

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS—continued**16 CONTINGENT LIABILITIES****(A) LAND CLAIMS**

As stated in Note 14, land or interest in land included in assets purchased from the Crown is subject to claims to the Waitangi Tribunal or may be deemed to be Wahi Tapu and, in either case, may be resumed by the Crown, with provision for compensation to Telecom.

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

(B) LAWSUITS AND OTHER CLAIMS

Various lawsuits and claims have been brought or asserted against the Company. The Directors do not consider them to be material to the Company's financial position.

(C) GUARANTEES

The Company had guaranteed, together with other subsidiary companies, approximately \$780 million of the indebtedness of the parent company and other subsidiary companies at 30 September 1990, principally under the following agreements:

- (i) \$29.7 million under a facility agreement dated 31 August 1988 with the Bank of New Zealand establishing a \$400 million promissory note facility in favour of the parent company.
- (ii) \$474.7 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) \$275 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.

Under the Trust Deeds referred to in (ii) and (iii) above the Company together with the other guaranteeing subsidiaries has given a negative pledge that while any of the guaranteed indebtedness remains outstanding it will not create or permit to exist any charge over any of its assets, subject to the exceptions provided within the Trust Deeds.

17 FELLOW SUBSIDIARY COMPANIES

At 30 September 1990 the principal fellow subsidiaries of the Company were as follows:

- Telecom Auckland Limited
- Telecom Central Limited
- Telecom Wellington Limited
- Telecom Networks and International Limited
- Telecom Directories Limited
- Telecom Equipment Supplies Limited
- Telecom Cellular Limited
- Telecom Mobile Radio Limited
- Telecom Repair Services Limited
- Telecom Paging Limited
- New Zealand Telecommunications Systems Support Centre Limited
- Comtel Communications Limited
- Telecom Corporation of New Zealand (Overseas Finance) Limited
- Telecom Operations Limited
- Telecom North Limited

18 RELATED PARTY TRANSACTIONS

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

During the period the Company derived revenue from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The Company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries.

Outstanding intercompany balances as at 30 September 1990 are:

Intercompany Receivable	\$14.0 million
Intercompany Payable and current account	\$42.2 million
Intercompany Term Liabilities	\$244.8 million

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

19 SEGEMENTAL REPORTING

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

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