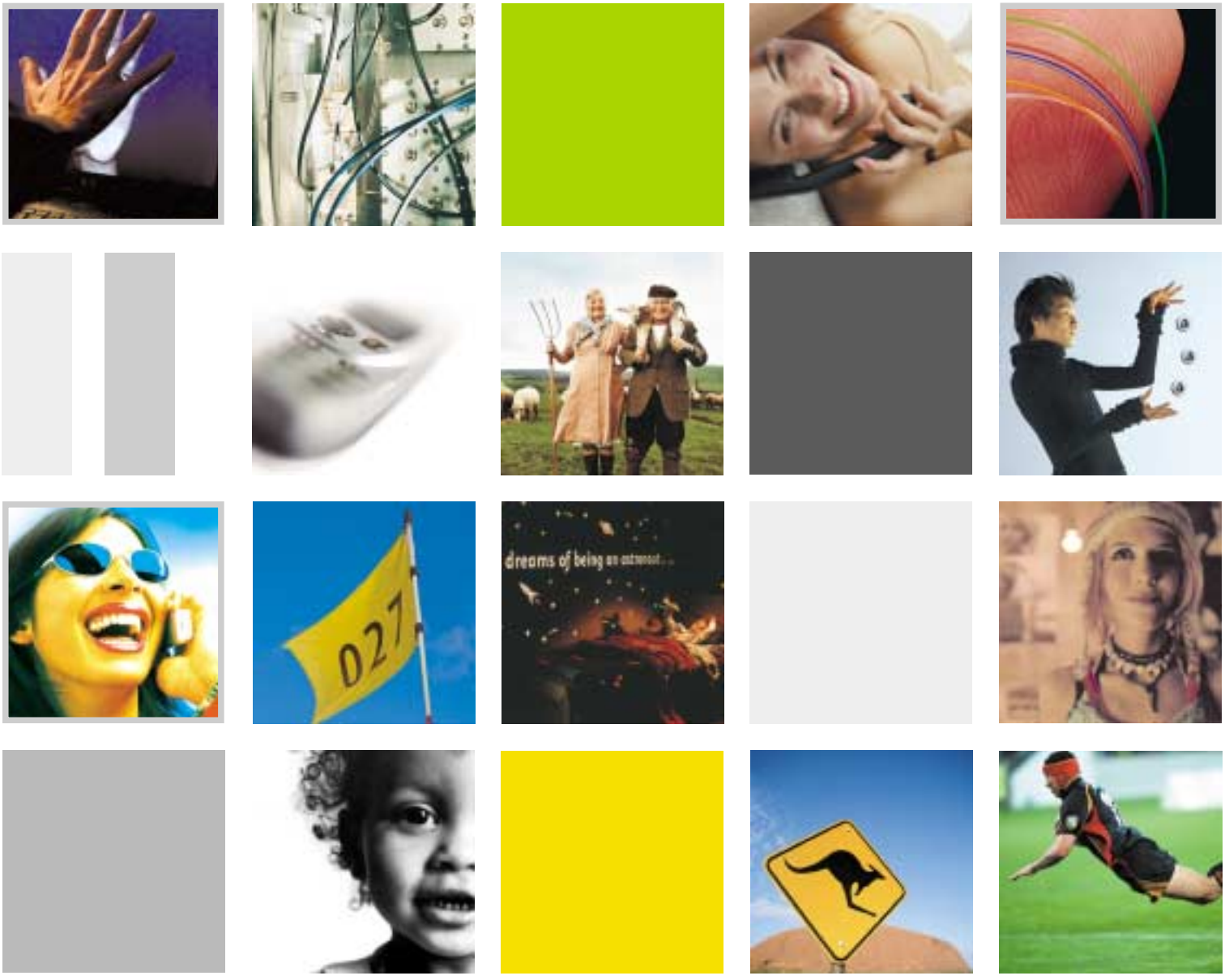


NEW CONNECTIONS. NEW OPPORTUNITIES.

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2001

Telecom
NEW ZEALAND

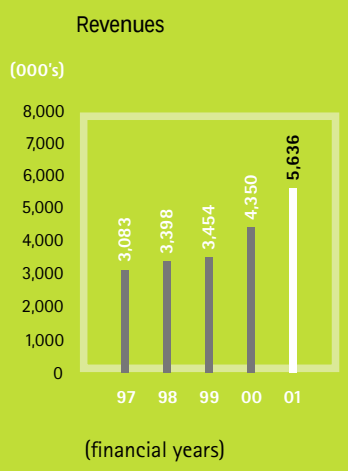
NEW CONNECTIONS. NEW OPPORTUNITIES. TELECOM WILL FOCUS ON REVENUE GROWTH, COST CONTAINMENT AND EARNINGS IMPROVEMENT ACROSS NEW ZEALAND AND AUSTRALIA. WE HAVE BUILT A STRONG POSITION FROM WHICH TO ACHIEVE THIS...

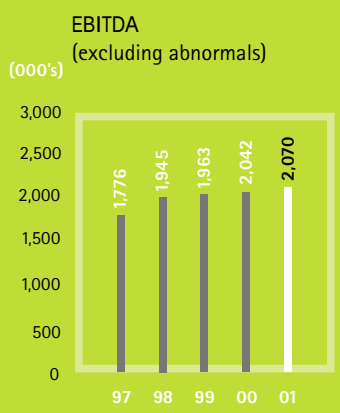
This report is dated 31 August 2001,
and is signed on behalf of the Board by:

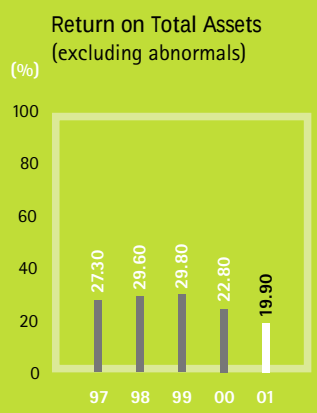
Roderick Deane
Chairman

Theresa Gattung
Chief Executive Officer
Telecom Corporation of New Zealand Limited

OUR STRATEGIES ARE AIMED AT CAPTURING THE POTENTIAL FOR PROFITABLE GROWTH IN EACH AREA OF OUR BUSINESS. THERESA GATTUNG, CHIEF EXECUTIVE.







Note: Balance date 30 June 2001 and 2000, 31 March for prior years

REVIEW

Telecom reported net earnings of NZ$643 million for the year ended 30 June 2001, 17.9% down from NZ$783 million in the previous year. The 2000-01 results were after deduction of NZ$192 million in abnormal items (after tax). Net earnings excluding abnormal items were NZ$835 million, 8.3% higher than comparable net earnings of NZ$771 million in the previous year. Telecom is strongly positioned for the future after major initiatives over the past year:

- AAPT integrated into the Group after a successful takeover offer to minority shareholders, September-December 2000.
- Commonwealth Bank Group contract commenced September 2000, with excellence in delivery of services.
- Southern Cross Cable Network switched on November 2000, with strong capacity sales leading to first dividends to Telecom of NZ$221 million (after tax) in March 2001.
- Strategic investment made in SKY Network TV (12%), February 2001.
- ADSL broadband technology rollout continued in the New Zealand network throughout the year.
- Third generation, or 3G, wireless business alliance formed with Hutchison Whampoa Group, May 2001.
- Microsoft relationship broadened through the new XtraMSN Internet portal and a NZ$300 million convertible note issue by Telecom, May 2001.
- Telecom balance sheet strengthened through the raising of NZ$500 million in new equity, May 2001.
- CDMA wireless network launched in New Zealand, July 2001.

FIVE YEAR REVIEW

	As at and for the year ended 30 June		As at and for the three months ended 30 June	As at and for the year ended 31 March		
	2001	2000	1999	1999	1998	1997
Operating revenues (excluding abnormals)	5,648	4,335	849	3,438	3,398	3,083
EBITDA[1] (excluding abnormals)	2,070	2,042	487	1,959	1,945	1,776
Abnormal items (net, before tax)	(268)	15	(7)	1	(37)	(152)
Taxation	(283)	(368)	(91)	(384)	(384)	(311)
Net earnings	643	783	202	822	820	581
Dividends[2]	372	806	202	806	756	731
Total assets (NZ$m)	8,972	7,981	5,242	5,375	5,165	4,618
Return on assets[3]	19.9%	22.8%	28.5%*	29.8%	29.6%	27.3%
Gearing[4]	72.4%	78.8%	72.2%	69.4%	70.0%	51.4%
Interest cover[5]	3.7	5.0	7.6	6.8	7.7	10.9
Debt rating[6]	A1/A+^	A1/A+	Aa2/AA	Aa2/AA	Aa1/AA	Aa1/AA
Cash flow from operating activities (NZ$m)	1,758	1,545	493	1,574	1,537	1,419
Capital expenditure (NZ$m)	1,525	869	131	564	587	696
Earnings per share (cents)	36.4	44.7	11.5	46.9	45.9	30.8
Dividend per share[2] (cents)	20.0	46.0	11.5	46.0	43.0	39.0

1 Earnings before interest, tax, depreciation and amortisation
2 Excluding supplementary dividends
3 Normalised earnings before interest and tax divided by average total assets (net of cash and short-term investments)
4 Net debt divided by net debt plus equity
5 Normalised surplus from continuing operations divided by net interest expense (before interest capitalised) including capital note coupons
6 Long-term foreign currency ratings from Moody's Investors Services/Standard and Poor's
* Annualised

^ Standard and Poor's advised that this rating would be changed to A from 3 September 2001.

LETTER FROM THE CHAIRMAN RODERICK DEANE

The past year has been one of fundamental change for Telecom and, indeed, for telcos around the world. It is change driven by the arrival of new digital technologies, by the race to deliver valuable new services, and by the growth of competition across industry boundaries and national borders.

Successful companies of the future in telecommunications – and related sectors like information technology and entertainment - are now making fundamental changes in how, where and with whom they do business.

Several years ago, the Board and Management of Telecom recognised the emerging risks and uncertainties in our sector. And we recognised also huge opportunities for growing the value of Telecom if we grasped the drivers for change and transformed our business accordingly. We saw those opportunities opening further if the Company invested in new technologies, formed new strategic relationships and added scale to its business in Australia as well as New Zealand. At the same time, we saw the need for ongoing innovation in services while remaining committed to excellence in our core telecommunications business.

For Telecom, the past year has been one of fundamental transformation towards the goal established in 2000 – to become the best performing, customer focused, online and communications company in Australasia. Progress is easily seen in the major initiatives outlined on page two of this Annual Report. We are confident that transformation will drive future growth in earnings and shareholder value.

For the year ended 30 June 2001, Telecom lifted its underlying earnings compared with the previous year: EBITDA (operating profit before deduction of interest, tax, depreciation and amortisation expenses) was

NZ$2,070 million, compared with NZ$2,042 million in 1999-00. However, the Group's bottomline result for the latest year was affected significantly by three specific factors:

- Costs associated with the acquisition of AAPT, including additional interest costs and the amortisation of goodwill. These expenses were partly offset by AAPT's operating surplus so that the acquisition had a net impact on Telecom's result for the year of NZ$185 million;
- Abnormal items arising largely from the closing down of the AAPT project to roll out a CDMA wireless network in Australia and from a review of network assets in New Zealand. The net impact of abnormal items was NZ$192 million after tax;
- Dividends from Telecom's splendid investment in the Southern Cross Cable Network. These dividends made a positive contribution to the Group's result of NZ$221 million after tax.

After taking account of these factors, our reported net earnings after tax were NZ$643 million, compared with NZ$783 million in the year ended 30 June 2000.

The switching on of the Southern Cross Cable and the first dividends from this investment were major steps forward as Telecom migrates into becoming an Australasian online and communications company. We look forward to further dividends although these will fluctuate from year to year, depending on the level of capacity sales on the cable network.

To support transformation in the business, we strengthened the Telecom balance sheet and moved to ensure that the Group has the funding required for growth into the future. During 2000-01 we took three major steps towards achieving this.

First, we reduced the dividend payout so that a greater proportion of our cash flow is reinvested in the business. Telecom will pay a final dividend for 2000-01 of NZ 5 cents per share, with full imputation credits attached. This brings to NZ20 cents per share the full year dividend. Our policy, as set down in last year's Annual Report, is to target a payout ratio of around 50% of net earnings, with the distribution in any year dependent on the level of earnings and cash flow, and other investment opportunities that might arise.

We are confident that retaining more cash in the Group and investing for profitable growth will deliver greater value for shareholders into the future than would be the case under the previous dividend policy.

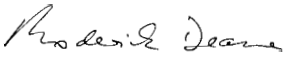
Second, we raised NZ$300 million in new funding through the issue of convertible notes to Microsoft. These notes, which rank behind all of Telecom's other senior debt, may be converted into ordinary shares by Microsoft any time prior to their maturity in seven years. The proceeds of the notes issue have been used to repay shorter term debt on the Telecom balance sheet.

Third, we raised NZ$500 million of new equity through the placement of new shares with institutional investors in New Zealand, Australia and other markets. The shares were issued in May 2001 at a price of NZ$5.50 – a discount against the market price consistent with the standard experience when such placements are made in the world's major capital markets.

In raising that new capital, the Board assessed all Telecom's options and decided that, on balance, a placement best served the interests of all shareholders. The Company's international spread of holders, including 24.9% in the hands of one United States investor, would make any pro rata rights issue complicated, costly and protracted. The placement, on the other hand, was a rapid and relatively low cost means of raising capital at a time best suited to our programme of investments and alliances.

In this period of fundamental change – and of volatility in telco share prices worldwide – I want to assure all shareholders that growth in value for them is the guiding force behind our key decisions.

We have talented and focused management, and staff on both sides of the Tasman who are very committed to Telecom's success as an Australasian online and communications group. Telecom has established solid foundations for a future which we view with confidence.



Roderick Deane
Chairman
31 August 2001

Peter Shirtcliffe

Peter Shirtcliffe will retire from the Board at the Annual Meeting on 11 October 2001.

On behalf of all of Telecom, I pay tribute to Mr Shirtcliffe's huge contribution to the Company since he became a founding Director on 1 April 1987. As Chairman from September 1990 to September 1999, he led Telecom through a period of tremendous success for customers, staff and shareholders. Mr Shirtcliffe has contributed a deep understanding of the Company's role in the New Zealand economy, of the telecommunications industry and of public company governance.

We thank Peter for his dedication to Telecom over the past 14 years, and wish him every success with his ongoing business, charitable and personal interests.

SHAREMARKET PERFORMANCE

The Telecom share price has been particularly volatile over the past two years, consistent with fluctuations in the telecommunications sector in most major markets. A comparison of closing prices on the New Zealand Stock Exchange on 30 June 2000 and 30 June 2001 shows a 24.4% decline for Telecom over the latest year.

Total return for the year was -19%, taking into account the value of dividends paid by the Company to shareholders and assuming those dividends were reinvested in Telecom shares at each dividend payment date. (See page 88 for a full record of Telecom dividends since 1992). The table over shows the total returns of 9 telcos over one year and two years ended 30 June 2001.

There is a broad consensus amongst investment analysts that this trend reflects fundamental changes in the valuation of telecommunications companies due to factors which include:

- increased competition;
- limited growth opportunities in national markets;
- reliance on traditional business cash flows to fund new business development;
- the cost of upgrading networks with new technologies; and
- expenditure on radio spectrum for next generation wireless services.

Telecom is widely recognised as the market leader among companies listed on the New Zealand Stock Exchange. The Telecom share price reflects international sentiment towards New Zealand investments generally at any given time and it is particularly responsive to fluctuations in exchange rates.

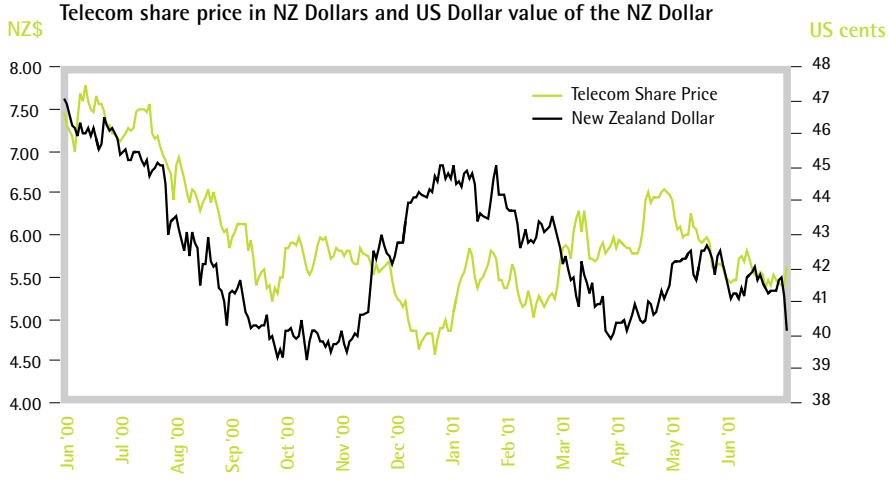
Over the year ended 30 June 2001, the New Zealand dollar depreciated significantly and this had a marked impact on the value of Telecom. The chart above shows the relationship between the Company's share price and a volatile, and generally weak, New Zealand Dollar valuation against the United States Dollar.

Total return over the year ended 30 June 2001

	1 year Total Return	2 years Total Return
Verizon	8.4%	-13.7%
Telstra	-17.1%	-31.6%
Telecom	-19.0%	-19.1%
Optus	-25.5%	7.9%
AT&T	-29.9%	-59.3%
British Telecom	-39.7%	-50.6%
Vodafone	-40.5%	-36.2%
Deutsche Telekom	-53.6%	-31.4%
Cable & Wireless	-62.0%	-46.5%

Source: Bloomberg

Telecom share price in NZ Dollars and US Dollar value of the NZ Dollar



CHIEF EXECUTIVE'S OUTLOOK THERESA GATTUNG

Telecom is now strongly positioned for the future. Over the past year we have completed major investments, built valuable business alliances and re-organised the Group for greater customer focus and operating efficiency.

All of these are "new connections" because they give Telecom access to new resources, capabilities and markets, and because they literally connect our customers to new networks and new services. Full acquisition of AAPT and the Hutchison Group alliance have created new connections: so too has the switching on of the Southern Cross Cable and the launch of CDMA wireless services in New Zealand.

Each of the initiatives now taken reflects our drive to develop new opportunities for profitable growth in Telecom businesses. And of course our investments, relationships and operating efficiencies will create even more opportunities, both for us and customers.

In 2001-02 and beyond, Telecom will focus on revenue growth, cost containment and earnings improvement across New Zealand and Australia. We have built a strong position from which to achieve this. And our strategies are aimed at capturing the potential for profitable growth in each area of business.

AUSTRALIA

In Australia, AAPT's integration into the Group has enabled us to further develop our strategies for voice and data, and for the Internet and wireless markets.

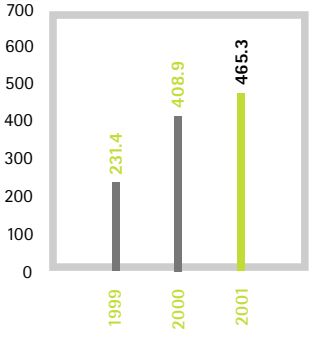
We will take our business beyond the model established successfully by AAPT during the 1990s. In voice and data, we see huge potential to provide valuable network services right to the premises of business and government customers.

Today AAPT can service 220,000 businesses in 30 urban locations using fibre optics and other broadband technologies. It is a sound basis on which to deliver more of our own network services to customers and earn higher margins. In selected locations, we will build or lease new infrastructure, or partner with others to extend our access capabilities where they can best deliver value to AAPT. VicOne is a great example: AAPT provides a data network linking more than 3,500 sites – schools, hospitals and Victorian government agencies with secure access to information and communications. We have started a major upgrade of VicOne that adds value for network users and for AAPT.

Since its launch in 1997, Smartchat has been well established as AAPT's brand in residential calling markets. Our focus is now on adding value to this brand by offering more choice in services to customers. In 2001 we began trialling new Smartchat packages of access, Internet and wireless. Among other initiatives, AAPT has opened

a state-of-the-art call centre in Bendigo to provide efficient service to residential and commercial customers across Australia.

Smartchat Customers
(Thousands at 30 June)



Telecom will continue to develop a new business meeting the complex needs of Australian corporates by leveraging the experience and reputation built up with the Commonwealth Bank Group contract. Our TCNZA subsidiary and its consortium made excellent progress with the Bank over the past year. Among milestones: we rolled out an IP network to 1,100 sites and completed the full integration of Colonial First State Investment into the Bank's systems. We are actively pursuing other major corporate contracts.

DATA

In our New Zealand fixed line business, growth will largely be concentrated in data – and that is Telecom business ranging from large private networks in the corporate sector, to fast Internet access services for small businesses and households. We see progress over the past year, for instance, in a 40% increase in takeup of frame relay, a service that enables companies to shift vast amounts of information with speed and security.

esolutions is another key component of our data business: in its first full year of operation, esolutions achieved over 12% penetration of its target market among small and medium-sized businesses in New Zealand. There are huge growth opportunities in taking these customers online to interact and to transact business more easily and at lower cost.

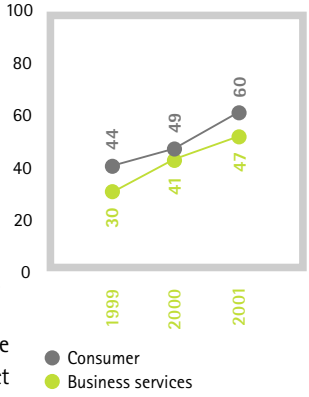
Telecom has had major success with ADSL, now deployed in over 110 exchanges that give a capability to deliver JetStream and JetStart services to almost 60% of all residential customers and over 70% of companies. Takeup is rising rapidly as people discover the value of fast Internet access.

PACKAGES

In residential markets Telecom will build value by offering new packages, including some that bring access together with Internet and entertainment services. Over recent months we have launched SKY FI and TV Line in combination with SKY Network TV and Xtra. They are pointers to the future where Telecom will extend choices and convenience to households around New Zealand.

We will remain highly competitive in access and call markets, by remaining focused on customers and their needs. Telsats surveys of satisfaction among customers with current experience of Telecom service are a key measure of performance.

Telsats
(% of excellence rating by customers at 30 June)



WIRELESS

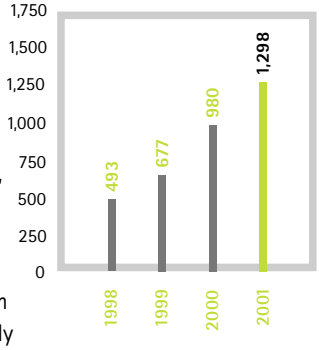
Wireless is another major growth market for Telecom on both sides of the Tasman. We are well positioned to lead in New Zealand with the new CDMA network, launched on time and under budget in July 2001. Our strategy is to progressively expand connections on this network while maintaining the quality and coverage of our existing networks. CDMA, especially new fast data transmission capabilities which are due to be added early in 2002, will be a solid platform for our development of new wireless data services. Indeed, the third generation (3G) of wireless will bring a broad sweep of communications, information, business and entertainment services.

Through our CDMA network and the Hutchison alliance, Telecom is strongly positioned for the growth in wireless in our part of the world. Hutchison is advancing towards the launch in late 2002 of a new 3G network in Australia – and Telecom will have a significant stake in this valuable business.

In New Zealand, we are positioned to rollout 3G services at the right time and with the support of Hutchison as a global leader in this field. As data services develop on CDMA, Telecom will be leading New Zealanders into the exciting world of 3G services. New CDMA-delivered services to customers of ASB Bank show the way: people on our network can use their phones to view bank statements, make payments and so on.

Over the past year, we continued with strong growth in mobile connections. Our focus is increasingly on the average revenue per connection and on growing the value of our total customer base. Voice calling and text messaging remain extremely important but the big growth driver for revenues into the future will be wireless data services. Telecom will continue to deliver high quality service across the existing TDMA networks for some years to come.

Cellular Connections
(Thousands at 30 June)



Our wireless strategy includes growth in the customer base of CellularOne in Australia and a major strengthening of network resale arrangements that are the basis for that business. In the past year,

we closed down AAPT's CDMA network programme after a thorough review of the changing market environment. The close-down resulted in substantial abnormal costs for the year but leaves the Group better positioned for the future.

INTERNET

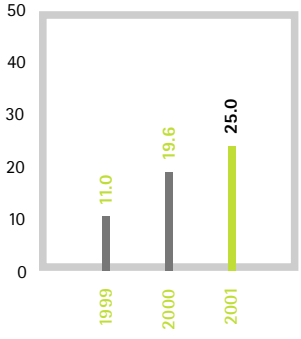
Telecom will continue developing its Internet services, through Xtra in New Zealand and Connect in Australia. Usage of XtraMSN is growing rapidly as we add more content and new functionality that ensure its position as New Zealand's leading portal. Our strategy is to grow both the connection base and the value of XtraMSN as an advertising property. We see big potential to build valuable new revenue streams beyond the core business of providing Internet access for the consumer market in New Zealand.

In recent months, we have launched the bzone portal targeted at people who run or advise businesses, and we have also brought the Yellow Pages business much closer to Xtra. Our focus is now on integrating their capabilities to take many thousands of small and medium-sized businesses online. We have the technologies, skills and contacts to make it easier and more valuable for New Zealand firms to gain an effective presence on the Net.

While directories now have their own effective online presence, print products remain a strong business. Yellow Pages continues to see volume growth, with colour printing and other innovations to enhance value for advertisers.

Connect is well established as a provider of Internet services to Australian business customers. We see real potential for value growth through expanding Connect's offer to many of its larger customers. In consumer markets, we will continue to develop the AOL Australia joint venture formed by AAPT.

Xtra Customer Use
(Average hours per month)



COST CONTAINMENT

Across the Group our focus is on containment of operating costs, especially in more mature growth areas of business. Good progress has been made over the past year with total expense growth for Telecom in New Zealand held to a modest 3.8%. Expenses in the fourth quarter of the year were up just 0.9% compared to the same period in 2000, which was particularly pleasing alongside a growth rate of 1.1% for revenues in the fourth quarter.

This progress reflects a range of ongoing initiatives including a comprehensive review of fixed costs in each business area, increased efficiency in processes and a renewed emphasis on management of cost of sales. In 2001-02 we are exploring the prospects for a major partnership with one technology provider for Telecom. This "Transforming Vendor Relationships" project has potential for significant cost containment in our network operations into the future.

Strong revenue growth in the Group's Australian businesses has been accompanied by higher expenses, although some improvement emerged over the past year. Fourth quarter expenses in Australia were up 37% from the same period in 2000 – but this was alongside revenue growth of 38%. Cost of sales and other operating expenses are being tackled in AAPT and other Australian businesses, as part of our determination to improve profit margins while sustaining growth in revenues.

Capital expenditure will continue under tight management. In 2001-02, Telecom plans for a modest reduction in investment in network enhancements on both sides of the Tasman. Capex will support business growth, with each capital project targeted at revenue generation.

TRANSFORMATION

Our goal is to transform Telecom into the best performing, customer focused, online and communications company in Australasia. I set that goal in 2000 and over the past year, we have made significant progress. Telecom has strengthened its position through investments, alliances and business improvements. From here, the Group is implementing strategies to drive growth in the value of each area of Telecom business.

My Management Team is committed to best performance. They understand what is required for achievement of the goal on both sides of the Tasman. Our strategies are set to take Telecom well into the future but we recognise also that performance is equally critical in the short-term. In 2001-02 and beyond, we will vigorously pursue profitable growth across the Group.

Theresa Gattung
Chief Executive

GROUP PROFILE

BUSINESS UNITS

AAPT
AAPT provides a full range of telecommunications services to hundreds of thousands of Australian homes and businesses, as well as a number of Government departments and major corporates.

TCNZA
TCNZA was established in 2000 to lead the trend towards big corporates outsourcing telecommunications and IT requirements. The Commonwealth Bank Group became TCNZA's first major customer in September 2000.

MOBILE
Telecom Mobile delivers a range of wireless voice and data services to 1.5 million New Zealand and Australian customers on the move. Telecom has just launched a new CDMA mobile service in New Zealand, using a completely new range of phones, technology and services, which will evolve to third generation (3G) mobile services.

The business also includes the CellularOne business in Australia.

INTERNET AND DIRECTORIES SERVICES
Xtra, Connect and Yellow Pages form Telecom's trans-Tasman Internet and Directories Services Group.

The group provides residential and business customers in New Zealand and Australia with highly successful online products and services including www.yellowpages.co.nz, xtramsn.co.nz, and Connect.

The group is also strongly represented in traditional media by Telecom Directories Ltd, which is responsible for publishing more than five million directories annually.

SALES AND SERVICE
Sales and Service is at the heart of Telecom's relationship with customers. The group provides a full range of telephony services. These are expanding to include broadband Internet, and the integration of Information Technology and telecommunications.

ESOLUTIONS
esolutions is a market leader in the provision of online infrastructure services for business customers. It is a unique ecommerce alliance between three world-class online and communications companies – Telecom, Microsoft and EDS.

NETWORK
The Network Group plans, develops, operates and manages the maintenance of Telecom's fixed line and broadband networks.

REPORTING SEGMENTS*

INTERNATIONAL**
Revenues $2,000m
Employees 1,700

WIRELESS
(Australia and New Zealand)
Revenues $865m
Employees 694

INTERNET AND DIRECTORIES SERVICES
Revenues $350m
Employees 976

NEW ZEALAND WIRELINE
Revenues $2,400m
Employees 3,644

From the first quarter of 2001-02, Telecom will report on the performance within four segments – International (AAPT, TCNZA and Telecom New Zealand's international telecommunications business), Wireless (the New Zealand and Australian mobile businesses), Internet and Directories Services Group (Xtra, Yellow Pages and Connect), and New Zealand Wireline (Sales and Service, esolutions and Network – excluding international). The quarterly management commentary will discuss the financial performance of each business segment compared to the corresponding period in the prior financial year, as well as providing a commentary on the consolidated Telecom results.

* Revenue figures represent approximate external revenue for the reporting segment for the year ended 30 June 2001. Employee numbers are as at 30 June 2001.

** This segment also includes International calling in and out of New Zealand, and international transit business.

ENABLING AND SUPPORT

Information Services
Information Services is responsible for Telecom's corporate information technology strategy which includes management of the outsourcing partnership with EDS.

Corporate
Telecom has four corporate support units:
– Finance and Strategy
– Legal and Compliance
– Communications
– Human Resources

AN EXPLANATION OF TERMINOLOGY AND NAMES USED IN THIS REPORT

3G (third generation mobile network)
digital mobile network based on CDMA standards that is capable of delivering data rates up to 2Mbit/s.

ADSL (Asymmetric Digital Subscribers Line)
a technology for delivering broadband access to customers over ordinary copper lines.

AOL Australia
50/50 joint venture between AAPT and America Online to operate AOL services in Australia.

ATM (Asynchronous Transfer Mode)
is a fast, broadband Internet Protocol that transmits data as fixed sized cells or packets over fibre optic cable.

Bandwidth
transmission capacity. The larger the bandwidth, the greater the capacity of voice, video or data that can be carried.

bzone
the Xtra and YELLOW PAGES® Internet site designed specifically for the small to medium New Zealand business community.

Boost Mobile
Telecom and Boost Tel Australia's new brand for the New Zealand youth market. Replaces Pulsate.

Broadband
large bandwidth capacity.

CDMA (Code Division Multiple Access)
an advanced radio spectrum sharing technique that is used in new digital mobile networks, including the 027 network.

CellularOne
offers a full range of mobile phone and call plans to residential customers in Australia.

Connect
provides wholesale Internet services to many of Australia's leading ISPs.

djuice™
a portal for mobile phone users provided by Telecom in conjunction with Norwegian telecommunications company, Telenor.

d>zone
a programme for the development of new ways for customers to use their mobile phones for business and entertainment.

DWDM (Dense Wave Division Multiplexing)
technology that can send eight or more wavelengths down a single fibre optic cable.

IP (Internet Protocol)
a principal communications standard used in the Internet.

ISDN (Integrated Services Digital Network)
a transmission system that can carry a range of digitised voice, data and images.

ISP
Internet Service Provider

JetStart
always on, fixed charge, Internet access for business and residential customers who do not need the speed of JetStream (see below).

JetStream
high speed, always on, variable charge, Internet access for business and residential customers in New Zealand that uses ADSL technology.

Portal
a site on the Internet that acts as a hub to other sites. Portals can be personalised. For example, djuice™.

Southern Cross Cable
the name given to the high capacity under sea fibre optic cable that connects New Zealand with Australia and the United States.

SmartChat
AAPT's offering of communications services (national and international landline calling, mobile and Internet) to residential customers in Australia.

TDMA (Time Division Multiple Access)
the radio spectrum sharing technique behind the 025 mobile phone network.

Xtra
Telecom's Internet and online media company.

WAP (Wireless Application Protocol)
the technology Telecom is using to bring Internet-based information to mobile phones.

Wireless
used as a synonym for mobile.

YELLOW PAGES®
Telecom's online and printed directories business.

TELECOM IS CREATING "NEW CONNECTIONS" WITH CUSTOMERS, PARTNERS AND PROVIDERS OF TECHNOLOGIES AND ONLINE CONTENT. IN DOING THIS, WE ARE OPENING "NEW OPPORTUNITIES" FOR GROWTH AND SUCCESS.

Leading in Mobile

Telecom has brought the best in mobile communications technology to New Zealand with the launch of the CDMA (Code Division Multiple Access) network.

To access the Internet while on the move, to see what's on at the movies or to check your bank balance and move money about, you can use your CDMA phone.

The new network was launched in July 2001 after 18 months of development, and a NZ$200 million investment in the world's fastest growing mobile technology. CDMA technology has 90 million users in over 30 countries.

CDMA is the most efficient wireless technology available today. Voice quality is superior to other mobile networks and close to that of a fixed line phone, while coverage is even better than Telecom's TDMA (Time Division Multiple Access) network. In addition, CDMA handsets transmit at low power levels, which maximises battery life and talk time.

Telecom CDMA customers can use their phones in Australia - New Zealanders' most common travel destination - and in the United States. Similar roaming will soon be available in Canada and Hong Kong.

CDMA customers with

WAP capable phones can access djuice™, a mobile portal that enables them to easily customise their mobile Internet services.

During 2002, Telecom is planning to increase data speed over the CDMA network up to a peak of 144kbps - an average speed similar to a standard dial-up connection on fixed line networks.

With increased speed, CDMA services like email, online banking and ticket booking will become even quicker.

Telecom is taking a staged approach to the launch of CDMA. The network and handsets were piloted with 2000 customers, dealers and staff before the new service was launched commercially through some dealers principally to the business market.

Consumer marketing started in August, when CDMA handsets and call plans became available from all Telecom's mobile dealers and retailers.

RICHARD MOJEL OF DATAMAIL USES WORDUP TO SPEED SERVICE TO CLIENTS.

Email to go

WordUp is a service that brings Internet services to most digital Telecom mobile phones. It is a good example of how online and communications technology will be able to work for us in the future.

WordUp allows Telecom mobile customers everywhere to access information such as the latest news and sports results from the Internet by dialling *0 and pressing send, and then using simple voice commands.

You can also send and receive emails using WordUp if you first register for the service via the Telecom website.

Richard Mojel, Wellington Regional Delivery Service Manager with Datamail, uses the WordUp email service to increase the speed at which he can get things done for clients. In the distribution industry, every second counts if tight deadlines are to be met.

Richard spends a lot of his working day away from his office, meeting with clients and suppliers. With WordUp, he can pass on information and ask for things to be done before he returns to the office by using his mobile to send emails back to staff.

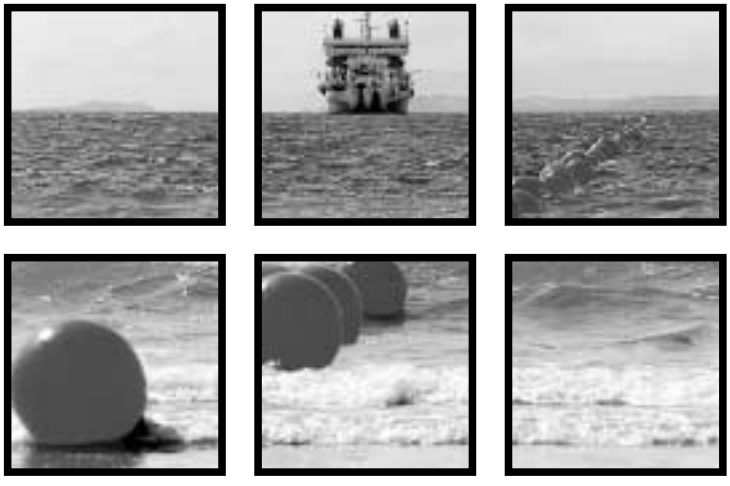
The service also enables him to send reminder emails to himself throughout the day, just by making a simple call.

Southern Cross on for our future

The Southern Cross Cable - the major new broadband link between New Zealand and Australia and the United States - is at the heart of economic progress in our region.

Since it was switched on in November 2000, the cable has helped make the global online revolution a reality for thousands of businesses and individuals.

The 30,500 kilometre cable is the fastest, most secure and direct gateway in and out of New Zealand. Instead of getting on a plane to do business, New Zealanders can now get online via the cable and



CUSTOMER SERVICES REPRESENTATIVE, RENEE MEGGS, ON THE JOB AT AAPT'S BENDIGO RESIDENTIAL CALL CENTRE.

secure the sale in a matter of seconds. Similarly, the exchange of information and ideas can be done in an instant. This is the "knowledge economy" in action.

The cable comes ashore at two places near Auckland - at Takapuna Beach and Murawai Beach. It is also from Auckland that the cable is monitored, every second of every day, as reliability is key to the success of this international communications link.

New Zealand's appetite for bandwidth looks set to skyrocket over the coming years. To accommodate this growth, the cable's capacity will be doubled by early 2003 using Dense Wave Division Multiplexing (DWDM) technology.

Laying the last loop from Hawaii to California was completed in March 2001. A third access point near San Francisco is also planned. This will provide 10 points of access across the network.

Global calling, local business

Call centres need know no boundaries in today's communications world.

Telecom and the Southern Cross Cable are playing a vital role in a Trade New Zealand initiative that's bringing international call centre business from the United States and United Kingdom to New Zealand.

Marketing Concepts is a 24-hour, 7-day-a-week call centre based in Hawera that employs over 30 staff.

It uses the Southern Cross Cable and Telecom-sourced call centre equipment to service international clients such as Four-Foot Herbals Inc, a herbal animal remedies marketing company based in Texas.

Every order or product inquiry to Four-Foot Herbals' United States 0800 number is answered by an operator in Hawera. Orders are taken and emailed back to Texas to be filled and dispatched overnight.

Four-Foot Herbals was attracted to a New Zealand-based call centre for several reasons:

The reliability of the Southern Cross Cable means no missed calls, while call quality is so good that callers in the United States have no idea they are talking to someone as far away as Hawera.

Using a call centre in New Zealand is also cost-efficient. Our centres are between 50 to 70 per cent cheaper than centres in the United States. What's more, our call centre operators are known for their competency in handling customers.

And last but not least - to complete the New Zealand connection - the products Four-Foot Herbals markets are made in Cambridge, New Zealand.






Growing in Australia

Continued expansion in the large and growing Australian market is a key strategy for Telecom, which took full control of AAPT in December 2000.

By securing a position in Australia, the Group is able to use existing resources to introduce products and services to a much larger market.

AAPT has built its business as one of Australia's three largest telecommunications carriers. It has over 1,500 people in locations throughout Australia from Brisbane to Hobart to Perth. Since 1991, AAPT has built a versatile network, capable of carrying voice and high-speed data communications.

AAPT offers local, national and international voice, data, mobile and Internet services to over 750,000 residential, business, corporate government customers. Over the past year, new contracts have been signed with Bond University, Western Australian Government's Metropolitan Health Service, and the New South Wales Parliament.

AAPT continues to look at new ways to meet customers' needs and enhance services. As an example, AAPT recently expanded its broadband network to reach more than 220,000 businesses in over 30 CBDs in metropolitan and regional areas of Australia.

Since full acquisition, the mobile and Internet businesses of AAPT and Telecom have been brought together into two trans-Tasman business units. The AAPT Voice and Data business continues to operate as an Australian-based entity.

Communications to bank on

Commonwealth Bank

The Commonwealth Bank Group is Australia's largest financial services company.

The Group is Australia's leading provider of traditional and online financial services, with more than 135,000 outlets servicing more than 10 million customers, of whom more than 1.5 million access services online.

To meet the sophisticated and ever-increasing demands of its many customers, it was vital the Group built a long-term partnership with an online and communications company of the highest order.

TCNZA won that five-year contract, and today provides the Group with its voice and online data services.

One of the keys to the success of this partnership is IPNet, which provides secure and high-speed transmission of data to over 1,100 Commonwealth Bank Group branches and 4,000 agencies throughout Australia.

IPNet enables the Group to provide banking, Internet access and email to all its offices over a secure and reliable network. IPNet was rolled out to the Group's branch network in only 10 months, making it one of the fastest rollouts of its size anywhere in the world.

The transfer of all voice services to AAPT from Telstra has recently been completed. This is another first in that it is the largest single transfer ever completed in Australia.

TCNZA was set up to focus specifically on delivering outsourced solutions for the convergent telecommunications needs of super corporate customers in Australia.

WITH JETSTREAM, PHOTOGRAPHER JOHN McCOMBE (BELOW), SENDS HIGH RESOLUTION IMAGES AROUND THE GLOBE.

Internet@speed

ADSL - the broadband technology behind JetStream and JetStart - is enabling Telecom to meet rising customer demand for fast Internet access using copper lines in its local network.

ADSL has now been deployed in over 110 exchanges throughout New Zealand. It is a highly cost-effective solution to providing broadband access for customers.

With ADSL, customers can use one access line to "surf the net" and to talk on the phone at the same time. Gone are the days when you had to get the kids off the Internet so you could make a phone call.

No other broadband technology for the residential and small-to-medium business market can match ADSL on performance. In addition, Telecom has found that customers more distant from exchanges than expected can enjoy the benefits of ADSL technology.

Over the years, Telecom has made a significant investment in maintaining the quality of New Zealand's copper telephone network. This is reflected in reliability of service to JetStream and JetStart customers.

Jetstream is now available to almost 60 per cent of Telecom's residential customers, and over 70 per cent of our business customers.

Jetstream enables customers to download data up to 50 times faster than a standard dial-up Internet connection, and it is also "always on". Customers will always know when they have received email.

Telecom's JetStart offers residential customers "always on" Internet connection at speeds at least three times faster than the standard dial-up service, and with unlimited usage.

Photos to the world

In a highly competitive world, the ability to send photographic images around the world in seconds can mean the difference between winning and losing valuable business.

With JetStream, Christchurch photographer John McCombe sends high resolution, colour images of New Zealand around the globe in minutes with no loss of picture quality, whereas before it used to take hours.

John shoots events such as visits by overseas dignitaries and rugby matches with a digital camera, downloads the images onto his laptop, and emails the pictures to international news and photo image agencies like l'Agence France-Presse and Reuters using JetStream - while still at the event.

Only a few years ago, John would have had to rush back to a makeshift darkroom in a hotel bathroom and spend hours developing black and white images, before sending them overseas using technology that took up to seven minutes to transmit just one image.

Now with a digital camera and Jetstream, it takes John three minutes to download and send up to 10 images to clients on the other side of the world - and he doesn't even have to be at his studio.

John set up his Photosouth Photographers business in Christchurch in 1990. His client base includes overseas and local newspapers, magazines, news and image agencies, and public relations companies -from Hong Kong to the United Kingdom.

Working with Microsoft

Telecom's alliance with Microsoft through esolutions and the XtraMSN website ensures New Zealanders, whether at home or at work, can take advantage of world-class Internet services.

esolutions is a unique alliance comprising three leading online and communications businesses – Telecom, Microsoft and EDS.

esolutions is a market leader in the provision of online infrastructure services for business customers. It has launched nine ecommerce packages in New Zealand, where it has over 1,500 corporate customers. esolutions is now looking to Australia for even more success in the future.

Through esolutions' alliance with Microsoft, Telecom has access to Microsoft's multiple vendor development laboratory in Redmond, Seattle. The Microsoft Partner Solution Centre enables companies like esolutions to design and test concepts in the context of specialist knowledge, skills and equipment. The centre allowed esolutions to cut time-to-market from years to months for one of its new ecommerce offerings, InfoXchange.

The alliance Telecom has with Microsoft through the XtraMSN portal is the result of an 18-month search for a partner that could enrich the Internet services already provided by Xtra.

The new portal offers New Zealanders an Internet experience specially tailored to dynamic local interests and needs. It provides access to state-of-the-art Microsoft services like MSN Hotmail, MSN Messenger, MSN Communities and MSN Search, as well as to Xtra's popular news and information channels.

XtraMSN went live ahead of schedule on 28 June 2001. The portal is number one in New Zealand, with over 760,000 monthly users and a 76 per cent online audience reach. XtraMSN confirms Telecom's position as online market leader.

Health care online

The Health Intranet is esolutions' and Advanced Solutions' (Telecom's IT and telecommunications integration arm) innovative response to the New Zealand Ministry of Health's call to improve the way patient information is shared between individuals and organisations in the health sector.

The intranet won the TUANZ Health Care Award for 2001. It is a nationwide network for rapidly transmitting patient health information, resulting in better access to vital information and a subsequent improvement in patient care.

Alisdair Watson, Advanced Solutions Business Development Manager, says security was a major factor in the design because of the sensitivity of health information.

Essentially, the intranet provides a network community through which people working anywhere in the health sector can transfer information securely and efficiently. The Health Intranet uses esolutions' Safecom technology to create a private, Internet-like community. It has the ability over time to connect everyone involved in health care in New Zealand.

Since it went live early in 2001, it has already linked organisations as diverse as the Ministry of Health, health software providers and New Zealand's largest hospitals.

Other health care providers such as general practitioners and pharmacists will be connected later this year.

The vision for the intranet includes giving general practitioners the online ability to transfer patient records to other health care providers like hospitals; to book specialist appointments, lab tests, and x-rays: and send prescriptions to pharmacists.






COMMITTED, SKILLED AND SATISFIED TELECOM PEOPLE ARE VITAL TO THE COMPANY'S TRANSFORMATION

Telecom intends to attract and develop people who will make this the best performing, customer focused, online and communications company in Australasia.

To support this intention, Telecom has introduced a range of new human resource management systems and processes.

BEST PERFORMANCE

'Best performance' is a new performance management system designed to align Telecom's people with the company's strategies and to help release people's potential. A new Remuneration Plan has been developed to support this. The plan links individual rewards to the achievement of the Company as well as business and individual objectives.

Telecom wants staff to be able to share in the success of the Company. If the Company does well then Telecom recognises the individual employee's contribution to this success.

The plan offers broad remuneration ranges. The ranges are market competitive and allow recognition of an individual's contribution. The plan is flexible to be able to respond to the changing needs of the business.

CAREER EXCHANGE

Telecom introduced Career Exchange – online recruitment. Career Exchange is one tool used to attract and select the right type of people to Telecom. Career Exchange has already attracted a large pool of people interested in hearing about job opportunities at Telecom.

Career Exchange has enabled Telecom to develop one-on-one relationships with people, both within the company and externally, who are interested in developing their careers in Telecom. Ongoing improvements are expected in the coming year.

The changes during the past year should improve Telecom's retention rates. In a more competitive environment, Telecom expected its retention rates to increase, as human resources are subject to the same competitive pressures as the rest of the business.

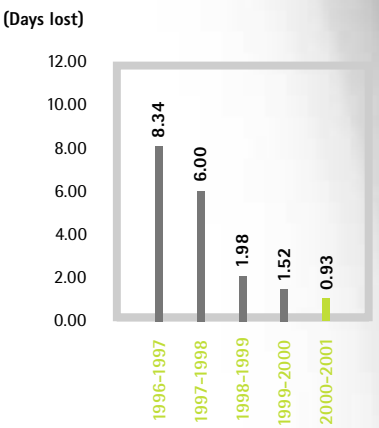
In responding to these pressures, Telecom is working to make the company more attractive as an employer, managing and developing talent, transforming the culture and undertaking a leadership programme. These measures are in addition to the best performance and remuneration plan.

HEALTH AND SAFETY

Telecom is committed to health and safety. During the last five years the number of days lost per injury has

JASMINE BUKVICKI (SENIOR TECHNOLOGIST), TONY KELLETT (SERVICES BUSINESS MANAGER), AND PETER FLOWERS (PROJECT MANAGER).

MIKE GUNN, PROGRAMME IMPLEMENTATION MANAGER.



Days lost (by pay period, fortnight) per 100 employees as a result of work-related injuries (July '97-June '01)

dropped from an average of 17.5 to 3.9.

The steady downward trend can be attributed to an ongoing and rigorous programme to improve health and safety within the Company.

The amount of information being sent back to managers has significantly increased. Managers are promptly alerted to issues in areas that they are responsible for and sites are regularly audited to ensure that they are up to standard. Telecom also offers a programme of workplace assessments to ensure staff work areas are safe. In addition, all staff receive a health and safety newsletter.

Telecom is also one of the few companies that pays a top up to 100 percent, the 80 percent of salary ACC pays if staff are off work because of a work-related accident.

Absenteeism is a harder issue to tackle than work-related injuries, but during the past year, Telecom has also started a programme to reduce absenteeism rates. Managers will be closely monitoring staff absenteeism and working to resolve issues in a bid to reduce it.

MANAGEMENT DIVERSITY

Telecom is proud of the diversity of its Management Team. The Company has a team that reflects the diversity of the customers it serves. Telecom practices this diversity by hiring the best person for the job regardless of their race, creed or age.

CULTURE DEVELOPMENT

Telecom is working to foster a new culture for the whole Telecom Group, both in Australia and in New Zealand.

The aim is to develop a collaborative and empowering culture where staff are supported to perform well and actively work together in the best interests of the customer.

The first census was a catalyst for positive change. Teams throughout Telecom took action to improve things based on a discussion of their team results. And the Executive Group is currently focused on getting the structures, systems and processes in place to support the culture we're working towards.

THE TELECOM GROUP CONTRIBUTES TO COMMUNITIES, THE ARTS AND SPORT IN NEW ZEALAND AND AUSTRALIA THROUGH A RANGE OF PROGRAMMES

TELECOM SPONSORED PERFORMANCES OF A MIDSUMMER NIGHT'S DREAM.

In the 2000-01 year, Telecom put NZ$15.3 million back into New Zealand communities through arts, education, community and sports sponsorships. In addition, Telecom spent over NZ$4.5 million supporting 111 call delivery to emergency services.

AAPT's sponsorships reflect Australians' passion for sport. In 2000-01, AAPT's major sports sponsorships totalled over NZ$2.2 million.

NEW ZEALAND – EDUCATION

Digital Opportunities Projects

Telecom is at the heart of two of the New Zealand Government's pilot education projects aimed at opening up online learning opportunities for school students.

Telecom Information Technology Roadshow

A mobile, self-contained classroom crammed with interactive exhibits, the Telecom Information Technology Roadshow, visited over 40 communities attracting over 46,000 visitors.

Telecom NetDay 2001

Telecom again helped schools enhance their computer networks as part of Telecom NetDay 2001. In over five years, more than 25,000 volunteers have helped wire up around 2,700 schools.

School Connection

Telecom donates to schools and early childhood centres up to five per cent of the value of toll calls customers make.

In 2000-01, we donated NZ$9 million through the programme, bringing the total contributed since 1993 to over $70 million.

Learning Line

95% of New Zealand schools have taken up Telecom's offer of a separate phone line installed free, and without line rental, for a classroom, computer centre or library.

NEW ZEALAND – COMMUNITY

Wairoa.com

Telecom is in partnership with the Government and Wairoa community to help open up the online world to locals.

Victim Support

Telecom has been Victim Support's principal sponsor since 1995. In the last year, Victim Support's volunteers helped over 200,000 people.

Citizen's Advice Bureaux

Telecom sponsors Citizen's Advice Bureaux's 0800 free-phone line. Last year, over 41,000 people obtained information through the free service.

SeniorNet

SeniorNet learning centres introduce people over 55 to new information technologies. SeniorNet has over 20,000 members in 77 clubs, 31 of them formed in the 2000-01 year.

Voluntary Welfare Organisation Sponsorship

Telecom supports over 1,000 charities and welfare services, providing them with reduced phone line rentals.

NEW ZEALAND – ARTS

The New Zealand Symphony Orchestra

Telecom is a principal sponsor of the NZSO. In November 2000, we supported a series of performances in Otara and Porirua in conjunction with the Black Grace Dance Company.

The New Zealand Actors Company

Telecom sponsored the company's matinee shows of A Midsummer Night's Dream. The Telecom Dream Matinees were complemented by an interactive schools programme and a curriculum-based website.

Christchurch Arts Festival

The ornately decorated Telecom Pavilion, for the Telecom Jazz & Cabaret Season, attracted attention at this year's Christchurch Arts Festival.

City Gallery, Wellington

Telecom Prospect 2001 – New Art New Zealand – showcased the best of recent New Zealand art. Telecom's sponsorship ensured a wide audience enjoyed the show via an innovative online catalogue.

New Zealand School of Dance

Telecom brought the magic of ballet to provincial communities by sponsoring the New Zealand School of Dance's Adrenalin tour of traditional and contemporary works.

NEW ZEALAND -SPORTS

America's Cup

Telecom will continue its sponsorship of Team New Zealand for the 2003 America's Cup defence.

Telecom 2GO Black Sticks

Telecom began supporting the New Zealand Women's Hockey Team – the Telecom 2GO Black Sticks.

Rugby

Telecom supports the All Blacks, as well as being the official telecommunications supplier to the team and New Zealand Rugby Football Union.

For the past two seasons Telecom has been proud to sponsor one of the most exciting rugby competitions in the world – the Telecom Rugby Super 12.

Telecom is also proud to support the Telecom 2GO International Sevens, and the National Sevens. Telecom has been supporting Auckland club rugby for the past two years as teams compete for one of the country's oldest rugby trophies, the Gallaher Shield.

Rob Waddell

Telecom's support helped rower Rob Waddell to victory in the 2000 Olympic Games, winning New Zealand's only gold medal in Sydney.

AUSTRALIA

Brisbane Lions Australian Football Club

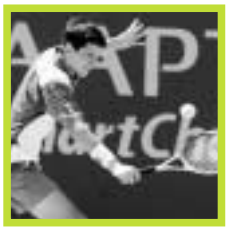
CellularOne is principal sponsor of the Brisbane Lions, key players in the Australian Football League.

Hawthorn Football Club

AAPT's residential business AAPT Smartchat is a major sponsor of another popular Australian Football League team, the Victoria-based Hawthorn Football Club.

AAPT Championship

The AAPT Championship is the premier tennis event leading up to the Australian Open.



Photo, Peter Mathews, courtesy The Age.

LESLEY CONNELLY OF CHRISTCHURCH SENIORNET.

Photo, The Press.

THE BOARD OF DIRECTORS

OF TELECOM CORPORATION NEW ZEALAND LIMITED

30 JUNE 2001

RODERICK DEANE,
CHAIRMAN

Roderick Deane became Chairman of Telecom in October 1999, after seven years as Chief Executive and Managing Director. He was named Chief Executive of the Decade in 1999 in the Top 200 New Zealand Corporate Awards.

Dr Deane also chairs Te Papa Tongarewa (The Museum of New Zealand), the ANZ Banking Group (New Zealand) Limited and Fletcher Building Limited. He is a Director of ANZ Banking Group Limited (Melbourne), TransAlta Corporation (Canada) and Woolworths Limited (Australia).

He is on the boards of the Centre for Independent Studies in Sydney and the Institute of Policy Studies at Victoria University in Wellington, where he is also part-time Professor of Economics and Management. Jointly, with wife Gillian, Dr Deane is Patron of IHC New Zealand Inc and a member of the IHC Board of Governance. He is Chairman of the City Gallery Wellington Foundation with an active interest in promoting the arts and music.

THERESA GATTUNG,
CHIEF EXECUTIVE

Theresa Gattung became Chief Executive in October 1999. She had previously been Group General Manager Services and General Manager, Marketing. Before joining Telecom in 1994, Ms Gattung was Chief Manager, Marketing for Bank of New Zealand, and held executive positions with National Mutual and TVNZ. Ms Gattung is currently a director of Independent Newspapers Limited.

She graduated with a Bachelor of Laws (LLB) from Victoria University in 1987 and a Bachelor of Management Studies (Honours, with majors in Economics and Marketing) from Waikato University in 1983. Her entire career has been in "new economy" companies – telecommunications, media, information technology, banking and finance.

PETER SHIRTCLIFFE

Peter Shirtcliffe has been a Director since April 1987 when Telecom was created as a State Owned Enterprise. He was appointed Chairman in September 1990 and retired from this role in September 1999.

Mr Shirtcliffe was Managing Director of foodstuffs producer and distributor Goodman Group Limited from 1976-1985 and Chairman of the New Zealand Trade Development Board from 1985-1990. He is currently a member of the Executive Committee of the Australia and New Zealand Business Council, and a trustee of, or consultant to, a number of charitable trusts.

Mr Shirtcliffe retires from the Board at the Annual Meeting in October.

JOHN KING

John King, LLB, has been a Telecom Director since September 1990. He is Senior Partner with law firm Russell McVeagh, Chairman of the Takeovers Panel, a Director of WestpacTrust Investments Limited and the New Zealand Guardian Trust Company Limited, a member of the Boards of the Employers and Manufacturers Association (Northern) Inc and the Spirit of Adventure Trust, and a member of the Council for the Auckland College of Education.

PATSY REDDY

Patsy Reddy joined the Board in December 1997. She is also an Executive Director of Active Equities Limited, a Non-Executive Director of Sky City Limited, Chairperson of Infinity Group Limited and a Trustee of the Sky City Community Trust. From 1987 to 1998 Ms Reddy was a Senior Executive at Brierley Investments Limited, and before that a partner in law firm Rudd Watts & Stone. She has also been a lecturer in Law at Victoria University of Wellington.

MICHAEL TYLER

Michael Tyler is Managing Director and Senior Partner of London-based professional services firm Tyler & Company, which provides advisory and analytical services in the telecommunications, media and electronic commerce fields. He joined the Board in June 1999. Before founding Tyler & Company, Mr Tyler was a Senior Partner and Director at Putnam, Hayes & Bartlett Inc., where he headed the telecommunications consulting business, and before that, he led the telecommunications practice as a Partner and Vice-President at Booz, Allen & Hamilton Inc. Mr Tyler started his telecommunications career at British Telecom in 1972. Mr Tyler is also a Director of Swedish software systems integrator and operations support company ConNova AB.

PAUL BAINES

Paul Baines joined the Board in May 1998. He is Chairman of Tower Managed Funds Limited and a Director of Comalco New Zealand Limited, Fletcher Building Limited, Gough, Gough and Hamer Limited, Greenstone Fund Limited, the Reserve Bank of New Zealand and Wrightson Limited. Mr Baines has been Chief Executive Officer of CS First Boston New Zealand and before that held a number of senior positions at sharebroking and investment banking firm Jarden & Co. He has degrees in accountancy, economics and public policy.

RODERICK MCGEOCH

Roderick McGeoch was appointed to the Board in April 2001. He is a solicitor and company director, plays a leading role in business, the legal profession and sports administration, as well as providing direction and support to a range of community and welfare organisations.

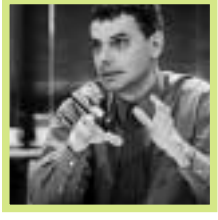
He is Chairman of the Board of Corrs Chambers Westgarth, one of Australia's largest law firms, Chairman of the Boards of TCNZ Australia Pty Ltd, Australian Growth Properties Limited and Sporting Frontiers Pty. Limited. He is Deputy Chairman of Australian Pacific Airports Corporation Limited and a Director of Ramsay Health Care Limited. Roderick led Sydney's bid to host the 2000 Olympic Games as Chief Executive of Sydney Olympics 2000 Bid Limited and served on the Board of the Organising Committee.

THE EXECUTIVE GROUP CONSISTS OF SENIOR MANAGERS WHO EACH RUN MAJOR UNITS WITHIN TELECOM AND REPORT DIRECTLY TO THE CHIEF EXECUTIVE.

MARKO BOGOIEVSKI

Chief Financial Officer. Marko Bogoievski has been the Chief Financial Officer of Telecom since 1 May 2000. Prior to this, Marko held a number of senior financial, operational and sales roles in New Zealand and the United States including Price Waterhouse, Lion Nathan, and Ansett.

A Wellingtonian, Marko graduated from Victoria University with a BCA in economics and accounting. He also has an MBA from the Harvard Graduate School of Business.



KARYN DEVONSHIRE

Karyn took up her role as head of TCNZ Australia in May 2000. Her group is at the cutting edge of developing Telecom's presence in the Australian corporate market, and is responsible for the contract with the Commonwealth Bank Group. Karyn first joined Telecom in December 1997 holding roles as head of Strategy and Information Services. She has worked in many parts of the globe, in Sales & Marketing, Strategy and IT roles.

KEVIN STRATFUL

The Sales and Service Group is responsible for meeting the telecommunications needs of our consumer, business and corporate customers. It markets Telecom's services to customers, bills them for services and manages the relationships. Kevin joined Telecom in January 2000 and is Chief Operating Officer, New Zealand Sales and Service. He was previously Managing Director of Freightways and before this, Managing Director of Lion Nathan New Zealand. He has over 25 years' experience in sales and marketing across a range of industries.

DAVID BEDFORD

David Bedford was appointed Chief Operating Officer of AAPT in December 2000. He is responsible for the overall operational and strategic direction of the Group's Australian Data and Voice business.

David was appointed Group General Manager Network in July 1998 from his role as Group General Manager Enterprises (before that he was General Manager, Human Resources). David was responsible for Telecom's corporate information technology and systems function, which included management of its outsourcing partnership with EDS.

SIMON MOUTTER

Simon Moutter's Network Group manages the investment in and operation of Telecom's fixed line network infrastructure in New Zealand as well as managing the Network International business, trading in telecommunications traffic worldwide.

Simon was appointed Group General Manager Network in November 2000 from his role as General Manager Network Delivery. He joined Telecom in September 1999, following 13 years in the electricity industry.

GRAHAM MITCHELL

Graham Mitchell is responsible for the Group's trans-Tasman Internet and directory services including Xtra, XtraMSN, Yellow Pages and Connect. Graham was appointed General Manager Internet & Directory Services Group in December 1999. He rejoined Telecom from Brierley Investments Limited where he was New Zealand Investments Manager. Graham has previously held senior management positions with Electricity Corporation of New Zealand. He has a Bachelor of Commerce and Administration from Victoria University of Wellington.

THERESA GATTUNG

Theresa Gattung, Chief Executive, leads the Company's Executive Team, overseeing the day-to-day management of Telecom on behalf of the Board of Directors. The team meets regularly to consider strategy, policy, investment and corporate activities, and to monitor business performance. It also advises Theresa on matters such as strategy and policy.

MARK VERBIEST

Mark Verbiest is General Counsel overseeing the provision of legal, Board, secretariat and risk management services to ensure that the Company uses sound business practices. The General Counsel has responsibility for government relations and regulatory affairs within Telecom.

MARK RATCLIFFE

Mark is the Chief Information Officer for Telecom in New Zealand and Australia.

He is responsible for Telecom's corporate information technology and systems, which include management of a NZ$1.5 billion outsourcing partnership with EDS.

Mark has worked in a variety of senior roles over his twelve-year career at Telecom. These include General Manager of Telecom's Data & Voice product development and marketing group, and General Manager of Product and Service Development.

JANE FREEMAN

Jane Freeman is General Manager of esolutions - an ecommerce alliance between Telecom, EDS and Microsoft which is playing a key role in realising Telecom's vision of leading New Zealanders online.

Jane started at Telecom in December 1999. She has a strong ecommerce background, having launched Bank Direct, the first total phone and Internet bank in New Zealand.

Previously she was Chief Manager Marketing at the ASB and General Manager Residential Markets at Clear Communications.

MOHAN JESUDASON

Mohan Jesudason's Mobile Business Unit is responsible for all aspects of our mobile business. Mohan joined Telecom in September 1996 as General Manager Business. He was appointed to his new role as General Manager Mobile in December 1999. Prior to joining Telecom, Mohan spent 16 years with National Mutual in Melbourne and New Zealand where he held a variety of senior positions in marketing, distribution and general management.

JANE AUSTIN

Jane Austin's Corporate Communications Group develops frameworks to sustain and increase the value of Telecom's brand. The group also directly supports the brand through communications with shareholders, staff, media and communities. Jane joined Telecom 11 years ago from British Telecom. Her roles in Telecom have spanned communications, service and sales, and, prior to taking up her current role in December 1999, she managed branding strategy in the Services team. This followed a period heading up Business Service and Indirect Channels.

GLEN PETERSEN

Glen Petersen's Human Resources Group oversees and develops strategies and policies for managing the participation by Telecom employees in creating value. Glen was appointed General Manager, Human Resources in August 2000. He was previously General Manager, Human Resources, Commercial and Consumer at Telstra Corporation. He has extensive senior level experience in human resources over the past 20 years both overseas and in New Zealand. This has included various roles with Pizza Hut in Australia and North America and then Lion Nathan in New Zealand and Australia. In 1995 Glen joined Arnotts as Vice President Human Resources prior to joining Telstra in 1999.

GOVERNANCE AT TELECOM THE BOARD OF DIRECTORS IS ELECTED BY SHAREHOLDERS TO GOVERN TELECOM IN SHAREHOLDERS' INTERESTS. THE BOARD IS THE OVERALL AND FINAL BODY OF RESPONSIBILITY FOR ALL DECISION-MAKING WITHIN THE COMPANY.

In accordance with its commitment to the highest standards of behaviour and accountability, the Board has adopted Governance Guidelines. These set out the Board's position on various matters including: the administration and operation of the Board; the role of the Board; the appointment of Directors; the establishment of Board Committees; procedures for evaluation of Board performance; Company-wide policy and procedures on insider trading; and Board procedures for dealing with conflicts of interest.

To ensure efficiency, the Board has delegated some of its powers to Board committees and other powers to the Chief Executive and others (including subsidiary Company Boards). The Chief Executive has, in some cases, formally delegated certain authorities to her managers and has established a formal process for those managers to sub-delegate certain authorities.

Role of the Board

The Board has the responsibility to work to protect and enhance the value of the Company in the interests of the Company and its shareholders. The Board:

- Is engaged actively and continuously in strategic planning and approves corporate strategies, including the approval of transactions relating to acquisitions and divestments, and capital expenditure above delegated authority limits;
- Reviews and approves the corporate plan for the forthcoming year, including the capital expenditure and operating budget, and reviews performance against strategic objectives;
- Is involved in the ongoing assessment of business opportunities and risks;
- Approves the financial and dividend policies; and
- Is responsible for the selection of the Chief Executive, monitoring of the Chief Executive's performance and ensuring Chief Executive succession-planning.

The Board monitors Management's performance relative to these goals and plans, and reports to shareholders at least once a year at the Annual Meeting.

Board Operations

The Board currently comprises eight Directors, being a non-executive Chairperson, an executive Director, and six non-executive Directors. Details of Directors in office at 30 June 2001 are set out on pages 22 and 23. Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Company's constitution.

The full Board formally met for eight scheduled meetings during the financial year ended 30 June 2001. Two of these meetings spanned two-day periods. During the year an additional six Board meetings were held.

Board Committees

The Board has two formally constituted Committees, the Human Resources & Compensation Committee and the Audit Committee. The composition and terms of reference for the Committees are reviewed regularly by the Board. The Committees comprise non-executive Directors. The Chairman is an ex-officio member of both Committees.

The Human Resources/Compensation Committee, chaired by Patsy Reddy, is responsible for overseeing the policy framework for human resources activities within the Telecom Group, including overseeing Senior Management succession-planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the Chief Executive Officer and managers who report directly to the Chief Executive, and recommending to the full Board the compensation of Directors.

The Audit Committee, chaired by Paul Baines, is responsible for recommending the external auditor; reviewing the external auditor's fees and terms of engagement; reviewing the senior internal audit executive appointment; being a channel of communication between the

Attendance at Board and Committee Meetings for the year 1 July 2000 – 30 June 2001:

	Deane	Gattung	Shirtcliffe	King	Reddy	Baines	Tyler	McGeoch
Full Board	14	14	14	14	14	14	13	3*
HR/Compensation Committee	7***	7**		7	7			
Audit Committee	3***	3**	3			3	3	

** Mr McGeoch joined the Board on 11 April 2001.*

*** Ms Gattung is not a member of the HR/Compensation and Audit Committees but is entitled to attend meetings.*

**** The Chairman, Dr Deane, is an ex-officio member of the HR/Compensation and Audit Committees.*

Board and external and internal audit; reviewing the results of the external audit and management letter; reviewing the annual financial statements and management commentary; reviewing the Internal Audit work plan; reviewing the results of Internal Audit's work plan; considering the adequacy of internal controls after consultation with external and internal auditors; and considering major accounting policy changes and other matters as directed by the Board.

During the year, ad hoc Committees were formed to consider matters relating to the acquisition of the shares from the minority shareholders in AAPT Limited and to consider the investment in Sky Network Television Limited.

Changes to the Board

Peter Shirtcliffe will retire from the Board at this year's Annual Meeting having served on the Board since 1990. This Annual Report includes a tribute to Peter Shirtcliffe on page five.

Rod McGeoch was appointed to the Board in April 2001. Rod is a prominent Australian solicitor who holds a range of directorships and other notable positions in Australian businesses, sporting and civil organisations. In accordance with the Company's Constitution, Mr McGeoch will submit himself for re-election at this year's Annual Meeting.

Governance Principles

The Board has established Telecom's Governance Policy to outline what it expects from the people to whom it has delegated financial and decision-making authority.

Telecom's governance principles, which are a broad description of the way in which the Board expects the Company to be managed for shareholders' benefit have recently been revised and, are:

1 The Company exists to grow shareholder value.
2 Business Strategies will be market focused.
3 Overarching strategy and policy will be decided at corporate level.
4 Relationships will be a source of competitive advantage.
5 The customer will be managed as one.
6 Accountability will be clear and measurable.
7 The organisational model will enable flexibility to change.
8 Systems and processes will support strategy.

Management oversight

Telecom Directors and the Chief Executive oversee managers to ensure they make decisions in line with corporate policy and direction.

An Executive Team, comprising New Zealand and Australian-based executives, meet regularly. The Executive Team considers, and advises the Chief Executive on matters including strategy, policy, investment and corporate activities, and to monitor performance by the various business groups against strategies and plans. Membership of the Executive Team is set out on pages 24 and 25.

Delegation Framework

Telecom has formal policy frameworks in place relating to its principal operations, delegations of financial authority to managers and compliance with statutory requirements. The Board's delegation of the conduct of the day-to-day affairs of the Company to the Chief Executive and certain subsidiary companies is made within this framework. The practices and processes used by the Board, Chief Executive, Executives, and Senior Managers to implement governance include:

1 Delegated management authority.
2 Individual accountability.
3 Delegated financial authority.

Delegated management authority means that limits are set on decision-making and certain decisions require approvals from Senior Managers, executives or the Board. However, approval does not involve re-making decisions.

Individual accountability means individuals are responsible for achieving specific agreed outcomes; measuring outcomes wherever possible; planning, budgeting and acquiring the resources they need to achieve their accountabilities; and monitoring the use of resources used in achieving their outcomes.

Delegated financial authority means that Telecom managers have authority to approve spending up to specified financial limits, with approval from Senior Managers, executives or the Board needed for expenditure or budget allocation beyond the limits. These limits are reviewed periodically and set at levels that ensure a proportion of management decisions are discussed by both the decision-maker and their Manager, the Executive or the Board.

Directors' Shareholdings

The Board has a policy that Directors (and other executives) may not buy or sell Telecom shares at any time other than during the six weeks following the announcement of quarterly, half yearly and annual results, and only then if they would not be in breach of New Zealand insider trading laws. To align more closely the interests of shareholders and Directors, the Board has recently established a policy that non-executive Directors should hold a minimum of 10,000 ordinary Telecom shares (or ADRs). The Board has agreed that where this requirement has not been satisfied, relevant Directors will seek to acquire and hold, either in their own name or through associated family interests, the minimum holding prior to 30 June 2002, providing that any acquisition must be undertaken in accordance with Telecom policy and insider trading laws.

During the financial year ended 30 June 2001, Directors disclosed in respect of section 148(2) of the Companies Act the information shown on pages 83 and 84.

Review of Board performance The Chairman annually assesses the performance of individual Directors and the Board regularly reviews its own performance.

MANAGEMENT COMMENTARY 30 JUNE 2001

OVERVIEW TELECOM'S REPORTED NET EARNINGS FOR THE YEAR ENDED 30 JUNE 2001 ("2001") WERE NZ$643 MILLION, COMPARED TO NZ$783 MILLION FOR THE YEAR ENDED 30 JUNE 2000 ("2000"). REPORTED NET EARNINGS FOR THE YEAR REPRESENTED EARNINGS PER SHARE ("EPS") OF NZ36.4 CENTS COMPARED TO NZ44.7 CENTS FOR 2000.

Reported net earnings for 2001 include certain non-recurring and special items.

The non-recurring items included in reported net earnings have been classified as abnormal revenues and expenses. Abnormal expenses of NZ$256 million (NZ$184 million after tax), relating to the closedown of the CDMA rollout in Australia and other asset write-offs have been recorded in 2001. In addition, reported earnings for 2001 included an abnormal reduction of revenue of NZ$12 million (NZ$8 million after tax). See "Abnormal Items".

Dividend income from Telecom's investment in the Southern Cross Cable Network ("Southern Cross") of NZ$245 million (NZ$221 million after tax), due to its size and timing of receipt, represents a special item in 2001, see "Dividends From Associates". While Telecom expects to receive future dividend income from Southern Cross, the size and frequency of these payments will vary. The dividends received from Southern Cross have been separately identified in the table below to allow a better understanding of trends from period to period.

The table below reconciles reported and adjusted earnings for 2001 and 2000.

Net earnings excluding abnormal items and Southern Cross dividends decreased by NZ$157 million, or 20.4%. This reflects additional interest expense largely as a result of funding the AAPT acquisition, additional goodwill amortisation associated with this investment and associate company losses.

Reconciliation of Net Earnings Before and After Abnormals and Southern Cross Dividends

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Reported net earnings	**643**	**783**	**(17.9)**
Abnormal items (after tax):			
Revenue	8	(12)	
Expenses	184	-	
Net earnings excluding abnormal items	835	771	8.3
Southern Cross dividends	(221)	-	
Net earnings excluding abnormal items and Southern Cross dividends	**614**	**771**	**(20.4)**
EBITDA# excluding abnormal items and Southern Cross dividends	2,070	2,042	1.4

 # Earnings before interest, tax, depreciation and amortisation

Dividends

Telecom will pay a fully imputed fourth quarter dividend of NZ5.0 cents per ordinary share in September 2001, bringing the dividend for the year ended 30 June 2001 to NZ20.0 cents. The dividend for the year ended 30 June 2000 was NZ46.0 cents per ordinary share.

Telecom implemented a new dividend policy for the year ended 30 June 2001. This policy is to target a dividend payout ratio of around 50% of net earnings. Application of this policy is dependent on earnings, cash flow and other investment opportunities that might arise in the future.

As a matter of practice, Telecom looks to pay a dividend at the same rate in each of the first three quarters of the financial year, and set the fourth quarter dividend at a level which accommodates the target ratio for full year.

Reported net earnings for the year ended 30 June 2001 have been significantly impacted by abnormal items. In setting the level of the fourth quarter dividend, Telecom has made allowance for the impact of these abnormal items, resulting in a dividend payout ratio for the full year of approximately 56% of net earnings.

Fourth Quarter Dividends	
Ordinary shares	NZ 5.0 cents
American Depositary Shares	*US 16.18 cents
Supplementary dividend (to non-resident shareholders)	
Per ordinary share	NZ 0.88 cents
Per American Depositary Share	*US 2.85 cents
"Ex" dividend dates	
New Zealand Stock Exchange	3 September 2001
Australian Stock Exchange	27 August 2001
New York Stock Exchange	28 August 2001
Books closing dates	
New Zealand, Australia Stock Exchanges	31 August 2001
New York Stock Exchange	30 August 2001
Payment dates	
New Zealand, Australia	14 September 2001
New York	21 September 2001

** Based on an exchange rate at 30 June 2001 of NZ$1.00 to US$0.4047.*

Forward-looking Statements

This Management Commentary contains forward-looking statements. The words "believe", "expect", "will", "estimate", "project", "forecast", "should", "anticipate", "intend" and similar expressions may identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management as well as on assumptions made by and information currently available to the Company at the time such statements were made. Actual results could differ materially from those projected in the forward-looking statements as a result of the matters discussed herein and certain economic and business factors, some of which may be beyond the control of the Company. Such factors include, but are not limited to, competition in the New Zealand and Australian telecommunications markets, the outcome of pending litigation, the effect of current or future government regulation, technological change in the telecommunications industry, and the state of the New Zealand and Australian economies.

Operating Results

Telecom's consolidated results are summarised on page 38.

The following commentary separates the surplus from operations, revenue and expenses between those earned/incurred in New Zealand and Australia. For the purposes of this geographic split, Australia is deemed to include the AAPT Group ("AAPT") and TCNZ Australia Pty Limited ("TCNZA"), while New Zealand is deemed to comprise the remainder of the Telecom Group including all other international operations.

Results for 2001 were impacted by the consolidation of AAPT revenues and expenses for the entire year. In 2000, AAPT revenues and expenses were consolidated for seven months.

Surplus from Operations

Surplus from operations before abnormal items

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand			
Revenue excluding Southern Cross dividends	3,647	3,596	1.4
Southern Cross Dividends	245	-	NM
Total revenue	3,892	3,596	8.2
Total expenses	2,257	2,175	3.8
Surplus from operations	**1,635**	**1,421**	**15.1**
Australia			
Total revenue	1,756	739	NM
Total expenses	1,710	714	NM
Surplus from operations	46	25	NM
Goodwill amortised on consolidation of AAPT	(88)	(31)	NM
Surplus from operations before abnormal items	**1,593**	**1,415**	**12.6**
Less Southern Cross dividends	(245)	-	NM
Add back depreciation and amortisation	722	627	15.2
EBITDA# excluding abnormal items and Southern Cross dividends	**2,070**	**2,042**	**1.4**

NM = Not a meaningful comparison

#Earnings before interest, tax, depreciation and amortisation

The group surplus from operations before abnormal items increased by NZ$178 million, or 12.6%. The increase was due to the receipt of NZ$245 million of dividend income from Southern Cross, partly offset by a lower surplus from New Zealand operations excluding the aforementioned dividends. An increased surplus from Australian operations was more than offset by an increase in amortisation of AAPT goodwill.

Reconciliation of movement in surplus from operations before abnormal items

	NZ$M
2000 surplus from operations	**1,415**
Southern Cross dividends received	245
Decrease in surplus from NZ operations excluding Southern Cross dividends	(31)
Increase in surplus from Australian operations	21
Increase in amortisation of AAPT goodwill	(57)
2001 surplus from operations	**1,593**

The discussion of operating revenues and expenses that follows excludes the impact of abnormal items, which are discussed separately.

Revenue

Total Operating Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	3,892	3,596	8.2
Australia	1,756	739	NM
Abnormal revenue	(12)	15	NM
Total Group	**5,636**	**4,350**	**29.6**

NM = Not a meaningful comparison

Growth in New Zealand revenue primarily reflects dividend income received from Southern Cross. Excluding Southern Cross dividends, New Zealand revenue grew by NZ$51 million, or 1.4%. This reflects growth across most of Telecom's revenue streams, particularly data, Internet, directories and miscellaneous other services revenue, partially offset by declining local service and equipment revenues.

Revenue growth in Australia reflects increased revenue in AAPT, as well as the development of TCNZA's corporate outsourcing business.

Australian comparisons are affected by the period of consolidation of AAPT's results. Telecom acquired a controlling interest in AAPT on 27 November 1999, with consolidation of AAPT's results effective from 1 December 1999. Accordingly, there is a full 12 months of AAPT revenue in 2001, while there is only seven months of AAPT revenue included in 2000. To facilitate more meaningful comparison the tables that follow for Australia show AAPT revenue (in Australian dollars ("A$")) and volumes for the full 12 months ended 30 June 2000.

Local Service Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	1,039	1,057	(1.7)
Australia	32	7	NM
Total Group	**1,071**	**1,064**	**0.7**

NM = Not a meaningful comparison

New Zealand	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Business & residential access			
- Revenue ($m)	837	849	(1.4)
- Access lines			
- residential (000s)	1,357	1,349	0.6
- business (000s)	317	330	(3.9)
- Centrex lines (000s)	75	80	(6.3)
Local calls*			
- Revenue ($m)	123	133	(7.5)
- Call minutes (m)	3,294	3,348	(1.6)
Smartphone, messaging and call track			
- Revenue ($m)	79	75	5.3

** Includes business local calls, residential calls under NZ20 cents local calling option and Centrex and VPN local calls*

The decrease in access revenue of NZ$12 million, or 1.4%, for the year was largely due to a reduction in business rental reflecting a 3.9% reduction in the number of business lines.

Local services revenue and access line growth have been affected by increased competition in the local service market, the migration of local access to ISDN services and increased use of cellular phones. Telecom revised its local access pricing structures resulting in lower access charges for a significant number of customers in particular locations, effective from March 2001.

Australia	Years Ended 30 June		
AAPT	2001 A$M	2000* A$M	Change %
Local service			
- Revenue (A$m)	21	9	133.3
- Call minutes (m)	542	172	215.1
- Average price (cents)	3.9	5.2	(25.0)

** For comparison purposes, 2000 figures are for the full year*

AAPT's local service revenue, which includes all switched local revenue, grew by 133.3% to A$21 million for 2001 compared to the previous year. This revenue growth was driven by increased local calling volumes, resulting from continued and successful penetration of the business and corporate market in Australia.

National Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	711	708	0.4
Australia	470	224	NM
Total Group	**1,181**	**932**	**26.7**

NM = Not a meaningful comparison

New Zealand	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
National calls			
- Revenue ($m)	275	301	(8.6)
- Call minutes (m)	2,351	2,206	6.6
- Average price (cents)	11.7	13.6	(14.0)
Calls to cellular networks			
- Revenue ($m)	302	276	9.4
- Interconnect cost ($m)	(82)	(71)	15.5
- Gross margin ($m)	220	205	7.3
- Call minutes (m)	637	570	11.8
- Average price (cents)	47.4	48.4	(2.1)
National 0800			
- Revenue ($m)	122	119	2.5
- Call minutes (m)	747	679	10.0
- Average price (cents)	16.3	17.5	(6.9)

National calls revenue decreased by 8.6% for the year compared with the same period last year as a result of a decline in the average price per call minute, partly offset by an increase in call minutes. The decline in the average price per minute reflects increased volumes of lower margin wholesale call minutes and the effect of various capped specials.

Fixed line to cellular revenue increased by 9.4% for the year, compared with the same period last year, reflecting an increased number of call minutes.

The growth in fixed line to cellular revenue was partly offset by an increase in the cost of interconnecting with other cellular carriers (see "Cost of Sales"). Overall, the fixed line to cellular margin increased by 7.3% for the year compared with the same period last year.

Australia	Years Ended 30 June		
AAPT	2001 A$M	2000* A$M	Change %
National calls			
- Revenue (A$m)	194	174	11.5
- Call minutes (m)	1,440	1,113	29.4
- Average price (cents)	13.4	15.6	(14.1)
Calls to cellular network			
- Revenue (A$m)	178	101	76.2
- Call minutes (m)	490	257	90.7
- Average price (cents)	36.3	39.3	(7.6)

** For comparison purposes, 2000 figures are for the full year*

AAPT National calls revenue grew by 11.5% to A$194 million for the year as a result of increased call minutes.

Revenue from calls to cellular networks grew by 76.2% in 2001 as a result of growth in the volume of calls following the introduction in Australia of pre-selection for fixed line to cellular networks in September 1999.

International Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	398	389	2.3
Australia	170	117	NM
Total Group	**568**	**506**	**12.3**

NM = Not a meaningful comparison

New Zealand

International revenue includes outgoing international calls made in New Zealand, collect, credit card and "New Zealand Direct" calls to New Zealand, receipts from overseas telecommunications administrations and companies for calls to New Zealand that use Telecom's facilities and calls from international switched traffic transiting Telecom's facilities (referred to as "transit calls").

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Outwards calls			
- Revenue ($m)	191	194	(1.5)
- Call minutes (m)	651	571	14.0
- Average price (cents)	29.3	34.0	(13.8)
Inwards calls			
- Revenue ($m)	164	155	5.8
- Call minutes (m)	474	428	10.7
- Average price (cents)	34.6	36.2	(4.4)

International Margin

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
International			
- Outwards revenue	191	194	(1.5)
- Inwards revenue	164	155	5.8
- Outpayment	(183)	(172)	6.4
Net international margin before transits	172	177	(2.8)

The net margin received from Telecom international business (outward and inward call revenue less the international outpayment), excluding the transit call margin, decreased by 2.8% for the year compared with the same period last year.

International outwards revenue decreased by NZ$3 million for the year. Growth in outward call minutes was more than offset by the effect of price specials offered to New Zealand customers and significant price reductions resulting in a 1.5% reduction in international outwards revenue for the year.

Inward call revenue increased by NZ$9 million or 5.8% for the year. This is largely the result of an increase in the number of inward call minutes by 10.7%, partially offset by a 4.4% reduction in the average price per minute, reflecting re-negotiated trade direct agreements.

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Age Transits			
- Margin ($m)	41	34	20.6
- Call minutes (m)	707	502	40.8
- Average margin (cents)	5.8	6.8	(14.7)

The new age transits call margin (revenue net of outpayments) increased due to higher volumes partly offset by lower average margins per call minute in the year. The increased volume from the transit business is attributable to the utilisation of a variety of outward routing options and to new transit traffic through Telecom points of presence ("POPs") in the USA, Japan, Australia and the UK.

Australia

AAPT	Years Ended 30 June		
	2001 A$M	2000* A$M	Change %
International revenue			
- Revenue (A$m)	133	163	(18.4)
- Call minutes (m)	523	519	0.8
- Average price (cents)	25.4	31.4	(19.1)

** For comparison purposes, 2000 figures are for the full year*

While call minutes grew by 0.8%, continued pricing pressure resulted in an 18.4% decrease in revenue for the year.

Cellular and Other Mobile Services Revenue

Cellular and other mobile services revenue comprises access and airtime charges for calls originating from Telecom's cellular network (including international outward calls), revenue from paging and mobile radio services, cellular equipment (CPE) and other related services.

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	547	546	0.2
Australia	318	171	NM
Total Group	**865**	**717**	**20.6**

NM = Not a meaningful comparison

Mobile revenue and the mobile gross margin, set out in the table following, do not include revenue from fixed line to cellular calls terminating on Telecom's cellular network. These calls are included as part of National revenue. Mobile revenue and gross margin also exclude revenue from International calls terminating on Telecom's cellular network. These calls are included as part of International inwards revenue.

New Zealand	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Cellular and Other Mobile			
Total mobile revenue ($m)	547	546	0.2
Mobile cost of sales ($m)	(143)	(151)	(5.3)
Mobile gross margin ($m)	404	395	2.3
Cellular			
Cellular revenue ($m)	514	514	-
Call minutes (m)	1,166	1,064	9.6
Connections at period end (000s)			
- Postpaid	506	467	8.4
- Prepaid	792	513	54.4
- Total	1,298	980	32.4
Average revenue per customer			
- Postpaid ($ per month)	73.3	77.1	(4.9)
- Prepaid ($ per month)	7.6	12.9	(41.1)
- Total ($ per month)	36.0	49.5	(27.3)

Telecom had 1,298,000 cellular connections at 30 June 2001 compared with 980,000 at 30 June 2000, an increase of 32.4%. The continued strong growth in connections is largely due to growth in the prepaid cellular business.

The net increase in total connections was 318,000 for the year. This included an increase in postpaid connections for the year of 39,000 as new pricing plans for postpaid customers, including free minutes and additional services, have attracted new customers.

Prepaid service has continued to be popular with consumers. The total number of prepaid customers, including third party connections at 30 June 2001 was 792,000, approximately 61% of total connections.

Mobile cost of sales decreased by 5.3% for the year, predominantly as a result of lower customer acquisition costs in the fourth quarter. Telecom slowed its customer acquisition activities in anticipation of the commercial launch of its CDMA network (see below).

Average revenue per cellular customer decreased by 27.3% for the year, reflecting the higher proportion of prepaid connections. Average revenue per prepaid connection is significantly lower than the average revenue per postpaid connection.

Telecom launched its New Zealand CDMA mobile network in July 2001. While both postpaid and prepaid CDMA plans are available, the initial marketing focus is on postpaid connections. Telecom aims to increase average revenue per user for existing customers through the provision of additional services available when they upgrade to CDMA, as well as attract new customers.

Telecom sold its mobile radio business in May 2001. This business had contributed revenues of NZ$14 million in 2001 (NZ$16 million in 2000). While these revenues will cease, Telecom does not expect this sale to have a material ongoing impact on its overall business due to operating costs avoided and revenues from the provision of services to the divested business.

Australia	Years Ended 30 June		
AAPT	2001 A$M	2000* A$M	Change %
Cellular			
- Cellular revenue (A$m)	252	223	13.0
- Customers (000s)	243	214	13.6

** For comparison purposes, 2000 figures are for the full year*

AAPT cellular revenue grew by 13.0% to A$252 million for the year compared to the previous corresponding period, within an increasingly competitive environment in Australia.

As at 30 June 2001, AAPT had a total of 243,000 cellular customers in Australia, an increase of 13.6% compared to June 2000.

Internet Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	79	67	17.9
Australia	90	35	NM
Total Group	**169**	**102**	**65.7**

NM = Not a meaningful comparison

New Zealand	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Internet revenue ($m)	79	67	17.9
Xtra registered customers (000s)	390	287	35.9
Xtra dial-up hours (m)	77.2	47.0	64.3
Average hours per active customer (per month)	25.0	19.6	27.6

Internet revenue in New Zealand increased by NZ$12 million or 17.9% for the year. While the current period was impacted by the emergence of the free Internet Service Provider ("ISP") model, by early calendar 2001 most free ISPs had stopped acquiring new subscribers or reverted to a paying model.

Telecom's ISP "Xtra" had approximately 390,000 registered customers at 30 June 2001, compared with 287,000 at June 2000, an increase of 35.9%. Of the registered customers, approximately 76% were active during the last month of the year.

Australia	Years Ended 30 June		
AAPT	2001 A$M	2000* A$M	Change %
- Internet revenue (A$m)	71	44	61.4
- Connect access business customers (000s)	6.3	4.3	46.5

** For comparison purposes, 2000 figures are for the full year*

AAPT's Internet revenue, from its Internet and e-commerce business Connect increased by 61.4% in 2001 compared to 2000, as a result of growth and increased penetration in its customer base.

Data Revenue

Data revenue consists principally of revenue from data transmission services, dedicated leased lines and managed data services.

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	412	365	12.9
Australia	189	68	NM
Total Group	**601**	**433**	**38.8**

NM = Not a meaningful comparison

New Zealand

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Jetstream/Netgate revenue ($m)	22	9	144.4
Frame relay revenue ($m)	27	19	42.1
ISDN revenue ($m)	85	76	11.8
Jetstream connections (000s)	16	4	300.0

Data revenue in New Zealand increased by NZ$47 million, or 12.9%, for the year. This growth was driven by volume growth, particularly for high speed and IP-based data products. Revenue for "traditional" data services was comparatively stable.

IP-based products such as Jetstream and Netgate have performed strongly. Revenue for these two products grew 144.4% for the year. Frame relay also performed strongly, with revenue growth of 42.1% for the year.

ISDN revenue increased by 11.8% for the year. The increase in ISDN revenue partly reflected migration from basic access services.

Australia

AAPT & TCNZA	Years Ended 30 June		
	2001 A$M	2000* A$M	Change %
- Data revenue (A$m)	152	72	111.1

** For comparison purposes, 2000 figures are for the full year*

Revenue from data services grew by 111.1% for the year. AAPT's revenue increase was largely driven by continued expansion of the AAPT-owned VicOne network and continued penetration in corporate and government markets. TCNZA's revenue growth was driven by the provision of data services to the Commonwealth Bank of Australia ("CBA").

Directories Revenue

Directories revenue is earned in New Zealand only. Total directories revenue increased by NZ$12 million, or 6.8% for the year.

Directories revenue increased as a result of both tariff and volume growth in both The Telephone Book and YELLOW PAGES® products.

Miscellaneous Other Revenue

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	82	68	20.6
Australia	451	113	NM
Total Group	**533**	**181**	**194.5**

NM = Not a meaningful comparison

New Zealand

Miscellaneous other revenue is derived principally from software development, telecommunications services provided in the Cook Islands and Samoa, international telecommunications infrastructure projects and other miscellaneous activities.

Miscellaneous revenue for New Zealand increased by NZ$14 million, or 20.6% for the year. Revenue for the year includes a gain of NZ$20 million recognised on the prepayment of Telecom's scheduled payment obligations relating to a cross-border finance lease during 2001.

Australia

Miscellaneous revenue for AAPT increased by 107.9% to A$327 million for the year. This revenue is derived largely from resale services.

AAPT re-launched a bundled residential telephony product incorporating local and long distance under the banner of Full Service in late 1999. The successful take-up of this product resulted in a 102.6% increase in resale service revenue for 2001 compared to 2000.

The remaining growth in Australian miscellaneous services revenue relates to TCNZA.

Dividends from Associates

Telecom received gross dividends from associates of NZ$263 million in 2001. These dividends were from Telecom's investment in the Southern Cross Cable network. Applying the equity method of accounting, the first NZ$18 million of the dividends reduced the equity interest recorded in the Statement of Financial Position to zero. As Telecom's equity investment in Southern Cross had been reduced to zero, equity accounting was suspended at that point with all further dividends received being recognised as income. This resulted in the remaining NZ$245 million of the gross NZ$263 million of dividends being treated as income.

Telecom expects to receive further dividends from its investment in Southern Cross, though the timing and amount of these payments is uncertain.

Operating Expenses

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	2,257	2,175	3.8
Australia	1,710	714	NM
Abnormal expenses	256	-	NM
Goodwill amortised on consolidation of AAPT	88	31	NM
Total Group	**4,311**	**2,920**	**47.6**

NM = Not a meaningful comparison

New Zealand

Total operating expenses in New Zealand increased by NZ$82 million, or 3.8% for the year compared with the previous corresponding period.

The increase for the year was largely due to higher cost of sales and other operating expenses partly offset by lower labour costs.

Australia

AAPT and TCNZA both recorded increased expenses, particularly cost of sales, as a result of their significant revenue growth and expansion of their business operations.

The Telecom Group's reported expense growth for Australia for 2001 was also impacted by the consolidation of AAPT expenses for the entire year. In 2000, AAPT expenses were consolidated for seven months from 1 December 1999.

Labour

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	372	406	(8.4)
Australia	200	80	NM
Total Group	**572**	**486**	**17.7**

NM = Not a meaningful comparison

Personnel Numbers	As at 30 June		
	2001	2000	Change %
New Zealand	5,242	5,717	(8.3)
Australia	2,055	1,507	36.4
Total	**7,297**	**7,224**	**1.0**

New Zealand

The decrease in personnel numbers of 8.3% for the year largely reflects reductions in staff numbers in Telecom's domestic telecommunications operations. This has been a key driver of lower labour costs. The sale of ConnecTel, Telecom's design, build and maintenance subsidiary, effective from 1 June 2000, also contributed to the decrease in labour costs. These reductions were partly offset by salary increases arising from Telecom's annual salary review process.

Australia

Labour costs for AAPT increased with the recruitment of additional staff to manage AAPT's customer and volume growth and the highly competitive labour market for experienced telecommunications personnel.

Cost of Sales

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	612	572	7.0
Australia	1,240	507	NM
Total Group	**1,852**	**1,079**	**71.6**

NM = Not a meaningful comparison

New Zealand

Cost of sales increased by NZ$40 million, or 7.0%, in 2001. The main reasons for the increase were higher interconnect cost of sales (including interconnect for calls to cellular networks) and higher international outpayments.

Mobile cost of sales decreased by NZ$8 million, or 5.3%, for 2001 (see "Cellular and Other Mobile Services"). Most Australasian telecommunications companies have adopted the accounting policy of capitalising cellular acquisition costs with amortisation over the life of the underlying contracts. Telecom has considered adopting this policy but has decided against it at this time. Had Telecom adopted this policy effective from 1 July 2000, Mobile cost of sales would have been lower by approximately NZ$34 million in 2001.

Interconnect expense increased by NZ$44 million, or 42.3%, for 2001 reflecting the growth in national and incoming international calls to Vodafone's cellular network, and an increase in calls to other landline carriers.

International cost of sales for outbound calls increased by NZ$11 million, or 6.4%, for 2001, due to a 14.0% increase in outwards call minutes.

Australia

AAPT's cost of sales increased significantly in 2001. This increase was largely due to the successful take-up of Smartchat's bundled residential telephony product, which includes the resale of Telstra's local call service.

Cost of sales in Australia also included costs associated with the outsourcing contract with CBA.

Other Operating Expenses

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	713	633	12.6
Australia	196	95	NM
Total Group	**909**	**728**	**24.9**

NM = Not a meaningful comparison

Other operating expenses consist primarily of occupancy, advertising, computer costs, bad debts, consultancy, postage and agency, outsourcing costs and certain direct costs.

New Zealand

Other operating expenses increased by NZ$80 million, or 12.6%, in 2001. Outsourcing costs increased following the sale of ConnecTel effective from 1 June 2000 and the outsourcing of information services to EDS effective from 1 September 1999. The outsourcing has resulted in a reduction in labour costs (see "Labour").

Increased computer costs and direct costs, along with higher redundancy costs, partially offset by lower advertising and legal costs, also contributed to the growth in other operating expenses.

Australia

Other operating expenses increased due to the other operating expenses of TCNZA and increased expenses for AAPT, reflecting the increase in volume of AAPT's business.

AAPT incurred a larger than expected one-off outside services cost in the first half of the 2001 financial year due to the substantial customer support required for the success of Smartchat's bundled residential telephony product. This has led to development of a new call centre in Bendigo, Victoria. The full commissioning of the new call centre has now occurred and it is operating to budget.

Depreciation and Amortisation

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	560	564	(0.7)
Australia	74	32	NM
Goodwill amortised on consolidation of AAPT	88	31	NM
Total Group	**722**	**627**	**15.2**

NM = Not a meaningful comparison

New Zealand

Depreciation and amortisation expense (excluding goodwill amortised on acquisition of AAPT) decreased by NZ$4 million, or 0.7% in 2001. The increase in amortisation of goodwill on consolidation of AAPT reflects a full year's amortisation in 2001 compared to seven months in 2000, coupled with the purchase of the remaining 20% of AAPT in December 2000 (which resulted in additional goodwill).

Australia

AAPT's depreciation and amortisation expense increased due to the depreciation of AAPT's recently acquired infrastructure assets, CBD fibre, Southern Cross capacity and the backbone network.

Abnormal Items

Revenue

In 2001 Telecom changed its accounting policy for revenue recognition on sales of prepaid cellular minutes and monthly Internet access billings. Previously, revenue on these products had been recognised at the time of sale and billing respectively. Under the new policy, revenue on these products is recognised as Telecom provides the service, with revenue deferred in respect of that portion of services that is yet to be provided. This change was made to align with recently issued international accounting guidance on revenue recognition.

The impact of this change in accounting policy was a one-off deferral of revenue of NZ$12 million. This is made up of a deferral of cellular revenue of NZ$10 million and Internet revenue of NZ$2 million. This has been reflected within abnormal items as a deduction from revenue.

Expenses

Close-Down of CDMA Rollout in Australia

The close-down of the CDMA rollout in Australia is discussed further in the "Other Matters" section.

A charge to abnormal expenses has been recognised at 30 June 2001 for the estimated cost of writing off project costs capitalised to work in progress, and providing for the discounted present value of contractually committed future expenditure to the extent that this cannot be mitigated via negotiation or assignment.

The total charge to abnormal expenses is NZ$215 million. This represents NZ$159 million for writing off project costs to date and NZ$56 million to provide for future commitments.

The calculation of the abnormal charge has been based on management's current estimate of the amounts required to reduce the carrying value of assets to a recoverable amount and the net amount that will ultimately be required to settle lease liabilities and similar non-cancellable commitments. Actual results could differ from these estimates.

All outstanding issues with Lucent Technologies ("Lucent") relating to the project and its closedown have been resolved.

Write-off of network assets and project costs

As part of a review of network assets, assets identified as no longer being required for business operations and having no residual value have been fully written-off at 30 June 2001.

The majority of the write-off relates to assets acquired in connection with the deployment of residential hybrid fibre/coax (HFC) cable by First Media Limited (a wholly owned Telecom subsidiary). A decision was made in 1998 to discontinue the deployment and the costs of terminating the rollout and reorganising First Media were provided for in the financial year ended 31 March 1998. The cable assets were retained for the provision of future services, however, the usage of these assets has subsequently fallen to minimal levels and the decision has been taken to decommission the network.

A total charge of NZ$22 million has been included in the results for the year ended 30 June 2001, representing the cost of writing off HFC cables and network equipment and minor decommissioning costs.

The remainder of the abnormal charge represents the costs of writing off other network equipment made surplus by changing business requirements and the cost of expensing accumulated balances in respect of projects that will not result in capitalisable assets to the Group.

Net Interest Expense (Consolidated)

Net interest expense increased by NZ$116 million, or 43.8%, in 2001. The increase in net interest expense was largely due to funding the initial AAPT investment and the subsequent purchase of the remaining AAPT minorities, which in combination accounted for approximately NZ$85 million of the increase. Net interest was also impacted by consolidation of AAPT's own interest costs. Funding for growth in the balance sheet as a result of capital expenditure and the purchase of long-term investments accounted for the remainder of the increase in interest expense.

Telecom issued capital notes in the year ended 31 March 1998. These were originally classified as equity instruments, which was in accordance with accounting guidance applicable at that time. In 2001, Telecom has reclassified the capital notes as debt, in accordance with accounting guidance promulgated subsequently. As a result of this reclassification, Telecom has presented interest paid on capital notes as part of interest expense. Previously, the interest paid (net of tax) was shown separately in the Statement of Financial Performance.

Taxation (Consolidated)

Income tax expense decreased by NZ$85 million, or 23.1%, in 2001. The effective tax rate for 2001 was 30.0% compared with 31.6% in 2000 and statutory rates of 33% for New Zealand and 34% for Australia. The effective tax rate in 2001 is lower than the statutory tax rate primarily as a result of dividends from Southern Cross which are taxed at a lower rate than the New Zealand statutory tax rate. The effect of this was partly offset by the amortisation of goodwill on consolidation of AAPT, which is non-deductible, and the abnormal charge for the close-down of the rollout of CDMA in Australia, components of which will not accrue a tax benefit.

Associate Company Losses (Consolidated)

The Telecom Group result for 2001 includes equity accounted losses of NZ$18 million from Telecom's investment in Southern Cross and AAPT's investment in AOL Australia ("AOLA"). AOLA losses recorded in 2000 and 2001 have reduced the carrying value of AAPT's equity investment in AOLA to nil. Southern Cross losses and dividends received from Southern Cross (see "Dividends From Associates") have reduced the carrying value of Telecom's equity investment in Southern Cross to nil. Upon reduction of the carrying values to nil, equity accounting was suspended in respect of both these associate entities.

Capital Expenditure

	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
New Zealand	833	643	29.5
Australia	692	232	NM
Total Group	**1,525**	**875**	**74.3**

NM = Not a meaningful comparison

Capital expenditure in 2001 amounted to NZ$1,525 million, an increase of NZ$650 million, or 74.3%, compared to 2000. Australian capital expenditure for 2001 is not directly comparable to 2000 as the 2001 amount only includes seven months of AAPT's capital expenditure.

New Zealand

Capital expenditure in New Zealand was NZ$833 million in 2001. Of this amount, NZ$265 million related to mobile capital expenditure, including NZ$115 million on the New Zealand CDMA rollout and NZ$38 million for the purchase of spectrum in Government auctions. NZ$190 million related to access and transport expenditure, NZ$165 million was spent on developing Telecom's international network, of which NZ$125 million related to purchase of international capacity (including Southern Cross capacity), while NZ$110 million was spent developing IP & data and voice capabilities.

In New Zealand, Telecom currently expects to spend approximately NZ$730 million on capital expenditure in the 12 months to 30 June 2002. This includes approximately NZ$180 million for mobile capital expenditure, NZ$150 million for access and transport, NZ$175 million for the international network and NZ$100 million for IP & data and voice development.

Australia

AAPT's capital expenditure for the year was A$484 million. This included expenditure for the LMDS and CBD fibre networks, payments for the Optus backbone and Southern Cross capacity, as well as expenditure on the rollout of CDMA in Australia prior to the close-down of this project.

TCNZA's capital expenditure for the year was A$68 million.

In Australia, Telecom currently expects to spend approximately A$300 million on capital expenditure in the 12 months to 30 June 2002. This includes both AAPT and TCNZA's capital expenditure (although this is partly dependent on TCNZA's success in securing further outsourcing contracts).

Liquidity and Capital Resources (Consolidated)

Working Capital and Cash Flows

Telecom believes that, in its opinion, its working capital is sufficient for the Group's requirements. The Group has adequate internal and external resources available, including borrowing capacity, to finance its operating requirements, anticipated capital expenditure, dividends and investments.

Cash Flows	Years Ended 30 June		
	2001 NZ$M	2000 NZ$M	Change %
Net cash flows from:			
- operating activities	1,758	1,468	19.8
- investing activities	(1,892)	(2,616)	27.7
- financing activities	129	1,199	(89.2)
Net cash flow	**(5)**	**51**	**(109.8)**

Net cash flows from operating activities for 2001 were NZ$1,758 million, an increase of NZ$290 million compared with the same period last year. This increase is largely due to dividends received from Southern Cross. Higher cash receipts from customers were offset by higher payments to suppliers. The increase in both these items was in part due to the current period including twelve months of AAPT's results while the corresponding prior period only included seven months of AAPT. Cash applied to interest payments increased largely due to funding the purchase of AAPT and other investments. This was partly offset by lower tax payments.

Net cash used in investing activities was NZ$1,892 million, a decrease of NZ$724 million compared to last year. This decrease reflects a net cash inflow from the sale and purchase of short-term investments in 2001 compared to a net cash outflow in 2000 and a lesser outflow to acquire shares in AAPT, partially offset by higher capital expenditure.

Net cash from financing activities amounted to NZ$129 million, a decrease of NZ$1,070 million compared to 2000. The decrease is largely due to a decrease in net proceeds from short-term and long-term debt, partly offset by capital contributed pursuant to the equity placement (see "Equity Placement" following) and lower dividend payments. There were higher debt proceeds in 2000 to fund the AAPT acquisition, while dividends and repayments of advances received from Southern Cross in 2001 were applied to debt repayment.

Cash and Short-term Investments

Telecom had cash and short-term investments of NZ$209 million at 30 June 2001, compared with NZ$698 million at 30 June 2000.

Telecom has available unutilised US dollar denominated committed facilities of US$400 million and NZ dollar denominated facilities of NZ$1 billion, as well as other substantial uncommitted borrowing capacity.

Debt

Total interest-bearing long-term and short-term liabilities amounted to NZ$5,481 million at 30 June 2001 compared with NZ$5,266 million at 30 June 2000.

As discussed in the section entitled "Net Interest Expense", in 2001 Telecom reclassified its capital notes from equity to debt in order to comply with accounting guidance promulgated subsequent to the issue of the capital notes. All debt balances in this section for both 2000 and 2001 include the capital notes. The carrying value of capital notes, net of unamortised discount, was NZ$944 million at 30 June 2001 (NZ$943 million at 30 June 2000).

Net debt amounted to NZ$5,251 million at 30 June 2001, compared with NZ$4,534 million at 30 June 2000. The net debt to net debt plus equity ratio was 72.4% at 30 June 2001, compared with 78.8% at 30 June 2000. Net debt is deemed to consist of total long and short-term debt, net of cash and short-term investments and a term deposit of NZ$21 million at 30 June 2001 (NZ$34 million at 30 June 2000). Equity includes shareholders' funds and minority interests.

The estimated fair value of Telecom's long-term debt at 30 June 2001 was NZ$4,025 million compared with its carrying amount of NZ$3,921 million (stated inclusive of the effect of hedging transactions). The estimated fair value of long-term debt at 30 June 2000 was NZ$4,129 million, compared with its carrying amount of NZ$3,992 million (stated inclusive of the effect of hedging transactions). The fair values are based on Telecom's fixed rates of interest on debt in comparison to the prevailing market rates in effect at 30 June 2001 and 30 June 2000 for instruments of a similar maturity.

Convertible Notes

In May 2001, Telecom New Zealand Finance Limited, a Telecom financing subsidiary, issued NZ dollar denominated convertible notes to Microsoft Corporation for an aggregate principal amount of NZ$300 million. The notes were issued for a term of seven years and pay a fixed coupon of 5.4%. The notes mature in 2008, at which point the holder can elect to either have the notes redeemed in cash or converted into ordinary shares in Telecom at a conversion rate of $8.275 per share. These notes are subordinated to other indebtedness of Telecom and rank equally with capital notes.

The proceeds of the convertible notes issue were utilised to repay existing debt.

Equity Placement

In May 2001 Telecom undertook an equity placement in order to pay down existing debt, strengthen Telecom's balance sheet and enhance future financial flexibility. Ninety-one million shares were issued at NZ$5.50 per share to shareholders in New Zealand, Australia and a range of other countries, raising a net amount of NZ$495 million.

New Australian debt programme

In August 2001 Telecom announced that it had mandated CBA to arrange an A$1.5 billion short and medium-term debt programme in Australia. Under this programme, TCNZ Finance Limited (the Telecom Group's main financing subsidiary) will issue short and medium-term notes through an Australian branch. Initially, this funding will replace existing debt issued by the AAPT group. The programme is being put in place to provide a single borrowing vehicle for the Telecom Group in the Australian capital markets.

Competitive and Regulatory Environment

New Zealand has highly competitive markets in telecommunications, with the Telecommunications Act 1987 and the Commerce Act 1986 being the principal governing legislation. Substantial network operators including Vodafone, Telstra-Saturn and Clear Communications (a wholly-owned subsidiary of British Telecom) provide services in competition with Telecom.

Telecom has extensive interconnection arrangements with 10 operators in New Zealand, covering international services, and national and international voice services, as well as data, Internet, cellular and trunked mobile services. These arrangements include comprehensive agreements reached with Clear and Telstra-Saturn in October and July 2000 respectively.

Six of the operators interconnecting with Telecom have the ability to offer local services. In each case there is a number portability agreement in place, enabling these competitors to provide customers with the option of changing between local service providers without the need to change telephone numbers.

In addition, there are numerous other companies that provide calling services from overseas or by re-selling services from network operators in New Zealand. As at 30 June 2001, there were more than 80 Internet service providers operating in competition with Telecom's Xtra service. Telecom also faces competition in leased line, paging, directories services and in the supply, installation and maintenance of customer premises equipment.

Following a major inquiry into the telecommunications industry, the Government announced a new policy framework in December 2000. A Telecommunications Bill (the "Bill") was introduced to the New Zealand Parliament in May 2001 and it is expected to be enacted in October 2001.

The stated purpose of the Bill is to promote efficient telecommunications markets for the long-term benefit of end-users of telecommunications services within New Zealand by regulating the supply of certain telecommunications services to service providers. The Bill provides for the designation of certain services that Telecom will be obliged to provide. These services currently include interconnection, wholesaling of certain of Telecom's retail services, and number portability.

The Bill also proposes the establishment of a new Telecommunications Commissioner to be located within the Commerce Commission, with responsibilities for determining prices and terms and conditions on designated services.

In March 2001, under the Telecommunications (Information Disclosure) Regulations 1999, Telecom issued a calculation of the cost of residential service subsidies under the Kiwi Share obligations ("KSO") contained in Telecom's Constitution. The calculation showed a total annual cost to Telecom of NZ$185.6 million for providing service to subsidised customers.

The Bill contains a mechanism for the sharing, across the telecommunications industry, of losses arising from the provision of services under a revised KSO.

The Government and Telecom are in discussions over possible amendments to the KSO. Under the proposal currently being considered Telecom would extend its option of free local calling to cover low speed data local calls. These changes have yet to be finalised.

Other Matters

Close-Down of CDMA Rollout in Australia

In December 2000 Telecom announced that AAPT and Lucent had agreed to a comprehensive review of the rollout of an A$500 million CDMA mobile network in Australia. On 3 May 2001, Telecom announced that AAPT and Lucent had agreed to close down the rollout of the Australian CDMA mobile network and to work co-operatively together to resolve outstanding issues, while preserving their respective legal positions in the meantime.

As part of the activities to close down the project, AAPT has sought to identify all amounts actually spent or contractually committed in connection with the project. Costs incurred in connection with the project included costs of fixed assets acquired, payments to Lucent and other suppliers, costs associated with site acquisition, costs of labour and consultants employed on the project and other miscellaneous costs. Committed costs consist primarily of lease commitments, further payments to suppliers and other project expenditure. An assessment has been carried out to determine the realisable value of assets acquired, either through sale or redeployment, as well as the extent to which committed costs can be mitigated.

As discussed in the section titled "Abnormal Items", Telecom has included in abnormal expenses a charge representing the estimated costs of closing down the project.

AAPT has also resolved with Lucent all outstanding issues between them relating to the project and its close-down.

Hutchison 3G Alliance

In May 2001, Hutchison Whampoa Limited, Hutchison Telecommunications (Australia) Limited and Telecom announced the formation of a major strategic alliance. This alliance aims to take a significant share of the Australian mobile market through an early launch of "3rd Generation" ("3G") wireless communications, as well as reinforcing Telecom's mobile market leadership in New Zealand.

The alliance will result in the formation of new operating companies in Australia and New Zealand focused on 3G products and services. The alliance will have access to the global resources of the Hutchison 3G group for content, applications, technology, management expertise and branding.

In Australia, a new dedicated 3G company called Hutchison 3G Australia will be formed. Telecom will acquire a 19.9% stake in this company for A$250 million. A$750 million of additional equity funding has been committed to enable this company to roll out its 3G network, Telecom's share of this committed funding being A$150 million. Funding in excess of this amount will be sourced from debt and/or capital markets, or to a certain extent from Hutchison Whampoa.

In New Zealand, a new dedicated company called Telecom 3G will be formed. Hutchison Whampoa has entered into an option to acquire 19.9% of this company for NZ$250 million, exercisable 12 to 24 months after the commercial launch of 3G services in New Zealand. Telecom 3G will operate under Hutchison's global 3G brand and will have access to the content, products and technologies developed and offered globally by Hutchison's 3G businesses.

Extension of New Zealand Relationship with Microsoft

In May 2001, Telecom and Microsoft announced that they had extended their relationship in New Zealand with an agreement to unite the Xtra and MSN Internet portals in New Zealand. As part of the extended relationship, Microsoft also subscribed for NZ$300 million of convertible notes issued by Telecom (see "Liquidity and Capital Resources - Convertible Notes").

The combined portal, branded XtraMSN, was launched in late June 2001. The operation, development and marketing of the new consumer portal is managed by Xtra. The portal combines the New Zealand specific content provided by Xtra with the global MSN services offered by Microsoft.

Southern Cross

Southern Cross was established in October 1998 to build, own, operate and maintain a trans-Pacific fibre optic cable network (called the Southern Cross Cable Network) as well as market capacity on the cable. Telecom, Cable & Wireless Optus and MCI WorldCom are the shareholders in Southern Cross. Telecom holds a 50% equity interest.

Southern Cross achieved cable ready-for-service in November 2000 and from 28 February 2001 has provided full restoration capacity between New Zealand, Australia and the United States.

To date, the company's data gathering meetings have generated total capacity sales of around US$1.6 billion. The network was originally designed to provide 120 Gigabits per second (Gbps) of capacity. Southern Cross has recently announced that the network will be upgraded to provide 240Gbps by early 2003.

In March 2001, Southern Cross successfully closed a US$950 million non-recourse senior secured credit facility. The funding has been applied to repay, in full, interim funding provided by shareholders and to refinance a US$640 million bridging facility which expired on 31 March 2001.

Acquisition of AAPT Minorities

During the quarter ended 31 December 2000, Telecom's wholly owned subsidiary TCNZ Australia Investments Pty Limited acquired the remaining shares in AAPT that it did not already own. 100% consolidation of AAPT's results was effective from 1 December 2000.

New Financial Reporting Structure

In line with the changes in management structures arising out of the AAPT integration and the ongoing strategic review of the Group's business, Telecom has implemented a new financial reporting structure effective from 1 July 2001. This structure will drive the way Telecom reports its financial results both internally and externally.

Four reporting segments exist under the new structure. The "New Zealand Wireline" segment includes the New Zealand wireline telecommunications business, as well as esolutions. The "Wireless" segment includes both New Zealand and Australian cellular and other mobile operations. The "Information Services" segment encompasses Telecom's Internet and directories businesses, including Xtra, connect.com.au and Telecom Directories Limited. The "International" segment comprises Telecom's international telecommunications business as well as AAPT's data and voice business and TCNZA.

From 30 September 2001, Telecom's published quarterly management commentaries will provide a discussion of operating results by reporting segment.

Investment in Sky

In February 2001 Telecom purchased a 12% shareholding in Sky Network Television Limited ("Sky"). This shareholding will support the ongoing development of business relationships between Sky and Telecom. The investment supports Telecom's transformation into an online and communications group and follows a 10% investment in Independent Newspapers Limited made by Telecom in the year ended 30 June 2000.

Overview of Results

FOR THE YEAR ENDED 30 JUNE 2001

	Year Ended 30 June				Variation 2001:2000	
(Dollars in millions, except percentages)	2001	%	2000	%	$	%
Operating revenues						
Local service	**1,071**	*19.0*	**1,064**	*24.5*	**7**	0.7
Calling						
National	**1,181**	*21.0*	**932**	*21.5*	249	26.7
International	**568**	*10.1*	**506**	*11.7*	62	12.3
Other	**67**	*1.2*	**50**	*1.1*	17	34.0
	1,816	*32.3*	**1,488**	*34.3*	328	22.0
Interconnection	**97**	*1.7*	**90**	*2.1*	**7**	7.8
Cellular and other mobile	**865**	*15.3*	**717**	*16.5*	**148**	20.6
Internet	**169**	*3.0*	**102**	*2.4*	**67**	65.7
Data	**601**	*10.6*	**433**	*10.0*	**168**	38.8
Other operating revenues						
Directories	**188**	*3.3*	**176**	*4.1*	12	6.8
Equipment	**63**	*1.1*	**84**	*1.9*	(21)	(25.0)
Miscellaneous other	**533**	*9.4*	**181**	*4.2*	352	194.5
Dividends from associate	**245**	*4.3*	-	-	245	NM
	1,029	*18.1*	**441**	*10.2*	**588**	133.3
Total operating revenues (before abnormal items)	**5,648**	*100.0*	**4,335**	*100.0*	**1,313**	30.3
Operating expenses						
Labour	572	*10.1*	486	*11.2*	86	17.7
Cost of sales	1,852	*32.8*	1,079	*24.9*	773	71.6
Other operating expenses	909	*16.1*	728	*16.8*	181	24.9
Total operating expenses (before abnormal items)	**3,333**	*59.0*	**2,293**	*52.9*	**1,040**	45.4
EBITDA* (before abnormal items)	**2,315**	*41.0*	**2,042**	*47.1*	**273**	13.4
Depreciation and amortisation	722	*12.8*	627	*14.5*	95	15.2
Surplus from operations (before abnormal items)	**1,593**	*28.2*	**1,415**	*32.6*	**178**	12.6
Abnormal items						
Revenues	(12)	*(0.2)*	15	*0.3*	(27)	NM
Expenses	(256)	*(4.5)*	-	-	(256)	NM
Net interest expense	(381)	*(6.8)*	(265)	*(6.0)*	(116)	43.8
Earnings before income tax	**944**	*16.7*	**1,165**	*26.9*	**(221)**	(19.0)
Income tax expense	(283)	*(5.0)*	(368)	*(8.5)*	85	(23.1)
Earnings after income tax	**661**	*11.7*	**797**	*18.4*	**(136)**	(17.1)
Share of losses of associate companies after income tax	(18)	*(0.3)*	(6)	*(0.1)*	(12)	200.0
Minority interests in profits of subsidiaries	-	-	(8)	*(0.2)*	8	NM
Net earnings	**643**	*11.4*	**783**	*18.1*	**(140)**	(17.8)

** Earnings Before Interest, Taxation, Depreciation and Amortisation*
NM = Not a meaningful comparison

FINANCIAL STATEMENTS

Consolidated Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited and Subsidiaries

		Year ended 30 June		Three months ended 30 June	Year ended 31 March
		2001	2000	1999	1999
(Dollars in millions, except per share amounts)	notes	NZ$	NZ$	NZ$	NZ$
Operating revenues					
Local service		1,071	1,064	264	1,058
Calling	2	1,816	1,488	270	1,161
Interconnection		97	90	20	65
Cellular and other mobile services		865	717	132	484
Internet		169	102	13	36
Data		601	433	83	306
Other operating revenues	2	1,029	441	67	328
Abnormal revenues	4	(12)	15	15	16
		5,636	4,350	864	3,454
Operating expenses					
Labour	3	572	486	112	479
Cost of sales		1,852	1,079	118	451
Other operating expenses	3	909	728	131	545
Abnormal expenses	4	256	-	22	15
		3,589	2,293	383	1,490
Earnings before interest, taxation, depreciation and amortisation		**2,047**	**2,057**	**481**	**1,964**
Depreciation and amortisation	5	722	627	138	560
Earnings before interest and taxation		**1,325**	**1,430**	**343**	**1,404**
Interest income		53	34	11	45
Interest expense	6	(434)	(299)	(54)	(241)
Earnings before income tax		**944**	**1,165**	**300**	**1,208**
Income tax expense	7	(283)	(368)	(91)	(384)
Earnings after income tax		**661**	**797**	**209**	**824**
Share of losses of associate companies after income tax		(18)	(6)	(7)	-
Minority interests in profits of subsidiaries		-	(8)	-	(2)
Net earnings attributable to shareholders		**643**	**783**	**202**	**822**
Net earnings per share		**$0.364**	**$0.447**	**$0.115**	**$0.469**
Weighted average number of ordinary shares outstanding (in millions)		1,767	1,753	1,753	1,752

See accompanying notes to the financial statements.

Unaudited comparative information for the three months ended 30 June 1998 and the year ended 30 June 1999 is disclosed in Note 30 of these financial statements.

Consolidated Statement of Movements in Equity

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited and Subsidiaries

		Year ended 30 June		Three months ended 30 June	Year ended 31 March
		2001	2000	1999	1999
(Dollars in millions)	notes	NZ$	NZ$	NZ$	NZ$
Equity at the beginning of the period		1,219	1,093	1,092	1,069
Net earnings attributable to shareholders		643	783	202	822
Movement in foreign currency translation reserve	18	(61)	48	1	-
Total recognised revenues and expenses for the period		582	831	203	822
Movement in minority interests		(83)	82	-	1
Dividends	18	(303)	(906)	(227)	(910)
Tax credit on supplementary dividends		34	100	25	104
Capital contributed	18	554	19	-	6
Equity at the end of the period		**2,003**	**1,219**	**1,093**	**1,092**
Represented by:					
Contributed capital		1,482	928	909	909
Foreign currency translation reserve	18	(12)	49	1	-
Minority interests		6	89	7	7
Retained earnings		527	153	176	176
		2,003	**1,219**	**1,093**	**1,092**

See accompanying notes to the financial statements.

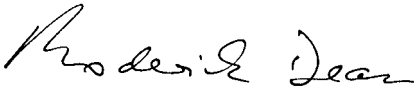
Consolidated Statement of Financial Position

AS AT 30 JUNE 2001

Telecom Corporation of New Zealand Limited and Subsidiaries

(Dollars in millions)	notes	30 June 2001 NZ$	30 June 2000 NZ$	30 June 1999 NZ$
ASSETS				
Current assets:				
Cash		94	81	29
Short-term investments	8	115	617	114
Receivables and prepayments	9	1,043	918	691
Inventories	10	38	40	48
Total current assets		1,290	1,656	882
Long-term investments	11	737	455	530
Intangibles	12	2,044	1,620	56
Fixed assets	13	4,901	4,250	3,774
Total assets		**8,972**	**7,981**	**5,242**
LIABILITIES AND EQUITY				
Current liabilities:				
Bank overdraft		18	-	-
Accounts payable and accruals	14	1,404	1,242	821
Provisions - current	15	59	11	64
Debt due within one year	16	2,165	1,462	1,064
Provision for dividend	18	-	227	227
Total current liabilities		3,646	2,942	2,176
Deferred taxation	7	23	13	25
Provisions – non-current	15	2	3	3
Long-term debt	17	3,298	3,804	1,945
Total liabilities		6,969	6,762	4,149
Commitments and contingent liabilities	20,21			
Equity:	18			
Shareholders' funds		1,997	1,130	1,086
Minority interests		6	89	7
Total equity		2,003	1,219	1,093
Total liabilities and equity		**8,972**	**7,981**	**5,242**

On behalf of the Board



RODERICK DEANE, Chairman
Authorised for issue on 9 August 2001

THERESA GATTUNG, Chief Executive and Managing Director

See accompanying notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited and Subsidiaries

		Year ended 30 June		Three months ended 30 June	Year ended 31 March
		2001	2000	1999	1999
(Dollars in millions)	note	NZ$	NZ$	NZ$	NZ$
Cash flows from operating activities					
Cash was provided from/(applied to):					
Cash received from customers		5,172	4,192	872	3,423
Proceeds from cross border leases		20	-	15	-
Proceeds from liquidation of Executive Plan, net		-	-	-	16
Interest income		54	19	10	41
Dividend income		248	4	1	4
Payments to suppliers and employees		(3,114)	(2,093)	(399)	(1,380)
Restructuring, onerous contracts and Year 2000 payments		(5)	(58)	(16)	(65)
Income tax (paid)/refunded		(184)	(311)	51	(304)
Interest paid on debt		(433)	(285)	(41)	(240)
Net cash flows from operating activities	25	1,758	1,468	493	1,495
Cash flows from investing activities					
Cash was provided from/(applied to):					
Sale of fixed assets		37	57	1	21
Sale/(purchase) of short-term investments, net		537	(486)	560	(252)
Purchase of long-term investments		(309)	(238)	(104)	-
Proceeds from sale of subsidiary companies		-	95	-	16
Acquisition of AAPT Limited, excluding cash acquired		(635)	(1,189)	(385)	-
Purchase of fixed assets		(1,478)	(837)	(142)	(554)
Capitalised interest paid		(44)	(18)	(3)	(9)
Net cash flows applied to investing activities		(1,892)	(2,616)	(73)	(778)
Cash flows from financing activities					
Cash was provided from/(applied to):					
Proceeds from long-term debt		412	1,850	9	12
Repayment of long-term debt		(513)	(246)	(49)	(199)
Proceeds/(repayment) of short-term debt, net		212	466	(135)	378
Capital contributed		495	23	-	6
Dividends paid		(477)	(894)	(228)	(914)
Net cash flows from/(applied to) financing activities		129	1,199	(403)	(717)
Net cash flow		(5)	51	17	-
Foreign currency translation adjustment		-	1	-	-
Opening cash position (including bank overdrafts)		81	29	12	12
Closing cash position (including bank overdrafts)		76	81	29	12

See accompanying notes to the financial statements.

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited

		Parent Company	
		Year ended 30 June	
		2001	2000
(Dollars in millions)	notes	NZ$	NZ$
Operating revenues	2	436	822
Operating expenses		(2)	-
Earnings before interest and taxation		434	822
Interest income	6	190	104
Interest expense	6	(370)	(254)
Earnings before income tax		254	672
Income tax credit	7	62	50
Net earnings		**316**	**722**

Statement of Movements in Equity

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited

		Parent Company	
		Year ended 30 June	
		2001	2000
(Dollars in millions)	note	NZ$	NZ$
Equity at the beginning of the year		601	666
Net earnings		316	722
		917	1,388
Dividends	18	(303)	(906)
Tax credit on supplementary dividends		34	100
Capital contributed	18	554	19
Equity at the end of the year		**1,202**	**601**
Represented by:			
		1,482	928
Contributed capital		(280)	(327)
Retained earnings		**1,202**	**601**

See accompanying notes to the financial statements.

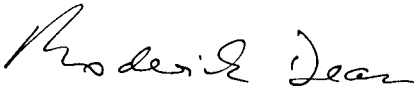
Statement of Financial Position

AS AT 30 JUNE 2001

Telecom Corporation of New Zealand Limited

		Parent Company	
		30 June	
		2001	2000
(Dollars in millions)	notes	NZ$	NZ$
ASSETS			
Current assets:			
Prepaid income tax	7	-	6
Accounts receivable		-	2
Total current assets		-	8
Future tax benefit	7	-	25
Investments	11	5,952	5,033
Total assets		**5,952**	**5,066**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	14	13	18
Provision for dividend	18	-	227
Due to subsidiary companies	22	4,737	4,220
Total current liabilities		4,750	4,465
Commitments and contingent liabilities	20,21		
Equity:	18		
Shareholders' funds		1,202	601
Total liabilities and equity		**5,952**	**5,066**

On behalf of the Board



RODERICK DEANE, Chairman
Authorised for issue on 9 August 2001

THERESA GATTUNG, Chief Executive and Managing Director

See accompanying notes to the financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2001

Telecom Corporation of New Zealand Limited

		Parent Company	
		Year ended 30 June	
		2001	2000
(Dollars in millions)	note	NZ$	NZ$
Cash flows from operating activities			
Cash was provided from/(applied to):			
Interest income		193	104
Dividends received from subsidiary companies		434	808
External dividends received		2	-
Interest paid on debt		(370)	(253)
Net cash flows from operating activities	25	259	659
Cash flows from investing activities			
Cash was provided from/(applied to):			
Advances (to)/from subsidiary companies, net		(274)	735
Purchase of investments, net		(5)	(507)
Net cash flows from/(applied to) investing activities		(279)	228
Cash flows from financing activities			
Cash was provided from/(applied to):			
Dividends paid		(475)	(891)
Capital contributed		495	4
Net cash flows from/(applied to) financing activities		20	(887)
Net cash flow		-	-
Opening cash position		-	-
Closing cash position		-	-

See accompanying notes to the financial statements.

NOTE 1

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity and Statutory Base

Telecom Corporation of New Zealand Limited is a company registered in New Zealand under the Companies Act 1993, and is an issuer for the purposes of the Financial Reporting Act 1993.

The financial statements presented are those of Telecom Corporation of New Zealand Limited (the "Company" or the "Parent Company"), its subsidiaries and associates (the "Telecom Group" or "Telecom").

Nature of Operations

Telecom is a major supplier of telecommunications services in New Zealand and Australia. Telecom provides a full range of telecommunications products and services including local, national, international and value-added telephone services, cellular and other mobile services, data and Internet services, equipment sales and installation services, leased services and directories.

Basis of Preparation

The financial statements have been prepared in accordance with the Financial Reporting Act 1993 which requires compliance with accounting practice generally accepted in New Zealand ("NZ GAAP"). This differs in certain significant respects from accounting practice generally accepted in the United States ("US GAAP"). For a description of the significant differences and related effect on these financial statements, see Note 31.

The financial statements are expressed in New Zealand dollars. References in these financial statements to "$" and "NZ$" are to New Zealand dollars, references to "US$" are to US dollars, references to "A$" are to Australian dollars and references to "GBP" are to Pounds Sterling.

Measurement Basis

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain investments as identified in specific accounting policies below.

Specific Accounting Policies

Basis of Consolidation

Subsidiaries

Subsidiaries are those entities controlled, directly or indirectly, by the Telecom Group.

The consolidated financial statements are prepared from the accounts of the Company and its wholly and majority-owned subsidiaries using the purchase method of consolidation. All significant intercompany accounts and transactions are eliminated on consolidation.

Associates

Associates are entities in which the Telecom Group has significant influence, but not control, over the operating and financial policies.

Associate companies are reflected in the consolidated financial statements using the equity method, whereby Telecom's share of the results of associates is included in consolidated net earnings attributable to shareholders.

Where the equity accounted carrying amount of an investment in an entity falls below zero, the equity method of accounting is suspended and the investment recorded at zero. If this occurs, the equity method of accounting is not resumed until such time as Telecom's share of losses and reserve decrements, not recognised during the financial years in which the equity method was suspended, are offset by the current share of profits and reserves.

Goodwill Arising on Acquisition

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business or shares in a subsidiary or associate. Goodwill is amortised on a systematic basis over the period benefits are expected to arise, which will be no more than 20 years.

Acquisition or Disposal During the Year

Where an entity becomes or ceases to be a Telecom Group entity during the year, the results of that entity are included in the net earnings of the Telecom Group from the date that control or significant influence commenced or until the date that control or significant influence ceased.

Revenue Recognition

Telecom recognises revenues as it provides services or delivers products to customers. Billings for telecommunications 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 the portion of fixed monthly charges that have been billed in advance.

Accounts Receivable

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts expected to arise in subsequent accounting periods.

Bad debts are written off against the provision for doubtful accounts in the period in which it is determined that the debts are uncollectable.

Inventories

Inventories principally comprise materials for self-constructed network assets, critical maintenance spares, customer premises equipment held for rental or sale and mobile equipment held for sale. Inventories 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 or weighted average cost basis.

Investments

Long-term investments are stated at cost. Long-term investments include the Company's investment in subsidiaries.

Investments not expected to be held to maturity are stated at market value, with the resulting gains or losses taken to earnings.

Where, in the opinion of the Directors, there has been a permanent diminution in the value of investments this is recognised in the current period.

Fixed Assets

Fixed assets are valued as follows:

* The value of fixed assets purchased from the Government was determined on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.
* Subsequent additions are valued at cost. The cost of additions to plant and equipment and other fixed assets constructed by Telecom consists of all appropriate costs of development, construction and installation, comprising material, labour, direct overhead and transport costs.
* For each fixed asset project, interest costs incurred during the period required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost.

Software Developed for Internal Use

Telecom capitalises the direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred while developing the software. Software developed for internal use is depreciated over its useful life to the Telecom Group.

Depreciation

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

Telecommunications equipment and plant:	
Customer local access	3-50 years
Junctions and trunk transmission systems	10-50 years
Switching equipment	3-15 years
Customer premises equipment	3-5 years
Other network equipment	4-15 years
Buildings	40-50 years
Motor vehicles	4-10 years

Furniture and fittings	5-10 years
Computer equipment	3-5 years

Where the remaining useful lives or recoverable values have diminished due to technological change or market conditions, depreciation is accelerated or the assets are written down.

Land and capital work in progress are not depreciated. Where a fixed asset is disposed of, the profit or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying value of the fixed asset.

Leased Assets

Telecom is a lessor of customer premises equipment. Such leases are considered operating leases because substantially all the benefits and risks of ownership remain with Telecom. Rental income is taken to revenue on a monthly basis in accordance with the lease term.

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

Spectrum Licences

Costs incurred on the acquisition of spectrum licences are amortised from the date the underlying asset is held ready for use on a straight-line basis over the periods of their expected benefit, which does not exceed fifteen years.

Debt

Debt is stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest are amortised to interest expense on a yield to maturity basis over the period of the borrowing. Borrowing costs such as origination, commitment and transaction fees are deferred and amortised over the period of the borrowing.

Compensated Absences

The liability for employees' compensation for future absences, calculated on an actuarial basis, is accrued in respect of employees' services already rendered and where the obligation relates to rights that may eventually vest.

Research and Development Costs

Research and development costs are charged to earnings as incurred, except where, in the case of development costs, future benefits are expected beyond any reasonable doubt to exceed these costs. Where development costs are deferred, they are amortised over future periods on a basis related to the expected future benefits.

Taxation

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for permanent differences.

Deferred taxation calculated on a partial basis using the liability method is accounted for on timing differences between the earnings stated in the financial statements and the assessable income computed for taxation purposes. Deferred taxation is recognised only on those timing differences that are expected to crystallise within the foreseeable future.

Foreign Currency

Transactions

Transactions denominated in a foreign currency are converted at the New Zealand exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange differences arising on the translation of accounts payable and receivable in foreign currencies are recognised in the Statement of Financial Performance.

Exchange gains and losses and hedging costs arising on contracts entered into as hedges of firm commitments are deferred until the date of such transactions at which time they are included in the determination of net earnings.

Where capital project commitments are hedged against foreign currency rate risk, the exchange difference on the hedging transaction up to the date of purchase and all other costs associated with the hedging transaction are capitalised.

All exchange gains and losses relating to other hedge transactions are brought to account in the Statement of Financial Performance in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract.

Translation of Foreign Group Entities

Assets and liabilities of independent overseas subsidiaries are translated at exchange rates existing at balance date. The revenue and expenses of these entities are translated at rates approximating the exchange rates ruling at the dates of the transactions. The exchange gain or loss arising on translation is carried directly to a foreign currency translation reserve.

Derivative Financial Instruments

Telecom uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Telecom does not currently hold or issue derivative financial instruments for trading purposes. Gains and losses on derivatives are accounted for on the same basis as the underlying physical exposures. Accordingly, hedge gains and losses are included in the Statement of Financial Performance when the gains or losses arising on the related physical exposures are recognised in the Statement of Financial Performance.

For an instrument to qualify as a hedge, it must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

Derivative financial instruments that do not qualify or no longer qualify as hedges are stated at market values and any resultant gain or loss is recognised in the Statement of Financial Performance.

Interest rate swaps and cross currency interest rate swaps that hedge an underlying physical exposure are accounted for using the accrual method of accounting. Interest receivable and payable under the terms of the interest rate swaps and cross currency interest rate swaps are accrued over the period to which the payments or receipts relate, and are treated as an adjustment to interest expense.

The foreign exchange gains and losses on the principal value of cross currency swaps are reflected in the Statement of Financial Performance using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

Premiums paid for interest rate and currency options and the net settlement on maturity of forward rate agreements are amortised over the life of the underlying hedged item.

Forward exchange contracts are accounted for as outlined in the accounting policy for foreign currency transactions.

Cash flows from derivatives are recognised in the Statement of Cash Flows in the same category as that of the hedged item.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand and in banks, net of bank overdrafts. Cash flows from certain items are disclosed net, due to the short-term maturities and volume of transactions involved.

Earnings Per Share

Earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Annual Balance Date Change

Effective 1 April 1999, the Company changed its annual balance date from 31 March to 30 June. These financial statements include the transition period result for the

three months ended 30 June 1999.

Reclassifications

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

Changes in Accounting Policies

Dividends Proposed After Balance Date

During the year ended 30 June 2001, Telecom changed its accounting policy for the recognition of dividends proposed after balance date. Under the new policy, dividends proposed after balance date are disclosed in the notes to the financial statements (refer Note 28). Previously, all proposed dividends were recognised as liabilities in the Statement of Financial Position. This change has been made to conform to the requirements of the revised FRS 5 "Events After Balance Date", issued by the Institute of Chartered Accountants of New Zealand, which is effective for financial years ending on or after 30 June 2001.

Classification of Capital Notes

Telecom issued long-term fixed interest unsecured subordinated capital notes in the year ended 31 March 1998. Historically these have been classified in the Statement of Financial Position as a component of equity, with coupons paid to capital note holders shown net of tax following net earnings after income tax in the Statement of Financial Performance.

Subsequent to the issue of the capital notes, International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement" and Australian Accounting Standard AASB 1033 "Presentation and Disclosure of Financial Instruments" have been published. Both of these pronouncements, which in the absence of a New Zealand financial reporting standard are applicable sources of NZ GAAP, require instruments such as the capital notes to be classified as debt.

Accordingly, Telecom has reclassified its capital notes from equity to debt in the financial statements for the year ended 30 June 2001. Coupon payments on capital notes previously shown separately net of tax have been included pre-tax within interest expense. Movements in the capital notes balance are no longer included in the Statement of Movements in Equity. In the Statement of Cash Flows, payment of capital note coupons, previously included separately within cash flows from financing activities, have been reclassified to be included in "interest paid on debt" within cash flows from operating activities.

In order to facilitate meaningful comparisons with prior periods, the reclassification of capital notes from equity to debt has been reflected throughout all periods presented. These reclassifications have had no impact on Telecom's reported net earnings attributable to shareholders or net earnings per share.

Revenue Recognition

During the year ended 30 June 2001 Telecom changed its policy for recognising revenue on sales of prepaid cellular minutes and monthly Internet access billings. Revenue on these products was previously recognised at the time of sale and billing respectively. Under the new policy, revenue on these products is recognised as Telecom provides the service, with revenue deferred in respect of that portion of the service that is yet to be provided.

The reason for this change in policy was to align with recently issued overseas guidance on revenue recognition and to be consistent with revenue recognition practices adopted for Telecom's other products. The impact of the change is a one-off reduction in revenue in the current year of $12 million, which has been disclosed as an abnormal item (see Note 4).

Except for the changes in accounting policies referred to above, the accounting policies used in the preparation of the financial statements for the year ended 30 June 2001 are consistent with those used in the preparation of the published financial statements for the year ended 30 June 2000, three month transition period ended 30 June 1999 and the year ended 31 March 1999.

NOTE 2

CALLING AND OTHER OPERATING REVENUES

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Calling				
National	1,181	932	171	709
International	568	506	88	400
Other	67	50	11	52
	1,816	**1,488**	**270**	**1,161**
Other operating revenues				
Directories	188	176	19	160
Equipment	63	84	28	109
Miscellaneous other	527	177	19	55
Dividends from associates	245	-	-	-
Dividends from other investments	6	4	1	4
	1,029	**441**	**67**	**328**

NOTE 2 CALLING AND OTHER OPERATING REVENUES (continued)

International Revenue

Included within international revenue is the net margin on "new age transit" traffic. New age transit revenue is generated where Telecom acts as an intermediary carrier on international calls originating and terminating on other carriers' networks. Telecom receives an inwards payment from the originating carrier and makes an outpayment to the terminating carrier. The net of these payments is recorded within Telecom's international revenue. Gross payments under new age transit arrangements are shown below.

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Inwards payments	258	204	56	176
Outpayments	(217)	(170)	(47)	(147)
Net new age transit margin	41	34	9	29

Miscellaneous Other Revenue

Miscellaneous other revenue comprises revenue from a variety of sources. The significant increase in miscellaneous other revenue for the year ended 30 June 2001 results from resale services revenue generated by AAPT. Miscellaneous other revenue for the year ended 30 June 2001 also includes a gain of $20 million recognised on the prepayment of Telecom's scheduled payment obligations relating to a cross border finance lease.

Dividends From Associates

Dividends from associates represent dividends received from Telecom's investment in the Southern Cross Cable Network. Total dividends of $263 million were received during the year. The first $18 million was applied to the carrying value of Telecom's equity investment (see Note 11), reducing it to nil resulting in suspension of the equity method. Remaining dividends of $245 million were included in Other operating revenue.

Parent Company

Operating revenues principally comprise dividends received from subsidiary companies.

NOTE 3

OPERATING EXPENSES

Labour

Included in labour costs are pension contributions of $2 million to the New Zealand Government Superannuation Fund (30 June 2000: $3 million, 30 June 1999: $1 million, 31 March 1999: $4 million) and $10 million on behalf of Australian employees as required by the Superannuation Guarantee (Administration) Act 1992, (30 June 2000: $5 million). Telecom has no other obligations to provide pension benefits in respect of present employees.

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Other Operating Expenses				
Other operating expenses include:				
Lease and rental costs	52	42	8	33
Research and development costs	11	5	1	10
Foreign exchange (gains)/losses	(4)	(4)	-	1
Bad debts written off	32	40	5	25
Increase in provision for doubtful accounts	21	7	-	2
Provision for inventory obsolescence	-	2	-	2
Loss on disposal of fixed assets	3	7	-	5
Auditors' remuneration:				
Audit fees paid to principal auditors	1	1	-	1
Fees paid for other services provided by principal auditors	5	3	1	3
Directors' fees	1	1	-	1

NOTE 3 OPERATING EXPENSES (continued)

Donations

The donation expense for the year was $54,000. In addition, Telecom makes available telecommunications services free of charge or at reduced rates to the community, principally the 111 emergency service, and also provides substantial support to educational and charitable organisations.

NOTE 4

ABNORMAL ITEMS

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Abnormal Revenues				
Revenue recognition	(12)	-	-	-
Sale of AAPT Sat-Tel Pty Limited	-	15	-	-
Cross border lease	-	-	15	-
Liquidation of the executive share ownership plan	-	-	-	16
	(12)	**15**	**15**	**16**
Abnormal Expenses				
Close-down of CDMA rollout in Australia	215	-	-	-
Write-off of network assets and project costs	41	-	-	-
Onerous contract buy-out costs	-	-	22	-
Restructuring costs	-	-	-	15
	256	**-**	**22**	**15**

Abnormal Revenues

Revenue Recognition - Change in Accounting Policy

In 2001 Telecom changed its accounting policy for revenue recognition on sales of prepaid cellular minutes and monthly Internet access billings. Previously, revenue on these products had been recognised at the time of sale and billing respectively. Under the new policy, revenue on these products is recognised as Telecom provides the service, with revenue deferred in respect of that portion of services that is yet to be provided. This change was made to align with recently issued international accounting guidance on revenue recognition and to be consistent with revenue recognition practices adopted for Telecom's other products.

The impact of this change in accounting policy was a one-off deferral of revenue of $12 million. This is made up of a deferral of cellular revenue of $10 million and Internet revenue of $2 million.

Sale of AAPT Sat-Tel Pty Limited

In March 2000, AAPT Limited ("AAPT") completed the sale of its wholly-owned subsidiary AAPT Sat-Tel Pty Limited to New Skies Networks Australia Pty Limited. Included in the Consolidated Statement of Financial Performance are post acquisition profits relating to this sale, before minority interests, of $15 million.

Cross Border Lease

During the three months ended 30 June 1999, a gain of $15 million was recognised on the prepayment of Telecom's scheduled payment obligations relating to a cross border finance lease. Subsequent instances of such gains have been classified within Miscellaneous other income (see Note 2).

Liquidation of the Executive Share Ownership Plan (the "Executive Plan")

The liquidation of the Executive Plan was completed in March 1999. The Trustee of the Executive Plan had disposed of the 1.9 million unallocated shares held on trust and remitted the net proceeds to Telecom as the residuary beneficiary. The net proceeds received were $16 million.

Abnormal Expenses

Close-down of CDMA Rollout in Australia

In December 2000 Telecom announced that AAPT and Lucent Technologies ("Lucent") had agreed to a comprehensive review of the rollout of the A$500 million CDMA mobile network in Australia. On 3 May 2001, Telecom announced that AAPT and Lucent had agreed to close down the rollout of the Australian CDMA mobile network and to work co-operatively together to resolve outstanding issues, while preserving their respective legal positions in the meantime.

As part of the activities to close down the project, AAPT has sought to identify all amounts actually spent or contractually committed in connection with the project. Costs incurred in connection with the project included costs of fixed assets, payments to Lucent and other suppliers, costs associated with site acquisition, costs of labour and consultants employed on the project and other miscellaneous costs. Committed costs consist primarily of lease commitments, further payments to suppliers and other project expenditure. An assessment has been carried out to determine the realisable value of assets acquired, either through sale or redeployment, as well as the extent to which committed costs can be mitigated.

A charge has been recognised in the year ended 30 June 2001 for the cost of writing off project costs capitalised to work in progress and providing for the discounted present value of contractually committed future expenditure to the extent that this cannot be mitigated via negotiation or assignment.

NOTE 4 ABNORMAL ITEMS (continued)

The total charge to abnormal expenses is $215 million. This represents $159 million for writing off project costs to date and $56 million to provide for future commitments. The calculation of the abnormal charge has been based on management's current estimate of the amounts required to reduce the carrying value of assets to recoverable amount and the net amount that will ultimately be required to settle lease liabilities and similar non-cancellable commitments. Actual results could differ from these estimates.

All outstanding issues with Lucent relating to the project and its close-down have been resolved.

Write-off of network assets and project costs

As part of a review of network assets, certain assets have been identified as no longer being required for business operations. As these assets have been determined to have no residual value, they have been fully written-off at 30 June 2001.

The majority of the write-off relates to assets acquired in connection with the deployment of residential hybrid fibre/coax ("HFC") cable by First Media Limited (a wholly-owned Telecom subsidiary). A decision was made in 1998 to discontinue the deployment and the costs of terminating the rollout and reorganising First Media Limited were provided for in the financial year ended 31 March 1998. The cable assets were retained for the provision of future services, however the usage of these assets has subsequently fallen to minimal levels and the decision has been taken to decommission the network. A total charge of $22 million has been included in the results for the year ended 30 June 2001, representing the cost of writing off HFC cables and network equipment and minor decommissioning costs.

The remainder of the abnormal charge represents the costs of writing off other network equipment made surplus by changing business requirements and the cost of expensing accumulated balances in respect of projects that will not result in capitalisable assets to the Group. The network assets are expected to be disposed of within the next 12 months.

Onerous Contract Buy-out Costs

During the three months ended 30 June 1999, the costs of buying-out the terms of certain onerous contracts were identified and provided for. The contracts were onerous as the unavoidable costs of meeting the contractual obligations exceeded their economic benefits.

Restructuring

During the year ended 31 March 1999, Telecom reached an agreement with specialist call centre operator SITEL Asia Pacific to contract out the provision of operator services. The decision to outsource operator services resulted in approximately 560 redundancies at a cost of $15 million.

NOTE 5

DEPRECIATION AND AMORTISATION

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Depreciation	619	583	136	553
Amortisation	103	44	2	7
	722	**627**	**138**	**560**

NOTE 6

INTEREST

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Interest expense:				
Fixed loans	217	108	23	110
Finance leases	1	2	1	5
Other interest	176	126	13	53
Capital notes	82	81	20	82
Convertible notes	2	-	-	-
	478	317	57	250
Less interest capitalised	(44)	(18)	(3)	(9)
Total interest expense	**434**	**299**	**54**	**241**

Parent Company

Interest income and interest expense comprise interest received from and paid to subsidiary companies.

NOTE 7

INCOME TAX

The income tax expense/(credit) is determined as follows:

	Telecom Group				Parent Company	
	Year ended 30 June		Three months ended 30 June	Year ended 31 March	Year ended 30 June	
	2001	2000	1999	1999	2001	2000
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Earnings before income tax	944	1,165	300	1,208	254	672
Tax at current rate of 33%	312	384	99	399	84	222
Adjustments to taxation for permanent differences:						
Intercompany dividends	-	-	-	-	(143)	(267)
Other	(29)	(16)	(8)	(15)	(3)	(5)
Income tax expense/(credit)	**283**	**368**	**91**	**384**	**(62)**	**(50)**
The income tax expense/(credit) is represented by:						
Current taxation	287	321	92	361	(62)	(50)
Deferred taxation	(1)	47	(1)	23	-	-
Overprovided in prior years	(3)	-	-	-	-	-
	283	368	91	384	(62)	(50)
Deferred income tax expense/(credit) results from the following:						
Depreciation	(6)	32	(1)	9	-	-
Provisions, accruals and other	(31)	(1)	(5)	7	-	-
Year 2000 expenditure	2	8	2	3	-	-
Tax losses in overseas subsidiary company	32	1	-	-	-	-
Restructuring provisions	2	7	3	4	-	-
	(1)	47	(1)	23	-	-

NOTE 7 INCOME TAX (continued)

	Telecom Group			Parent Company	
	30 June			30 June	
	2001	2000	1999	2001	2000
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$
Current taxation:					
Balance at the beginning of the period	23	(23)	71	6	65
Total taxation (expense)/credit in the current period	(287)	(321)	(92)	62	50
Tax paid/(refunded)	184	311	(51)	-	-
Supplementary dividend tax credit					
- previous year fourth quarter final	25	-	26	25	-
- first, second and third quarter interims	34	75	-	34	75
- transition period interim	-	-	25	-	-
Tax loss offset with subsidiary companies	-	-	-	(69)	(59)
Supplementary dividend tax credit offset with subsidiary companies	-	-	-	(58)	(126)
Over provided in prior year	3	-	-	-	-
Transfer from deferred taxation	15	(18)	-	-	-
Other	15	(1)	(2)	-	1
Prepaid income tax/(income tax payable) (see Notes 9 and 14)	12	23	(23)	-	6
Deferred taxation:					
Balance at the beginning of the period	(13)	(25)	-	25	-
Provided in the current period	1	(47)	1	-	-
Supplementary dividend tax credit					
- previous year fourth quarter interim and special	(25)	-	(26)	(25)	-
- current year fourth quarter final	-	25	-	-	25
Transfer to current taxation	(15)	18	-	-	-
Balance on acquisition of subsidiary company	-	14	-	-	-
Other	29	2	-	-	-
(Deferred taxation)/future tax benefit	**(23)**	**(13)**	**(25)**	**-**	**25**
Deferred taxation balances consist of the following:					
Depreciation	(121)	(128)	(92)	-	-
Provisions, accruals and other	89	45	39	-	-
Year 2000 expenditure	9	11	19	-	-
Restructuring provisions	-	2	9	-	-
Tax losses in overseas subsidiary company	-	32	-	-	-
Supplementary dividend tax credit	-	25	-	-	25
	(23)	(13)	(25)	-	25

At 30 June 2001, a deferred tax asset of $8 million (30 June 2000: $7 million, 30 June 1999: $6 million), in respect of timing differences relating to depreciation on buildings, has not been recognised.

In accordance with the Income Tax Act 1994, Telecom received tax credits from the Inland Revenue Department equivalent to the supplementary dividends paid.

AAPT has not recognised in its deferred taxation balance the tax effect of accumulated losses amounting to A$11 million at 30 June 2001 (30 June 2000: A$7 million), based on the Australian corporation tax rate of 30% (being the statutory Australian corporation tax rate that will be applicable from the 2001-2002 tax year onwards). Obtaining the benefits of these tax losses is dependent upon deriving sufficient assessable income, meeting conditions for deductibility and complying with Australian tax legislation.

NOTE 8

SHORT-TERM INVESTMENTS

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Short-term deposits	55	301	55
Government securities	10	9	3
Other money market securities	50	50	56
Associate company short-term advance (see Note 22)	-	257	-
	115	**617**	**114**

NOTE 9

RECEIVABLES AND REPAYMENTS

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Trade receivables	833	742	515
Less allowance for doubtful accounts	(78)	(57)	(23)
	755	685	492
Unbilled rentals and tolls	181	159	119
Prepaid income tax (see Note 7)	12	23	-
Prepaid expenses and other receivables	95	51	80
	1,043	**918**	**691**

NOTE 10

INVENTORIES

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Maintenance materials and consumables	1	-	5
Goods held for resale	14	16	11
Revenue work in progress	15	14	20
Materials for self-constructed assets	17	24	23
	47	54	59
Less provision for inventory obsolescence	(9)	(14)	(11)
	38	**40**	**48**

NOTE 11

LONG-TERM INVESTMENTS

	Telecom Group			Parent Company	
	30 June			30 June	
	2001	2000	1999	2001	2000
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$
Term deposits	21	34	26	-	-
International telecommunications investments	18	21	21	-	-
Associate companies:					
Investments (refer below)	-	30	(7)	-	-
Advances (see Note 22)	280	158	104	-	-
Shares in listed companies (refer below)	359	166	386	359	166
Other long-term investments	59	46	-	-	-
Subsidiary companies (see Note 23):					
Shares	-	-	-	2,962	3,156
Term loans, net	-	-	-	2,631	1,711
	737	**455**	**530**	**5,952**	**5,033**

Associate Company Investments

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Cost of investment in associates	45	45	-
Opening balance of share of associates' equity	(15)	(7)	-
Share of associates' deficit	(18)	(6)	(7)
Dividends received from associates applied to carrying value	(18)	-	-
Net exchange difference on translation of associate	6	(2)	-
Equity accounted value of the investment	-	30	(7)

Shares in Listed Companies

During the year ended 30 June 2001, Telecom purchased a 12% stake in Sky Network Television Limited ("Sky"). At 30 June 2001 the market value of Telecom's investment in Sky was $159 million.

During the year ended 30 June 2000, Telecom purchased a 10% stake in Independent Newspapers Limited ("INL") and a 2% stake in eVentures Limited ("eVentures"). At 30 June 2001 the market values of Telecom's investments in INL and eVentures were $149 million and $1 million respectively (30 June 2000: $155 million and $3 million).

During the three months ended 30 June 1999, Telecom purchased a 19.7% stake in AAPT Limited ("AAPT"). At 30 June 1999 the market value of Telecom's investment in AAPT was NZ$337 million. On 27 November 1999 Telecom purchased an additional 61.7% shareholding in AAPT, bringing the total shareholding at that date to 81.4% at which point AAPT was consolidated into the Telecom Group. Telecom subsequently increased its shareholding in AAPT to 100% during the year ended 30 June 2001 (see Note 27).

NOTE 12

INTANGIBLES

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Goodwill	1,878	1,469	56
Spectrum licences	166	151	-
	2,044	**1,620**	**56**

NOTE 13

FIXED ASSETS

	Telecom Group					
	Tele-communications equipment	Capital work in progress	Freehold land	Buildings	Other fixed assets	TOTAL
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Cost	8,347	613	123	539	993	10,615
Less accumulated depreciation	(4,738)	-	-	(257)	(719)	(5,714)
Net book value at 30 June 2001	**3,609**	**613**	**123**	**282**	**274**	**4,901**
Cost	7,554	398	111	525	830	9,418
Less accumulated depreciation	(4,288)	-	-	(243)	(637)	(5,168)
Net book value at 30 June 2000	**3,266**	**398**	**111**	**282**	**193**	**4,250**
Cost	6,798	184	112	517	892	8,503
Less accumulated depreciation	(3,837)	-	-	(225)	(667)	(4,729)
Net book value at 30 June 1999	**2,961**	**184**	**112**	**292**	**225**	**3,774**

Values Ascribed to Land and Buildings

Telecom's properties consist primarily of special-purpose network buildings, which form an integral part of the telecommunications network. The Directors estimate that the fair valuation of land and buildings (excluding properties designated for disposal) is approximately equivalent to their net book value as at 30 June 2001, taking into account their integral value to the network.

Included in land and buildings at 30 June 2001 are properties held for sale at their estimated realisable value of $11 million (30 June 2000: $11 million, 30 June 1999: $13 million).

Operating Leases

Included in telecommunications equipment at 30 June 2001 is equipment (principally customer premises equipment) leased to customers under operating leases with a cost of $318 million (30 June 2000: $303 million, 30 June 1999: $284 million) together with accumulated depreciation of $276 million (30 June 2000: $272 million, 30 June 1999: $262 million).

Included in buildings at 30 June 2001 are buildings on leasehold land with a cost of $11 million (30 June 2000: $11 million, 30 June 1999: $9 million) together with accumulated depreciation of $3 million (30 June 2000: $2 million, 30 June 1999: $2 million).

Finance Leases

Included in telecommunications equipment at 30 June 2001 are assets capitalised under finance leases with a cost of $1,172 million (30 June 2000: $549 million, 30 June 1999: $581 million) together with accumulated depreciation of $539 million (30 June 2000: $393 million, 30 June 1999: $378 million).

Land Claims

Under the Treaty of Waitangi Act 1975, all interests in land included in the assets purchased from the New Zealand Government 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 Government in order that it be returned to Maori claimants. In the event that the Government resumes land, 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 the Company and the Government.

Under the State Owned Enterprises Act 1986, the Governor General of New Zealand, if satisfied that any land or interest in land held by Telecom is Wahi Tapu (being land of special spiritual, cultural or historical tribal significance), may declare by Order in Council that the land be resumed by the Government, 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 Government.

NOTE 14

ACCOUNTS PAYABLE AND ACCRUALS

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Trade accounts payable	1,106	969	520
Accrued personnel costs	72	66	60
Revenue billed in advance	84	64	55
Accrued interest	86	91	75
Income tax payable (see Note 7)	-	-	23
Other accrued expenses	56	52	88
	1,404	**1,242**	**821**

Parent Company

Accounts payable and accruals comprise non-resident withholding tax and other sundry payable balances.

NOTE 15

PROVISIONS

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Current:			
Provision for close-down of CDMA rollout in Australia	54	-	-
Onerous contracts provision	5	8	22
Restructuring provisions	-	3	25
Year 2000 provision	-	-	17
	59	**11**	**64**
Non-current:			
Provision for close-down of CDMA rollout in Australia	2	-	-
Restructuring provisions	-	3	3
	2	**3**	**3**

Close-down of CDMA rollout in Australia

During the year ended 30 June 2001, estimated costs of $56 million were identified in relation to the close-down of the Australian CDMA rollout, the majority of which relates to the cost of settling lease liabilities and other non-cancellable commitments.

Onerous Contracts

During the three months ended 30 June 1999, estimated costs of $22 million to buy-out the terms of certain onerous contracts were identified and provided for. During the year ended 30 June 2001 costs of $3 million were charged against this provision (30 June 2000: $14 million).

Restructuring

A strategic restructuring of Telecom was announced towards the end of the 1993 financial year. It was estimated that the cost of implementing this restructuring would be $450 million. This was provided for in the fourth quarter earnings of the year ended 31 March 1993 as an abnormal restructuring cost. During the year ended 30 June 2001, costs of $6 million were charged against this provision. As at 30 June 2001, the balance of this provision was $nil (30 June 2000: $6 million, 30 June 1999: $11 million).

Following the reorganisation of Telecom's operations into its major business areas of Network, Services and ConnecTel with effect from 1 April 1996, a strategic restructuring, aimed at improving service and reducing operating costs, was finalised in the fourth quarter of the 1997 financial year. In addition, restructuring costs arising out of the Performance 2000 project, aimed at substantially reducing Telecom's operating costs, had been identified as at 31 March 1997. All of these restructuring costs, amounting to $65 million, were provided for in the fourth quarter results of the year ended 31 March 1997. During the year ended 30 June 2000, redundancy and other restructuring costs of $17 million were charged against this provision. As at 30 June 2001, the balance of this provision was $nil (30 June 2000: $nil, 30 June 1999: $17 million).

Year 2000

The operating costs of making the modifications necessary to maintain functionality into the year 2000 and beyond was estimated at $87 million and a provision was raised at 31 March 1997. This provision had been fully utilised by 30 June 2000.

NOTE 16

DEBT DUE WITHIN ONE YEAR

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Long-term debt maturing within one year (see Note 17):			
Bonds and other loans	602	130	229
Finance leases	21	58	18
	623	188	247
Short-term debt:			
New Zealand Commercial paper	384	789	545
Australian Commercial paper	681	-	-
Notes	149	485	263
Other loans	328	-	9
	1,542	1,274	817
	2,165	**1,462**	**1,064**

The weighted average interest rates at 30 June 2001 (inclusive of the effects of hedging) were 6.17% for New Zealand commercial paper, 5.05% for Australian commercial paper and 6.47% for notes (30 June 2000: 6.20%, nil and 6.73%, 30 June 1999: 4.56%, nil and 4.65% respectively). The effective interest rate on other loans at 30 June 2001 was 6.57%.

New Zealand commercial paper comprises amounts issued under Telecom's US$750 million European Commercial Paper Programme and Telecom's $200 million Asian Commercial Paper Programme. Issues outstanding at 30 June 2001 are denominated in NZ dollars, US dollars, Japanese yen and euros and are stated inclusive of the effect of hedging transactions.

Australian commercial paper comprises amounts issued under the AAPT Finance Pty Limited A$800 million Commercial Paper and Medium Term Note Programme (guaranteed by AAPT Limited). Issues outstanding at 30 June 2001 are denominated in Australian dollars and are stated inclusive of the effects of hedging transactions.

Notes comprise amounts issued under Telecom's $500 million note facility.

Other loans consist of a borrowing of GBP 94.6 million which has been swapped into NZ$328 million. A one-year forward purchase commitment has been entered into whereby Telecom will buy GBP 100 million preference shares and use these to satisfy the GBP 94.6 million borrowing.

As at 30 June 2001 Telecom had a committed stand-by credit facility of $1 billion with major New Zealand trading banks, and access to US$400 million of committed short-term funding through a standby facility. Telecom also had committed overdraft facilities of $20 million with New Zealand banks. There are no material compensating balance requirements associated with these facilities. At 30 June 2001 AAPT had a committed overdraft facility of A$20 million with Australian trading banks.

NOTE 17

LONG-TERM DEBT

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
TeleBonds	431	387	364
Eurobonds	411	480	655
Euro Medium Term Notes	1,650	1,650	-
Swiss franc issue	150	150	150
Capital Notes	950	950	950
Convertible Notes	300	-	-
Finance leases (see Note 20)	21	81	87
Bank facility	-	309	-
Other loans	26	6	6
	3,939	4,013	2,212
Less unamortised discount	(18)	(21)	(20)
	3,921	3,992	2,192
Less long-term debt maturing within one year (see Note 16)	(623)	(188)	(247)
	3,298	**3,804**	**1,945**
Schedule of Maturities*:			
Due 1 to 2 years (8.46%)	574	908	177
Due 2 to 3 years (7.75%)	421	531	209
Due 3 to 4 years (7.89%)	777	411	485
Due 4 to 5 years (8.50%)	172	769	362
Due over 5 years (8.03%)	1,354	1,185	712
Total due after one year (8.05%)	3,298	3,804	1,945

(weighted average effective interest rate for Telecom Group – includes the effect of hedging transactions, see Note 19)*

TeleBonds

TCNZ Finance Limited, a subsidiary of the Company, offers bonds ("TeleBonds") to institutional and retail investors. These are issued as income, compounding, or zero coupon bonds and are offered on a continuous basis for a term of from one to fifteen years as stipulated by the investor. The interest or discount rate on offer, as the case may be, is generally adjusted relative to Government debt securities and, upon issue of the TeleBonds, is fixed for the period of the investment.

TeleBonds have interest rates ranging from 6.2% to 10.3% and maturity dates between March 2002 and April 2016.

Eurobonds

Eurobonds are issued by TCNZ Finance Limited and have the following interest rates and maturity dates:

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
7.5% due 19 September 1999	-	-	100
9.5% due 3 April 2000	-	-	75
6.5% due 29 September 2000	-	69	69
6.5% due 11 October 2001	113	113	113
9.25% due 1 July 2002	66	66	66
7.5% due 14 July 2003	82	82	82
6.75% due 11 October 2005	150	150	150
	411	480	655

NOTE 17 LONG-TERM DEBT (continued)

Eurobond issues with maturities of 11 October 2001 and 2005 are denominated in US dollars. Cross currency interest rate swaps have been entered into to manage the currency and interest rate risk exposure. The effective NZ dollar interest rates for these issues are 8.53% and 8.44% respectively. All other issues are denominated in NZ dollars.

Euro Medium Term Notes

TCNZ Finance Limited launched a US$1 billion Euro Medium Term Notes ("EMTN") programme in March 2000. In May 2001 the programme was increased to US$2 billion. Both public debt transactions and private placements can be issued under the programme.

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
5.5% due 19 April 2005	769	769	-
1.85% due 5 June 2007	412	412	-
Various private placements	469	469	-
	1,650	1,650	-

The EMTN with maturities of 19 April 2005 and 5 June 2007 are denominated in euro and yen respectively. The private placements are denominated in yen and have interest rates ranging from 0.5% to 2.0% with maturity dates ranging from 14 March 2002 to 8 June 2009. Cross currency and interest rate swaps have been entered into to manage the currency and interest rate risk exposures. The effective NZ dollar interest rates for the EMTN range from 8.28% to 8.93%.

Swiss Franc Issue

A Swiss franc bond has been issued by TCNZ Finance Limited with the following interest rate and maturity date:

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
3.25% due 27 May 2003	150	150	150

Cross currency and interest rate swaps have been entered into to manage the currency and interest rate risk exposure. The effective NZ dollar interest rate for this issue is 8.07%.

Capital Notes

TCNZ Finance Limited ("the Issuer"), Telecom's main financing subsidiary, has issued long-term fixed interest unsecured subordinated capital notes ("TeleNotes").

An initial issue was completed in May 1997 in the New Zealand market for an aggregate principal amount of face value $275 million. The TeleNotes were issued for an initial term of approximately seven years and with a fixed coupon of 8.5%. A second issue to the institutional market was made in August 1997 for an aggregate principal amount of face value $150 million for an initial term of approximately nine years and with a fixed coupon of 7.5%. At the end of the initial term, investors are offered the option of continuing to hold the TeleNotes at a new yield and for a term set by the Issuer. In the event that the investors do not accept the new terms of the TeleNotes they may elect to have their notes redeemed.

The Issuer can, at its sole discretion, redeem the TeleNotes including any unpaid interest for cash or redeem the TeleNotes including any unpaid interest by subscribing for and procuring the issue of ordinary shares in the Company to the noteholders at a price equivalent to 90% of the average closing price of the Company's shares in the 10 business days preceding the election date.

In February 1998, Telecom New Zealand Finance Limited, a Telecom financing subsidiary, issued to certain qualified institutional buyers in the United States of America, under an Offering Memorandum pursuant to US SEC Rule 144A, an aggregate principal amount of face value US$150 million 6.25% Restricted Capital Securities and US$150 million 6.5% Restricted Capital Securities for an initial term of five and ten years respectively. Telecom has entered into currency swaps to remove the exposure to exchange rate fluctuations that would otherwise result from the issue of US Capital Securities. The effective cost of the US Capital Securities reflects the results of these currency swaps and related New Zealand interest rate swaps. The Restricted Capital Securities rank pari passu with the TeleNotes issued in New Zealand and are similar in all material respects.

NOTE 17 LONG-TERM DEBT (continued)

Convertible Notes

In May 2001, Telecom New Zealand Finance Limited issued NZ dollar denominated convertible notes for an aggregate principal amount of $300 million. The notes were issued for a term of seven years and pay a fixed coupon of 5.4%. The notes mature in 2008, at which point the holder can elect to either have the notes redeemed in cash or converted into ordinary shares in the Company at a conversion rate of $8.275 per share. These notes are subordinated to other indebtedness of Telecom and rank equally with Capital Notes.

Finance Lease Obligations

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Finance lease obligations are denominated in the following currencies:			
NZ dollars	-	47	60
Japanese yen	21	34	27
	21	81	87

Finance lease obligations (see Note 20) have interest rates ranging from 1.64% to 2.46%.

Included in long-term investments (see Note 11) are Japanese yen term deposits amounting to $21 million (30 June 2000: $34 million, 30 June 1999: $26 million) which effectively hedge the finance lease obligations denominated in Japanese yen as noted above. The deposits have the same maturities as the finance lease obligations they are hedging, and interest rates that range from 3.68% to 4.20%.

Bank Facility

At 30 June 2000 AAPT had access to an A$300 million committed bank facility. At 30 June 2000 AAPT had drawn down A$240 million under this facility. This facility was cancelled in May 2001.

Other Loans

Other loans have interest rates ranging from 1.0% to 5.5% and maturity dates between January 2002 and December 2006.

NOTE 18

EQUITY

Kiwi Share

A special rights convertible preference share (the "Kiwi Share") was created on 11 September 1990 and is registered in the name of, and may only be held by, the Minister of Finance on behalf of the Crown. The consent of the holder of the Kiwi Share is required for the amendment, removal or alteration of the effect of certain provisions of the Company's Constitution which was adopted upon re-registration on 27 September 1996 under the Companies Act 1993.

The Company's Constitution also contains provisions that require Telecom to observe certain principles relating to the provision of telephone services and their prices, and that require the consent of the holder of the Kiwi Share and the Board of Telecom for a person to become the holder of an interest in 10% or more of the voting shares in Telecom.

The holder of the Kiwi Share is not entitled to vote at any meetings of the Company's shareholders nor participate in the capital or profits of the Company, except for repayment of $1 of capital upon a winding up. The Kiwi Share may be converted to an ordinary share at any time by the holder thereof, at which time all rights and powers attached to the Kiwi Share will cease to have any application.

NOTE 18 EQUITY (continued)

Contributed Capital

Movements in the Company's issued ordinary shares were as follows:

	Year ended 30 June		Three months ended 30 June
	2001	2000	1999
	Number	Number	Number
At beginning of period	1,755,413,443	1,752,801,986	1,752,801,986
Issue of new shares upon exercise of options	-	668,316	-
Shares issued under the dividend reinvestment plan	10,380,917	1,943,141	-
Issue of shares pursuant to equity placement	91,000,000	-	-
At end of period	1,856,794,360	1,755,413,443	1,752,801,986

Each of the ordinary shares confers on the holder the right to vote at any general meeting of the Company except that the Company's Constitution provides for certain restrictions on voting, including where a holder holds more than 10% of the ordinary shares in breach of shareholding limitations.

In May 2001 Telecom undertook an equity placement in order to pay-down existing debt, strengthen Telecom's balance sheet and enhance future financial flexibility. Ninety one million shares were issued at $5.50 per share.

Foreign Currency Translation Reserve

Movements in Telecom's foreign currency translation reserve are reconciled below:

	Telecom Group		
	Year ended 30 June		Three months ended 30 June
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Balance at beginning of period	49	1	-
Net exchange difference on translation of independent overseas subsidiaries	(67)	53	11
Net exchange difference on translation of overseas associate company	(6)	2	-
Hedge of net investment in an independent overseas subsidiary	12	(7)	(10)
Total movement for period	(61)	48	1
Balance at end of period	**(12)**	**49**	**1**

Telecom Share Options

Telecom operates an executive share option scheme whereby certain key executives are granted a number of options to purchase ordinary shares in the Company. Each option will convert to one ordinary share on exercise (provision is made for adjustment in certain circumstances). A participant may exercise his or her options (subject to employment conditions) any time during a prescribed period commencing at least one year from the date on which the options are conferred.

Options have been issued with a maximum term of six years. New ordinary shares will be issued in accordance with the Constitution upon the exercise of options. The price payable on exercise will be equivalent to the average daily closing price of Telecom shares reported on the New Zealand Stock Exchange for the 10 business days on which shares are traded immediately preceding the date on which options are granted (subject to adjustment if the shares are traded "cum dividend"). The options granted are determined by a committee of the Board of Directors pursuant to the executive share option scheme.

NOTE 18 EQUITY (continued)

Information regarding options granted under the executive share option scheme is as follows:

	Option price* $	Number of options
As at 31 March 1998	6.49	2,622,488
Granted	8.49	3,022,401
Exercised	6.65	(825,917)
Lapsed	8.37	(186,087)
Forfeited	8.54	(999,284)
As at 31 March 1999	7.46	3,633,601
Granted	8.12	3,954,194
Lapsed	8.54	(32,239)
As at 30 June 1999	7.80	7,555,556
Granted	8.39	487,894
Exercised	6.16	(668,316)
Lapsed	8.15	(641,059)
As at 30 June 2000	7.97	6,734,075
Granted	6.55	6,390,927
Lapsed	7.17	(1,788,880)
As at 30 June 2001	7.30	11,336,122

	Options outstanding				Options currently exercisable	
Period granted	Options outstanding	Price range $	Price * $	Remaining life* (years)	Options exercisable	Price * $
1 April 1996 - 31 March 1997	119,298	6.38 - 6.98	6.76	1.2	119,298	6.76
1 April 1997 - 31 March 1998	615,822	6.85 - 8.42	7.46	2.2	615,822	7.46
1 April 1998 - 31 March 1999	1,315,968	7.85 - 9.17	8.44	2.9	1,315,968	8.44
1 April 1999 - 30 June 1999	2,835,727	8.12	8.12	3.6	2,835,727	8.12
1 July 1999 - 30 June 2000	487,894	7.87 - 8.80	8.39	4.3	445,337	8.37
1 July 2000 - 30 June 2001	5,961,413	5.19 - 7.86	6.56	5.2	-	-
	11,336,122				**5,332,152**	

** Weighted average*

AAPT Share Options

Prior to becoming a 100% owned Telecom subsidiary, AAPT operated an executive and employee share option plan whereby AAPT executives and employees were granted a number of options to purchase AAPT ordinary shares. Each option was convertible to one ordinary AAPT fully paid share.

Telecom acquired the remaining shares in AAPT that it did not already own in November 2000. As part of this acquisition, Telecom also acquired all outstanding options issued under the AAPT executive and employee share option plan. A total of 11 million options were acquired at A$7.25 each, being the same price per share that Telecom acquired the remaining ordinary shares in AAPT.

NOTE 18 EQUITY (continued)

Dividends

Dividends declared and provided by the Company are as follows:

	Year ended 30 June		Three months ended 30 June
	2001	2000	1999
(Dollars in millions, except per share amounts)	NZ$	NZ$	NZ$
First quarter dividend paid	88	201	-
Supplementary dividend	10	25	-
Second quarter dividend paid	88	201	-
Supplementary dividend	11	25	-
Third quarter dividend paid	93	202	-
Supplementary dividend	13	25	-
Fourth quarter dividend provided	-	202	-
Supplementary dividend	-	25	-
Transition period dividend provided	-	-	202
Supplementary dividend	-	-	25
Total dividends	303	906	227
Fourth quarter dividend declared subsequent to balance date not provided for (see Note 28)	93	-	-
Dividends per share (including dividends declared but not provided for, but excluding supplementary dividends)	20.0 cents	46.0 cents	11.5 cents

Telecom receives an equivalent tax credit from the Inland Revenue Department for the amount of supplementary dividends paid.

As disclosed in Note 1, Telecom has changed its policy for accounting for dividends declared subsequent to balance date and now discloses these by way of note rather than recognising a liability in the Statement of Financial Position.

Shares Issued in Lieu of Dividends

Telecom established a Dividend Reinvestment Plan effective from the third quarter of the year ended 30 June 2000. Under the plan shareholders can elect to receive dividends in cash or additional shares. In respect of the year ended 30 June 2001, 10,380,917 shares with a total value of $59 million were issued in lieu of a cash dividend.

NOTE 19

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Interest Rate and Currency Risk

Telecom employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates and foreign exchange rates. Telecom effectively monitors the use of derivative financial instruments through the use of well-defined market and credit risk limits and timely reports to senior management.

The majority of Telecom's long-term debt has been, and is currently, subject to fixed interest rates. Telecom uses derivative products such as interest rate swaps and interest rate options to reduce the impact of changes in interest rates on its floating rate debt.

The purpose of Telecom's foreign currency hedging activities is to protect it from the risk that the eventual New Zealand dollar net cash flows, resulting from purchases from foreign suppliers and foreign currency borrowings and expenditure, will be adversely affected by changes in exchange rates. As at 30 June 2001, Telecom's net unhedged foreign exchange position relating to the aforementioned activities was not significant.

NOTE 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The notional principal or contract amounts outstanding are as follows:

	Telecom Group			
		30 June		
	Maturities	2001	2000	1999
(Dollars in millions)		NZ$	NZ$	NZ$
Cross currency interest rate swaps	2001-2009	2,903	2,575	925
Interest rate swaps	2002-2011	3,321	2,397	719
Interest rate options	2001	350	450	300
Forward exchange contracts (hedging firm purchase commitments and foreign currency investments)	2001-2005	1,455	757	895
Forward exchange contracts (hedging short-term debt)	2001-2002	494	340	605
Currency options				
Purchased puts	2001-2002	68	21	-
Sold calls	2002	5	20	-

The notional amounts of the derivative financial instruments, with the exception of forward exchange contracts and cross currency interest rate swaps, do not necessarily represent amounts exchanged by the parties, and therefore, are not a direct measure of the exposure of Telecom through its use of derivative financial instruments. The amounts exchanged are calculated on the basis of the notional principal amounts and the other terms of the instruments, which relate to interest rates and exchange rates.

Parent Company

The Parent Company had no derivative contracts outstanding at 30 June 2001, 2000 and 1999.

Concentration of Credit Risk

In the normal course of its business, Telecom incurs credit risk from trade receivables and transactions with financial institutions. Telecom has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis.

Telecom does not require collateral or other security to support financial instruments with credit risk. While Telecom may be subject to credit losses in the event of non-performance by its counterparties, it does not expect such losses to occur.

Financial instruments which potentially subject Telecom to credit risk consist principally of cash, short-term investments, advances to associate companies, trade receivables and various off-balance sheet instruments. Telecom places its cash, short-term investments and off-balance sheet hedging instruments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution. Telecom has no significant concentrations of credit risk in respect of any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers included in Telecom's customer base.

Fair Values of Financial Instruments

The estimated fair values of Telecom's financial instruments, which differ from the carrying values, are as follows:

	Telecom Group					
	30 June					
	2001		2000		1999	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Applicable financial instruments on the balance sheet:						
Long-term investments – term deposits	21	21	34	35	26	28
Long-term investments – advances to associate companies	151	151	158	151	104	104
Long-term investments – shares in listed companies	359	309	166	158	386	337
Long-term debt (see Note 17)	(3,921)	(4,464)	(3,992)	(4,352)	(2,192)	(2,418)
Financial instruments with off-balance sheet risk:						
Interest rate swaps	(18)	(118)	(15)	(62)	(13)	(24)
Cross currency interest rate swaps	14	534	7	277	9	146
Interest rate options	-	-	1	2	2	1
Foreign currency forward exchange contracts (hedging firm purchase commitments and foreign currency investments)	-	76	1	59	1	15
Foreign currency options	-	-	-	1	-	-

Telecom anticipates that long-term debt will be held to maturity and, accordingly, settlement at the reported fair value of these financial instruments is unlikely.

NOTE 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, Short-term Investments, Bank Overdraft, Short-term Debt, Receivables and Prepayments, Accounts Payable and Accruals
The carrying amounts of these balances are approximately equivalent to their fair value and therefore they are excluded from the table shown over.

Long-term Investments
The fair value of term deposits is estimated on the basis of current market interest rates available to Telecom for investments of similar terms and maturities.

The fair value of interest-bearing advances to associate companies is based on current market interest rates for debt of similar maturities. It was not practicable to estimate the fair value of non interest-bearing advances as there is no quoted market price for these or similar investments.

The fair value of shares in listed companies is based on quoted market prices for these securities.

It was not practicable to estimate fair values of the remaining long-term investments as there are no quoted market prices for these or similar investments.

Long-term Debt
The fair values of TeleBonds, Eurobonds, the Swiss franc issue, Capital Notes and Convertible Notes are estimated on the basis of the quoted market prices of Government debt securities of similar maturities. The fair value of other long-term debt is based on current market interest rates available to Telecom for debt of similar maturities.

Cross Currency Interest Rate Swaps, Interest Rate Swaps, Forward Exchange Contracts, Foreign Currency Options and Interest Rate Options
The fair values are estimated on the basis of the quoted market prices of those instruments.

The carrying value of the cross currency interest rate swaps and interest rate swaps represents the accrued interest on these instruments.

Repricing Analysis

The following table indicates the effective interest rates, the earliest period in which recognised financial instruments reprice and the extent to which these factors have been modified by off-balance sheet financial instruments. This information provides a basis for the evaluation of the interest rate risk to which Telecom is exposed in the future.

	Weighted effective interest rate	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Greater than 5 years	Total
(Dollars in millions)		NZ$	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Financial assets:								
Cash balances	6.74%	94	-	-	-	-	-	94
Investments	3.44%	286	-	-	-	-	-	286
Financial liabilities:								
Bank overdraft	1.12%	(18)	-	-	-	-	-	(18)
Debt	7.60%	(2,165)	(574)	(421)	(777)	(172)	(1,354)	(5,463)
Off-balance sheet instruments:								
Interest rate swaps		3,321	(606)	(162)	(490)	(727)	(1,336)	-
Cross currency interest rate swaps		(1,936)	457	-	770	-	709	-
30 June 2001 repricing profile		(418)	(723)	(583)	(497)	(899)	(1,981)	(5,101)
30 June 2000 repricing profile		(534)	(593)	(481)	(410)	(489)	(1,901)	(4,408)
30 June 1999 repricing profile		(518)	(273)	(387)	(486)	(362)	(710)	(2,736)

NOTE 20

COMMITMENTS

Operating Leases

Minimum rental commitments for all non-cancellable operating leases (excluding amounts provided for in respect of restructuring and Australian CDMA lease commitments) are:

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Payable within 1 year	63	56	50
Payable within 1-2 years	57	48	45
Payable within 2-3 years	44	41	39
Payable within 3-4 years	28	28	32
Payable within 4-5 years	19	19	23
Payable thereafter	78	83	133
	289	275	322

Finance Leases

Lease commitments in respect of capitalised finance leases are:

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Payable within 1 year	22	63	19
Payable within 1-2 years	1	23	59
Payable within 2-3 years	-	-	17
Payable within 3-4 years	-	-	-
Payable within 4-5 years	-	-	-
Total minimum lease payments	23	86	95
Future finance charges on finance leases	(2)	(5)	(8)
Present value of net future minimum lease payments (see Note 17)	21	81	87

Capital Commitments

At 30 June 2001, capital expenditure amounting to $184 million (30 June 2000: $754 million, 30 June 1999: $65 million) had been committed under contractual arrangements, with substantially all payments due within three years. The capital expenditure commitments principally relate to telecommunications network assets.

In addition, Telecom has a 50% interest in a group that operates a Trans-Pacific submarine optical fibre cable, called the Southern Cross Cable Network ("Southern Cross"), linking Australia and New Zealand with Hawaii, Fiji and the West Coast of the United States. Southern Cross achieved cable ready-for-service ("RFS") in November 2000 and from 28 February 2001 provided full restoration capability between New Zealand, Australia and United States. In March 1998, Telecom contractually committed to purchase capacity on Southern Cross of approximately US$140 million. Telecom has remaining commitments of US$70 million of which US$57 million is due in November 2001, with the balance payable over the following two years. In November 1999, Telecom committed to purchase further capacity at a cost of US$69 million. Payments of US$12 million, US$23 million, US$23 million and US$11 million are due on 31 January 2002, 2003, 2004 and 2005 respectively. In addition, AAPT has committed to purchase capacity on Southern Cross at a cost of approximately US$26 million payable over the coming year.

NOTE 20 COMMITMENTS (continued)

Investment in Hutchison 3G Australia

Telecom has entered into an agreement to acquire a 19.9% stake in Hutchison 3G Australia ("H3G") for A$250 million. The remainder of H3G's equity will be owned by Hutchison Telecommunications (Australia) Limited. H3G will be a dedicated provider of "3rd Generation" wireless communications services in Australia.

Telecom's initial equity investment will be made subsequent to the satisfaction of certain conditions in the agreement. This is currently expected to occur in the first quarter of the 2002 financial year. In addition to this initial equity investment, Telecom has committed to provide a further A$150 million of equity to fund the venture's capital expenditure. Payments comprising this further A$150million of equity will be made in accordance with H3G's capital expenditure requirements.

NOTE 21

CONTINGENT LIABILITIES

Lawsuits and Other Claims

In June 1999, representative and individual plaintiffs filed a claim against Telecom in the Employment Court. The plaintiffs allege breach of various express and implied terms of their employment contracts. The claim is not fully quantified.

In April 2000, CallPlus Limited ("CallPlus") and two other companies issued proceedings against Telecom alleging breach of contract and the Commerce Act in relation to Telecom's 0867 service. CallPlus seeks injunctive relief and an inquiry into damages.

On 31 July 2000, the Commerce Commission issued proceedings against Telecom claiming that the introduction of 0867 constituted a use by Telecom of its dominant position for proscribed purposes. The Commission seeks a declaration that this contravened s36 of the Commerce Act, a pecuniary penalty, and costs.

Due to the nature of the Australian telecommunications industry, there are a number of ongoing disputes in respect of charges by telecommunications suppliers. To the extent that these disputes are settled in a manner that is contrary to Telecom's interests, it is possible that they will negatively impact on the Group's financial position. It is not currently possible to quantify any such impact.

Various other lawsuits, claims and investigations have been brought or are pending against Telecom.

The Directors of Telecom cannot reasonably estimate the adverse effect (if any) on Telecom if any of the foregoing claims are ultimately resolved against Telecom's interests, and there can be no assurance that such litigation will not have a material adverse effect on Telecom's business, financial condition or results of operations.

Land Claims

As previously stated in Note 13, interests in land included in fixed assets purchased from the Government may be subject to claims to the Waitangi Tribunal or deemed to be Wahi Tapu and, in either case, may be resumed by the Government. Certain claims have been brought or are pending against the Government under the Treaty of Waitangi Act 1975. Some of these claims may affect land transferred to the Company by the Government and/or by the Company to its subsidiary companies. In the event that land is resumed by the Government, there is provision for compensation to Telecom.

Financial Instruments

There are contingent liabilities in respect of outstanding contracts for the sale and purchase of foreign currencies, cross currency interest rate swaps, interest rate swaps, interest rate options and foreign currency options. No significant losses are anticipated in respect of these matters.

AAPT had issued bank guarantees totalling A$17 million as at 30 June 2001 (30 June 2000: A$91 million).

Cross Boarder Lease Guarantees

Telecom has entered into two cross border leases in respect of certain telecommunications assets. Telecom has given certain undertakings in accordance with limited guarantees entered into as part of the transactions. The likelihood of losses in respect of these matters is considered to be remote.

Parent Company

The Parent Company has guaranteed, along with guaranteeing subsidiary companies, indebtedness of TCNZ Finance Limited amounting to $3,499 million (30 June 2000: $3,272 million, 30 June 1999: $1,546 million) under a guarantee dated 27 May 1997 and trust deeds dated 25 October 1988, 3 April 1992, 17 March 2000, 18 December 2000 and 11 May 2001, together with subsequent supplemental trust deeds and interest thereon. The Parent Company has issued further guarantees in relation to commercial paper and other treasury activities of TCNZ Finance Limited. The Parent Company has also provided intercompany guarantees to Telecom New Zealand Limited.

NOTE 22

RELATED PARTY TRANSACTIONS

Interest of Directors in Certain Transactions

Certain directors have relevant interests in a number of companies with which Telecom has transactions in the normal course of business. A number of Telecom's directors are also non-executive directors of other companies, some of which include banking institutions that are involved in the provision of banking facilities to Telecom. At 30 June 2001 banking institutions with cross-directorships were the Australia and New Zealand Banking Group Limited, ANZ Banking Group, WestpacTrust Investments Limited and the Commonwealth Bank of Australia. Banking and financing transactions undertaken with these entities have been entered into on an arms-length commercial basis.

In May 2001, Telecom sold its Mobile Radio business (including Fleetlink and trunked mobile radio) to TeamTalk Limited. At the time of sale, Active Equities Limited, of which Patsy Reddy (a Telecom director) is a shareholder and director, held approximately 62% of TeamTalk. Telecom acquired 19.9% of TeamTalk subsequent to the sale of the Mobile Radio business.

Advances to Associate Companies

As at 30 June 2001 Telecom had made a long-term shareholders' advance of US$61 million to Southern Cross Cables Holdings Limited at an interest rate of Libor + 0.75% (30 June 2000: US$58 million, 30 June 1999: US$55 million). As at 30 June 2000, Telecom had also made a short-term advance for interim funding purposes of US$120 million at an interest rate of Libor + 1.0%. This was repaid during the year.

AAPT had made an interest-free advance of A$115 million to AOL Australia Online Services Pty Limited ("AOLA") at 30 June 2001 (30 June 2000: A$25 million). At 30 June 2001, AOLA had made an interest-free advance of A$15 million to an AAPT subsidiary. The advance to AOLA included in long-term investments has been presented net of the deposit.

NOTE 22 RELATED PARTY TRANSACTIONS (continued)

Other Transactions with Associate Companies

The Group provides Internet and communications services to AOLA and provides network operations and management services to Southern Cross in respect of its operations in New Zealand. The Group has also derived revenue from Southern Cross for the construction of network facilities in New Zealand. The Group also makes operations and maintenance payments to Southern Cross in connection with capacity it has purchased on Southern Cross. Balances in respect of these transactions with associate companies are set out in the table below.

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Revenue from associates	33	25	-	-
Expenses to associates	(6)	-	-	-

	30 June		
	2001	2000	1999
Receivables from associates	10	-	-
Payables to associates	(1)	-	-

Dividends received from associate companies are disclosed in Note 2.

Parent Company

The Parent Company's transactions with subsidiary companies are set out in Notes 2 and 6.

Amounts due to subsidiary companies are for no fixed term and are at a weighted average interest rate of 6.52% at 30 June 2001 (30 June 2000: 6.35%).

Included within investments in subsidiary companies (see Note 11) at 30 June 2001 are net term loans of $2,631 million (30 June 2000: $1,711 million) advanced to subsidiary companies. These term loans have interest rates ranging between 0% and 9.8% (30 June 2000: 0% and 9.8%).

NOTE 23

SUBSIDIARY AND ASSOCIATE COMPANIES

At 30 June 2001, the significant companies of the Telecom Group and their activities were as follows:

	Country of incorporation	Interest held	Principal activity
Subsidiary Companies			
Telecom New Zealand Limited	New Zealand	100%	Provides local, national and international and value-added telephone services, data and Internet services.
Telecom Mobile Limited	New Zealand	100%	Provides cellular and other mobile telecommunications services.
Telecom Directories Limited	New Zealand	100%	Publishes telephone directories.
Telecom Purchasing Limited	New Zealand	100%	A group purchasing and procurement company.
Telecom Cook Islands Limited	Cook Islands	60%	Provides telecommunications services in the Cook Islands.
TCNZ (UK) Investments Limited	United Kingdom	100%	A group finance company.
TCNZ (United Kingdom) Securities Limited	United Kingdom	100%	A group finance company.
TCNZ Finance Limited	New Zealand	100%	A group finance company.
Telecom Investments Limited	New Zealand	100%	A group finance company.

NOTE 23 SUBSIDIARY AND ASSOCIATE COMPANIES (continued)

	Country of incorporation	Interest held	Principal activity
Subsidiary Companies			
Telecom New Zealand Finance Limited	New Zealand	100%	A group finance company.
TCNZ Financial Services Limited	New Zealand	100%	A group finance company.
Telecom Enterprises Limited	New Zealand	100%	A holding company.
Telecom Wellington Investments Limited	New Zealand	100%	A holding company.
Telecom Pacific Limited	New Zealand	100%	A holding company.
TCNZ Australia Investments Pty Limited	Australia	100%	A holding company.
Telecom Southern Cross Limited	New Zealand	100%	A holding company.
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company.
Telecom Southern Cross Finance Limited	Bermuda	100%	A group finance company.
Telecom New Zealand Australia Pty Limited	Australia	100%	Provides international wholesale telecommunications services.
TCNZ Australia Pty Limited	Australia	95%	Provides outsourced telecommunications services.
Telecom New Zealand Japan Kabushiki Kaisha	Japan	100%	Provides international wholesale telecommunications services.
Telecom New Zealand UK Limited	United Kingdom	100%	Provides international wholesale telecommunications services.
Telecom New Zealand (UK) Licences Limited	United Kingdom	100%	Holds United Kingdom telecommunications licences.
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services.
AAPT Limited	Australia	100%	Provides value-added telecommunications services.
Cellular One Communications Limited	Australia	100%	Provides mobile telecommunications services.
Connect Pty Limited	Australia	100%	Internet service provider.
Commerce Solutions Limited	Australia	100%	Provides e-commerce solutions.
AAPT CDMA Pty Limited	Australia	100%	Construction of CDMA wireless network.
Associate Companies			
Pacific Carriage Holdings Limited	Bermuda	50%	A holding company.
Southern Cross Cables Holdings Limited	Bermuda	50%	A holding company.
AOL Australia Online Services Pty Limited	Australia	50%	Internet service provider.

Other than Telecom New Zealand Australia Pty Limited and TCNZ Australia Pty Limited, which have a balance date of 31 March, the financial year-end of all significant subsidiaries and associates is 30 June.

NOTE 24

SEGMENTAL REPORTING

Geographic segments

Prior to the acquisition of a controlling stake in AAPT during the year ended 30 June 2000, more than 90% of the Group's total operating revenues, operating earnings and identifiable assets were generated by operations in New Zealand. With the acquisition of AAPT, a material proportion of the Group's operations are now undertaken outside New Zealand. Disclosure of revenues, net earnings, fixed assets and total assets on a geographical basis is set out over.

NOTE 24 SEGMENTAL REPORTING (continued)

As at and for the year ended 30 June 2001	Telecom Group				
	New Zealand operations	Australian operations	Other operations	Eliminations	Consolidated
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$
Operating revenue					
External customers	3,565	1,775	308	-	5,648
Internal customers	51	47	-	(98)	-
Abnormal revenue	(12)	-	-	-	(12)
Total revenue	3,604	1,822	308	(98)	5,636
Segment net earnings attributable to shareholders	608	25	255	(245)	643
Segment fixed assets	3,872	941	88	-	4,901
Segment total assets	5,594	1,629	452	1,297	8,972

Intersegment sales are priced on an arm's length basis.

As at and for the year ending 30 June 2000	Telecom Group				
	New Zealand operations	Australian operations	Other operations	Eliminations	Consolidated
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$
Operating revenue					
External customers	3,519	741	75	-	4,335
Internal customers	22	15	-	(37)	-
Abnormal revenue	-	15	-	-	15
Total revenue	3,541	771	75	(37)	4,350
Segment net earnings attributable to shareholders	757	31	18	(23)	783
Segment fixed assets	3,724	481	45	-	4,250
Segment total assets	5,076	1,083	648	1,174	7,981

Industry segments

Telecom essentially operates within one industry segment as a unitary business, providing an integrated range of telecommunications products and services.

NOTE 25

RECONCILIATION OF NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Telecom Group				Parent Company	
	Year ended 30 June		Three months ended 30 June	Year ended 31 March	Year ended 30 June	
	2001	2000	1999	1999	2001	2000
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Net earnings attributable to shareholders	643	783	202	822	316	722
Adjustments to reconcile net earnings to net cash flows from operating activities:						
Depreciation and amortisation	722	627	138	560	-	-
Bad and doubtful accounts	58	43	5	27	-	-
Deferred income tax	(1)	24	(1)	23	-	-
Share of losses of associate companies	18	6	7	-	-	-
Minority interests in profits of subsidiaries	-	8	-	2	-	-
Abnormal revenues and expenses.	268	(15)	-	-	-	-
Other	(22)	(2)	(1)	14	-	-
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:						
(Increase)/decrease in accounts receivable and related items	(222)	(127)	(15)	23	2	(2)
Decrease/(increase) in inventories	1	6	(9)	(1)	-	-
Increase/(decrease) in current taxation	108	34	153	56	(62)	(49)
(Decrease)/increase in provisions	(5)	(57)	6	(59)	-	-
Increase/(decrease) in accounts payable and related items	190	138	8	28	3	(12)
Net cash flows from operating activities	**1,758**	**1,468**	**493**	**1,495**	**259**	**659**

NOTE 26

IMPUTATION CREDIT ACCOUNT

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Company on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to dividends. Overseas shareholders in general are not entitled to claim the benefit of any imputation credit. Overseas shareholders may benefit from supplementary dividends.

The movements in the imputation credit accounts are detailed below:

	Telecom Group			Parent Company	
	30 June			30 June	
	2001	2000	1999	2001	2000
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$
Balance (credit) at the beginning of the period	(3)	(1)	(126)	20	(10)
New Zealand income tax (paid)/refunded	(180)	(300)	51	-	-
Imputation credits attached to dividends received	(1)	(1)	-	(195)	(267)
Imputation credits attached to dividends paid	175	299	74	173	297
Balance (credit) at the end of the period	(9)	(3)	(1)	(2)	20
Minority interests	-	-	1	-	-
Net balance (credit) at the end of the period	(9)	(3)	-	(2)	20

NOTE 27

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the year ended 30 June 2001 Telecom acquired the remaining shares in AAPT that it did not already own. Total consideration paid was $635 million resulting in additional goodwill at the date of purchase of $548 million. Full consolidation of AAPT's results was effective from 1 December 2000.

The following acquisitions and disposals impacted Telecom's financial statements in the year ended 30 June 2000:

- On 27 November 1999 Telecom purchased an additional 61.7% stake in AAPT, bringing the total shareholding at that date to 81.4%.
- On 10 February 2000 AAPT acquired a 60% stake in EC-Pay Pty Limited.
- On 31 March 2000 AAPT disposed of its entire 100% shareholding in AAPT Sat-Tel Pty Limited.
- On 1 June 2000 Telecom disposed of its entire 100% shareholding in ConnecTel Limited.

The effect of these acquisitions and disposals on the Group's assets and liabilities as at 30 June 2000 was:

	Telecom Group
(Dollars in millions)	NZ$
ASSETS	
Current assets:	
Cash	3
Receivables and prepayments	168
Total current assets	**171**
Future tax benefit	14
Long-term investments	2
Intangibles	268
Fixed assets	266
Total assets	721
LIABILITIES	
Current liabilities:	
Bank overdraft	(1)
Accounts payable and accruals	271
Total current liabilities	270
Long-term debt	147
Total liabilities	**417**
Minority interests	**69**
Net assets acquired	**235**
Net consideration:	
Opening investment	(385)
Net cash paid	(1,113)
Goodwill arising on acquisition	1,279
Profit on disposal	(16)
	(235)

NOTE 28

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 9 August 2001, the Board of Directors approved the payment of a fourth quarter dividend of $93 million, representing 5 cents per share. In addition, a supplementary dividend totalling $16 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 1994, Telecom will receive a tax credit from the Inland Revenue Department equivalent to the amount of supplementary dividends paid.

NOTE 29

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in millions, except per share amounts)	Operating revenues NZ$	Net abnormal revenue/ (expense) NZ$	Earnings before interest and taxation NZ$	Earnings before income tax NZ$	Net earnings attributable to shareholders NZ$	Net earnings per share NZ$
Quarter ended:						
30 September 2000	1,291	-	343	260	161	0.092
31 December 2000	1,382	-	317	223	139	0.079
31 March 2001	1,606	-	595	496	381	0.217
30 June 2001	1,357	(268)	70	(35)	(38)	(0.022)
Year ended 30 June 2001	5,636	(268)	1,325	944	643	0.364
Quarter ended:						
30 September 1999	887	-	365	318	209	0.119
31 December 1999	993	-	350	290	197	0.112
31 March 2000	1,239	15	380	307	205	0.117
30 June 2000	1,231	-	335	250	172	0.098
Year ended 30 June 2000	4,350	15	1,430	1,165	783	0.447

Earnings per share is computed independently for each of the quarters presented. Consequently, the sum of the quarters does not necessarily equal total annual earnings per share.

NOTE 30

COMPARATIVE FINANCIAL INFORMATION (UNAUDITED)

Annual Balance Date Change

Effective 1 April 1999, Telecom changed its annual balance date from 31 March to 30 June. The unaudited consolidated Statement of Financial Performance for the three months ended 30 June 1998 and the year ended 30 June 1999 is presented below for comparative purposes.

(Dollars in millions, except per share amounts)	Year ended 30 June 1999 NZ$	Three months ended 30 June 1998 NZ$
Operating revenues		
Local service	1,059	263
Calling	1,140	290
Interconnection	71	15
Cellular and other mobile services	502	113
Internet	43	8
Data	314	73
Other operating revenues	327	64
Abnormal revenues	31	-
	3,487	826
Operating expenses		
Labour	467	124
Cost of sales	459	109
Other operating expenses	549	127
Abnormal expenses	37	-
	1,512	360

NOTE 30 COMPARATIVE FINANCIAL INFORMATION (UNAUDITED) (continued)

	Year ended 30 June	Three months ended 30 June
	1999	1998
(Dollars in millions, except per share amounts)	NZ$	NZ$
Earnings before interest, taxation, depreciation and amortisation	**1,975**	**466**
Depreciation and amortisation	558	141
Earnings before interest and taxation	**1,417**	**325**
Interest income	45	16
Interest expense	(234)	(62)
Earnings before income tax	**1,228**	**279**
Income tax expense	(385)	(89)
Earnings after income tax	**843**	**190**
Share of losses of associate company after income tax	(7)	-
Minority interests in profits of subsidiaries	(2)	-
Net earnings attributable to shareholders	**834**	**190**
Net earnings per share	**$0.476**	**$0.109**
Weighted average number of ordinary shares outstanding (in millions)	1,752	1,752

NOTE 31

SIGNIFICANT DIFFERENCES BETWEEN NEW ZEALAND AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRACTICE

The consolidated financial statements are prepared in accordance with generally accepted accounting practice ("GAAP") applicable in New Zealand ("NZ") which differs in certain significant respects from that applicable in the United States ("US"). These differences and the effect of the adjustments necessary to restate earnings and shareholders' funds are detailed below.

Effect on Net Earnings of Differences Between NZ GAAP and US GAAP

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions, except per share amounts)	NZ$	NZ$	NZ$	NZ$
Net earnings in accordance with NZ GAAP	643	783	202	822
US GAAP adjustments:				
Depreciation of interest costs capitalised in prior years (a)	(8)	(9)	(2)	(9)
Deferred taxation (b)	18	13	(4)	19
Executive share ownership plan (c)	-	-	-	(16)
Provision for Year 2000 (d)	-	(17)	(7)	(48)
Provision for onerous contracts (e)	(3)	(14)	22	-
Share of losses of associate companies (f)	(44)	(23)	-	-
Dividends from associates (g)	(102)	-	-	-
Net earnings in accordance with US GAAP	504	733	211	768
Basic net earnings per share in accordance with US GAAP	$0.285	$0.418	$0.120	$0.438
Diluted earnings per share from continuing operations in accordance with US GAAP (n)	$0.285	$0.417	$0.120	$0.439

NOTE 31 SIGNIFICANT DIFFERENCES BETWEEN NEW ZEALAND AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRACTICE (continued)

Cumulative Effect on Shareholders' Funds of Differences Between NZ GAAP and US GAAP

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Shareholders' funds in accordance with NZ GAAP	1,997	1,130	1,086	1,085
US GAAP adjustments:				
Capitalisation of interest costs, net of accumulated depreciation (a)	22	30	39	41
Deferred taxation (b)	-	(18)	(31)	(27)
Provision for dividend (i)	-	202	202	202
Provision for Year 2000 (d)	-	-	17	24
Provision for onerous contracts (e)	5	8	22	-
Share of losses of associate companies (f)	(67)	(23)	-	-
Dividends from associates (g)	(102)	-	-	-
Unrealised derivative losses on cash flow hedges (h)	(59)	-	-	-
Accumulated unrealised holding loss on available-for-sale securities (o)	(50)	(8)	-	-
Shareholders' funds in accordance with US GAAP	1,746	1,321	1,335	1,325

(a) Capitalisation of Interest Costs Relating to the Construction of Property, Plant and Equipment

Prior to 1 April 1989, Telecom did not capitalise interest costs incurred in connection with the financing of expenditures for the construction of telecommunications equipment and other fixed assets. In the year ended 31 March 1990, Telecom changed that policy such that, for each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest costs incurred during the period that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost. In the year ended 31 March 1996, Telecom changed that policy further such that, for each fixed asset project having a cost in excess of $100,000 and a construction period of not less than three months, interest costs incurred during the period that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost. The policy was changed again from 1 April 1999 such that interest costs are capitalised for all fixed asset projects.

Under US GAAP, interest costs incurred in connection with the financing of all expenditure for the construction of fixed assets are required to be capitalised during the period necessary to prepare the fixed asset for its intended use. For the purpose of compliance with US GAAP, the estimated amount of interest that would have been capitalised on construction costs incurred on capital projects not already capitalised in accordance with Telecom's accounting policy has been determined and depreciated over the lives of the related assets. As a result of the change in accounting policy during the year ended 31 March 1996, which brought NZ GAAP accounting treatment in respect of capitalised interest into alignment with US GAAP in all material respects, the ongoing reconciling difference within net earnings will comprise the depreciation charge on interest not capitalised under NZ GAAP prior to 1 April 1995.

(b) Deferred Taxation

Under NZ GAAP, Telecom uses the partial liability method to account for taxation whereby all items expected to reverse in the foreseeable future are recognised, whereas under US GAAP the comprehensive liability method is used.

The components of the US GAAP net deferred tax liability at 30 June 2001, 30 June 2000 and 30 June 1999 amounting to $23 million, $31 million, and $56 million respectively, are as follows:

	Deferred tax asset			Deferred tax liability		
	30 June			30 June		
	2001	2000	1999	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$	NZ$	NZ$
Depreciation	32	14	14	(153)	(145)	(113)
Restructuring provisions	-	2	9	-	-	-
Tax losses in overseas subsidiary company	-	32	-	-	-	-
Provisions, accruals and other	159	105	90	(53)	(57)	(50)
Valuation allowance	(8)	(7)	(6)	-	-	-
Supplementary dividend tax credit	-	25	-	-	-	-
	183	171	107	(206)	(202)	(163)

NOTE 31 SIGNIFICANT DIFFERENCES BETWEEN NEW ZEALAND AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRACTICE (continued)

Included in the net deferred tax liability at 30 June 2001 of $23 million is a net current asset of $86 million and a net non-current liability of $109 million. The net deferred tax liability at 30 June 2000 of $31 million included a net current asset of $124 million and a net non-current liability of $155 million. The net deferred tax liability at 30 June 1999 of $56 million included a net current asset of $90 million and a net non-current liability of $146 million.

(c) Executive Share Ownership Plan

The liquidation of Telecom's Executive Plan was completed in March 1999. The Trustee of the Executive Plan had disposed of the 1.9 million unallocated shares and remitted the proceeds to Telecom. Under NZ GAAP the net proceeds from the liquidation of the Executive Plan of $16 million were recorded as abnormal revenue in the Statement of Financial Performance. Under US GAAP the unallocated shares remaining at the time of liquidating the Executive Plan must be considered un-issued. Under US GAAP when a company sells previously un-issued shares in itself, the net proceeds from the sale are accounted for as paid-in capital.

Under NZ GAAP, compensation expense relating to the Executive Plan was recognised systematically over the life of the plan based on the actual cost of the shares of $2 each. Under US GAAP, the Executive Plan would have been treated as a variable stock award plan and, as such, the compensation expense recognised over the life of the plan would be adjusted in each accounting period for changes in the quoted market price of the Company's shares. Additionally, under US GAAP, the shares issued under the plan would not have been recognised as share capital until they vested and would not all have been recognised as outstanding for the purpose of determining the weighted average number of shares for earnings per share calculations.

Reconciliation of the cumulative effect of the Executive Plan on shareholders' funds:

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Opening balance	-	-	-	(3)
Shares vested, net	-	-	-	18
US GAAP reversal of NZ GAAP liquidation profit	-	-	-	(16)
Dividends paid on treasury stock	-	-	-	1
	-	-	-	-

(d) Provision for Year 2000

Under US GAAP, the costs relating to Year 2000 modifications should be expensed as incurred. Consequently, the accrual of such costs is not permitted.

(e) Provision for Onerous Contracts

Under US GAAP, the costs relating to these onerous contracts should be expensed as incurred. Consequently, the accrual of such costs is not permitted.

(f) Share of Losses of Associate Companies

Under NZ GAAP, where the carrying amount of an equity investment in an associate falls below zero, the equity method of accounting is suspended and the investment is recorded at zero. If this occurs, the equity method of accounting is not resumed until such time as the Group's share of losses and reserve decrements not recognised during the financial years in which the equity method was suspended, are offset by the current share of profits and reserves.

Under US GAAP net losses continue to be accrued until both the equity investment and any advance balance are reduced to zero.

(g) Dividends from Associates

Under NZ GAAP, dividends received from Southern Cross were initially applied to the carrying value of the equity investment in Southern Cross. Once the carrying value of the equity investment had been reduced to zero by these dividends, the equity method of accounting was suspended and remaining dividends were included as income in the Statement of Financial Performance.

Under US GAAP, dividends in excess of the carrying value of the equity investment are applied to reduce the balance of advances to associates, until these too are reduced to zero.

(h) Accounting for Derivative Financial Instruments

Under NZ GAAP, derivative financial instruments held for purposes other than trading are measured at historic cost. Under US GAAP, derivative financial instruments are required to be accounted for under Statement of Financial Accounting Standards ("SFAS") 133 "Accounting for Derivative Instruments and Hedging Activities", which requires all derivatives to be recorded in the balance sheet at their fair value. Changes in the fair values of derivatives during the period are required to be included in the determination of net income unless the derivative qualifies as a hedge.

To qualify as a hedge, the hedging relationship must be formally documented at inception detailing the particular risk management objective and strategy for the hedge, which includes the item and risk being hedged, the derivative that is being used, as well as how hedge effectiveness is being assessed.

Telecom adopted SFAS 133 for the purposes of reconciliation to US GAAP as at 1 July 2000. Telecom holds derivative financial instruments solely for the purposes of hedging. The nature of the various derivative financial instruments utilised by Telecom and the purposes for which these financial instruments are used are described in Note 19. Under SFAS 133, Telecom's derivative financial instruments qualify as cash flow hedges. As at 30 June 2001, Telecom's cash flow hedges were for a maximum term of nine years, though the majority are for a term of less than five years.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate and/or foreign currency denominated liabilities or forecasted transactions, the accounting treatment is dependent on the effectiveness of the hedge. To the extent that the derivative is effective in offsetting the variability of the hedged cash flows, changes in the derivative's fair value are not included in current earnings, instead being reported as a component of other comprehensive income. These changes in fair value will be included in the earnings of future periods when earnings are also affected by the variability of the hedged cash flows. To the extent that hedges are not effective, changes in the fair value of the derivative are included immediately in current earnings.

The cumulative effect of adopting SFAS 133 at 1 July 2000, representing the initial revaluation of derivatives to fair value was recognised as a reduction in other comprehensive income of $53 million. Amounts reclassified to earnings during the year ended 30 June 2001 as a result of hedge ineffectiveness were immaterial. As at 30 June 2001, an unrealised loss of $59 million was included in accumulated other comprehensive income. The amount expected to be reclassified to earnings in the next 12 months to adjust hedged variable cash flows is approximately $48 million.

(i) Provision for Dividend

Prior to the year ended 30 June 2001, under NZ GAAP, dividends declared by the Board of Directors after the end of an accounting period, but in respect of that period, were deducted in arriving at retained earnings at the end of that accounting period. Under US GAAP, such dividends are provided in the period in which they are declared by the Board of Directors. The dividend included for the purpose of the US GAAP reconciliation is net of the effect of the supplementary dividend and associated tax credit.

During the year ended 30 June 2001, Telecom changed its policy for accounting for dividends declared after the end of an accounting period, such that dividends are now provided for in the period in which they are declared. In this respect, there is no longer a difference between NZ GAAP and US GAAP treatments.

(j) Statement of Cash Flows

Under both NZ GAAP and US GAAP, a Statement of Cash Flows, which discloses cash flows from operating, investing and financing activities, is required to be presented. Under US GAAP, bank overdrafts would be reclassified as a financing activity rather than a component of cash position. In addition, short-term deposits with original maturities of three months or less would generally qualify as a component of cash position. Accordingly, the closing cash position under US GAAP at 30 June 2001, 30 June 2000 and 30 June 1999 would be $209 million, $342 million and $84 million respectively.

(k) Research and Development Expenditure

Under NZ GAAP, research and development costs are charged to expenses as incurred except where, in the case of development costs, future benefits are expected beyond any reasonable doubt to exceed these costs. Where development costs are deferred, they are amortised over future periods on a basis related to future benefits. For the purpose of compliance with US GAAP, all research and development costs must be expensed as incurred. As at 30 June 2001, 30 June 2000 and 30 June 1999 there were no significant amounts of deferred development costs.

(l) Connection Revenue

Under NZ GAAP, charges for connecting customers to the network and costs related to connecting the customer are recognised in income as received/incurred. Staff Accounting Bulletin ("SAB") 101, issued by the US Securities and Exchange Commission, requires connection revenues to be deferred and recognised over the life of the connection, with related costs also deferred to the extent that they do not exceed deferred revenues. Telecom's costs of connection exceeds the revenue it derives from connection and therefore an adjustment to comply with US GAAP would result in equal deferral of income and expenditure. This would have no impact on net earnings or shareholders' funds calculated in accordance with US GAAP.

(m) Share Options

SFAS 123 "Accounting for Stock-Based Compensation" requires that Telecom calculate the value of stock options at the date of grant using an option pricing model. Telecom has elected the "pro forma disclosure only" option permitted under SFAS 123 instead of recording a charge to operations, as shown below:

		Telecom Group			
		Year ended 30 June		Three months ended 30 June	Year ended 31 March
		2001	2000	1999	1999
(Dollars in millions, except per share amounts)		NZ$	NZ$	NZ$	NZ$
US GAAP:					
Net earnings	As reported	504	733	211	768
	Pro forma	499	729	210	766
Basic earnings per share	As reported	$0.285	$0.418	$0.120	$0.438
	Pro forma	$0.282	$0.416	$0.120	$0.437

NOTE 31 SIGNIFICANT DIFFERENCES BETWEEN NEW ZEALAND AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRACTICE (continued)

The pro forma amounts have been determined using the Black Scholes option pricing model based on the following weighted average assumptions:

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
Risk-free interest rate	6.7%	6.8%	5.95%	6.4%
Expected dividend yield	3.2%	5.8%	6.3%	5.1%
Expected option life (in years)	5.9	6.0	6.0	6.0
Expected stock price volatility	23.0%	23.0%	24.0%	24.0%
Discount to reflect restrictive terms of the options	25.0%	25.0%	25.0%	25.0%

(n) Earnings Per Share

SFAS 128 "Earnings Per Share", requires companies to present basic earnings per share and diluted earnings per share. The numerators and the denominators used in the computation of basic and diluted earnings per share pursuant to SFAS 128 are reconciled below:

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
(Dollars in millions, except per share amounts)	2001	2000	1999	1999
Basic EPS Computation				
Numerator – net earnings	$504	$733	$211	$768
Denominator – ordinary shares	1,767	1,753	1,753	1,752
Basic EPS	$0.285	$0.418	$0.120	$0.438
Diluted EPS Computation				
Numerator:				
Net earnings	$504	$733	$211	$768
Add: Capital note interest after income tax	-	$54	$13	-
	$504	$787	$224	$768
Denominator:				
Ordinary shares	1,767	1,753	1,753	1,752
Capital notes	-	135	120	-
Options	-	-	1	-
	1,767	1,888	1,874	1,752
Diluted EPS	$0.285	$0.417	$0.120	$0.438

At 30 June 2001 and 31 March 1999, capital notes were anti-dilutive (as defined by SFAS 128) and hence have been excluded from the calculation of diluted EPS.

(o) Comprehensive Income

	Telecom Group			
	Year ended 30 June		Three months ended 30 June	Year ended 31 March
	2001	2000	1999	1999
(Dollars in millions)	NZ$	NZ$	NZ$	NZ$
Net earnings in accordance with US GAAP	504	733	211	768
Other comprehensive income:				
Foreign currency translation adjustments (see Note 18)	(61)	48	1	-
Cumulative effect of accounting change on adoption of SFAS 133	(53)	-	-	-
Unrealised derivative losses on cash flow hedges	(6)	-	-	-
Unrealised holding loss on available-for-sale securities	(42)	(8)	-	-
Other comprehensive income	(162)	40	1	-
Total comprehensive income	342	773	212	768

Accumulated other comprehensive income, a component of shareholders' funds in accordance with US GAAP, totalled ($121) million at 30 June 2001 (30 June 2000: $41 million, 30 June 1999: $1 million). Components of accumulated other comprehensive income were:

	Telecom Group		
	30 June		
	2001	2000	1999
(Dollars in millions)	NZ$	NZ$	NZ$
Foreign currency translation adjustments	(12)	49	1
Unrealised holding loss on available-for-sale securities	(50)	(8)	-
Unrealised derivative losses on cash flow hedges	(59)	-	-
Accumulated other comprehensive income	(121)	41	1

SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" requires Equity Securities to be classified as either 'trading securities' or 'available-for-sale securities'. Telecom's investments in Sky, INL and eVentures are not held for the purpose of short-term trading and therefore meet the definition of an available-for-sale security. Available-for-sale securities must be carried at fair value with unrealised gains and losses reported as a component of other comprehensive income.

As at 30 June 1999, Telecom's investment in AAPT also met the definition of an available-for-sale security and an associated holding loss of $49 million was recognised. In the year ended 30 June 2000, Telecom increased its shareholding in AAPT to 81.4%. As this investment no longer met the definition of an available-for-sale security, the loss was reversed in the pro forma disclosure for the three months ended 30 June 1999.

(p) Acquisition of AAPT

APB16 "Business Combinations" requires certain unaudited pro forma disclosures be presented in the year when a subsidiary is acquired. The following pro forma consolidated results of operations are presented as if the acquisition of a controlling interest in AAPT in November 2000 had taken place at the beginning of the 2000 and 1999 financial years. The effects of other acquisitions on the consolidated financial statements are not significant and have been excluded from the pro forma presentation.

	Telecom Group	
	Year ended 30 June	
	2000	1999
(Dollars in millions, except per share amounts)	NZ$	NZ$
Operating revenues	4,793	4,384
Net earnings attributable to shareholders	660	684
Basic earnings per share	$0.376	$0.390

The pro forma consolidated results of operations include adjustments to give effect to amortisation of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

(q) Impact of Recently Issued Accounting Standard – SFAS 142 "Goodwill and Other Intangible Assets"

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 142, "Goodwill and Other Intangible Assets". SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets.

Under the requirements of SFAS 142, goodwill and intangible assets that have indefinite useful lives will not be amortised, but instead will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortised over their useful lives, but no maximum useful life is mandated.

The non-amortisation approach to accounting for goodwill is not in accordance with New Zealand Statement of Standard Accounting Practice ("SSAP") 8 "Accounting for Business Combinations", which requires goodwill to be amortised over a period not exceeding 20 years. Accordingly, Telecom will continue to amortise goodwill in its New Zealand GAAP financial statements.

The application of SFAS 142 will however have a material impact on the calculation of Telecom's net earnings and shareholders' funds in accordance with US GAAP. Application of SFAS 142 in the year ended 30 June 2001 would have resulted in a reduction of amortisation expense and hence an increase in net earnings and shareholders' funds under US GAAP of $101 million. It is too early to say what, if any, impact the approach to impairment testing mandated by SFAS 142 will have on Telecom's financial statements.

SFAS 142 is applicable for financial years beginning on or after 15 December 2001. Early adoption is permitted. Goodwill and intangible assets acquired after 30 June 2001 will be immediately subject to the provisions of SFAS 142.

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Auditors' Report to the Shareholders of Telecom Corporation of New Zealand Limited

We have audited the financial statements on pages 39 to 81. The financial statements provide information about the past financial performance and cash flows of the Company and the Telecom Group for the year ended 30 June 2001 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 46 to 48.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and the Telecom Group as at 30 June 2001 and their financial performance and cash flows for the year ended on that date.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the Company and the Telecom Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments on behalf of the Company and its subsidiaries in the area of taxation compliance, accounting policy advice and consultancy assignments.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 39 to 81:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the Company and the Telecom Group as at 30 June 2001 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 9 August 2001 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Wellington

INTERESTS REGISTER

The following are particulars of entries made in the Interests Register for the period 1 July 2000 to 30 June 2001

DISCLOSURE OF INTEREST

Directors disclosed interests, or a cessation of interest, in the following entities pursuant to section 140 of the Companies Act 1993.

Roderick Deane

Entity	Relationship
eventures New Zealand Limited	Ceased to be a Director and Chairman
Fletcher Challenge Limited	Ceased to be a Director and Chairman
Fletcher Building Limited	Appointed a Director and Chairman
International Institute of Modern Letters	Appointed to the Board of Advisors
Te Papa Tongarewa (Museum of New Zealand)	Appointed to be a Director and Chairman

Theresa Gattung

Entity	Relationship
Independent Newspapers Limited	Appointed a Director

John King

Entity	Relationship
Gang-Nail Group Limited	Ceased to be a Director
Property Leaders Australia Limited	Appointed a Director
Property Leaders New Zealand Limited	Appointed a Director
Property Leaders Australia and New Zealand Limited	Appointed a Director
The New Zealand Guardian Trust Company Limited	Appointed a Director
New Zealand Guardian Trust Funds Management Limited	Appointed and resigned as Director
Auckland College of Education	Appointed member of Council

Rod McGeoch

Entity	Relationship
Corrs Chambers Westgarth, Solicitors	National Chairman of Partners
Aon Risk Services Limited – NSW Board of Advice	Member
Australian Growth Properties Limited	Chairman
George Patterson Bates	Consultant
Ramsay Health Care Limited	Director
Australia Pacific Airports Corporation Limited	Deputy Chairman
Australian Advisory Board of Morgan Stanley Dean Witter	Member
Australian Advisory Board of Morgan Stanley Dean Witter	Ceased to be a member
Collette Dinnigan Pty Ltd	Advisor
Sporting Frontiers Pty Ltd	Chairman
TCNZ Australia Pty Limited	Chairman
Salvation Army's Territorial Headquarters and Sydney Advisory Board	Member
Austrade – Sports Export Advisory Council	Member
CCH Australia Limited Advisory Board	Member
Motor Neurone Disease Association of New South Wales Inc.	Vice-Patron
The Committee for Sydney	Executive Member
Sydney Symphony Orchestra	Member of Council
Sydney Cricket & Sports Ground Trust	Trustee
Knox Grammar School's Council	Deputy Chairman
NSW Rugby Development Foundation	Director
Sony Foundation	Chairman of Board of Governors

Patsy Reddy

Entity	Relationship
Richmond Limited	Appointed as Alternate Director
Infinity Group Limited	Appointed as a Director
Mobilefone Repair.com Limited	Appointed Director of an Associated Person

Paul Baines

Entity	Relationship
PA Consulting Group Advisory Board	Appointed to the Board
Upstart Capital Limited	Appointed a Director
Fletcher Building Limited	Appointed a Director
Fletcher Challenge Limited	Ceased to be a Director
New Zealand Post Limited	Ceased to be a Director
Southern Eastern Utilities Limited	Ceased to be a Director
EDS (New Zealand) Limited	Ceased to be a Director

INDEMNITY AND INSURANCE

Indemnities were given to certain senior staff in relation to potential liabilities and costs such staff may incur for acts or omissions in their capacity as employees of Telecom, Directors of Telecom subsidiaries or Directors of non-Telecom companies in which Telecom holds interests namely, Southern Cross, Sky Network Television Limited, Independent Newspapers Limited and EDS (New Zealand) Limited.

During the year, the Directors' and Officers' liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of Directors and employees in their capacity as such.

RELEVANT INTEREST IN SHARES

Directors disclosed pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interest in Telecom shares:

Peter Shirtcliffe

Date of Disposal/Acquisition	Consideration	Number of Shares Acquisitions/(Dispositions)
18 August 2000	$141,000.00	20,000
28 August 2000	$65,955.90	10,000

Michael Tyler

Date of Disposal/Acquisition	Consideration	Number of Shares Acquisitions/(Dispositions)
21 December 2000	US$64,921.88[1]	3,750 ADSs[2]

John King

Date of Disposal/Acquisition	Consideration	Number of Shares Acquisitions/(Dispositions)
28 August 2000	$137,600.00	(20,000)
7 September 2000	$12,660.00	2,000

Patsy Reddy

Date of Disposal/Acquisition	Consideration	Number of Shares Acquisitions/(Dispositions)
15 September 2000	$1,399.41	219
15 December 2000	$619.02	114
16 March 2001	$628.10	115
15 June 2001	$630.70	113

Rod McGeoch

Date of Disposal/Acquisition	Consideration	Number of Shares Acquisitions/(Dispositions)
8 November 2000	A$45,300.00[3]	10,000

[1] Amount in US dollars

[2] American Depositary Shares (one ADS equals 8 TCNZ shares)

[3] Amount in Australian dollars

OTHER DISCLOSURES

Equity Securities Held by Directors

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2001 for the purposes of Listing Rule 10.5.3 of the New Zealand Stock Exchange Listing Rules:

Disposal/Acquisition	Relevant Interest of Director	Relevant Interest of Associated Person
P Shirtcliffe	30,000	–
R Deane[1]	1,028,958	–
P Baines	10,000	–
J King	209,080	60,000
P Reddy	12,736	–
T Gattung[2]	912,760	–
M Tyler[3]	3,750	–
R McGeoch	10,000	–

[1] Includes options

[2] Options

[3] American Depositary Shares

DIRECTORS' REMUNERATION[1]

During the year to 30 June 2001, the total remuneration[2] and value of other benefits received by the Directors of the Company was as follows:

Name	Total remuneration
Roderick Deane	$384,000
Peter Shirtcliffe	$100,000
Theresa Gattung[3]	$1,647,712
John King	$100,000
Patsy Reddy	$110,000
Paul Baines	$120,000
Michael Tyler	$100,000
Rod McGeoch	$30,479

[1] Directors also receive telephone concessions which can include free telephone line rental, mobile phone, national and international phone calls and online services.

[2] Please note that the figures shown are gross amounts and include GST where applicable.

[3] Ms Gattung does not receive Directors' fees. The Chief Executive's total remuneration includes a significant performance-based component which is comprised largely of share options valued using the internationally standard Black Scholes methodology. For the year to 30 June 2001 the total remuneration of $1,647,712 included share options allocated during the year with a value of $465,457.

EMPLOYEE REMUNERATION

The number of employees (including employees holding office as Directors of subsidiaries) whose remuneration and benefits is within specified bands is as follows:

Remuneration Range NZ$			Number of employees	Number of employees acting as Directors of subsidiary companies
1,190,001	-	1,200,000	1	1
990,001	-	1,000,000	1	1
930,001	-	940,000	1	1
850,001	-	860,000	1	1
820,001	-	830,000	1	1
660,001	-	670,000	1	1
630,001	-	640,000	2	1
620,001	-	630,000	1	1
610,001	-	620,000	1	1
560,001	-	570,000	2	1
550,001	-	560,000	2	2
520,001	-	530,000	1	1
500,001	-	510,000	2	
480,001	-	490,000	1	1
450,001	-	460,000	1	
430,001	-	440,000	4	1
410,001	-	420,000	1	
400,001	-	410,000	5	2
390,001	-	400,000	1	
380,001	-	390,000	2	
370,001	-	380,000	2	1
360,001	-	370,000	4	1
350,001	-	360,000	2	
340,001	-	350,000	1	1
330,001	-	340,000	2	
320,001	-	330,000	3	
310,001	-	320,000	5	
300,001	-	310,000	5	1
290,001	-	300,000	6	2
280,001	-	290,000	6	2
270,001	-	280,000	4	
260,001	-	270,000	7	3
250,001	-	260,000	7	1
240,001	-	250,000	9	
230,001	-	240,000	16	2
220,001	-	230,000	19	1
210,001	-	220,000	12	
200,001	-	210,000	20	1
190,001	-	200,000	15	
180,001	-	190,000	33	
170,001	-	180,000	38	
160,001	-	170,000	56	1
150,001	-	160,000	80	
140,001	-	150,000	96	
130,001	-	140,000	115	2
120,001	-	130,000	133	1
110,001	-	120,000	198	2
100,001	-	110,000	255	

Employees also receive telephone concessions which can (depending on the nature of the concession) include free telephone line rental, national and international phone calls and online services. **The above list contains information on employees within the combined Australasian group of companies.**

SUBSTANTIAL SECURITY HOLDERS

According to notices given under the Securities Amendment Act 1988 the following persons were substantial securities holders in Telecom Corporation of New Zealand Limited as at 1 August 2001 in respect of the number of voting securities set opposite their names:

Brandes Investment Partners, LP	177,360,351
Franklin Resources Inc	152,351,402
Bell Atlantic Holdings Limited	423,128,639

The total number of issued voting securities at Telecom Corporation of New Zealand Limited as at that date was 1,856,794,360. This figure includes 1 Kiwi Share.

STOCK EXCHANGE WAIVERS

Southern Cross

1 In 1998 the Company entered into the Southern Cross project ("the project") with Optus and WorldCom to establish the Southern Cross Cable. The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of material transactions with related parties in respect of any future transaction that might be entered into with Optus and WorldCom which are unrelated to the project. The waiver was granted on the following conditions:

- the sole reason for the parties being related in terms of the Listing Rules is their involvement in the project, the parties are not related in any other way and the transaction does not otherwise fall within Listing Rule 9.2;
- the transaction must be entered into where there has been no material change in the interests held by the parties in the project and no material change to the rules and relationships of the parties within the joint venture.

TCNZ Finance Limited Quotation of Capital Notes

2 Telecom's subsidiary TCNZ Finance Limited ("TFL") has issued Capital Notes ("TeleNotes") which are quoted on the Stock Exchange. TFL obtained a waiver from Listing Rule 1.9.1 (Listing Rules which apply to issuers if equity securities quoted) on the basis that Listing Rule 1.9.2 (Listing Rules which apply to issuers if no equity securities quoted) would apply in respect of the TeleNotes.

EDS Outsourcing

3 In July 1999, Telecom ("the Company") entered into a major outsourcing transaction with EDS (New Zealand) Limited ("EDS (NZ)") under which EDS (NZ) will manage and operate Telecom's company-wide information systems and technology delivery. In connection with the outsourcing, Telecom, EDS (NZ) and Microsoft (NZ) Limited entered into an alliance to provide online services to business customers in New Zealand ("the online venture"), and Telecom acquired a 10% holding in EDS (NZ) and options to acquire up to a 49% holding ("the equity arrangement"). The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of related party transactions in connection with the outsourcing transaction, the online venture and the equity arrangement.

CBA Outsourcing

4 In July 2000, following success in a tender process, the Company's subsidiary TCNZ Australia Pty Limited ("TCNZA") was selected by the Commonwealth Bank of Australia ("CBA") to manage and deliver telecommunications services to meet CBA's business requirements throughout Australia. The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of related party transactions in connection with this outsourcing transaction.

Share Placement

On 28 May 2001 the Company issued 91,000,000 ordinary shares at NZ$5.50 per share to a range of New Zealand and international financial institutions (the "Placement"). A number of Telecom's Directors are also non-executive Directors of other companies, some of which include financial institutions to which shares under the Placement would ordinarily be offered. As a consequence of these cross-directorships and, in terms of the New Zealand Stock Exchange's Listing Rules, the relevant financial institutions are deemed to be Associated Persons of the Directors concerned. Accordingly, the relevant institutions would be restricted from participating in the Placement without shareholder approval.

A waiver was obtained from the New Zealand Stock Exchange on 16 February 2001 to enable those financial institutions which are Associated Persons of the Directors to participate in the Placement should they elect to do so, without the need for shareholder approval. The waiver was granted on the following conditions:

- the Placement be offered to a wide range of institutional and qualified investors;
- equal pricing apply to both Associated Persons and those that are not associated;
- the allocation process of shares in the Placement not favour any of the Associated Persons over those that are not associated.

These conditions were duly complied with.

Banking Transactions

Telecom has a significant number of banking relationships and facilities in place. A number of Telecom's Directors are also non-executive Directors of other companies, some of which include banking institutions that are involved in the provision of banking facilities to Telecom. As a consequence of these cross-directorships, and in terms of the New Zealand Stock Exchange's Listing Rules, transactions between Telecom and the relevant banking institutions may constitute Material Transactions with Related Parties, which would require Telecom shareholder approval. A waiver was obtained from the New Zealand Stock Exchange on 21 December 2000 to allow financing transactions between Telecom and Australia and New Zealand Banking Group Limited, ANZ Banking Group, Westpac Trust Investments Limited and the Commonwealth Bank of Australia, to be entered into without the requirement for Telecom shareholder approval. The waiver was granted on the following principal conditions:

- that Telecom state in its annual report that terms of the financing transactions with Related Parties (which are required to be named) have been set on an arm's length commercial basis;
- that on applying for renewal of the waiver, Telecom submits a certificate signed on behalf of the independent Directors (not related to the Related Parties) certifying that the terms of the financing transactions with Related Parties have been set on an arm's length commercial basis;
- that annually (no later than three months after the publication of Telecom's annual report) Telecom notifies the New Zealand Stock Exchange of details relating to financial transactions with those banks which are Related Parties at balance date. This notification is required to include the percentage these financial transactions bear in the aggregate, to Telecom's total debt as disclosed in Telecom's consolidated financial statements set out in the annual report.

SUBSIDIARY COMPANY DIRECTORS

The following people held office as Directors of subsidiary companies at the end of the period to 30 June 2001, or retired during the period – indicated with an (R). Alternate Directors are indicated with an (A).

Advanced Solutions Australia Pty Limited KR Stratful, L Muir, AK Sharma. **AAPT Limited** K Devonshire, GR Mitchell, DJ Bedford, TE Gattung, M Bogoievski (R), L Williams (R), CL Casey (R), E Eidenberg (R), R H McGeoch (R). **AAPT CDMA Pty Limited** J McLean, AK Sharma, L Witten, W Highet (A). **AAPT (NZ) Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), R Nissen (R). **AAPT Finance Pty Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), R Nissen (R), L Williams (R). **AAPT Holdings (Inc)** AJ Rogge, AK Sharma, L Williams (R). **AAPT Investments Pty Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), R Nissen (R), L Williams (R). **AAPT LMDS Pty Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), R Nissen (R). **AAPT Networks Pty Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), L Williams (R), R Strangman (R). **AAPT Spectrum Pty Ltd** J Mclean, AK Sharma. **AAPT Spectrum (ACT) Pty Ltd** J Mclean, AK Sharma. **AAPT TMT Investments Pty Limited** L Muir, AK Sharma. **AAPT US Inc** AJ Rogge, AK Sharma, L Williams (R). **AAPT Wireless Holdings Pty Ltd** J Mclean, AK Sharma, AJ Rogge (R), R Nissen (R), L Williams (R). **AAPT Wireless Pty Limited** J Mclean, AK Sharma, AJ Rogge (R), R Nissen (R), L Williams (R). **ATT@Phone Pty Limited** D Glavonjic, AK Sharma. **Baird Invest. Pty Limited** L Muir, AK Sharma, AG Hart (A), AJ Rogge (R), R Nissen (R), L Williams (R). **bzone.co.nz Limited** R Brayham, RJ Snodgrass, RW Shipp, GR Mitchell. **Cellular One Comm Limited** DJ Bedford, J Mclean, CM Jesudason, R Nissen (R), L Williams (R). **Commerce Solutions Limited** GR Mitchell, D Glavonjic, AJ Rogge (R), R Nissen (R), L Williams (R). **Comswest Pty Limited** AH Churchill, JC Bell. **connect internet centre Pty Limited** GR Mitchell, D Glavonjic. **Connect Pty Limited** DJ Bedford, D Glavonjic, GR Mitchell. **Digital Video Productions Pty Limited** AH Churchill, DJ Bedford. **Digital Video Services Pty Limited** JC Bell, AH Churchill. **ECPay Pty Limited** J Love, D Glavonjic, J Begley, A Robertson (A), AJ Rogge (R). **First Media Limited** M Bogoievski, DJ Bedford (R). **Interconnect Australia Pty Limited** GR Mitchell, D Glavonjic, AJ Rogge (R), AK Sharma (R), L Williams (R). **NZ4 Pty Ltd** AK Sharma, AJ Rogge. **Pacific Star Communications (NSW) Pty Limited** JC Bell, AH Churchill. **Pacific Star Communications (QLD) Pty Limited** JC Bell, AH Churchill. **Pacific Star Communications Pty Limited** JC Bell, RL Edwards, AH Churchill. **Pacific Star Services Pty Limited** JC Bell, AH Churchill. **Pacific Star Technologies Pty Limited** JC Bell, AH Churchill. **Parzolo Pty Limited** AK Sharma, L Muir, AG Hart (A), AJ Rogge (R), R Nissen (R). **Seraph Comm Pty Limited** AK Sharma, L Muir, AG Hart (A), AJ Rogge (R), R Nissen (R), L Williams (R). **Stottholm Holdings Limited** AK Sharma, L Muir, AG Hart (A), AJ Rogge (R), R Nissen (R). **Sunnet Pty Limited** JC Bell, AH Churchill. **TCNZ (Bermuda) Limited** M Bogoievski, I Stone, J Collis, D Poole (A), C Adderley (A), K Pearce (A), PJ Duignan (A) MJ Verbiest (A), AN Briscoe (A). **TCNZ (UK) Investments Limited** PJ Duignan, M Bogoievski. **TCNZ (UK) Securities Limited** PJ Duignan, RG Walker, BE Roberts, SB Rumball. **TCNZ Australia Investments Pty Limited** AH Churchill, LR Edwards, M Bogoievski. **TCNZ Australia Pty Ltd** K Devonshire, MJ Verbiest, DJ Bedford, J Mulcahy, R Scrimshaw, T Pockett, RH McGeoch, AH Churchill (R). **TCNZ Cook Islands Holdings Limited** PA Garty, SL Davies (A), DJ Bedford (R). **TCNZ Cook Islands Limited** PA Garty, DJ Bedford (R), JR Mitchell (R). **TCNZ Equities Limited** M Bogoievski, GR Mitchell, MJ Verbiest, LM Cox (A). **TCNZ Finance Limited** PJ Duignan, TE Gattung, M Bogoievski, MJ Verbiest, M Bogoievski (A), LM Cox (A). **TCNZ Financial Services Limited** M Bogoievski, LM Cox (A). **Teleco Insurance (NZ) Limited** M Bogoievski, LM Cox (A). **Telecom 1999 Limited** GR Mitchell, M Bogoievski, LM Cox (A). **Telecom 2000 Limited** GR Mitchell, CM Jesudason (R). **Telecom 3G Limited** M Verbiest, CM Jesudason. **Telecom 3G Holdings Limited** M Verbiest, CM Jesudason. **Telecom Cook Islands Limited** P Garty, JR Mitchell, GO Pitt, DE Ryburn, SL Davies, CJ Jarvie (R), DJ Bedford (R). **Telecom Corporation of New Zealand (Overseas Finance) Limited** B Putterill, M Austen, M Bogoievski. **Telecom Credit Limited** M Bogoievski, LM Cox. **Telecom Directories Holdings Limited** R Brayham, RJ Snodgrass, RW Shipp, GR Mitchell. **Telecom Directories Limited** GR Mitchell, R Brayham, RJ Snodgrass, RW Shipp. **Telecom Enterprises Limited** M Bogoievski, LM Cox (A). **Telecom Europe ApS** M Bogoievski, J Verhaak, LB Jeppesen. **Telecom Europe Holdings ApS** M Bogoievski, J Verhaak, LB Jeppesen. **Telecom Investments Limited** M Bogoievski, LM Cox (A). **Telecom Mobile Leasing No.1 Limited** LM Cox. **Telecom Mobile Leasing No.2 Limited** LM Cox. **Telecom IT Investments Limited** M Bogoievski, LM Cox (A). **Telecom Mobile Limited** CM Jesudason, LM Cox (A), K Stephen (R), DJ Bedford (R). **Telecom N.Z. Limited** M Bogoievski, LM Cox (A). **Telecom New Zealand (UK) Licences Limited** AN Briscoe, PM Crimp, ACM Blaikie, SJ Rimmer. **Telecom New Zealand Australia Pty Limited** JC Bell, M Bogoievski, LR Edwards, AH Churchill. **Telecom New Zealand Communications (USA) Limited** AN Briscoe, PM Crimp, IA Neale, AA Rodwell, CB Beedell, LB Miller. **Telecom New Zealand Finance Limited** PJ Duignan, M Bogoievski, LM Cox (A). **Telecom New Zealand International Limited** A Briscoe, DJ Bedford (R). **Telecom New Zealand International Australia Pty Limited** AN Briscoe, A Churchill. **Telecom New Zealand Japan Kabushiki Kaisha** AN Briscoe, CN Angove, PM Crimp, DJ Bedford (R). **Telecom New Zealand Limited** TE Gattung, MJ Verbiest, M Bogoievski, SP Moutter, LM Cox (A), DJ Bedford (R). **Telecom New Zealand UK Limited** AN Briscoe, PM Crimp, ACM Blaikie, SJ Rimmer. **Telecom New Zealand USA Limited** AN Briscoe, IA Neale, LB Miller, PM Crimp, DJ Bedford (R). **Telecom Pacific Investments Limited** PA Garty, DJ Bedford (R). **Telecom Pacific Limited** M Bogoievski, LM Cox (A), JC Bell (R). **Telecom Pagenet Limited** M Bogoievski, LM Cox (A). **Telecom Purchasing Limited** M Bogoievski, LM Cox (A). **Telecom Retail Holdings Limited** CM Jesudason. **Telecom Samoa Cellular Limited** AN Briscoe, SE Tuioti, SR Petaia, CB Beedell, P Connor, CN Angove (R), DJ Bedford (R). **Telecom Services Australia Pty Limited** DJ Bedford, K Devonshire, MJ Verbiest. **Telecom Southern Cross Finance Limited** J Collis, I Stone, PJ Duignan, KA Pearce (A), A Lynn (A), C Adderley (A), D Poole (R). **Telecom Southern Cross Limited** M Bogoievski, PJ Duignan (A). **Telecom Telpage Limited** M Bogoievski, LM Cox (A). **Telecom US Leasing Limited** M Bogoievski, SM Moutter, PJ Duignan (A), DJ Bedford (R). **Telecom US Leasing No.2 Limited** M Bogoievski, SM Moutter, LM Cox (A), DJ Bedford. **Telecom Wellington Investments Limited** M Bogoievski, LM Cox (A). **The Mobile Phone Company Limited** M Bogoievski, LM Cox (A). **TSA Support Pty Ltd** K Devonshire. **Xtra Limited** R Brayham, RJ Snodgrass, RW Shipp, GR Mitchell. **Wanzilla Pty Limited** AK Sharma, L Muir, AG Hart (A), AJ Rogge (R), R Nissen (R). **Yellow Pages Limited** M Bogoievski, LM Cox (A).

TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT 6 AUGUST 2001

Rank	Full Name	Total	Percentage
1	National Nominees New Zealand Limited - A/C NZCSD	469,542,561	25.28
2	Bell Atlantic Holdings Limited	423,128,639	22.78
3	Citibank Nominees (New Zealand) Limited - A/C NZCSD	174,637,106	9.40
4	Westpac Banking Corporation – State Street - A/C NZCSD	155,457,503	8.37
5	ANZ Nominees Limited - A/C NZCSD	84,858,711	4.57
6	The Trustees Executors And Agency Company Of New Zealand Limited - A/C NZCSD	22,347,769	1.20
7	AMP Life Limited - NZCSD	21,522,694	1.15
8	Credit Suisse First Boston NZ Fixed Income Limited - NZCSD	20,317,378	1.09
9	Westpac Nominees (NZ) Limited - A/C NZCSD	18,885,444	1.01
10	AMP Superannuation Tracker Fund - NZCSD	17,914,111	0.96
11	Accident Rehabilitation And Compensation Insurance Corp - A/C NZCSD	15,320,000	0.82
12	Queensland Investment Corporation	13,493,045	0.72
13	The National Mutual Life Assurance Of Australia Limited - A A/C - A/C NZCSD	12,964,712	0.69
14	NZ Guardian Trust Company Limited - Corporate Trusts Number 8 Account	11,043,142	0.59
15	AMP Life Limited	10,135,998	0.54
16	Hong Kong Bank Nominees (NZ) Limited - A/C NZCSD	9,225,493	0.49
17	Premier Nominees Limited - Armstrong Jones New Zealand Share Fund - A/C NZCSD	9,221,598	0.49
18	National Nominees Limited	9,014,461	0.48
19	BNZ Nominees Limited - A/C NZCSD	8,365,472	0.45
20	Chase Manhattan Nominees Limited	8,362,432	0.45

ANALYSIS OF SHAREHOLDING AS AT 6 AUGUST 2001

Range	Holder Count	Holder %	Holding Quantity	Holding %
1 to 499	9,710	15.26	2,747,146	0.15
500 to 999	11,248	17.68	7,862,185	0.42
1,000 to 4,999	33,125	52.08	67,828,769	3.65
5,000 to 9,999	5,657	8.89	35,916,137	1.93
10,000 to 49,999	3,548	5.58	57,501,786	3.10
50,000 and over	322	0.51	1,684,938,337	90.74
Total	63,610	100.00	1,856,794,360	100.00

CONSTITUTION

The Company is registered under the Companies Act 1993. New Zealand Stock Exchange rules require listed companies to include in their constitutions one of three sets of provisions related to takeovers. The Company's Constitution contains Notice and Pause Provisions restricted to insiders. However, with the introduction of the Takeovers Code on 1 July 2001 the New Zealand Stock Exchange has ruled that takeover provisions in the constitutions of listed companies ceased to have effect as from 1 July 2001.

STOCK EXCHANGE LISTING

The ordinary shares of Telecom Corporation of New Zealand Limited ("Telecom shares") are listed on the New Zealand Stock Exchange and Australian Stock Exchange. Telecom shares are listed on the New York Stock Exchange in the form of American Depositary Shares.

FINANCIAL CALENDAR

Annual meeting	11 October 2001
2001-02 First quarter results announced	13 November 2001
First quarter dividend paid	December 2001
2001-02 Half year results announced	February 2002
Second quarter dividend paid	March 2002
2001-02 Third quarter results announced	May 2002
Third quarter dividend paid	June 2002
2001-02 Financial year end	30 June 2002

ANNUAL MEETING OF SHAREHOLDERS

Telecom's Annual Meeting of shareholders will be held at the Duxton Hotel, Wakefield Street, Wellington on Thursday 11 October 2001 at 2.30pm. A notice of annual meeting and proxy form are circulated to shareholders with this Annual Report.

REGISTERED OFFICE

The registered office of Telecom is:
Telecom@Jervois Quay
68 Jervois Quay
PO Box 570
Wellington

DIVIDEND POLICY

Telecom's dividend policy is to target a dividend pay-out ratio of around 50% of net earnings. This policy is dependent on earnings, cash flow, and other investment opportunities that might arise in the future.

As a matter of practice, Telecom looks to pay a dividend at the same rate in each of the first three quarters of the financial year, and set the fourth quarter dividend at a level which accommodates the target ratio for the full year.

Telecom's policy is to distribute net earnings through quarterly dividends, thereby reducing the time taken to distribute cash to shareholders. Details of these payments are released in conjunction with quarterly and annual announcements.

Telecom intends to continue paying fully-imputed dividends. Dependent on the level of imputation credits attached to dividends, the Company will pay supplementary dividends to non-resident portfolio shareholders. (The latter are non-resident shareholders who individually hold less than 10% of the shares). Supplementary dividends offset the effect of non-resident withholding tax. Telecom receives from the Inland Revenue Department a tax credit equivalent to supplementary dividends and there is, accordingly, no disadvantage to New Zealand resident shareholders. Some non-resident shareholders whose dividend income is taxable can claim a tax credit for the non-resident withholding tax which has been deducted.

DIVIDEND REINVESTMENT PLAN

As part of its shareholder relations programme, Telecom operates a Dividend Reinvestment Plan which offers shareholders the opportunity to directly increase their investment in Telecom. Shareholders may opt for full or partial participation in the plan. A copy of the Dividend Reinvestment Plan Offer Document and Participation Notice may be obtained on request from Telecom's share registries.

DIVIDENDS PAID

The following is a summary of all dividends paid by Telecom since listing in July 1991. NZ cents per ordinary share, US cents per American Depositary Share (ADS).

		1st quarter	2nd quarter	3rd quarter	4th quarter
1992	NZ cents		6.50		6.50
	US cents		72.62		70.93
1993	NZ cents		7.25		8.25
	US cents		74.49		91.34
1994	NZ cents		8.25		14.75
	US cents		89.90		141.46
1995	NZ cents		13.50		16.50
	US cents		135.82		172.10
1996	NZ cents		17.00	8.50	9.50
	US cents		178.05	91.66	103.36
1997	NZ cents	9.50	9.50	9.50	10.50
	US cents	104.60	106.10	104.50	57.90
1998	NZ cents	10.50	10.50	10.50	8.00
	US cents	62.65	49.19	55.96	32.99
1998	special dividend				
	NZ cents			3.50	
	US cents			18.05	
1999	NZ cents	11.50	11.50	11.50	11.50
	US cents	46.55	47.95	48.95	48.97
1999	Interim June quarter				
	NZ cents	11.50			
	US cents	48.11			
2000	NZ cents	11.50	11.50	11.50	11.50
	US cents	45.18	44.72	43.15	43.35
2001	NZ cents	5.00	5.00	5.00	5.00
	US cents	17.04	16.40	16.66	16.07*

* Estimate based on an exchange rate at 30 June 2001 of NZ$1.00 to US$0.4047.

SHAREHOLDER INQUIRIES

Shareholders with inquiries about transactions, changes of address or dividend payments should contact Telecom's share registries.

New Zealand Registry

Computershare Registry Services Ltd
Private Bag 92119, Auckland 1020
Ph 0-9-488 8777
Fax 0-9-488 8787
NZ Toll Free 0800 737 100
Email enquiry@computershare.co.nz

United States Registry

Citibank Shareholder Services
PO Box 2502
Jersey City, NJ 07303-2502
US toll free 1877-248-4237
Email citibank@em.fcnbd.com
www.citibank.com/adr

Australian Registry

Computershare Registry Services Pty Ltd
GPO Box 7045, Sydney,
NSW 1137, Australia
Ph 02 8234 5000
Fax 02 8234 5050
Email enquiry@computershare.co.nz
www.cshare.com.au

Shareholder inquiries about Telecom's operating and financial performance should be emailed to **investor-info@telecom.co.nz** or addressed to:
General Manager, Investor Relations
Telecom New Zealand, PO Box 570
Wellington, New Zealand

Contact telephone numbers:

Australia	1800 123 350
Canada	1800 280 0398
Hong Kong	800 962 867
New Zealand	0800 737 500
Singapore	800 641 1013
United Kingdom	0800 960 283
United States	1800 208 2130

Visit our website at **www.telecom.co.nz**

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