

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH STATE OWNED ENTERPRISES AND GOVERNMENT DEPARTMENTS

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

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

During the period the Company derived revenue (approximately 7%) from access fees, maintenance services, and asset construction services provided to fellow subsidiaries. The company also utilised network capacity and related services and group management services provided by fellow subsidiaries. Additionally, certain inventory and network assets were procured from and serviced by fellow subsidiaries. Such expenses represented approximately 16% of total operating expenses.

Outstanding intercompany balances as at 30 September 1991 are:

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

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

GROUP RESTRUCTURING AND CHANGE IN TRADING RELATIONSHIP

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

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