33%	14,812	9,418	24,843
Adjustment for permanent differences	64	376	214
<b>Total income tax expense</b>	<b>14,876</b>	<b>9,794</b>	<b>25,057</b>
The income tax expense is represented by:			
-Current taxation	11,329	6,113	15,940
-Deferred taxation	3,547	3,681	9,117
	14,876	9,794	25,057
The balance sheet provisions are:			
	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Current taxation:			
-Balance at beginning of period	1,780	3,095	3,095
-Total taxation in the current period	(11,329)	(6,113)	(15,940)
-Tax paid	1,299	-	14,625
<b>Prepaid income tax/(Taxation payable)</b>	<b>(8,250)</b>	<b>(3,018)</b>	<b>1,780</b>
Deferred taxation:			
-Balance at beginning of period	(5,651)	(3,891)	(3,891)
-Provided in the current period	(3,547)	(3,681)	(9,117)
-Other movements	(63)	6,738	7,357
<b>Deferred income tax</b>	<b>(9,261)</b>	<b>(834)</b>	<b>(5,651)</b>

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 5 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Accounts receivable, net	39,247	46,413	37,672
Unbilled rentals and tolls	19,369	18,444	16,825
Due from fellow subsidiary companies	1,503	14,022	3,130
Due from parent company	5,784	-	-
Prepaid expenses and other	696	1,688	906
	<b>66,599</b>	<b>80,567</b>	<b>58,533</b>

## 6 OTHER ASSETS

Other assets include certain deferred expenditure amounting to \$5.3 million (30 September 1990: \$7.3 million, 31 March 1991: \$6.2 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1991 amounted to \$1.9 million (30 September 1990: \$0 million, for the year ended 31 March 1991 \$1.5 million).

In addition, at 30 September 1991, other assets include \$2.0 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	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Telecommunication equipment:			
- Cost	963,895	847,659	923,002
- Accumulated depreciation	(313,794)	(256,938)	(294,485)
	650,101	590,721	628,517
Capital work in progress	49,240	100,341	96,231
Land	37,678	38,356	38,055
Buildings:			
- Cost	91,700	67,664	69,533
- Accumulated depreciation	(12,269)	(9,498)	(10,915)
	79,431	58,166	58,618
Other fixed assets:			
- Cost	101,135	81,239	92,483
- Accumulated depreciation	(42,062)	(34,093)	(38,225)
	59,073	47,146	54,258
<b>Total cost</b>	<b>1,243,648</b>	<b>1,135,259</b>	<b>1,219,304</b>
<b>Total accumulated depreciation</b>	<b>(368,125)</b>	<b>(300,529)</b>	<b>(343,625)</b>
<b>Total net book value</b>	<b>875,523</b>	<b>834,730</b>	<b>875,679</b>

Included in telecommunications equipment, at 30 September 1991, 30 September 1990 and 31 March 1991 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of \$121.4 million, \$113.6 million and \$117.1 million, together with accumulated depreciation of \$89.7 million, \$66.6 million and \$78.3 million.

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

During the six months ended 30 September 1991, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 30 September 1991, assets capitalised under finance leases associated with this transaction had a cost of \$34.6 million and accumulated depreciation of \$0.3 million.

## REGISTRATION OF TITLE TO LAND

Certificates of title for freehold interests in land included in the assets purchased from the Crown are being progressively raised by the Crown and transferred to Group companies. Titles for approximately 90% of the freehold interests have now been issued and, for the remainder, equitable ownership rests with the Group.

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 7 FIXED ASSETS (Continued)

## LAND CLAIMS

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

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

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

## 8 ACCOUNTS PAYABLE AND ACCRUALS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Trade accounts payable and accruals	25,378	31,597	32,784
Accrued personnel costs	11,988	16,368	13,795
Rentals billed in advance	6,769	10,348	7,255
Payable to fellow subsidiary companies	18,372	7,361	6,597
Payable to parent company	-	34,851	50,318
	<b>62,507</b>	<b>100,525</b>	<b>110,749</b>

## 9 LONG TERM DEBT

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Parent company loan	226,041	244,881	244,881
Other loans			
-Due to fellow group company	34,620	-	-
-Less long term debt maturing within one year	(3,022)	-	-
	31,598	-	-
	<b>257,639</b>	<b>244,881</b>	<b>244,881</b>

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 9 LONG TERM DEBT (Continued)

Interest rates on the parent company loan ranged from 13.21% to 13.62% for the six months ended 30 September 1991 except for a \$20 million reduction which, in advance of a capital restructuring, was at nil interest from 1 July 1991. The parent company loan has no fixed date for repayment.

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
SCHEDULE OF MATURITIES - Other loans			
Due 1 to 2 years	3,799	-	-
Due 2 to 3 years	27,799	-	-
<b>Total due after one year</b>	<b>31,598</b>	<b>-</b>	<b>-</b>

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

10 SHAREHOLDERS' EQUITY  
SHARE PREMIUM RESERVE

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning and end of period	<b>399,930</b>	<b>399,930</b>	<b>399,930</b>

(consisting of a premium of \$9,999 on 39,997 redeemable preference shares)

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

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

## 10 SHAREHOLDERS' EQUITY (Continued)

## RETAINED EARNINGS

	30 September		31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Balance at beginning of period	30,438	7,903	7,903
Net earnings	30,010	18,746	50,224
Dividends	60,448 (27,893)	26,649 (3,373)	58,127 (27,689)
<b>Balance at end of period</b>	<b>32,555</b>	<b>23,276</b>	<b>30,438</b>

## DIVIDENDS

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

	Six months ended 30 September		Year ended 31 March
	1991	1990	1991
	\$000's	\$000's	\$000's
Interim dividends	27,893	3,373	27,689
Final dividend	-	-	-
	<b>27,893</b>	<b>3,373</b>	<b>27,689</b>

## 11 COMMITMENTS

## OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1991 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	3.0
Payable within 1-2 years	2.6
Payable within 2-3 years	1.6
Payable within 3-4 years	1.5
Payable within 4-5 years	1.1
Payable thereafter	4.6
	<u>\$14.4</u>

## CAPITAL COMMITMENTS

As at 30 September 1991 capital expenditure amounting to \$23.2 million (30 September 1990: \$62.0 million, 31 March 1991: \$32.4 million) has been committed under contractual arrangements.

TELECOM SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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### 12 CONTINGENT LIABILITIES

#### LAND CLAIMS

As stated in Note 7, interests in land included in assets purchased from the Crown may be subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown.

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

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

#### LAWSUITS AND OTHER CLAIMS

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

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

#### GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately \$1,545 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1991, principally under the following agreements:

- (i) \$623.0 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) \$540.0 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British pounds 124.5 million (NZ\$381.9 million) under a deed poll dated 12 November 1990.

Under certain of the agreements referred to above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge or lien over any of its assets.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 RELATED PARTY TRANSACTIONS

*RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS*

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

*RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES*

During the period the Company derived revenue (approximately 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 16% of total operating expenses.

Outstanding intercompany balances as at 30 September 1991 are:

- Intercompany receivable and current account	\$7.3 million
- Intercompany payable	\$18.4 million
- Intercompany term liabilities	\$260.7 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.

*GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP*

With effect from 1 April 1991, the pricing of the trading relationship between the Company and Telecom New Zealand International Limited, a fellow group company, was renegotiated. The effect of the change on the results for the six months ended 30 September 1991 was to reduce reported operating revenues by approximately \$3.7 million and net earnings by approximately \$2.5 million from that which would otherwise have been reported.

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1991 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Central Limited
- Telecom Wellington Limited
- Telecom Networks and Operations Limited
- Telecom New Zealand International Limited (formerly Telecom Networks and International Limited)
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- TCNZ (UK) Investments Limited
- Telecom Wellington Investments Limited
- Telecom Operations Limited
- Mokuso Holdings Limited
- Teleco Insurance, Inc

*In-substance subsidiaries*

- Netway Communications Limited

15 SEGMENTAL REPORTING

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

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

AUDITORS' REPORT

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*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 30 September 1991 and of the earnings for the six months ended on that date and they comply with the Telecommunications (Disclosure) Regulations 1990.

*COOPERS & LYBRAND*

*CHARTERED ACCOUNTANTS*

*CHRISTCHURCH, 17 DECEMBER 1991*



