

TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

14 CONTINGENT LIABILITIES (Continued)

In addition to the above, a competitor filed proceedings, in August 1991, against Telecom, including Telecom Wellington, in connection with a request for a local service interconnection arrangement. The substantive issues are to be heard by the Court commencing in June 1992. 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. Telecom believes that it has valid defences to these proceedings. Because there are very few precedents to assist Telecom in determining the outcome if this action were to proceed, Telecom cannot ascertain the likelihood of such action being successful or the potential impact any judgement against it might have upon the trend of future net earnings.

GUARANTEES

The Company has guaranteed, together with other subsidiary companies, approximately \$1,533 million of the indebtedness of the parent company and other subsidiary companies at 31 March 1992, principally under the following agreements:

- (i) \$466.3 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) \$542.0 million under a trust deed made as of 20 September 1989 and certain supplemental trust deeds with the Law Debenture Trust Corporation PLC providing for the constitution and issue of securities in respect of indebtedness from time to time of the parent company and/or any guaranteeing subsidiary.
- (iii) British pounds 122.6 million (NZ\$388.1 million) under a deed poll dated 12 November 1990.
- (iv) \$137.0 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.

15 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 21% of total operating expenses.