SUPPLEMENT to

The New Zealand
Gazette

OF THURSDAY, 17 DECEMBER 1992

WELLINGTON: FRIDAY, 18 DECEMBER 1992 — ISSUE NO. 205

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 1992 for the following subsidiaries:

Telecom Auckland Limited;

Telecom Central Limited;

Telecom Wellington Limited;

Telecom South Limited;

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

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

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

Telecom Auckland Limited, Telecom Tower, 16 Kingston Street, Private Bag 92030, Auckland.

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

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

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

TELECOM AUCKLAND LIMITED

STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1992

	Notes	Six months ended 30 September 1992	Six months ended 30 September 1991	Year ended 31 March 1992
		$000's	$000's	$000's
Operating revenues		285,011	291,692	584,051
Operating expenses	2	(236,843)	(243,761)	(484,917)
Earnings from operations		48,168	47,931	99,134
Investment income	3	12	147	3,798
Interest expense	3	(24,553)	(28,422)	(53,531)
Earnings before income tax		23,627	19,656	49,401
Income tax	4	(7,805)	(5,622)	(11,259)
Net earnings		**15,822**	**14,034**	**38,142**

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

TELECOM AUCKLAND LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 1992

	Notes	30 September 1992	30 September 1991	31 March 1992
		$000's	$000's	$000's
ASSETS				
Current assets:				
Cash		1,333	658	2,746
Accounts receivable and prepaid expenses	5	80,588	113,183	100,804
Inventories		24,634	50,339	29,859
Prepaid income tax	4	14,942	18,409	23,435
Total current assets		121,497	182,589	156,844
Investment in fellow subsidiary company		1,600	720	1,600
Other assets	6	4,521	7,661	5,839
Fixed assets	7	1,051,090	1,079,405	1,082,880
Total assets		**1,178,708**	**1,270,375**	**1,247,163**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank overdraft		6,748	5,250	2,370
Debt due within one year	9	6,713	4,738	6,075
Accounts payable and accruals	8	77,179	158,381	131,431
Proposed dividend		15,020	22,437	-
Total current liabilities		105,660	190,806	139,876
Deferred income tax	4	7,719	6,168	9,076
Long term debt	9	350,019	386,250	353,703
Total liabilities		463,398	583,224	502,655
Commitments and contingent liabilities	11,12			
Shareholders' equity:	10			
Ordinary shares, $1.00 each				
-Authorised, issued and fully paid 199,146,000 shares		199,146	199,146	199,146
Redeemable preference shares, $1.00 each				
-Authorised, issued and fully paid 47,466 shares		47	46	50
Share premium reserve		474,613	464,614	504,610
Capital redemption reserve		3	-	-
Retained earnings		41,501	23,345	40,702
Total shareholders' equity		715,310	687,151	744,508
Total liabilities and shareholders' equity		**1,178,708**	**1,270,375**	**1,247,163**

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

On behalf of the Board

P BLADES
DIRECTOR

P J HAWORTH
DIRECTOR

AUCKLAND, 12 NOVEMBER 1992

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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1 STATEMENT OF ACCOUNTING POLICIES

(a) CONSTITUTION, OWNERSHIP AND ACTIVITIES

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

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

The parent company was wholly-owned by Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

At 30 September 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

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

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

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

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

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

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

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

FIXED ASSETS

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

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

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

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

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

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

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

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

LEASES

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

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

No material finance leases have been entered into as lessor.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

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

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

PENSIONS

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

TAXATION

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

FOREIGN CURRENCIES

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

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

RECLASSIFICATIONS

Certain reclassifications of prior 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. All significant accounting policies have been applied on a consistent basis.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
	236,843	**243,761**	**484,917**
Included in operating expenses are:			
- Depreciation	65,704	61,499	125,435
- Audit fees	108	100	200
- Intercompany management fee	13,173	11,363	22,787
- Foreign exchange gains	-	(8)	5
- Lease and rental costs	7,728	8,548	16,265

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
Interest income:			
- Intercompany	-	141	141
- Other	12	6	3,657
	12	**147**	**3,798**
Interest expense:			
- Intercompany (including finance lease charges)	24,540	28,565	53,661
- Other	13	20	33
	24,553	28,585	53,694
- Less interest capitalised	-	(163)	(163)
	24,553	**28,422**	**53,531**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	23,627	19,656	49,401
Tax at current rate of 33%	7,797	6,487	16,302
Adjustment for permanent differences	8	(865)	(5,043)
Total income tax expense	**7,805**	**5,622**	**11,259**
The income tax expense is represented by:			
-Current taxation	8,513	1,391	2,932
-Deferred taxation	(708)	4,231	8,327
	7,805	5,622	11,259

The balance sheet provisions are:

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Current taxation:			
-Balance at beginning of period	23,435	19,800	19,800
-Total taxation in the current period	(8,513)	(1,391)	(2,932)
-Tax paid	-	-	4,176
-Other	20	-	2,391
Prepaid income tax	**14,942**	**18,409**	**23,435**
Deferred taxation:			
-Balance at beginning of period	(9,076)	(2,100)	(2,100)
-Provided in the current period	708	(4,231)	(8,327)
-Other	649	163	1,351
Deferred income tax	**(7,719)**	**(6,168)**	**(9,076)**

A deferred tax liability at 30 September 1992 of $0.4 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $4.1 million (September 1991: $7.1 million, March 1992: $4.8 million)	54,783	66,772	60,720
Unbilled rentals and tolls	21,983	29,893	34,100
Due from fellow subsidiary companies	1,496	11,046	4,948
Prepaid expenses and other	2,326	5,472	1,036
	80,588	**113,183**	**100,804**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $2.9 million (30 September 1991: $4.9 million, 31 March 1992: $3.6 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1992 amounted to $1.8 million (30 September 1991: $1.7 million, 31 March 1992: $3.4 million).

In addition, at 30 September 1992, other assets include $1.6 million (30 September 1991: $2.8 million, 31 March 1992: $2.2 million) being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Telecommunication equipment:			
- Cost	1,223,488	1,110,058	1,168,661
- Accumulated depreciation	(466,403)	(363,652)	(409,281)
	757,085	746,406	759,380
Capital work in progress	41,460	91,700	65,821
Land	57,581	57,668	57,405
Buildings:			
- Cost	151,718	132,087	137,366
- Accumulated depreciation	(20,979)	(12,894)	(14,382)
	130,739	119,193	122,984
Other fixed assets:			
- Cost	111,773	114,726	132,023
- Accumulated depreciation	(47,548)	(50,288)	(54,733)
	64,225	64,438	77,290
Total cost	**1,586,020**	**1,506,239**	**1,561,276**
Total accumulated depreciation	**(534,930)**	**(426,834)**	**(478,396)**
Total net book value	**1,051,090**	**1,079,405**	**1,082,880**

Included in telecommunications equipment, at 30 September 1992, 30 September 1991 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $196.5 million, $185.2 million and $191.2 million, together with accumulated depreciation of $154.7 million, $123.8 million and $140.1 million.

During the period to 30 September 1992, there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 30 September 1992, assets capitalised under finance leases associated with this transaction had a cost of $75.8 million (30 September 1991: $65.6 million, 31 March 1992: $75.8 million) and accumulated depreciation of $9.0 million (30 September 1991: $1.2 million, 31 March 1992: $5.1 million).

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (Continued)*

REGISTRATION OF TITLE TO LAND

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

LAND CLAIMS

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

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

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

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Trade accounts payable and accruals	16,000	25,959	21,602
Accrued personnel costs	14,763	23,095	16,830
Rentals billed in advance	12,107	12,162	13,123
Payable to fellow subsidiary companies	24,784	40,131	65,614
Payable to parent company	9,525	57,034	14,262
	77,179	**158,381**	**131,431**

Interest rates on the parent company current account ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company current account is repayable on demand.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Parent company loan	286,091	325,211	286,091
Other loans			
- Due to fellow group company	70,495	65,614	73,532
- Other	146	163	155
	70,641	65,777	73,687
- Less long term debt maturing within one year	(6,713)	(4,738)	(6,075)
	63,928	61,039	67,612
	350,019	**386,250**	**353,703**

Interest rates on the parent company loan ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	56,116	5,830	7,377
Due 2 to 3 years	7,753	55,114	60,157
Due 3 to 4 years	40	35	38
Due 4 to 5 years	19	41	40
Due over 5 years	-	19	-
Total due after one year	63,928	61,039	67,612

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

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	504,610	464,614	464,614
(Consisting of a premium of $9,999 on 50,466 redeemable preference shares)			
Movements during the period			
-Premium of $9,999 on 3,000 redeemable preference shares	(29,997)	-	-
-Premium of $9,999 on 4,000 redeemable preference shares	-	-	39,996
	474,613	**464,614**	**504,610**

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

CAPITAL REDEMPTION RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	-	-	-
Movements during period			
-Transfer from retained earnings	3	-	-
	3	**-**	**-**

RETAINED EARNINGS

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	40,702	31,748	31,748
Net earnings	15,822	14,034	38,142
	56,524	45,782	69,890
Transfer to capital redemption reserve	(3)	-	-
Dividends	(15,020)	(22,437)	(29,188)
Balance at end of period	**41,501**	**23,345**	**40,702**

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

10 SHAREHOLDERS' EQUITY (Continued)

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
	1992	1991	1992
	$000's	$000's	$000's
Interim dividends	15,020	22,437	29,188
Final dividend	-	-	-
	15,020	22,437	29,188

11 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	16.8
Payable within 1-2 years	16.4
Payable within 2-3 years	16.5
Payable within 3-4 years	16.2
Payable within 4-5 years	13.4
Payable thereafter	31.5
	$110.8

CAPITAL COMMITMENTS

As at 30 September 1992 capital expenditure amounting to $12.1 million (30 September 1991: $25.3 million, 31 March 1992: $15.9 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.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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12 CONTINGENT LIABILITIES (Continued)

LAWSUITS AND OTHER CLAIMS

In August 1991, a competitor filed proceedings against Telecom including Telecom Auckland in connection with a request for a local service interconnection arrangement. 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. Substantive hearings in the suit were completed in October 1992. Judgement is awaited. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome of these proceedings, Telecom cannot ascertain the likelihood of such proceedings being successful or the potential impact any judgement entered against it might have upon the trend of Telecom's future net earnings.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,613 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1992, together with, in each case, interest thereon, principally under the following agreements:

(i) $424.2 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) $650.9 million under a trust deed made as of 20 September 1989 and 3 April 1992 and subsequent supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) British pounds 122.6 million (NZ$408.1 million) under a deed poll dated 12 November 1990.

(iv) $129.8 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 11.1%) from access fees, maintenance services and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries. Such expenses represented approximately 23.1% of total operating expenses.

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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13 RELATED PARTY TRANSACTIONS (Continued)

Outstanding intercompany balances as at 30 September 1992 are:

- Intercompany receivable	$1.5 million
- Intercompany payable and current account	$34.3 million
- Intercompany term liabilities	$356.6 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.

14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1992 the principal fellow subsidiaries were as follows:

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

In-substance subsidiaries

-Netway Communications Limited

Associate companies

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

AUDITORS' REPORT

REPORT OF THE AUDITORS
TO THE MEMBERS OF TELECOM AUCKLAND LIMITED

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 30 September 1992 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, 12 NOVEMBER 1992

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1992

	Notes	Six months ended 30 September 1992	Six months ended 30 September 1991	Year ended 31 March 1992
		$000's	$000's	$000's
Operating revenues		253,067	254,222	514,064
Operating expenses	2	(186,093)	(180,159)	(359,421)
Earnings from operations		66,974	74,063	154,643
Investment income	3	693	276	1,594
Interest expense	3	(19,062)	(21,744)	(41,854)
Earnings before income tax		48,605	52,595	114,383
Income tax	4	(16,213)	(17,529)	(38,205)
Net earnings		**32,392**	**35,066**	**76,178**

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 1992

	Notes	30 September 1992	30 September 1991	31 March 1992
		$000's	$000's	$000's
ASSETS				
Current assets:				
Cash		78	887	1,268
Accounts receivable and prepaid expenses	5	102,068	76,172	68,257
Inventories		11,800	18,520	13,080
Total current assets		113,946	95,579	82,605
Investment in fellow subsidiary company		1,020	780	1,180
Other assets	6	5,076	9,679	6,823
Fixed assets	7	862,756	884,241	877,758
Total assets		**982,798**	**990,279**	**968,366**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank overdraft		239	1,059	-
Debt due within one year	9	4,911	4,199	4,805
Taxation payable	4	12,419	7,077	6,450
Accounts payable and accruals	8	51,223	69,152	70,253
Proposed dividend		30,270	31,571	-
Total current liabilities		99,062	113,058	81,508
Deferred income tax	4	7,277	8,350	6,418
Long term debt	9	297,407	342,079	300,010
Total liabilities		403,746	463,487	387,936
Commitments and contingent liabilities	11,12			
Shareholders' equity:	10			
Ordinary shares, $1.00 each				
-Authorised, issued and fully paid 88,456,000 shares		88,456	88,456	88,456
Redeemable preference shares, $1.00 each				
-Authorised, issued and fully paid 45,560 shares		46	42	46
Share premium reserve		455,554	419,058	459,054
Retained earnings		34,996	19,236	32,874
Total shareholders' equity		579,052	526,792	580,430
Total liabilities and shareholders' equity		**982,798**	**990,279**	**968,366**

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

On behalf of the Board

G A HODDINOTT *S E GLENN*

DIRECTOR *DIRECTOR*

HAMILTON, 12 NOVEMBER 1992

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".

The parent company was wholly-owned by Her Majesty the Queen in Right of New Zealand (the "Crown") until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to subsidiaries of two American companies, Ameritech Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic"). Ameritech and Bell Atlantic then agreed to sell a combined 10% interest to a company, Carla Nominees Limited (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

At 30 September 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

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

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

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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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)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

LEASES

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

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

No material finance leases have been entered into as lessor.

COMPENSATED ABSENCES

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

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 period classifications.

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
	186,093	**180,159**	**359,421**
Included in operating expenses are:			
- Depreciation	52,768	53,819	109,754
- Audit fees	127	100	200
- Intercompany management fee	11,904	9,380	18,816
- Foreign exchange gains	-	(4)	(27)
- Lease and rental costs	3,070	2,831	5,495

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
Interest income:			
- Intercompany	628	273	942
- Other	65	3	652
	693	**276**	**1,594**
Interest expense:			
- Intercompany (including finance lease charges)	19,062	21,647	41,660
- Other	-	97	194
	19,062	**21,744**	**41,854**

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	48,605	52,595	114,383
Tax at current rate of 33%	16,039	17,356	37,746
Adjustment for permanent differences	174	173	459
Total income tax expense	**16,213**	**17,529**	**38,205**
The income tax expense is represented by:			
-Current taxation	15,442	17,286	38,736
-Deferred taxation	771	243	(531)
	16,213	17,529	38,205

The balance sheet provisions are:

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Current taxation:			
-Balance at beginning of period	(6,450)	6,648	6,648
-Total taxation in the current period	(15,442)	(17,286)	(38,736)
-Tax paid	9,473	3,561	26,183
-Other	-	-	(545)
Taxation payable	**(12,419)**	**(7,077)**	**(6,450)**
Deferred taxation:			
-Balance at beginning of period	(6,418)	(8,419)	(8,419)
-Provided in the current period	(771)	(243)	531
-Other	(88)	312	1,470
Deferred income tax	**(7,277)**	**(8,350)**	**(6,418)**

A deferred tax asset at 30 September 1992 of $2.3 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $5.7 million (September 1991: $5.6 million, March 1992: $6.2 million)	43,423	49,517	48,899
Unbilled rentals and tolls	12,082	24,639	16,762
Due from fellow subsidiary companies	2,038	1,520	2,230
Due from parent	43,548	-	-
Prepaid expenses and other	977	496	366
	102,068	**76,172**	**68,257**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $2.9 million (30 September 1991: $7.9 million, 31 March 1992: $5.4 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1992 amounted to $3.1 million (30 September 1991: $3.3 million, 31 March 1992: $7.1 million).

In addition, at 30 September 1992, other assets include $1.2 million (30 September 1991: $1.8 million, 31 March 1992: $1.4 million) being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Telecommunication equipment:			
- Cost	1,089,999	1,001,235	1,047,342
- Accumulated depreciation	(421,666)	(334,556)	(373,149)
	668,333	666,679	674,193
Capital work in progress	32,884	50,856	33,106
Land	16,858	18,659	17,520
Buildings:			
- Cost	122,053	105,932	107,382
- Accumulated depreciation	(23,397)	(15,003)	(16,688)
	98,656	90,929	90,694
Other fixed assets:			
- Cost	87,727	103,435	114,670
- Accumulated depreciation	(41,702)	(46,317)	(52,425)
	46,025	57,118	62,245
Total cost	**1,349,521**	**1,280,117**	**1,320,020**
Total accumulated depreciation	**(486,765)**	**(395,876)**	**(442,262)**
Total net book value	**862,756**	**884,241**	**877,758**

Included in telecommunications equipment, at 30 September 1992, 30 September 1991 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $105.2 million, $103.3 million and $102.6 million, together with accumulated depreciation of $91.8 million, $79.3 million and $87.2 million.

During the period to 30 September 1992 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 30 September 1992, 30 September 1991 and 31 March 1992, assets capitalised under finance leases associated with this transaction had a cost of $50.3 million and accumulated depreciation of $6.3 million (30 September 1991: $0.6 million, 31 March 1992: $3.6 million).

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (Continued)*

REGISTRATION OF TITLE TO LAND

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

LAND CLAIMS

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

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

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

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Trade accounts payable and accruals	20,878	18,594	18,306
Accrued personnel costs	9,859	10,987	11,662
Rentals billed in advance	9,699	9,995	9,800
Payable to fellow subsidiary companies	10,787	20,615	22,307
Payable to parent company	-	8,961	8,178
	51,223	**69,152**	**70,253**

Interest rates on the parent company current account ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company current account is repayable on demand.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Parent company loan	255,061	294,822	255,223
Other loans			
- Due to fellow group company	46,649	50,265	48,668
- Other	608	1,191	924
	47,257	51,456	49,592
- Less long term debt maturing within one year	(4,911)	(4,199)	(4,805)
	42,346	47,257	44,787
	297,407	**342,079**	**300,010**

Interest rates on the parent company loan ranged from 12.29% to 12.77% for six months ended 30 September 1992. The parent company loan has no fixed date for repayment.

SCHEDULE OF MATURITIES - Other loans

Due 1 to 2 years	42,346	5,057	5,035
Due 2 to 3 years	-	42,200	39,752
Total due after one year	42,346	47,257	44,787

Other loans are for the finance lease obligations of office equipment, with interest and principal paid monthly at 16.0% p.a., and telecommunication 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
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	459,054	419,058	419,058
(Consisting of a premium of $9,999 on 45,910 redeemable preference shares)			
Movements during the period			
-Premium of $9,999 on 350 redeemable preference shares	(3,500)	-	-
-Premium of $9,999 on 4,000 redeemable preference shares	-	-	39,996
	455,554	**419,058**	**459,054**

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

RETAINED EARNINGS

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	32,874	15,741	15,741
Net earnings	32,392	35,066	76,178
	65,266	50,807	91,919
Dividends	(30,270)	(31,571)	(59,045)
Balance at end of period	**34,996**	**19,236**	**32,874**

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
	1992	1991	1992
	$000's	$000's	$000's
Interim dividends	30,270	31,571	59,045
Final dividend	-	-	-
	30,270	31,571	59,045

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 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	3.9
Payable within 1-2 years	3.7
Payable within 2-3 years	3.2
Payable within 3-4 years	2.4
Payable within 4-5 years	1.9
Payable thereafter	3.0
	$18.1

CAPITAL COMMITMENTS

As at 30 September 1992 capital expenditure amounting to $9.0 million (30 September 1991: $8.9 million, 31 March 1992: $9.6 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

In August 1991, a competitor filed proceedings against Telecom in connection with a request for a local service interconnection arrangement. 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. Substantive hearings in the suit were completed in October 1992. Judgement is awaited. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome of these proceedings, Telecom cannot ascertain the likelihood of such proceedings being successful or the potential impact any judgement entered against it might have upon the trend of Telecom's future net earnings.

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

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,613 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1992 together with, in each case, interest thereon, principally under the following agreements:

(i) $424.2 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) $650.9 million under trust deeds made as of 20 September 1989 and 3 April 1992 and subsequent supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) British pounds 122.6 million (NZ$408.1 million) under a deed poll dated 12 November 1990.

(iv) $129.8 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 8.9%) 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 22.3% of total operating expenses.

Outstanding intercompany balances as at 30 September 1992 are:

- Intercompany receivable and current account	$45.6 million
- Intercompany payable	$10.8 million
- Intercompany term liabilities	$301.7 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.

TELECOM CENTRAL LIMITED AND SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1992 the principal fellow subsidiaries were as follows:

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

In-substance subsidiaries

-Netway Communications Limited

Associate Companies

-Pacific Star Communications Pty Limited

15 SEGMENTAL REPORTING

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

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

AUDITORS' REPORT

REPORT OF THE AUDITORS
TO THE MEMBERS OF TELECOM CENTRAL LIMITED

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company and its subsidiary's affairs at 30 September 1992 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, 12 NOVEMBER 1992

TELECOM WELLINGTON LIMITED

STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1992

	Notes	Six months ended 30 September 1992	Six months ended 30 September 1991	Year ended 31 March 1992
		$000's	$000's	$000's
Operating revenues		136,210	152,865	301,378
Operating expenses	2	(119,471)	(127,065)	(245,667)
Earnings from operations		16,739	25,800	55,711
Investment income	3	9,069	6,368	17,849
Interest expense	3	(23,208)	(17,646)	(42,188)
Earnings before income tax		2,600	14,522	31,372
Income tax	4	3,962	(1,677)	(980)
Net earnings		**6,562**	**12,845**	**30,392**

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

TELECOM WELLINGTON LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 1992

	Notes	30 September 1992	30 September 1991	31 March 1992
		$000's	$000's	$000's
ASSETS				
Current assets:				
Cash		2,819	113	1,647
Short term investments	6	3,123	57,123	3,123
Accounts receivable and prepaid expenses	5	36,893	60,767	58,231
Inventories		11,839	15,142	12,259
Prepaid income tax	4	7,840	972	2,993
Total current assets		62,514	134,117	78,253
Future tax benefit	4	6,987	4,429	7,877
Investments	7	225,440	221,440	226,120
Other assets	8	1,507	1,374	1,972
Fixed assets	9	404,462	418,316	420,217
Total assets		**700,910**	**779,676**	**734,439**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank overdraft		-	59	-
Accounts payable and accruals	10	36,821	95,269	55,032
Proposed dividend		7,050	14,640	-
Total current liabilities		43,871	109,968	55,032
Long term debt	11	361,015	316,215	361,695
Total liabilities		404,886	426,183	416,727
Commitments and contingent liabilities	13,14			
Shareholders' equity:	12			
Ordinary shares, $1.00 each				
-Authorised, issued and fully paid 92,714,000 shares		92,714	92,714	92,714
Redeemable preference shares, $1.00 each				
-Authorised, issued and fully paid 15,034 shares		15	22	17
Share premium reserve		150,325	216,318	171,523
Capital redemption reserve		7	-	4
Retained earnings		52,963	44,439	53,454
Total shareholders' equity		296,024	353,493	317,712
Total liabilities and shareholders' equity		**700,910**	**779,676**	**734,439**

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

On behalf of the Board

D L VANGILDER
DIRECTOR

D M LOCKE
DIRECTOR

WELLINGTON, 12 NOVEMBER 1992

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 (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

At 30 September 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

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

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

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

The measurement basis adopted in the preparation of these financial statements is historical cost. 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)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

INVESTMENTS

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

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

LEASES

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

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

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

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

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

PENSIONS

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

TAXATION

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

FOREIGN CURRENCIES

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

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

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. All significant accounting policies have been applied on a consistent basis.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
	119,471	**127,065**	**245,667**
Included in operating expenses are:			
- Depreciation	27,947	27,282	56,113
- Audit fees	102	100	200
- Intercompany management fee	6,867	6,252	12,532
- Lease and rental costs	6,242	6,443	11,863

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
Interest income:			
- Intercompany	291	1,069	2,045
- Other	6	28	596
	297	1,097	2,641
Dividend income from fellow subsidiary company	8,772	5,271	15,208
Total investment income	**9,069**	**6,368**	**17,849**
Interest expense:			
- Intercompany	**23,208**	**17,646**	**42,188**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
The income tax expense for the period is determined as follows:			
Earnings before income tax	2,600	14,522	31,372
Tax at current rate of 33%	858	4,792	10,353
Adjustment for permanent differences:			
Dividends received	(2,895)	(1,739)	(5,019)
Group tax loss offset	(1,965)	(1,265)	(3,221)
Other	40	(111)	(1,133)
Total income tax expense	**(3,962)**	**1,677**	**980**
The income tax expense is represented by:			
-Current taxation	(4,847)	173	2,926
-Deferred taxation	885	1,504	(1,946)
	(3,962)	1,677	980

The balance sheet provisions are:

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Current taxation:			
-Balance at beginning of period	2,993	794	794
-Total taxation in the current period	4,847	(173)	(2,926)
-Tax paid	-	351	4,529
-Other	-	-	596
Prepaid income tax	**7,840**	**972**	**2,993**
Deferred taxation:			
-Balance at beginning of period	(7,877)	(5,780)	(5,780)
-Provided in the current period	885	1,504	(1,946)
-Other	5	(153)	(151)
Deferred income tax	**(6,987)**	**(4,429)**	**(7,877)**

A deferred tax asset at 30 September 1992 of $0.4 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $2.5 million (September 1991: $4.7 million, March 1992: $3.5 million)	19,851	38,386	24,990
Unbilled rentals and tolls	14,343	19,977	18,636
Due from fellow subsidiary companies	1,852	2,163	2,141
Due from parent company	-	-	11,744
Prepaid expenses and other	847	241	720
	36,893	**60,767**	**58,231**

6 *SHORT TERM INVESTMENTS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Redeemable preference units	3,123	3,123	3,123
Redeemable preference shares in fellow subsidiary company	-	54,000	-
	3,123	**57,123**	**3,123**

7 *INVESTMENTS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Redeemable preference shares:			
- Fellow subsidiary companies	214,840	210,840	215,520
- Other	10,600	10,600	10,600
	225,440	**221,440**	**226,120**

8 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $0.9 million (30 September 1991: nil, 31 March 1992: $1.1 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the six months ended 30 September 1992 amounted to $0.3 million (30 September 1991: nil, 31 March 1992: $0.5 million).

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

8 OTHER ASSETS (Continued)

In addition, at 30 September 1992, other assets include $0.6 million (30 September 1991: $1.1 million, 31 March 1992: $0.9 million) being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

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

9 FIXED ASSETS

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Telecommunication equipment:			
- Cost	493,257	461,579	473,667
- Accumulated depreciation	(231,386)	(190,726)	(209,263)
	261,871	270,853	264,404
Capital work in progress	8,761	9,401	16,964
Land	41,881	41,904	41,903
Buildings:			
- Cost	72,586	64,075	64,054
- Accumulated depreciation	(13,430)	(7,656)	(8,993)
	59,156	56,419	55,061
Other fixed assets:			
- Cost	60,032	64,873	70,332
- Accumulated depreciation	(27,239)	(25,134)	(28,447)
	32,793	39,739	41,885
Total cost	**676,517**	**641,832**	**666,920**
Total accumulated depreciation	**(272,055)**	**(223,516)**	**(246,703)**
Total net book value	**404,462**	**418,316**	**420,217**

Included in telecommunications equipment, at 30 September 1992, 30 September 1991 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $102.0 million, $102.7 million and $101.0 million, together with accumulated depreciation of $84.1 million, $74.3 million and $79.1 million.

During the period to 30 September 1992 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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9 *FIXED ASSETS (Continued)*

REGISTRATION OF TITLE TO LAND

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

LAND CLAIMS

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

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

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

10 *ACCOUNTS PAYABLE AND ACCRUALS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Trade accounts payable and accruals	12,714	10,768	11,362
Accrued personnel costs	7,048	8,020	9,652
Rentals billed in advance	3,285	4,852	3,417
Payable to fellow subsidiary companies	13,320	20,381	30,601
Payable to parent company	454	51,248	-
	36,821	**95,269**	**55,032**

Interest rates on the parent company current account ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company current account is repayable on demand.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11 LONG TERM DEBT

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Parent company loan	**361,015**	**316,215**	**361,695**

Interest rates on the parent company loan ranged from 10.34% to 12.77% for the six months ended 30 September 1992. The parent company loan has no fixed date for repayment.

12 SHAREHOLDERS' EQUITY

SHARE PREMIUM RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	**171,523**	**216,318**	**216,318**
(Consisting of a premium of $9,999 on 17,154 redeemable preference shares)			
Movements during the period			
-Premium of $9,999 on 2,120 redeemable preference shares	(21,198)	-	-
-Premium of $9,999 on 4,480 redeemable preference shares	-	-	(44,795)
	150,325	**216,318**	**171,523**

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

CAPITAL REDEMPTION RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	4	-	-
Movements during the period			
-Transfer from retained earnings	3	-	4
	7	**-**	**4**

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 SHAREHOLDERS' EQUITY (Continued)

RETAINED EARNINGS

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	53,454	46,234	46,234
Net earnings	6,562	12,845	30,392
	60,016	59,079	76,626
Transfer to capital redemption reserve	(3)	-	(4)
Dividends	(7,050)	(14,640)	(23,168)
Balance at end of period	**52,963**	**44,439**	**53,454**

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
	1992	1991	1992
	$000's	$000's	$000's
Interim dividends	7,050	14,640	23,168
Final dividend	-	-	-
	7,050	14,640	23,168

13 COMMITMENTS

OPERATING LEASES

Operating lease commitments are mainly in respect of leases of land and buildings. Minimum rental commitments as at 30 September 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	9.3
Payable within 1-2 years	8.8
Payable within 2-3 years	8.5
Payable within 3-4 years	8.1
Payable within 4-5 years	7.8
Payable thereafter	25.8
	$68.3

CAPITAL COMMITMENTS

As at 30 September 1992 capital expenditure amounting to $1.9 million (30 September 1991: $8.6 million, 31 March 1992: $1.7 million) has been committed under contractual arrangements.

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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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

In August 1991, a competitor filed proceedings against Telecom, including Telecom Wellington, in connection with a request for a local service interconnection arrangement. 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. Substantive hearings in the suit were completed in October 1992. Judgement is awaited. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome of these proceedings, Telecom cannot ascertain the likelihood of such proceedings being successful or the potential impact any judgement entered against it might have upon the trend of Telecom's future net earnings.

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

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,613 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1992, together with, in each case, interest thereon, principally under the following agreements:

(i) $424.2 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) $650.9 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) British pounds 122.6 million (NZ$408.1 million) under a deed poll dated 12 November 1990.

(iv) $129.8 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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15 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 8.5%) 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 27.3% of total operating expenses.

Outstanding intercompany balances as at 30 September 1992 are:

- Intercompany receivable	$1.9 million
- Intercompany payable and current account	$13.8 million
- Intercompany term liabilities	$361.0 million

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

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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16 FELLOW SUBSIDIARY COMPANIES

At 30 September 1992 the principal fellow subsidiaries were as follows:

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

In-substance subsidiaries

-Netway Communications Limited

Associate Companies

-Pacific Star Communications Pty Limited

17 SEGMENTAL REPORTING

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

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

AUDITORS' REPORT

REPORT OF THE AUDITORS
TO THE MEMBERS OF TELECOM WELLINGTON LIMITED

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 30 September 1992 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, 12 NOVEMBER 1992

TELECOM SOUTH LIMITED

STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1992

	Notes	Six months ended 30 September 1992	Six months ended 30 September 1991	Year ended 31 March 1992
		$000's	$000's	$000's
Operating revenues		223,427	223,781	449,827
Operating expenses	2	(171,612)	(164,550)	(330,065)
Earnings from operations		51,815	59,231	119,762
Investment income	3	462	2	1,557
Interest expense	3	(17,951)	(14,347)	(30,938)
Earnings before income tax		34,326	44,886	90,381
Income tax	4	(11,384)	(14,876)	(29,855)
Net earnings		**22,942**	**30,010**	**60,526**

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

TELECOM SOUTH LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 1992

	Notes	30 September 1992	30 September 1991	31 March 1992
		$000's	$000's	$000's
ASSETS				
Current assets:				
Cash		362	57	855
Accounts receivable and prepaid expenses	5	82,047	66,599	62,855
Inventories		13,989	22,364	15,319
Total current assets		96,398	89,020	79,029
Investment in fellow subsidiary company		1,100	1,160	1,780
Other assets	6	2,859	7,294	5,916
Fixed assets	7	853,630	875,523	878,567
Total assets		**953,987**	**972,997**	**965,292**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank overdraft		-	489	-
Debt due within one year	9	5,031	3,022	4,719
Taxation payable	4	6,409	8,250	3,296
Accounts payable and accruals	8	39,368	62,507	62,565
Proposed dividend		21,610	27,893	-
Total current liabilities		72,418	102,161	70,580
Deferred income tax	4	10,431	9,261	9,630
Long term debt	9	286,284	257,639	289,560
Total liabilities		369,133	369,061	369,770
Commitments and contingent liabilities	11,12			
Shareholders' equity:	10			
Ordinary shares, $1.00 each				
-Authorised, issued and fully paid 171,411,000 shares		171,411	171,411	171,411
Redeemable preference shares, $1.00 each				
-Authorised, issued and fully paid 36,797 shares		37	40	38
Share premium reserve		367,933	399,930	379,932
Capital redemption reserve		3	-	2
Retained earnings		45,470	32,555	44,139
Total shareholders' equity		584,854	603,936	595,522
Total liabilities and shareholders' equity		**953,987**	**972,997**	**965,292**

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

On behalf of the Board

S R SMITH
DIRECTOR

G N CHRISTENSEN
DIRECTOR

CHRISTCHURCH, 12 NOVEMBER 1992

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 (which was subsequently superseded at 31 March 1992 by two companies - Rontas Holdings Limited and MYNZA Holdings Limited) controlled by two New Zealand companies, Freightways Holdings Limited ("Freightways") and Midavia Holdings Limited ("Midavia"), formerly Fay, Richwhite Holdings Limited. To comply with their agreement with the Crown, Ameritech and Bell Atlantic are obligated to reduce their combined ownership of Telecom to not more than 49.9% of the outstanding share capital by September 1993 (or, under certain circumstances and with the consent of the New Zealand government, by September 1994). At the completion of this transaction period, Ameritech and Bell Atlantic will each own not more than 24.95% of Telecom.

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

At 30 September 1992, Ameritech and Bell Atlantic held a combined 1,614,441,112 ordinary shares (68.4% of the outstanding share capital) and Rontas Holdings Limited and MYNZA Holdings Limited each held 5,529,444 ordinary shares.

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

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

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

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

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

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

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

FIXED ASSETS

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

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

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

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

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

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

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

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

DEPRECIATION

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

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

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

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

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

INVENTORIES

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

LEASES

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

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

No material finance leases have been entered into as lessor.

COMPENSATED ABSENCES

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

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

Such liabilities are reflected within accrued personnel costs.

PENSIONS

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

TAXATION

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

FOREIGN CURRENCIES

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

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

RECLASSIFICATIONS

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

(d) CHANGES IN ACCOUNTING POLICIES

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2 *OPERATING EXPENSES*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
	171,612	**164,550**	**330,065**
Included in operating expenses are:			
- Depreciation	51,128	50,530	105,767
- Audit fees	102	100	200
- Intercompany management fee	10,152	8,553	17,148
- Lease and rental costs	1,929	2,483	4,316

3 *INVESTMENT INCOME/INTEREST EXPENSE*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
Interest income:			
- Intercompany	456	-	1,097
- Other	6	2	460
	462	**2**	**1,557**
Interest expense:			
- Intercompany (including finance lease charges)	18,624	18,623	37,558
- Other	-	(10)	(14)
	18,624	18,613	37,544
- Less interest capitalised	(673)	(4,266)	(6,606)
	17,951	**14,347**	**30,938**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4 *INCOME TAX*

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
The income tax expense for the year is determined as follows:			
Earnings before income tax	34,326	44,886	90,381
Tax at current rate of 33%	11,327	14,812	29,826
Adjustment for permanent differences	57	64	29
Total income tax expense	**11,384**	**14,876**	**29,855**
The income tax expense is represented by:			
-Current taxation	10,489	11,329	24,159
-Deferred taxation	895	3,547	5,696
	11,384	14,876	29,855

The balance sheet provisions are:

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Current taxation:			
-Balance at beginning of period	(3,296)	1,780	1,780
-Total taxation in the current period	(10,489)	(11,329)	(24,159)
-Tax paid	7,376	1,299	20,403
-Other	-	-	(1,320)
Taxation payable	**(6,409)**	**(8,250)**	**(3,296)**
Deferred taxation:			
-Balance at beginning of period	(9,630)	(5,651)	(5,651)
-Provided in the current period	(895)	(3,547)	(5,696)
-Other	94	(63)	1,717
Deferred income tax	**(10,431)**	**(9,261)**	**(9,630)**

A deferred tax asset at 30 September 1992 of $0.5 million in respect of timing differences relating to depreciation on buildings has not been recognised.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5 *ACCOUNTS RECEIVABLE AND PREPAID EXPENSES*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Accounts receivable, net of allowance for doubtful accounts of $3.1 million (September 1991: $3.4 million, 31 March 1992: $3.0 million)	32,951	39,247	29,179
Unbilled rentals and tolls	13,959	19,369	18,885
Due from fellow subsidiary companies	5,786	1,503	9,686
Due from parent company	28,050	5,784	3,910
Prepaid expenses and other	1,301	696	1,195
	82,047	**66,599**	**62,855**

6 *OTHER ASSETS*

Other assets include certain deferred expenditure amounting to $1.7 million (30 September 1991: $5.3 million, 31 March 1992: $4.3 million) incurred in relation to the installation of major computer systems. The deferred costs relating to each phase of the system are charged to earnings over a period of two years from the date upon which that phase of the system becomes fully operational. Deferred costs amortised during the year ended 30 September 1992 amounted to $2.8 million (30 September 1991: $1.9 million, 31 March 1992: $4.2 million).

In addition, at 30 September 1992, other assets include $1.2 million (30 September 1991: $2.0, 31 March 1992: $1.6 million) being advances to the Trustee of two employee share purchase plans. These share purchase plans were established in July 1991 as part of the initial public offering and gave employees the opportunity to invest in Telecom, financed by interest free and favourable interest rate loans repayable over a three-year period.

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Telecommunication equipment:			
- Cost	1,055,453	963,895	1,003,223
- Accumulated depreciation	(392,165)	(313,794)	(343,180)
	663,288	650,101	660,043
Capital work in progress	26,287	49,240	37,056
Land	34,860	37,678	35,186
Buildings:			
- Cost	107,174	91,700	91,595
- Accumulated depreciation	(16,247)	(12,269)	(10,004)
	90,927	79,431	81,591
Other fixed assets:			
- Cost	75,802	101,135	112,785
- Accumulated depreciation	(37,534)	(42,062)	(48,094)
	38,268	59,073	64,691
Total cost	**1,299,576**	**1,243,648**	**1,279,845**
Total accumulated depreciation	**(445,946)**	**(368,125)**	**(401,278)**
Total net book value	**853,630**	**875,523**	**878,567**

Included in telecommunications equipment, at 30 September 1992 and 30 September 1991 and 31 March 1992 respectively, is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $120.4 million, $121.4 million and $117.6 million, together with accumulated depreciation of $102.7 million, $89.7 million and $97.2 million.

During the period to 30 September 1992 there were reclassifications from other fixed assets of tools and plant, and fittings to telecommunications equipment and buildings respectively. Other fixed assets now include vehicles, office equipment, furniture and computer equipment.

During the year ended 31 March 1992, the Company entered into a sale and leaseback of telecommunications equipment with a fellow group company. At 30 September 1992, assets capitalised under finance leases associated with this transaction had a cost of $49.1 million (30 September 1991: $34.6 million, 31 March 1992: $49.1 million) and accumulated depreciation of $7.1 million (30 September 1991: $0.3 million, 31 March 1992: $3.4 million).

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7 *FIXED ASSETS (Continued)*

REGISTRATION OF TITLE TO LAND

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

LAND CLAIMS

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

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

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

8 *ACCOUNTS PAYABLE AND ACCRUALS*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Trade accounts payable and accruals	13,017	25,378	24,850
Accrued personnel costs	9,024	11,988	11,402
Rentals billed in advance	6,803	6,769	6,751
Payable to fellow subsidiary companies	10,524	18,372	19,562
	39,368	**62,507**	**62,565**

Interest rates on the parent company current account ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company current account is repayable on demand.

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9 *LONG TERM DEBT*

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Parent company loan	245,981	226,041	246,661
Other loans			
-Due to fellow group company	45,334	34,620	47,618
-Less long term debt maturing within one year	(5,031)	(3,022)	(4,719)
	40,303	31,598	42,899
	286,284	**257,639**	**289,560**

Interest rates on the parent company loan ranged from 12.29% to 12.77% for the six months ended 30 September 1992. The parent company loan has no fixed date for repayment.

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
SCHEDULE OF MATURITIES - Other loans			
Due 1 to 2 years	29,198	3,799	5,363
Due 2 to 3 years	11,105	27,799	37,536
Total due after one year	40,303	31,598	42,899

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

10 *SHAREHOLDERS' EQUITY*

SHARE PREMIUM RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	379,932	399,930	399,930
(consisting of a premium of $9,999 on 37,997 redeemable preference shares)			
Movements during the period			
-Premium of $9,999 on 1,200 redeemable preference shares	(11,999)	-	-
-Premium of $9,999 on 2,000 redeemable preference shares	-	-	(19,998)
	367,933	**399,930**	**379,932**

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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10 SHAREHOLDERS' EQUITY (Continued)

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

CAPITAL REDEMPTION RESERVE

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	2	-	-
Movements during the period			
-Transfer from retained earnings	1	-	2
	3	**-**	**2**

RETAINED EARNINGS

	Six months ended 30 September		Year ended 31 March
	1992	1991	1992
	$000's	$000's	$000's
Balance at beginning of period	44,139	30,438	30,438
Net earnings	22,942	30,010	60,526
	67,081	60,448	90,964
Transfer to capital redemption reserve	(1)	-	(2)
Dividends	(21,610)	(27,893)	(46,823)
Balance at end of period	**45,470**	**32,555**	**44,139**

DIVIDENDS

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

	30 September		31 March
	1992	1991	1992
	$000's	$000's	$000's
Interim dividends	21,610	27,893	46,823
Final dividend	-	-	-
	21,610	27,893	46,823

TELECOM SOUTH 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 31 March 1992 for all non-cancellable operating leases are:

	(in millions)
Payable within 1 year	2.1
Payable within 1-2 years	1.7
Payable within 2-3 years	1.5
Payable within 3-4 years	1.2
Payable within 4-5 years	0.6
Payable thereafter	4.6
	$11.7

CAPITAL COMMITMENTS

As at 30 September 1992 capital expenditure amounting to $8.9 million (30 September 1991: $23.2 million, 31 March 1992: $21.8 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

In August 1991, a competitor filed proceedings against Telecom in connection with a request for a local service interconnection arrangement. 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. Substantive hearings in the suit were completed in October 1992. Judgement is awaited. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome of these proceedings, Telecom cannot ascertain the likelihood of such proceedings being successful or the potential impact any judgement entered against it might have upon the trend of Telecom's future net earnings.

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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12 CONTINGENT LIABILITIES (Continued)

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately $1,613 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1992, together with, in each case, interest thereon, principally under the following agreements:

(i) $424.2 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) $650.9 million under trust deeds made as of 20 September 1989 and 3 April 1992 and subsequent supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

(iii) British pounds 122.6 million (NZ$408.1 million) under a deed poll dated 12 November 1990.

(iv) $129.8 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 8.3%) 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 22.6% of total operating expenses.

Outstanding intercompany balances as at 31 March 1992 are:

- Intercompany receivable and current account	$33.8 million
- Intercompany payable	$10.5 million
- Intercompany term liabilities	$291.3 million

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

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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14 FELLOW SUBSIDIARY COMPANIES

At 30 September 1992 the principal fellow subsidiaries were as follows:

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

In-substance subsidiaries

-Netway Communications Limited

Associate Companies

-Pacific Star Communications Pty Limited

15 SEGMENTAL REPORTING

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

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

AUDITORS' REPORT

REPORT OF THE AUDITORS
TO THE MEMBERS OF TELECOM SOUTH LIMITED

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

In our opinion, the financial statements give, under the historical cost convention a true and fair view of the state of the Company's affairs at 30 September 1992 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, 12 NOVEMBER 1992

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

PUBLISHED BY AUTHORITY OF DEPARTMENT OF INTERNAL AFFAIRS:
GP PRINT LTD., WELLINGTON, NEW ZEALAND—1992

ISSN 0111-5650
Price $15 (incl. GST)
37523E—92A