

TELECOM AUCKLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

12 CONTINGENT LIABILITIES (Continued)

LAWSUITS AND OTHER CLAIMS

In August 1991, a competitor filed proceedings against Telecom including Telecom Auckland in connection with a request for a local service interconnection arrangement. The basis of claim is that the Telecom Group, in offering certain terms and conditions of service, is in breach of section 36 of the Commerce Act 1986. Substantive hearings in the suit were completed in October 1992. Judgement is awaited. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome of these proceedings, Telecom cannot ascertain the likelihood of such proceedings being successful or the potential impact any judgement entered against it might have upon the trend of Telecom's future net earnings.

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

GUARANTEES

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

- (i) \$424.2 million under a trust deed made as of 25 October 1988 with the New Zealand Guardian Trust Company Limited providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (ii) \$650.9 million under a trust deed made as of 20 September 1989 and 3 April 1992 and subsequent supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British pounds 122.6 million (NZ\$408.1 million) under a deed poll dated 12 November 1990.
- (iv) \$129.8 million under a deed of guarantee dated 27 March 1992 in respect of the issue of Mandatory Convertible Notes by a fellow subsidiary. Further performance based guarantees have also been given by the company.

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

13 RELATED PARTY TRANSACTIONS

RELATIONSHIP WITH PARENT AND FELLOW SUBSIDIARY COMPANIES

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