CHORUS

Asset Capitalisation Policy

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1. OVERVIEW

Chorus has a substantial capital investment in network and infrastructure assets. It is important to ensure that the principles for distinguishing between capital and operating expenditure are clearly understood and applied consistently throughout Chorus.

1.1. OBJECTIVE

The objective of this policy is to ensure an appropriate and consistent distinction is made between capital and operating expenditure throughout Chorus.

1.2. SCOPE

The accounting guidance in this policy applies to all entities within the Chorus group. The taxation guidance provided in this policy has been formulated from a New Zealand perspective.

1.3. IMPLEMENTATION

Implementation of this policy is effective from 1 July 2019.

1.4. NZ IFRS

NZ IFRS (International Financial Reporting Standards) are the Financial Reporting Standards applied by Chorus as of the effective date of this asset capitalisation policy.

NZ IFRS 15 Revenue from contracts with customers, NZ IFRS 16 Leases, NZ IAS 16 Property, Plant and Equipment, NZ IAS 38 Intangible Assets and NZ IAS 23 Borrowing Costs provide further guidance.

This policy should be read in conjunction with Chorus' statement of accounting policies as it forms the detailed rules that underpin these accounting policies. Chorus' accounting policies are reviewed each year, signed off by the Board and are in accordance with NZ IFRS. A copy of Chorus' accounting policies can be found in Chorus' financial statements available on the website:

https://company.chorus.co.nz/reports

1.5. ALIGNMENT OF ACCOUNTING AND TAX POLICY

Wherever possible this policy is aligned with tax law to simplify cost management in the fixed asset register. In circumstances where accounting standards and tax law differ the policy adopts either:

- a common position that takes a conservative approach for tax, or
- a different position for accounting and tax.

Where differences do exist they are noted in the asset capitalisation policy. In summary the differences between accounting and tax are as follows:

- Interest capitalised into fixed asset values for accounting is not capitalised for tax. This difference is dealt with automatically by the system during the WIP capitalisation process.
- Tax depreciation rates are set by IRD and are generally not the same rates as used for accounting.
- Assets funded by RBI funding are flagged in the accounting and tax asset registers as RBI assets. The tax depreciation rate for RBI assets is nil.

When it is unclear whether work should be capitalised or expensed for taxation purposes, the matter should be referred to the Tax Manager as a first point of contact.

2. ASSET DEFINITION AND RECOGNITION CRITERIA

2.1. ASSET DEFINITIONS

2.1.1. Network assets

Network assets are tangible assets that:

- are held by an entity for use in the production or supply of goods and services, for rental to others or for administrative purposes, and may include items held for the maintenance or repair of such assets; and
- have been acquired or constructed with the intention of being used on a continuing basis (more than 12 months).

2.1.2. Software and other intangible assets

Software and other intangible assets are identifiable non-monetary assets without physical substance and include:

- Software that is independent and exists in its own right with limited dependency on a hardware platform;
- Customer retention assets;
- Licences for the use of radio frequency spectrum;
- Land licences and easements;
- Indefeasible Rights of Use (IRUs);
- Resource consents;
- Product development

Excludes software that is integrated into, or is critically dependent upon, a specific hardware platform e.g. software operating on network hardware equipment platforms. Such software is incorporated into the hardware asset.

2.2. RECOGNITION

The cost of an item of network assets shall be recognised as an asset if, and only if:

- it is probable that the future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

2.2.1. Components of costs

Costs that can be capitalised include:

- Direct material cost - the dollar value of inventory items drawn against the project, items purchased directly from the supplier or consigned materials;
- Direct labour cost - the dollar value of hours charged for staff directly working on the project;
- Direct on-cost - a dollar value based on hours charged by staff directly working on the project (this covers indirect cost associated with those staff e.g. accommodation and desktops);
- Direct cost purchases - the dollar value of purchases raised through the purchasing system on a supplier (e.g. contractors, consultants, travel); and
- Interest capitalised - the average cost of borrowings during the period of construction.

2.2.2. Allocation of cost to components of an item of network assets or software and intangible assets

When the components of an item of network assets or software and intangible asset have different useful lives or provide benefits to the entity in different patterns, thus requiring different depreciation rates and methods, the cost of the item must be allocated to its components, and each component must be accounted for separately e.g. network hardware and network software.

If an item of network assets or software and intangible assets is purchased for a bundled cost with no breakdown into the component parts, the cost of the item must be allocated to its components using the following tests:

- Materiality – only split costs into more than one asset class if there is a materially significant amount of cost in other asset classes; and
- Unbundling costs - use supplier information or cost models to unbundle the costs into the component asset classes

2.2.3. Capitalisation threshold

No individual item below $500 in value should be capitalised in its own right unless the item is used as a component in the construction of a larger asset.

In all other cases the item(s) should be expensed.

If assets that are individually less than $500 in value are purchased from the same supplier at the same time as other similar assets then the assets must be capitalised for tax purposes.

2.3. DEPRECIATION AND AMORTISATION

2.3.1. Depreciation

Depreciation is the measure of the consumption of the economic benefits embodied in an asset whether arising from use, the passing of time or obsolescence.

2.3.2. Amortisation

Amortisation is the systematic allocation of the carrying amount of an intangible asset over its economic life.

2.3.3. Commencement of depreciation or amortisation of capitalised costs

The depreciation or amortisation charge commences from the asset capitalisation date.

Where an item of capital expenditure constructs an asset that is a complex structure made up of interdependent sub-structures that require installation in successive stages, consumption of the item's economic benefits commences only after installation has been completed to a stage where a service or saleable product can be obtained.

3. ASSET MANAGEMENT

3.1. SCOPE

Business owners are responsible for the management of their assets over the complete asset life cycle. Key elements of Asset Management are:

- Asset Creation **(refer to Appendix I)**
- Asset Confirmation
- Asset Write-Offs **(refer to Appendix G)**
- Asset Impairment
- Asset Life Review

3.2. KEY ELEMENTS OF ASSET MANAGEMENT

3.2.1. Asset creation

Business owners must ensure that their assets are settled to the fixed asset register ("FAR") with the correct attributes when they are ready for service including:

- Asset Name
- Asset ID
- Asset Location
- Platform (this determines the asset life)
- Asset Class
- Cost Centre
- Asset Capitalisation Date

Refer to **Appendix I** which outlines the attributes recorded against an asset. Capture of the correct attributes is important to facilitate lifecycle management.

3.2.2. Asset confirmation

As part of physically safeguarding fixed assets held by Chorus and confirming the integrity of the company's fixed asset records it is essential to regularly confirm the existence of fixed assets.

Business owners must undertake an ongoing fixed asset confirmation process as part of their asset management programme. The objective of the process is to complete an 80% coverage of network assets and a 100% coverage of other assets over a three-year period.

Confirmation of the existence of assets is to be done to the best of the knowledge of the business owners. The extent of asset confirmation is subject to the materiality of individual assets, and the practicality of separately identifying assets for confirmation purposes:

- Individual assets that are easily identified should be confirmed by physical sighting where this is practicable. Where this not practicable, asset should be confirmed from records of plant used for provisioning, management, maintenance or billing etc.
- Bulk assets that are hard to identify should be confirmed from records of plant used for provisioning, management, maintenance or billing etc.

Where, as a result of the confirmation process, unrecorded assets are identified, or it is ascertained that assets recorded in the FAR no longer physically exist, an adjustment is to be made immediately to the FAR records.

3.2.3. Asset write-offs

Write-off of assets: financial

When an asset is to be written-off and the costs and accumulated depreciation removed from the asset register, approval must be obtained for both the accounting and tax write-offs.

The Delegated Authority (DA) Framework sets the financial limits on who can approve financial write-offs. Refer to **Appendix G** which outlines the process and form to complete.

Write-off of assets: tax

An asset can only be removed from the tax fixed asset register where an asset has been "disposed-of" or meets the Inland Revenue Department ("IRD") requirements for "write off".

Assets can be written off for tax where the asset is either,

- disposed of; or
- no longer used, will not be used again in the business and the costs of disposal would exceed any disposal consideration.

Write-off of assets which have been disposed

In general an asset is disposed-of when it is either sold or physically scrapped (e.g. taken to the dump). In such cases a gain or loss on sale calculation should be performed. No Corporate Tax involvement is required

Write-off of assets not physically disposed

Where an asset has not been disposed-of, but is no longer used (e.g. in a deemed disposal), the CC Manager must prepare a business case for Corporate Tax with sufficient information to meet the Inland Revenue Department requirements for a "write off".

Write-off of copper cable assets

In the normal course of business, copper cables are abandoned or recovered for scrap and the individual cables in NetMAP cannot be identified in the fixed asset register. The net movement in cable purchases and volumes recorded in NetMAP is modelled in pair km and any reduction is written off on a FIFO basis. A business case is prepared by the fixed assets team to meet the Inland Revenue Department requirements.

3.2.4. Impairment

Recognition of impairment losses

Where the future economic benefits embodied in an item of property, plant and equipment are directly related to its ability to generate net cash inflows, the carrying amount of the item shall be reviewed at each reporting date to assess whether there is any indication that it exceeds the item's recoverable amount. If any such indication exists, the entity shall estimate the item's recoverable amount.

If the recoverable amount of an item of property, plant and equipment is less than its carrying amount, the item shall be written down to its recoverable amount.

The write down of an item of property, plant and equipment to recoverable amount shall be recognised in the statement of financial performance.

Impairment losses should not be included in the tax fixed asset register. No write-downs should be included in the tax fixed asset register unless they meet the requirements of the write-off policies above.

Recoverable amount

Recoverable amount is the greater of:

- Fair value less costs to sell; and
- Value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of the net future cash flows obtainable from an asset's continuing use and ultimate disposal.

3.2.5. Asset life review

The New Zealand accounting standard for property, plant and equipment (NZ IAS 16) requires the residual value and the useful life of an asset to be reviewed at least each financial year end and, if expectations differ from previous estimates, the change(s) needs to be accounted for as a change in an accounting estimate.

Asset lives must be reviewed by Investment Managers by the end of Q3 each year to ensure that they still appropriately reflect the expected economic life of the asset.

The asset life review involves subject matter experts reviewing the fixed asset register to establish if there is impairment, obsolescence, or other factors that may result in the useful lives of the assets being different to those currently recorded in the fixed asset register.

Where the original estimate of useful life is no longer appropriate, the estimated remaining life of the asset should be revised. The remaining book value of the asset should be depreciated over its remaining useful life.

The review and changes in asset lives by category are presented to the Audit and Risk Management committee (ARMC) in May annually for the following financial year, and are subject to their approval.

Refer to **Appendix J -** Specifies current useful lives as at July 2019.

Fully depreciated assets

Where assets are fully depreciated on both the accounting and tax fixed assets register the business owners must identify whether or not the asset still exists. If the asset no longer exists the asset should be taken out of the fixed asset register. Deemed disposals will take place for pool assets.

4. TYPES OF CAPITAL EXPENDITURE – NETWORK ASSETS

4.1. DUCTS AND MANHOLES

This category covers all duct & pipe systems and associated underground manholes and jointing chambers (including pits and joint boxes) used for the deployment and management of all copper and fibre cables.

The current recommended useful life is 50 years.

4.2. POLES

Chorus utilises both Chorus poles and other companies' poles to provide services.
The current life of Chorus poles in the fixed asset register is 20 years, consistent with the life under IRD guidelines for tax depreciation.

4.3. FIBRE CABLES

This asset category refers to fibre optic cables, fibre services leads and optical fibre distribution frame (OFDF).

The current useful life is 20 years.

4.4. COPPER CABLES

This asset category refers to the copper cabling itself (both underground and overground) along with associated assets such as copper service leads, main distribution frame (MDF), network termination, cable conditioning and pressurisation and monitoring systems.

The current useful life ranges between 10 and 20 years depending on the individual asset type. Refer to **Appendix J** – Specifies useful lives (at July 2019)

Replacing Copper Cables With Fibre – Lawton's Law

Lawton's law is the name given to the policy that governs copper to fibre migration.

It covers two activities:

1. Changing copper lead-in cables to fibre ones (moving the whole connection to fibre)

   Lawton's law states this should be carried out if the cable has less than 26% utilisation

2. Changing copper feeder cables to fibre ones (moving the cabinet to fibre – like FTTN)

   Lawton's law states that this should be carried out if feeder repair or replacement will cost more than $70k

Lawton's law is the point where it makes financial sense to use fibre instead of copper.

4.5. CABINETS

A cabinet is an above-ground structure that provides a weather-proof environment for hosting telecommunications equipment and infrastructure.

This can be copper, fibre and with or without electronics. Generally the cabinet is a demarcation point linking distribution cables and the feeder network.

All costs for establishment of the cabinet, electronics, cables and cards are captured as part of the capital costs.

Refer to **Appendix J** for applicable useful lives and tax depreciation rates

4.6. VEHICLES

Vehicles which are purchased by Chorus are recorded as fixed assets.

Vehicles currently have a life of 6 years (the applicable tax rate is 30%)

4.7. MULTI DWELLING UNITS (MDUS)

MDUs consist primarily of fibre cable and splitters. They provide the link between the fibre going passed on the street and one entry point of a multi-dwelling connection such as an apartment building or retirement village. These costs are treated as capital.

Multi Dwelling Units (MDUs) have a useful service life of 20 years (the applicable tax rate is 16%).

4.8. NETWORK EQUIPMENT

Network equipment covers active network electronics predominantly used by Chorus to provide services over copper and fibre plant e.g. DSLAM's, OLT's, 7450's, SDH and DWDM.

The equipment is usually physically installed in cabinets or exchange buildings. The costs include vendor equipment purchases of chassis, shelves, line cards and active connectors. In addition, assets should include the installation costs incurred including service company costs, NoC configuration/commissioning costs and Chorus Deployment costs.

The individual platforms each have distinct asset lives generally ranging between 5–12 years. Software licensing relating to ports or line cards should be settled into a separate software asset with a correspondingly shorter life typically two years.

4.8.1. Customer Located Network Equipment

Where equipment is located at a customers' premise (CLNE) but is owned by Chorus the costs of that customer premise equipment (CPE) are to be treated consistently with the provisions of this Policy for capitalising and expensing costs.

Costs that are directly attributable to bringing the asset to the location and condition necessary for use should be capitalised (e.g. cost of installation labour, site preparation and initial delivery and handling costs).

Repairs and maintenance are to be expensed, except for major inspection costs, which may be capitalised. Refurbishment and major inspection costs should be reviewed for tax purposes to determine deductibility.

5. PROPERTY

5.1. PROPERTY

5.1.1. Engineering Services Plant

A range of plant types ranging from batteries, rectifiers, solar and wind generators, engine alternators, fuel tanks, air conditioning and fresh air fans.

These plant types are engineered together to provide power and remove heat generated that supports the operation of telecommunications equipment environments in sites ranging from roadside cabinets, remote huts and shelters and small and large telephone exchanges.

Costs incurred for the replacement of plant types are to be capitalised.

This plant has a life expectancy ranging from 5 years for batteries in roadside cabinets to 25 years for engine alternators.

5.1.2. Land

Real estate that is either owned, leased or held under licence to support the operation of the Chorus network. It includes land that is used to accommodate Chorus buildings, provide access to remote sites and provide an easement for services to some sites or for Chorus telecommunications cables to be installed and operated on or under other property owners land other than the crown.

These assets are treated differently from a legal and cost perspective

- *Owned* are a fixed asset but with no depreciation;
- *Leased* are an operational cost to establish and operate - the owner pays the rates;
- *Licence* tends to be part of a global agreement, but paying an annual rental to the owner and normally the rates to the local territorial authority; and
- *Easement* is regarded as a fixed asset to establish, but normally no rental.

Costs incurred for the improvement of real estate are to be capitalised. All costs incurred which result in an easement/lease are to be capitalised.

The useful life for land is unlimited and therefore this asset category is not depreciated.

5.1.3. Buildings

Structures such as exchanges, huts and shelters that are provided to accommodate equipment, walls, carpets, lighting etc. within those buildings, equipment row structures to physically support telecommunications equipment, towers and masts to accommodate radio antenna and roadside cabinets that provide part of the network to connect individual customers.

These assets have a life ranging from 5 years for short life building fixtures such as carpets to 50 years for permanent material buildings (such as concrete).

Costs incurred for the improvement/replacement of buildings are to be capitalised. Refer to **Appendix B**.

6. TYPES OF CAPITAL EXPENDITURE – SOFTWARE AND OTHER INTANGIBLE ASSETS

6.1. SOFTWARE

Where software is independent and exists in its own right with limited dependency on a hardware platform it should be classified under a software asset class which is reported as an intangible. Examples include computer software used for business systems that provide front and back office support of the business (e.g. fulfil and assure, billing, customer services, financial and desk-top systems) and which operate either on computer hardware that is owned by Chorus or is leased from a third party.

Where software is integrated into, or is critically dependent upon, a specific hardware platform that provides telecommunication/data products and services it should be classified as a separate item of property, plant and equipment and settled in an asset class in the same asset portfolio as the related hardware platform. Examples include software operating on network hardware equipment platforms (equipment in Local Access, Links (transport), Services (service platforms), and Network Management & Support asset portfolios).

For guidance on software capitalisation policy refer to **Appendix L**

6.2. CUSTOMER RETENTION ASSETS

NZ IFRS 15 Revenue from Contracts with Customers was adopted by the New Zealand Accounting Standards Board for periods beginning on or after 1 January 2018 (FY19) with early adoption permitted. Chorus elected to early adopt this standard, in conjunction with NZ IFRS 9 Financial Instruments and NZ IFRS 16 Leases as of 1 July 2017 (FY18).

NZ IFRS 15 is a principles-based standard and codifies a number of existing accounting standards. NZ IFRS 15 also contains requirements applicable to items that are associated with generating revenue, including costs associated with obtaining and fulfilling a contract.

Costs incurred to obtain (acquisition and provisioning) a contract are able to be capitalised under NZ IFRS15. There are 3 tests that need to be satisfied to determine this:

- Is the cost incremental?
- Is Chorus likely to recover the costs?
- What's the time period the costs will be recovered over?

REVENUE

Chorus performance obligations are essentially:

- Providing standard access to the Chorus fixed lines network to enable internet access (Copper, Fibre connection)
- Providing enhanced access to the Chorus fixed lines network to enable internet access (Value added network services)
- Providing storage and site-sharing services (Infrastructure)
- Providing services on the field to protect, strengthen, and increase the available network (Field services)
- Other services (including consulting and public benefit services)

Although these can be provided to different service levels and bandwidths – this is primarily determined by the technology available in different regions through the country - the Chorus network

is unconstrained so the level of data pushed through is open for our customers (RSP's) and their end-user customers.

Chorus have taken this assessment approach, as opposed to starting with customer contracts, as due to the nature of Chorus infrastructure funding, imposed pricing caps, and government disclosure requirements, our trial balance is adequately dis-aggregated for all the performance obligations we have agreed to with our customers.

Chorus has no bundling contracts where one price is given across several performance obligations (as described above). And are standardised (terms and pricing) across our customers for the same performance obligations.

Chorus customer offers are put on the market where a discount or a cash payment incentive for migration to an upgraded product if offered. In these cases the value of the payment (or discount) is capitalisable (as Customer Retention assets, described expenses below) and amortised over the expected life of that connection (4 years).

1) The cost is incremental
2) The cost is recovered through customer connection revenue
3) Recovery is over the period of the connection the incentive is provided for – this can be determined as the time it takes for the customer to either change RSP (when the incentive occurs again); or Chorus endeavours to migrate the customer onto the next product upgrade.

The amortisation of this value is charged back to the income statement against the relevant revenue line item (above EBITDA).

EXPENSES

For Chorus, NZ IFRS 15 has a bigger impact on the way costs are recognised. Costs that were recognised upfront are now able to be capitalised as 'Customer Retention' assets on the balance sheet. They will be amortised over 0 -4 years initially, aligned to cost recovery and connection life. And will also need to be tested annually for impairment like other assets.

It was determined that there are two categories of costs that meet the tests -

1. Recovered over time

   Description: Internal FTE, IT resource, and modem upgrade credits required to support copper and fibre move, add and change activity.

   - The cost is incremental
   - The cost is recovered through a monthly access charge.
   - Recovery is over the contract length (Chorus does not have set length contracts for individual customer connections so average connection life is applied as a proxy)

2. Recovered immediately.

   Description: The cost Chorus incurs of sending a truck for the customer to obtain a broadband service.

   - The cost is incremental
   - The cost is recovered through an upfront installation charge
   - Recovery is either in the month or up to one month following the completion of the truck roll.

The amortisation of this value is charged back to the income statement against the amortisation expense line item (below EBITDA).

6.3. Licences for Radio Frequency Spectrum and Land

Spectrum and land licences are reviewed for their treatment as the transaction arises (which is infrequently).

Spectrum and land licences are depreciated over the term of the licence.

6.4. Easements

Easements are similar to spectrum and land licences (and reviewed for their treatment as the transactions occur).

If they are capitalised they are depreciated over the term of the easement. Permanent easements are not depreciable for tax purposes.

6.5. Indefeasible Rights of Use (IRUs)

The characteristics of an IRU are as follows:

There is a grant of an exclusive right of use over a specified amount of, for example, ducts or fibre capacity

- The term of the IRU is specified

- The right cannot be revoked or voided

- The purchaser of the IRU may use capacity or allow third parties to use some or all of it

- There is an operations and maintenance agreement for the term of the IRU

The accounting treatment for the purchase or sale of IRUs should be determined by the commercial substance of each IRU arrangement. Please contact the Financial Controller or Group Reporting Manager to confirm the appropriateness of any proposed accounting for IRUs.

6.6. Resource Consents

Resource consents under the Resource Management Act are required if a site is used in a manner that does not conform to the provisions of the relevant District Plan. The life of resource consents can be either indefinite or fixed life.

6.6.1. Indefinite-life resource consents

Indefinite-life, most resource consents used by Chorus (e.g. for cable, street-side cabinets and engine-alternator sets) apply to the erection of the specified plant or equipment within a specific time frame and its operation over an infinite period. Changes to the plant or equipment will in most cases require a new resource consent.

Indefinite-life resource consents are capitalised and settled to the asset created on the site to which the resource consent applies.

6.6.2. Fixed-life resource consents

Fixed-life, examples include:

- coastal permits
- land use consents that relate to the bed of a river or lake

- water permits
- discharge permits

Fixed-life resource consents are capitalised to a specific asset class e.g. land easement costs.

The asset life for both accounting and tax is specific to the asset and is set to the life of the resource consent.

If the resource consent has an option to renew without obstacles (e.g. essentially unconditional or conditional on the payment of pre-determined fees) then the life is the total life including extensions.

The costs of unsuccessful resource consents are to be expensed.

6.7. PRODUCT DEVELOPMENT

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

The development process for the deployment of new technology and service capability includes the use of model equipment for developing customer solutions complete with the necessary design and integration of the technology solution.

The outcome of developing customer solutions on model equipment will include intellectual property (IP) comprising the technical design and integration specifications of a specific technology solution. This IP will be applied when the technology solution is deployed into the network. Chorus utilises a network integration lab in order to test the compatibility and functionality of any new model equipment that may be potentially introduced to the network.

Product development generally occurs in two stages:

- Construction of the model equipment and environment
- Development of customer solutions, including the necessary design and integration of the technology solution.

For guidance regarding accounting treatment of product development refer to **Appendix M.**

There are a number of situations that arise where Chorus performs network construction activity on the request of customers for an agreed value.

In accordance with NZ IFRIC 18 *Transfers of Assets from Customers* Chorus recognises an item of property, plant or equipment transferred from a customer at fair value when it obtains control of the asset (e.g. when Chorus has the ability to deal with the asset as it pleases). Contributions received from customers for rendering services represent revenue earned as part of Chorus' on-going business operations if the service performed by Chorus is a separately identifiable service, ie:

- a service connection is delivered to the customer and represents stand-alone value
- the fair value of the service connection can be reliably measured
- customer receives ongoing access, goods and/or services at a price lower than would be charged without the transfer of the item of property, plant or equipment.

Note: this accounting treatment should also be applied for private network extensions (e.g. 2Mgbt links).

Customer contributions to the construction of fixed assets that will be owned by Chorus, while generally treated as income for accounting purposes in the year receivable, are recognised as income for tax purposes evenly over ten years.

6.8. PUBLIC FUNDED CONTRIBUTIONS

6.8.1. Road works

Roadwork jobs consist of rearrangements to network feeders and distribution cables triggered by any third party construction work that potentially interferes with Chorus' cable network.

Third parties can be public entities (e.g. local councils or roading authorities) or private entities.

Funding that is provided for network activity from a public entity is considered to be a "government grant". This can take the form of either a transfer of resources (e.g. cash) in return for future compliance of certain conditions or the purchase, construction or acquisition of long-term assets.

Grants should be recognised on a systematic basis over the same period in which the costs for the network activity was incurred. For example, if the road works activity impacts our network and has an expected life of 45 years, then the grant received for the work should be amortised over that same life.

Therefore grants are recognised as deferred income and then amortised over the useful life of the asset created.

The exception to this for road works activity is the funding provided by a private entity or if a component of the charges to a public entity was either a mark-up or margin. In both of these cases, this portion of funding is recognised immediately as revenue.

6.8.2. Funding from the Ministry of Business, Innovation and Employment (MBIE) for UFB and RBI

Under the RBI contract, the MBIE agreed to provide grant funding as contributions to the building of the RBI network.

In addition, the MBIE has also agreed to pay for the connection of schools in both the UFB and RBI programmes as the network is rolled out past these schools.

In both of these cases, the funding from MBIE is considered to be a government grant. The treatment of this funding is to recognise the value as deferred revenue, and amortise the balance over the useful life of the assets being created.

The tax depreciation rate for RBI assets (MBIE funded assets) is nil.

6.9. PRIVATE FUNDED CONTRIBUTIONS

Where Chorus receives requests from customers for network activity from private customers, Chorus charges these customers on a cost recovery basis plus a margin.

This is a situation where:

- Chorus receives a transfer of cash from a customer to construct an item of property, plant or equipment which connects the customer to the network; and
- The property, plant or equipment meets the definition of an asset

The asset constructed is controlled by Chorus with any future benefits attributable to Chorus. Chorus has the ability to choose who has access to the newly constructed asset, and determine how that asset is to be maintained, or replaced if necessary.

In this case Chorus must identify that a separately identifiable service has been provided and represents stand-alone value for the customer.

Therefore the asset constructed utilising the cash meets the definition of an asset and is recognised on the balance sheet.

The revenue received for this construction is recognised based on the stage of completion as part of revenue.

Customer-requested extensions to the network where the customer is obliged to meet a portion of the installation cost are not considered cost-share jobs for the purposes of this policy (e.g. high-cost connections subject to Chorus tariff policy). Unlike cost-share jobs, these network activities involve the installation of customer lead-ins and are triggered by a customer request for service.

6.9.1. Cost-share jobs capitalisation of costs

Capitalise cost-share jobs that result in a betterment to the network (e.g. in accordance with the "cable work capitalisation guidelines").

Expense cost-share jobs that do not result in any betterment to the network (e.g. relocation of existing plant).

6.9.2. Cost-share jobs cost reimbursement

In most cases, the costs of material (new cable lengths etc.) and installation, cable re-routing, or any other required relocating of external plant that are expensed or capitalised are shared 50/50 by Chorus and the third party (e.g. local body or other utility).

Where, as part of a cost-sharing job, Chorus receives reimbursement for costs incurred in relocating or otherwise rearranging external plant, the amount is to be offset against network maintenance or amounts capitalised, as applicable.

7. NETWORK RECORDS AND DATA MIGRATION

As a general rule, the creation of network records for new network plant and the migration of customers to a new platform is capitalised. The "business as usual" updating of Chorus' transient customer records is expensed to normal operations.

7.1. NETWORK RECORDS

Terms of the Network Record	Treatment
The design, draughting and plan recording associated with building a new asset. This includes the preparation of paper-based records (e.g. layout, cabling and underground plans) and computer-based records (e.g. schematic drawings on AM/FM system, ICMS network records for new capital projects).	Capitalise
The finalising of design records within three months of job completion to reflect the final physical installation	Capitalise
Costs related to migration of customers from an old platform to a new platform where the costs are deemed to be data set-up for the new platform and have an enduring benefit	Capitalise
Costs to develop or obtain software that allows for access or conversion of old data by new systems	Capitalise
The updating of network records as a result of network churn or maintenance	Expense
Purging or cleansing of existing data, reconciliation or balancing of the old data in the new system, creation of new/additional data, and conversion of old data to the new system	Expense

7.2. NETWORK REARRANGEMENT

7.2.1. Capitalise:

Network rearrangements that form an integral part of a large capital projects and therefore meet the capitalisation test of having critical dependency to the operation of a new asset (e.g. local access network rearrangement required for introduction of new cabinet(s) into the network).

Network rearrangements that enhance the service potential of the network by adding capacity or increasing the available capacity for utilisation, including rearranging or moving existing equipment necessary for site preparation of new asset.

Common types of local access network rearrangements treated as capital include:

- Local access cut-in - adds cable terminals
- Local access pair recovery - increases maximum utilisation
- Local access cabinetisation - increases maximum utilisation

- Core network - migration of customers to a new type of platform with enhanced capability

7.2.2. Expense:

On-going network rearrangements that are stand-alone projects and simply redistribute existing capacity (e.g. "move capacity around" the network) should be expensed.

Common types of network rearrangement treated as expense include:

- Relocation of plant in good working condition, e.g. switch relocation
- Transfer of customers to a new platform that does not offer increased capability e.g. from one remote line unit (RLU) to another RLU.
- Local access network rearrangements involving the rejointing of cables to enable latent capacity in the Network to be released and made available at previously congested cable terminals, e.g. network transposition, "double-chop", regroup/regrid.

8. CAPITAL AND OPERATING EXPENDITURE – SPECIFIC CASES

8.1. PROOF OF CONCEPT

Proof of concept is completed generally in the initiation phase of a project and determines the feasibility of the project concept.

These costs are treated as an expense.

8.2. PREDEVELOPMENT EXPENDITURE

Predevelopment expenditure (including design work) is the cost associated with developing a project up to the point of project approval to construct an asset.

The predevelopment stage of a project covers activities before the approval to construct an asset. Costs incurred during the pre-development stage (e.g. prior to obtaining approval to construct an asset) should initially be recorded as an expense (e.g. discovery).

Subsequent to the approval of the design business case to construct an asset, costs of activities in the predevelopment stage that will be directly attributable to bringing an asset to its working condition for its intended use are to be capitalised to capital WIP.

8.3. CAPITAL PROJECT ACTIVITIES

Sub-projects and individual jobs associated with a capital project should only be treated as capital when the activity adds value to the completed asset. This includes activities that form an integral part of the asset's construction or have critical dependency for the asset's operation.

Capital project-related activities that do not add value to the completed asset are treated as expense.

Critical dependency occurs when a capital project cannot deliver its planned enhancement of service potential or service life without a specific sub-project or individual task. In special cases the specific sub-project and individual task can be treated as capital, even though they would be expensed if carried out in isolation as a stand-alone project.

8.3.1. Attributable overheads

The attributable overheads such as accommodation, rent, rates and management costs relating to projects are charged to WBS code on a percentage basis in addition to the labour recoveries.

8.3.2. Labour recoveries

Labour costs are recovered and charged to capital projects (for operating expenditure, pre development expenditure and capital elements) arising directly from the construction or acquisition of the specific asset.

8.3.3. Capitalised labour

Capitalised labour means all direct costs of labour that can be identified or associated with and are properly allocatable to the construction, modification, or installation of specific items of capital assets and, as such, can thereby be written down over time via a depreciation or amortisation schedule as capitalised costs.

The key to including the labour as part of the fixed asset cost is that the labour must be directly related to putting the property or equipment into service, and the labour costs are tracked separately from any other work that may be done by the employee or contracted labour personnel.

You can capitalise costs that are directly attributable to bringing an asset into working condition for its intended use. Thus the labour costs could be capitalised because they directly related to work on the asset.

8.3.4. Exceptions to capitalisation of labour

Certain labour costs cannot be capitalised, including the cost of a business owner working on the project, indirect labour costs such as the cost of the accountant recording the transaction, any time that is not tracked directly to the project, time spent stocking inventory for the use of the equipment, or property and services provided or paid to general company officers or employees. Maintenance and repair costs that are not related to setting up the equipment or property cannot be capitalized.

8.3.5. Labour rates

Labour recoveries and capitalised labour values are based on Chorus hourly labour rates. They are applied to employees based on functional unit and career level. For employees who timesheet, the appropriate hourly labour rate is designated through SAP activity codes. For employees who do not timesheet, finance leads will use labour rates to manually capitalise labour monthly where appropriate.

The Chorus labour rates are designed to accurately reflect the value of assets Chorus creates through capitalising costs related to the Chorus labour force that are directly involved in creating assets, in line with NZ IAS 16. Labour rates for every business unit are made up of 3 components:

- the average remuneration rate by functional unit and career level,
- on-cost rate which reflects corporate property and general IT costs incurred across all staff in Chorus,
- any additional considerations specific to the business unit which are incurred for staff who are directly involved in creating assets (for example, vehicle costs).

The Chorus labour rates are refreshed annually in January for the following year by the Group Reporting team, and updated in SAP by July. Rates and activity codes can be obtained from the functional unit Finance Managers. For detail of labour rates refer to Appendix N.

8.3.6. Asset pooling

Individual items below $2,000 in value which are required to be capitalised can be aggregated into an asset pool and depreciated as a whole asset.

When depreciable assets recorded as a pool asset are scrapped, the assets continue to be depreciated over the remaining useful life of the pool asset.

A deemed disposal for accounting will occur at the end of the asset pool's economic life whereupon the accumulated depreciation of the fully depreciated assets is offset against the related cost for financial reporting purposes, and the assets are removed from the fixed asset register.

8.3.7. Bulk assets

Collections of identical assets are recorded for convenience in Chorus as bulk assets where considered appropriate:

- Local area cable network bulked by exchange site (Chorus is still able to distinguish the amount of copper and fibre cables at each exchange site);
- Network terminating units (NTUs) and CPE.

A bulk asset is made up of costs from the same class and location. Costs are added to the asset over a period of time.

The ability to bulk assets must be considered for tax purposes before a decision is made to proceed.

8.3.8. Process re-engineering

Costs incurred in the redesign of processes which have critical dependency to the operation of the new asset must be capitalised.

8.3.9. Consultancy

Consultancy provided to customers may include technical advice and the design of network solutions. This design work is intellectual property and is to be treated as a pre-development expense cost which can be capitalised only if and when a project to construct the customer's network is subsequently approved with the design costs capitalised against the assets created for the customer's network and if the criteria for capitalisation is met. Consultancy costs that do not meet the criteria for capitalisation are to be expensed as a cost of sale as incurred.

8.3.10. Project management office

Costs associated with the Project management office are held as separate capital projects and attributed to the assets directly on a quarterly basis.

8.3.11. Consumable office supplies

Consumable office supplies consist of articles or materials purchased to meet ordinary and continuous business requirements, and become unusable or worthless after use.

Common types of consumable supplies include computer paper and supplies, business cards and forms, photocopying paper, cleaning materials.

All purchases of consumable supplies are expensed.

8.3.12. Network consumable supplies

Network consumable supplies consist of materials which are used up in the construction of assets but do not become a component part of the finished product.

All purchases of consumable supplies are expensed.

8.3.13. Training

Training costs must be expensed as incurred.

Costs incurred in the development of training documentation associated with the launch of a new system, i.e. initial documentation which describes installation, commissioning and on-going maintenance of a new system may be capitalised.

8.3.14. Cost inefficiencies

Cost inefficiencies should not be included as part of the completed capital cost of an asset. Examples of cost inefficiencies include:

- unsuccessful pilot systems;
- protracted acceptance testing or similar project delays;
- abandoned/discontinued project.

8.3.15. Other

The following costs should be expensed:

- Costs of introducing a new product or service, including costs of advertising and promotional activities;
- Costs of conducting business in a new location or with a new class of customer, including costs of staff training;
- Administration and other general overhead costs;
- Costs incurred in using or redeploying an intangible asset;

- Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
- Initial operating losses, such as those incurred while demand for the asset's output builds up.

8.3.16. Decommissioning costs

Decommissioning refers to taking technology components that are no longer required out of service. This may result in the write-off of the asset if the asset is owned by Chorus.

Our Shared Systems Agreement with Telecom specifically refers to Decommissioning plan and charges.

Refer to the Shared Systems Agreement for specific details.

These costs should be treated as an expense.

8.3.17. Warranty costs

A warranty is:

- A contractual commitment by a supplier for a specific period and make-good any faults at no cost to Chorus.
- Part of a supply contract for the supply of goods and services.

A warranty does not exist in its own right.

A warranty will not always be itemised as a specific cost item in a supply contract. When warranty costs are bundled into a contract cost, use supplier information to determine if they are materially significant and need to be treated as specific warranty costs as specified in the following sections.

Treatment of warranty costs

The treatment of warranty costs depends on the terms of the supply contract:

Terms of the Asset Supply Contract	Treatment
Supply contract includes a contract payment to be made if the equipment performs to specification at the end of the warranty period	Capitalise
Costs incurred by Chorus in supporting a product or service during a warranty period	Expense

Assets created from Warranty Costs

The treatment of warranty costs depends on their materiality, see the Financial Controller to establish whether they should be capitalised or expenses.

Support contracts

Support contracts:

- Cover the support (maintenance and repair) of property, plant and equipment or intangible asset by a service provider.
- Must not cover maintenance of equipment during a warranty period

Support contracts for repairs and maintenance should be expensed as incurred.

9. BORROWING COSTS

9.1. INTRODUCTION

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Per NZ IAS 23, the accounting treatment for borrowing costs is to immediately expense borrowing costs in the period that they are incurred. Borrowing costs incurred to secure new debt facilities are amortised over the period of the facility.

However, the accounting standard does allow for the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a "qualifying asset".

The key term here is "qualifying asset", and what construction activities undertaken by Chorus meet this definition.

9.2. QUALIFYING ASSET

A *qualifying asset* is an asset that necessarily takes a **substantial period of time to get ready for its intended use or sale**. The activities necessary to prepare the asset for its intended use or sale encompass more than just the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits, planning and design activities.

9.3. QUALIFYING FOR CAPITALISED INTEREST

All projects that meet the definition of a *qualifying asset* will have capitalised interest applied. Any exceptions will need to be submitted to the Group Reporting Manager or Financial Controller via memo, who will then determine if the project is exempt.

The interest capitalised on the assets must:

- start when expenditure for the assets is incurred at the build phase of a project;
- not result in a completed asset being capitalised in excess of its recoverable amount (e.g. the higher of the asset's (i) fair value less costs to sell or (ii) value-in-use;
- must cease when construction is completed;
- The amount of interest costs capitalised during a period must not exceed financing costs incurred during the period.

If the capitalised interest calculation has been omitted from a project, it can be included but will back date the calculation to the first costs incurred. It cannot be calculated part way through a projects costs collection.

Interest is not capitalised for tax purposes. While capitalised interest is included in the fixed asset values for accounting purposes it is not included in the tax asset register values. This difference is an automated process.

9.4. CAPITALISED INTEREST CALCULATION BASIS

Capitalised Interest is calculated on the assets under construction balance based on the number of days each cost incurred has been residing in the project system yet to be settled to the final asset.

It will continue to calculate until the assets are ready for service and capitalised to the Fixed Asset Register. This reduces the balance of the assets under construction.

9.5. INTEREST RATE

The amount of borrowing costs eligible for capitalisation is determined by a weighted average rate of the borrowing costs that are outstanding during the period. The interest rate is reviewed annually.

9.6. SUSPENSION OF CAPITALISED INTEREST

If a project is significantly delayed then consideration will be given on a case by case basis whether capitalised interest should continue to be charged.

9.7. COMPLETION OF CONSTRUCTION

Capitalisation of interest costs must cease when the asset under construction is completed and transferred to fixed assets. An asset is completed when it is ready for use even though it may not have been put into service.

Where construction of an asset is completed in standalone stages whereby each stage is capable of being placed into operating use while construction continues on the remaining stages, interest capitalisation for each stage must cease as that stage is completed.

10. LEASES

10.1. LEASES – IFRS 16

IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The key elements of the new standard and the effect on financial statements are as follows:

• A 'right-of-use' model replaces the 'risks and rewards' model. Lessees are required to recognise an asset and liability at the inception of a lease.

• All lease liabilities are to be measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease.

• Contingent rentals or variable lease payments will need to be included in the measurement of lease assets and liabilities when these depend on an index or a rate or where in substance they are fixed payments. A lessee should reassess variable lease payments that depend on an index or a rate when the lessee re measures the lease liability for other reasons (for example, because of a reassessment of the lease term) and when there is a change in the cash flows resulting from a change in the reference index or rate (that is, when an adjustment to the lease payments takes effect).

• Lessees should reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee.

Refer to the Leases Assessment Template which works through the criteria to be recognised as a lease. The form can be located under the following path:

G:\Chorus\Finance\Financial Year\Group Reporting team\Technical accounting assessments\Leases assessment template.xlsx

Refer to Appendix H (example of a portion of the form). Upon completion the assessment form is to be sent to Group Reporting Team..

11. OTHER

11.1. INVENTORIES

All items purchased for inventory should be recorded at their full cost into inventory.

The eventual issue of an item from inventory to a specific project will determine whether the cost of the item is treated as capital or expense.

Chorus does not have traditional inventory as defined by NZ IAS 2 *Inventories*. Inventory as referenced in this asset capitalisation policy refers to items purchased for the purpose of building the network (e.g. small parts, cables, ducts, piping, etc.).

11.2. TOOLS AND PLANT (INCL. TRAILERS)

Tools and plant which cost more than $500 are capitalised.

11.3. TEST INSTRUMENTS

Test instruments which cost more than $500 are capitalised.

Test instruments have a life of 5 years

APPENDICES

APPENDIX A: QUICK REFERENCE GUIDE – NETWORK ASSETS

Activity		Treatment
Design	Preparation of basis for design (pre-project approval)	Expense
	Design of route	Capitalise
	Preparation of lay plan	Capitalise
	Rework associated with capital project within 3 month warranty period	Capitalise
Recording	Recording of new cable/rearrangements on existing plans	Capitalise
	Creation of new plans because base data corrupted e.g. aerial photography	Expense
	Update of records systems (AM/FM, ICMS etc) as a result of maintenance work	Expense
	Supply of plan information to other users	Expense
	Supply of cable location services (field work)	Expense
	Projects that are non-capitalised or specific to overhead should be tracked using an overhead account code e.g. ICMS updating	Expense
Laying and pulling cable	Excavations for and laying of new cables/ducts	Capitalise
	Pulling through new cable and reinstatement	Capitalise
	Make or extend manhole	Capitalise
	Reconstruction of old overhead lines (> 10 years old) to new overhead lines	Capitalise
Travel / downtime	Travelling to site - creating asset	Capitalise
	Wet and other downtime on site (if significant) - creating an asset	Capitalise
	Travelling to site - maintaining network	Expense
	Wet and other downtime on site - maintaining network	Expense
Local access rearrangements	With no increase in overall network capacity	Expense
	With an increase in overall network capacity	Capitalise
	Labour cost to re-host a RLU exchange from one host to another	Expense

Activity		Treatment
Local access rearrangements	Cut in - adds cable terminals	Capitalise
	Pair Recovery - increases maximum utilisation	Capitalise
	Cabinetisation - increases maximum utilisation	Capitalise

	Customer pair gain systems, purchase and install 1+1, country sets, line concentrators	Capitalise
	Reconstruct old overhead lines to new underground cable	Capitalise
	Relocation of plant in good working condition e.g. switch relocation	Expense
	Rearrangement of existing assets not being replaced but necessary for site preparation of new asset	Capitalise
Network Replacements	Any work where an ageing network asset is replaced as a whole, or a substantial part of the asset is replaced (resulting in an "as new" asset).	Capitalise
	Removal and replacement of working pole line where life >10 years	Capitalise
Removal of obsolete assets	Removal of an old pole	Expense
RLG rehabilitation: petroleum – jelly filled plastic cable	Rework, recurring repairs and preventative maintenance	Expense
	RLG pillar enhancement - added functionality	Capitalise
	RLG pillar rehab stage 1 and 2	Capitalise
	Prepare and install RLG pedestal cap – stage 1 and 2	Capitalise
Service lead ins	All materials, labour and overhead directly related to the installation and replacement of service lead ins	Capitalise
Damage claims	Damage claims, relocations either chargeable or non-chargeable to third party	Expense

Activity		Treatment
Cost share	Those components of jobs which result in the improvement of the network e.g. material cost of a cable which enhances service life or has greater capacity than the cable being replaced	Capitalise
	Any remaining cost of the job which don't result in the improvement of the network	Expense
Exchanges	Purchasing new equipment	Capitalise
	Installing new equipment	Capitalise

	Commissioning new exchange, e.g. re-jumpering new or existing MDF necessary for commissioning replacement exchange.	Capitalise
	Maintaining existing exchanges in service, e.g., on-going re-jumpering of existing MDF carried out to add, transfer or remove customer connections	Expense
	Rearranging or moving existing equipment necessary for site preparation of new asset	Capitalise
	Relocating equipment in good working condition, e.g. switch relocation	Expense
Customer located network equipment	All customer located network equipment with a cost exceeding $500	Capitalise
	All parts required for the upgrade of large business systems costing more than $500	Capitalise
	All minor value items where the individual item cost is less than $500	Expense
	Internally used mobile phones and pagers	Capitalise
Cable work	Extensions to network, e.g. new subdivisions, new connections	Capitalise
	Replacing existing cabling with greater capacity, or replacing existing cabling greater than 15 years old	Capitalise

APPENDIX B: QUICK REFERENCE GUIDE – BUILDINGS

Description	Treatment
All materials and labour costs directly associated with new, extended or refurbished building. Includes construction of new partitions, new lighting, air conditioning, fire protection services, new cabling for security systems etc	Capitalise
All materials and labour costs associated with the maintenance (includes minor works) or demolition of existing buildings (e.g. paint, paper, moving fittings, any "fix-it work", demolition of existing partitions, removal of surplus furniture etc.)	Expense
Earthquake strengthening costs are considered a building improvement and not a repair	Capitalise

APPENDIX C: QUICK REFERENCE GUIDE – IT

Type	Description	Treatment
Computer software	see section 3.7 and Appendix 2	
Computer hardware	All new equipment costing more than $500	Capitalise
	All peripherals and accessories (except disposable parts) costing more than $500 purchased with a new computer system	Capitalise
	All internal components required for extending functionality, capacity or performance of computer (e.g. memory/ disc upgrades, ISDN or Internet expansion cards etc.)	Capitalise
	All detachable external computer accessories with an individual item cost less than $500 purchased for existing systems (e.g. mouse, keyboard, glare guard etc.)	Expense
	Any disposable parts purchased with a new system that have a short term life independent to main asset	Expense

APPENDIX D: QUICK REFERENCE GUIDE – OTHER INTANGIBLES

Type	Description	Treatment
Intangibles	Internally generated intangible assets for marketing purposes, including brands, market research, advertising and product launch costs	Expense
Intangibles	Trademarks	Capitalise
Product development	Product developments and technology trials where capitalisation criteria are met. Must be approved by Financial Controller and have approved business case (refer to decision tree in Section 3.3)	Capitalise
Web site costs	Feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences	Expense
	Costs for passive sites (those which act purely as a means to advertise products or services)	Expense
	Costs of sites designed to generate revenue	Expense
	Costs for constructing intranet web site basic capability	Capitalise
	Costs for developing intranet web site content	Expense
	Operating stage – after completion of the development of the website	Expense
	Purchase or registration of domain names is neither deductible or depreciable for tax	

APPENDIX E: QUICK REFERENCE GUIDE – OTHER ASSETS

	Description	Treatment
Vehicles	Purchase of new vehicles, including fitting out with racks, painting in Chorus colours (if part of purchase price)	Capitalise
	Regular maintenance and running costs less than $500, e.g. new battery, tyres, touch up painting, engine overhauls; registration, insurance; subsequent fitting of towbar, roof rack, aerial, etc (Costs more than $500 should be capitalised)	Expense
Furniture and fittings	Ongoing ad hoc purchases of desks and chairs less under $500.	Expense
	Furniture under $500 purchased as part of complete office refurbishment or new project office fit-out	Capitalise
	All furniture and fittings costing more than $500. (This includes ad hoc purchases made of a group of items).	Capitalise
Office equipment	Individual or bulk minor purchases under $500	Expense
	Office equipment costing more than $500	Capitalise

APPENDIX F: QUICK REFERENCE GUIDE – NEW CAPABILITY AND PRODUCT DEVELOPMENT PROJECTS

Activity No.	IS Process	Project Management Phase			Activity Description	Deliverable	Coding	Treatment		Notes
					What is the activity that is undertaken at this time?	What is it that is produced by the activity?	WBSE / CC	Business case NEVER approved	Business case is approved	
1	Feasibility Analysis	Pre-development (pre-acquisition)	Operating expense (opex)	Concept	Prepare initiation business case	Initiation business case	Cost centre	Expense	Expense	Note 1
2					Project Brief (or Bus Service Requirements) preparation and approval	Signed project brief (or BSR)	Cost centre	Expense	Expense	Note 1
3					Plan project and forecast resources for initiation phase	Resources secured and agreed for initiation	Cost centre	Expense	Expense	Note 1
4					Gaining approval to initiate project	Project governance board approved to proceed	Cost centre	Expense	Expense	Note 1
5				Initiation	Development and sign off of project scope	Approved project scope	WBSE	Expense	Expense	
6					Development of Primavera schedule, and planning project resources	Agreed schedule and resources for requirements and design phase	WBSE	Expense	Expense	
7					Develop and approve high level requirements	Approved high level requirements	WBSE	Expense	Expense	
8					Create WBSE and forecast costs in SAP	WBSE structure, budget loaded and forecast entered	WBSE	Expense	Expense	
9					Set up project management and controls (eg. Risks / issues / change mgmt.)	Project management controls in place	WBSE	Expense	Expense	
10					Develop and approve project management plan	Approved project management plan	WBSE	Expense	Expense	
11					Prepare requirements and design business case	Finalised requirements and design business case	Cost centre	Expense	Expense	Note 1
12			Pre-development		Approve requirements and design business case	Signed requirements and design business case	Cost centre	Expense	Expense	Note 1
13					Prepare and approve technology strategic fit review	Approved technology strategic fit review	WBSE	Expense	Capitalise	Note 2
14					Develop and approve high solution design	Approved high level design	WBSE	Expense	Capitalise	Note 2
15					Gaining approval to start design phase	Project governance board approval to proceed	WBSE	Expense	Expense	

Activity No.	IS Process	Project Management Phase			Activity Description	Deliverable	Coding	Treatment		Notes
					What is the activity that is undertaken at this time?	What is it that is produced by the activity?	WBSE / CC	Business case NEVER approved	Business case is approved	
16	Business Case	Pre-development (pre-acquisition)	Pre-development design (PDES)	Requirements and design	Review schedule and resource plans	Revised schedule and resource plans	WBSE	Expense	Capitalise	Note 2
17					Maintain project management and controls (eg. risks/issues/change mgmt..)	Project management controls up to date	WBSE	Expense	Capitalise	Note 2
18					Update WBSE and financial forecasts in SAP	WBSE structure up to date and forecast loaded	WBSE	Expense	Capitalise	Note 2
19					Develop and approve detailed requirements	Approved detailed requirements	WBSE	Expense	Capitalise	Note 2
20					Develop and approve detailed solution design	Approved detailed solution design	WBSE	Expense	Capitalise	Note 2
21					Develop and approve test strategy	Approved test strategy	WBSE	Expense	Capitalise	Note 2
22					Develop and approve test plan	Approved test plan	WBSE	Expense	Capitalise	Note 2
23					Develop test cases	Draft test cases	WBSE	Expense	Capitalise	Note 2
24					Negotiate contracts	Finalised contracts	WBSE	Expense	Capitalise	Note 2
25					Prepare & approve technology solution design review	Approved technology solution design review	WBSE	Expense	Capitalise	Note 2
26					Prepare & approve operational readiness review (ORR1)	Approved operational readiness review (ORR1)	WBSE	Expense	Capitalise	Note 2
27					Update and approve project management plan	Approved project management plan	WBSE	Expense	Capitalise	Note 2
28					Prepare build business case collateral	Build business case information prepared	WBSE	Expense	Capitalise	Note 2
29					Prepare build business case	Build business case	Cost centre	Expense	Capitalise	Note 2
30					Approve build business case	Signed build business case	Cost centre	Expense	Capitalise	Note 2
31					Gaining approval to start build phase	Project governance board approval to proceed	WBSE	Expense	Capitalise	Note 7

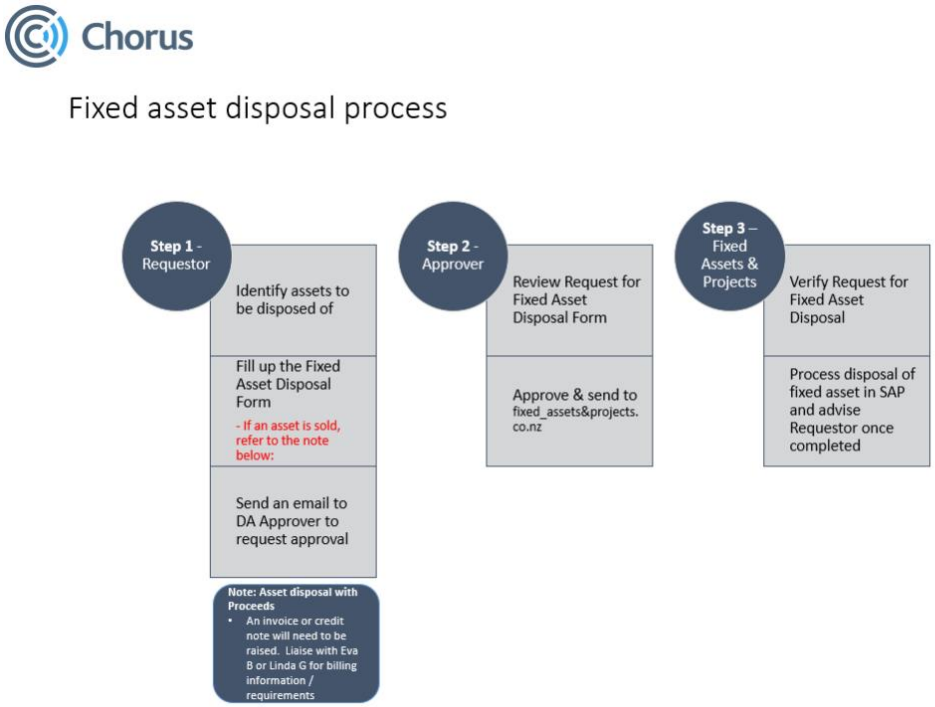
Activity No.	IS Process	Project Management Phase			Activity Description	Deliverable	Coding	Treatment		Notes
					What is the activity that is undertaken at this time?	What is it that is produced by the activity?	WBSE / CC	Business case NEVER approved	Business case is approved	
32	Delivery	Construction (Acquisition)	CAPEX or OPEX	Build and implementation	Sign contracts and issue purchase orders	Contracts in place/authorised purchase orders issued	WBSE	-	Capitalise	
33					Review schedule and resource plans	Revised schedule & resource plans	WBSE	-	Capitalise	
34					Maintain project management and controls (eg. risks/issues/change mgmt)	Project management controls up to date	WBSE	-	Capitalise	Note 3
35					Build capability/functionality	Capability built in development environment	WBSE	-	Capitalise	
36					Implement capability/functionality to development environment	Capability implemented in development environment	WBSE	-	Capitalise	
37					Finalise test cases	Agreed test cases	WBSE	-	Capitalise	
38					Test functionality in development environment	Test summary report prepared	WBSE	-	Capitalise	
39					System or platform support (development environment)	Development environment operational	WBSE	-	Capitalise	Note 4
40					Develop collateral, procedures, excl training	Documented collateral	WBSE	-	Capitalise	
41					Produce training documentation	Documented training	WBSE	-	Capitalise	
42					'Train the trainer' and costs associated with staff training	Trained staff	WBSE	-	Expense	
43					Time sheeted time of staff attending training	Trained staff	Cost centre	-	Expense	
44					Develop and approve implementation plan	Approved implementation plan	WBSE	-	Capitalise	Note 2
45					Prepare & approve operational readiness review (ORR2)	Approved operational readiness review (ORR2)	WBSE	-	Capitalise	Note 2
46					Prepare & approve technology solution installation review	Approved technology solution installation review	WBSE	-	Capitalise	
47					Gaining approval to launch	Project governance board approval to proceed	WBSE	-	Capitalise	Note 7
48					Implement capability/functionality to production	Capability implemented in production	WBSE	-	Capitalise	
49					Test and accept capability in production	Signed acceptance of solution in production	WBSE	-	Capitalise	
50					Launch or cutover	Capability launched	WBSE	-	Capitalise	
51					Post-launch enhancements required to production solution	Completed functionality in production	WBSE	-	Capitalise	
52					Project warranty costs (prior to ORR3 sign off)	Defect-free production system	WBSE	-	Capitalise	Note 5
53					Production system or platform support (post to ORR3 sign off)	Production system operational	Cost centre	-	Expense	Note 1, 6

Activity No.	IS Process	Project Management Phase			Activity Description	Deliverable	Coding	Treatment		Notes
					What is the activity that is undertaken at this time?	What is it that is produced by the activity?	WBSE / CC	Business case NEVER approved	Business case is approved	
54	Delivery	Construction (Acquisition)	OPEX	Close	Complete payments	Paid invoices	WBSE	Expense	Expense	
55					Close contracts	Closed orders	WBSE	Expense	Expense	
56					Prepare & approve operational readiness review (ORR3)	Approved operational readiness review (ORR3)	WBSE	Expense	Expense	
57					Settle costs to asset	Capex settled	WBSE	-	Expense	
58					Post-implementation review	Signed PIR report	WBSE	-	Expense	
59					Support of production system or platform	Production system operational	Cost centre	-	Capitalise	Note 1, 6
60					Close project	SAP closure	WBSE	Expense	Expense	
61	Benefit review				Benefit realisation review	Approved report	Cost centre	-	Expense	Note 1

Notes:	This quick reference guide only covers general cases where there is a clear distinction between capex and expense. In special cases (eg development projects and technology trials) the treatment of some activities in this Quick Reference Guide may be superseded by the Policy. If in doubt; ask your Finance Manager for advice.
Note 1	Cost Centre: The costs are to be charged directly to the budget-holder's cost centre. This may be the cost centre of either the Business Owner, or of the Resource Owner – depending on where the budget sits.
Note 2	Capitalisable costs: These are to be reassigned to a Capex Level-1 WBSE with suffix PDES and transferred to the Capex Level-1 WBSE suffix CAPX when the Business Case is approved. It may not be appropriate to capitalise these costs for tax purposes. Costs incurred up to the time a decision is made to proceed may be tax deductible regardless of whether the project proceeds. Please discuss with Corporate Tax.
Note 3	Project Management: Project management costs should be allocated to assets on the basis of time and materials spent on capital items. However, if this is impractical, costs can be allocated on the basis of the proportion of other capex and expense costs.
Note 4	System or Platform support when system is being developed: Capitalise the support costs of hardware and software essential for the development of the capability, provided that these costs would have been avoided if there had been no development.
Note 5	**Warranty Administration**: 1. Warrant costs covering the period up to completion of the build phase and until the assets are in service are to be capitalised. Any remedial action taken by the vendor under the terms of the warranty due to the failure of any equipment is at no cost to Telecom (where the supply contract provides for a final payment subject to performance at the end of the warranty period) are built in to the equipment costs. 2. Where the contractual arrangement do not allow for the remedial action to be undertaken at no cost to Telecom then any such expenditure must be expensed. Costs for supporting the warranty post the in-service date are to be expensed. For more information refer to Sections 3.5 of the Policy.
Note 6	System or platform support when system is operational: System or Platform Support, and annual software licences, are expensed directly to the business owner's cost centre. Software licenses that extend more than 12 months can be capitalised to the project.
Note 7	The only costs capitalised are Project Manager's time which is typically 10 hours per activity. No costs of approving committees is charged to the project.

APPENDIX G: DISPOSALS

Form: https://intranet.chorus.co.nz/content/Pages/Dispose-of-an-Asset.aspx



NB: To write off an asset & claim as a tax deduction the following conditions must be satisfied

1. The asset is no longer used in business or in producing income.
2. The business doesn't intend to use the asset in the future business or to derive income
3. It's uneconomic to dispose or sell the asset.

If the cost of disposing of an asset no longer used in the business would be greater than the proceeds from its sale, the adjusted tax value can be claimed as a deduction.

For a depreciation loss to be deductible it must have been used in the business of deriving assessable income or in the course of carrying on our business to derive assessable income.

Chorus

FIXED ASSET *FOR DISPOSAL*

Asset No.	Sub No	Capitalisation Date	Asset Description	Asset Class	Cost Centre	Reason for Disposal (i.e. destroyed, replaced, lost, expired contract, etc.)	Acquisition Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life - Acctg (Years)	Estimated Salvage Value (if any)	Sales Proceeds (if any)	Billing Info (i.e. Customer & Inv No.)	Gain/(Loss) on Sale
10167862		30/06/2012	CHORUS ENDACE10G24 ENDACE PROBE EP3010-HS	1440	1575	replaced	$65,589.22	-$36,063.39	$29,525.83	5	$0.00	$16,250.00	Spark/Inv.	**-$13,275.83**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
									$0.00					**$0.00**
TOTAL							**$65,589.22**	**-$36,063.39**	**$29,525.83**		**$0.00**	**$16,250.00**		**-$13,275.83**

Note:
For help in filling up the form, i.e. viewing of fixed asset detail, etc., send an email to fixed_assets&projects.co.nz

APPENDIX H: DETERMINATION OF A LEASE OR A SERVICE CONTRACT (EG, OF THE FORM)

The form can be located under the following path:

G:\Chorus\Finance\Financial Year\Group Reporting team\Technical accounting assessments\Leases assessment template.xlsx

Determination of a lease or a service contract

Lessor:

Lessee:

Site:

Lease covers:

We need to determine arrangements/contracts/agreements should be considered a lease or if the arrangement should be treated as a service arrangement.

The following 3 criteria must all be met to be recognised as a lease:

(a) Use of PP&E

(b) Specific PP&E in arrangement is identifiable

(c) Right to use the PP&E – if **1 of the** following 3 criteria are met:

- If Chorus has right to use the asset, as specified in the contract – e.g. ability to hire/fire/replace operators or to specify operating policies without the seller having ability to change those policies/procedures;
- If Chorus has ability or right to control physical access

- That (a) it is remote that another party other than Chorus will take more than a minor amount of the output that will be produced, and (b) the price Chorus pays is neither contractually fixed per unit of output nor equal to the current market price per unit of output (i.e. price is fixed not variable based on use).

If all 3 criteria are met, the agreement is to be considered a lease accounted under NZ IFRS 16 through the statement of financial position. If not met, the agreement is most likely a service contract to be accounted under NZ IFRS 15 through the income statement.

RESULT: **Not a lease** *(formula-driven)*

In the case of intangible assets:
Quote from IFRS16: Scope NZ2.1 / 4
"A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e)."
[3(e) is licensing agreements within IAS38 for motion picture films, video recordings, plays, manuscripts, patents and copyrights)

It is unusual for use of an intangible asset contract to meet the definition of a lease agreement, however if this has been identified, discuss further with Group Reporting team to discuss verify assessment and whether this should be accounted for under NZ IFRS16.

APPENDIX I: FIXED ASSET REQUEST FORM

The form can be located on the intranet https://intranet.chorus.co.nz/content/Pages/Create-an-Asset.aspx

To assist with completing the form there is a quick reference guide tab and an instructions tab.

If requesting a single asset use the 'Single" tab and use the 'Save to Bulk' button for bulk requests.

It is important to ensure that the asset attributes on the fixed asset request form are recorded correctly when requesting an asset.

- Asset no/sub No — Required if adding a sub asset to an existing asset
- Portfolio — Choose from the drop down list
- Class — Choose from the drop down list of classes in the portfolio
- Platform — Choose from the drop down list of platforms used in that class
  Platforms are the ***what*** and the equipment characteristics and life cycle determine the depreciation
- Valuation Type — This will be filled automatically from the known class + platforms
- Regulatory Code — Choose from the drop down list
- Cost Centre — Choose form the drop down list
- Location — Enter the code into the left cell (pink) in the form. If not found, enter details in the comments
  Locations are the ***where*** and can be a point (site), area (patch) or linear (cable)
- Super Asset — Optional free form field, compulsory for IT assets to identify the application
- Asset Description 1 — The description of the main asset
- Asset Description 2 — Normally the name of the person requesting the asset

All the depreciation values will default from the platform type.

If further assistance is needed please contact the Asset team Fixed_assets&projects@chorus.co.nz

CHORUS

Version Sep-18

Shared Services Contact Details
e: Fixed_assets&projects@chorus.co.nz

FIXED ASSET REQUEST FORM

* **REQUEST TYPE:** Create Main Asset — select from list — Reference:

* **Is this asset intended to replace an existing asset?** Yes: disposal assistance required — select from list

DETAILS

Asset No / Sub No	/	WBSE	
* **Portfolio**			select from list
* **Class**			select from list
* **Platform**			select from list
Valuation type			
* **Regulatory Code**			select from list
* **Cost Centre**			select from list
* **Location**	Enter Location Code in cell left		
Super Asset			
* **Asset Description 1**			
* **Asset Description 2**			

Depreciation	Key	Life YY	MM	Tax Category	Depn Start
* **Accounting Book**					
* **Tax Book**					
* **Regulatory Book**					
* **Regulatory Tax book**					

Serial Number

Inventory Number

Licence Plate Number

Quantity Unit of measure — Clear Form — Save to Bulk

ADDITIONAL DETAILS

Reason for Request/Comments

APPENDIX J: USEFUL LIVES

Asset Class	Asset Class Description	Platform	Platform Description	Useful Life	Tax Rate
1000	Ducts	ACDM	Access Common Ducts & Manholes	50	4%
1000	Ducts	A005	Blown Cable Ribbonet/Micronet Duct	50	4%
1000	Ducts	TR25	Ribbonet/MicronetDuct/ABF/Core	50	4%
1000	Ducts	TR20	Transport Ducts & Manholes	50	4%
1010	Manholes	APIT	Access Fibre Pits	50	4%
1020	Telecommunication Poles	POLE	Access Poles	40	10%
1100	Fibre Optic Cable	A010	Aerial UFB Fibre Distribution Cable	20	13%
1100	Fibre Optic Cable	A007	Blown Cable Ribbonet/Micronet Fibre	20	13%
1100	Fibre Optic Cable	A001	Fibre Distribution Cable	20	13%
2110	Fibre Cable Finance Lease	FIRU	Finance Lease Fibre Cables [Specify Life]	20	13%
1100	Fibre Optic Cable	TR19	Transport Fibre Cables	20	13%
1100	Fibre Optic Cable	TIEF	Fibre Tie Cables	20	13%
1110	Fibre Service Leads	A008	Aerial Fibre Service Leads	20	13%
1110	Fibre Service Leads	A009	Internal Fibre Service Leads	20	13%
1110	Fibre Service Leads	A002	U/G Fibre Service Leads	20	13%
1120	Fibre OFDF	AC34	Access Tyco AOFDF	20	16%
1120	Fibre OFDF	OFDF	Transport OFDF	20	16%
1200	Copper Underground Cables	DC20	LAC Distribution 20 Yr Life	20	13%
1200	Copper Underground Cables	AFDR	Local Access Feeder	10	13%
1210	Copper Overhead Cables	ACOH	Access Copper Overhead Cable	14	13%
1220	Copper Service Leads	ACSL	Access Copper Service Leads	20	13%
1230	Copper MDFs	ACDF	Access Copper Distribution Frames	10	16%
1250	Copper Cable Conditioning	ACON	Access Cable Conditioning	10	16%
1260	Cable Pressurisation and Monitoring Systems	ACP1	Cable Pressure: Air Dryers	10	25%

1260	Cable Pressurisation and Monitoring Systems	ACP2	Cable Pressure: Flow Panels	10	25%
1260	Cable Pressurisation and Monitoring Systems	ACP3	Cable Pressure: Gas Seals/Dams	10	25%
1260	Cable Pressurisation and Monitoring Systems	ACP9	Monitronix MgtSys	10	25%
1260	Cable Pressurisation and Monitoring Systems	ACP8	Monitronix Transducers	10	25%
1300	Active Cabinet Shells	AC26	Access NGN Cabinet Whisper Double Bay	10	25%
1300	Active Cabinet Shells	AC25	Access NGN Cabinet Whisper Single Bay	10	25%
1300	Active Cabinet Shells	AC29	Access Rural/RBI S-Bay Single Bay Cab	10	25%
1300	Active Cabinet Shells	AC36	Active Bullet Cabinet FFP EATON	10	25%
1300	Active Cabinet Shells	AC41	Access GPON Single Bay Cab	10	25%
1300	Active Cabinet Shells	AC42	Remote VDSL Pedestal Local Power	8	25%
1300	Active Cabinet Shells	AC43	Remote VDSL Pedestal Remote Power	8	25%
1300	Active Cabinet Shells	AC04	Access Feeder Cabinet STC [Retrofit only]	5	40%
1300	Active Cabinet Shells	AC05	Access Feeder Cabinet Nokia [Retrofit only]	5	40%
1300	Active Cabinet Shells	AC06	Access Feeder Cabinet USC [Retrofit only]	5	40%
1310	Passive Fibre Cabinet Shells	AC28	Access FTTH Cab Blown Fibre/Cu Tyco	10	25%
1310	Passive Fibre Cabinet Shells	AC35	Passive Bullet Cabinet FFP EATON	10	25%
1320	MDU Cabinets	AC37	Access FFP MDU	20	16%
1400	Access Equipment	AC11	Access 2M on Cu HDB3/HDSL	5	40%
1400	Access Equipment	AC10	Access 2M on Cu SHDSL	5	40%
1400	Access Equipment	AC30	Access 2M Prov NSN SHDSL-BIS	5	40%
1400	Access Equipment	AC31	Access Ethernet DMR Ericsson	10	25%
1400	Access Equipment	AC09	Access Feeder Cu on HDB3/HDSL	5	40%
1400	Access Equipment	AC08	Access Feeder Cu on SHDSL	5	40%
1400	Access Equipment	AC33	Access FOTS Huawei CWDM/DWDM	10	25%

1400	Access Equipment	AC18	Access Media Converter	5	40%
1400	Access Equipment	AC03	Access Primary Mux Nokia	5	40%
1400	Access Equipment	AC17	Access SDH DMR Ericsson	10	25%
1400	Access Equipment	AC22	Access SDH FOTS Alcatel	5	40%
1400	Access Equipment	AC27	Access SDH FOTS Ericsson OMS type	5	40%
1400	Access Equipment	AC44	RAD RIC-LC Ethernet over E1 Converter	5	40%
1400	Access Equipment	AC45	ADTRAN NetVanta 1424S-CE EoCU	8	25%
1400	Access Equipment	DSL9	Alcatel ASAM Line Cards DSL2+	10	25%
1400	Access Equipment	DSL8	Alcatel G-SHDSL Line Cards	10	25%
1400	Access Equipment	AC38	CMAR (IRT 1500 & 2000)	5	40%
1400	Access Equipment	AC39	CMAR (SR500ip)	5	40%
1400	Access Equipment	DSL5	Conklin Mini-DSLAM	10	25%
1400	Access Equipment	AC40	Country Set systems	5	40%
1400	Access Equipment	DS11	ISAM 7302 CEP Line Card	8	25%
1400	Access Equipment	DS12	ISAM 7302 FD Shelf	8	25%
1400	Access Equipment	DS13	ISAM 7302 FD Line Card	8	25%
1400	Access Equipment	DS14	ISAM 7302 CEP Software	2	50%
1400	Access Equipment	DS15	ISAM 7302 FD Software	2	50%
1400	Access Equipment	DS19	ISAM G.SHDSL Line Cards	8	25%
1400	Access Equipment	DS21	ISAM FD NELT-A Fibre cards	8	25%
1400	Access Equipment	DS22	FD-ISAM: VDSL line card	8	25%
1400	Access Equipment	DS23	ISAM 7330 Shelf	8	25%
1400	Access Equipment	DS25	ISAM 7302 GPON Shelf	8	25%
1400	Access Equipment	DS26	ISAM 7302 GPON Line Card	8	25%
1400	Access Equipment	DS27	ISAM 7302 GPON Software	2	50%
1400	Access Equipment	DS28	FD-ISAM NPOT-C Card	8	25%
1400	Access Equipment	DS29	PON Opt Splitter All Ratios	25	13%
1400	Access Equipment	DS30	ISAM FX 7360 GPON Shelf	15	25%
1400	Access Equipment	DS31	ISAM FX 7360 GPON Line Card	8	25%
1400	Access Equipment	DS32	ISAM FX 7360 GPON Software	2	50%
1400	Access Equipment	DS34	FD NDLS-E VDSL Vectoring Card	8	25%

1400	Access Equipment	DS35	ISAM 7367 SX VDSL Micro Node	8	25%
1400	Access Equipment	DS37	NELT-B Bitstream 4 card	8	25%
1400	Access Equipment	VISD	ISDN	5	40%
1410	Transport Equipment	CLOK	Transport Clocking	10	25%
1410	Transport Equipment	TR09	Transport Alcatel DWDM	10	25%
1410	Transport Equipment	TR07	Transport Alcatel SDH FOTS	10	25%
1410	Transport Equipment	TR24	Transport Ericsson SDH FOTS	10	25%
1410	Transport Equipment	TR27	Transport Huawei CWDM/DWDM	10	25%
1410	Transport Equipment	TR29	Transport Alcatel PSS DWDM	10	25%
1410	Transport Equipment	TR16	Transport SDH Radio	10	25%
1420	Aggregation Equipment	7450	7450 ESS	5	40%
1420	Aggregation Equipment	7750	7750 SR	5	40%
1420	Aggregation Equipment	7950	7950 XRS	5	40%
1420	Aggregation Equipment	SROS	7x50 Software	2	50%
1430	Customer Located Network Equipment	DS20	Alcatel HONT	10	25%
1430	Customer Located Network Equipment	DS36	Nokia G-140W-C WiFi ONT	10	25%
1430	Customer Located Network Equipment	DS38	Nokia XS-250WX-A 10G ONT	4	50%
1430	Customer Located Network Equipment	DS39	Nokia U-00160CP-P Bus ONT	4	50%
1430	Customer Located Network Equipment	DS33	7210 SAS-D	5	50%
1440	Operational Support Systems	IT23	HP Proliant Server	4	50%
1440	Operational Support Systems	OSSH	OSS Hardware	4	50%
1440	Operational Support Systems	IT20	Physical Server	4	50%
1440	Operational Support Systems	IT24	Sun Server	4	50%
1450	Carrier Network Management	DIPB	IP Backbone (MPLS)	4	50%
1450	Carrier Network Management	NMS9	Carrier Management Network	10	50%
1460	IT Computer Hardware	IT21	HP Server	4	50%
1460	IT Computer Hardware	IT22	HP Blade Server	4	50%
1460	IT Computer Hardware	IT99	IT Unknown Platform	4	50%
1460	IT Computer Hardware	DIPE	ACME 4500 SBC	5	40%
1499	Network Electronics Traded Assets (Acct only)	DTRD	Misc Traded Assets	3	0%
1500	AC Power Plant	FTAG	Above Ground Fuel Tank	20	10%
1500	AC Power Plant	CABL	AC Cabling	25	8%
1500	AC Power Plant	SWDX	AC Distribution Board	25	8%

1500	AC Power Plant	PROT	AC Power Protection	10	10%
1500	AC Power Plant	CSAC	Air Conditioning Control System	10	20%
1500	AC Power Plant	CSBM	Building Management System	10	20%
1500	AC Power Plant	EAXX	Engine Alternator	25	8%
1500	AC Power Plant	CSEA	Engine Alternator Control System	10	20%
1500	AC Power Plant	SWMX	Main AC Switchboard	25	8%
1500	AC Power Plant	LITE	Lighting	15	20%
1500	AC Power Plant	CSOT	Other Control System	10	20%
1500	AC Power Plant	CSAL	System Alarms	15	20%
1500	AC Power Plant	FTUG	Underground Fuel Tank	20	10%
1500	AC Power Plant	UPSX	UPS System	15	30%
1510	DC Power Plant	BA2C	2 Volt Cell AGM Battery Cyclic Charge	10	40%
1510	DC Power Plant	BA2R	2 Volt Cell AGM Battery Float Charge	10	40%
1510	DC Power Plant	BG2C	2 Volt Cell Gel Battery Cyclic Charge	10	40%
1510	DC Power Plant	BF2C	2 Volt Flooded Battery Cyclic Charge	10	40%
1510	DC Power Plant	BF2R	2 Volt Flooded Battery Float Charge	12	40%
1510	DC Power Plant	BG2R	2 Volt Gel Battery Float Charge	10	40%
1510	DC Power Plant	VCCO	DC Converter	15	30%
1510	DC Power Plant	DIST	DC Distribution Cabling and Boards	15	10%
1510	DC Power Plant	VCIN	DC to AC Inverter	15	30%
1510	DC Power Plant	BAMC	Monobloc AGM Battery Cyclic Charge	15	40%
1510	DC Power Plant	BAMR	Monobloc AGM Battery Float Charge	10	40%
1510	DC Power Plant	BGMC	Monobloc Gel Battery Cyclic Charge	10	40%
1510	DC Power Plant	BGMR	Monobloc Gel Battery Float Charge	8	40%

1510	DC Power Plant	BGCB	Monobloc Gel Cabinet Battery	5	40%
1510	DC Power Plant	BACB	Monobloc EA Cranking Battery	4	40%
1510	DC Power Plant	AEOT	Other Alternative Energy System	15	10%
1510	DC Power Plant	RECO	Other Rectifier and DC Power Systems	15	30%
1510	DC Power Plant	RECR	Rack Rectifier System	15	30%
1510	DC Power Plant	RECM	Rectifier Modules	15	30%
1510	DC Power Plant	VCPF	RFT-V Power Feed System	10	30%
1510	DC Power Plant	AESO	Solar Power System	15	16%
1510	DC Power Plant	AEWD	Wind Power System	15	20%
1520	Airconditioning Plant	HEA1	Air to Air Heat Exchanger	10	16%
1520	Airconditioning Plant	CWDN	Chilled Water Distribution Pipework etc	20	16%
1520	Airconditioning Plant	CWAH	Chilled Water Process Cooler Air Handler	20	16%
1520	Airconditioning Plant	CWCH	Chiller System	20	16%
1520	Airconditioning Plant	FAEA	Fresh Air System for Engine Room Cooling	10	16%
1520	Airconditioning Plant	FAEQ	Fresh Air system for Equip Space Cooling	10	16%
1520	Airconditioning Plant	DXHW	Hi Wall Air Conditioner	10	16%
1520	Airconditioning Plant	FAOT	Other Fresh Air System	10	16%
1520	Airconditioning Plant	DXOT	Other type Air Conditioner	10	16%
1520	Airconditioning Plant	HEPC	Phase Change Heat Exchanger.	10	16%
1520	Airconditioning Plant	DXSP	Split System Air Conditioner	10	16%
1520	Airconditioning Plant	DXWD	Window Mounted Air Conditioner	10	16%
1600	LAND	P000	Land Freehold	99	0%
1610	Site costs	P022	Fences	5	10%
1610	Site costs	P029	Site costs (eg foundations,road,power)	18	3%
1700	Buildings	P014	Brick Buildings Freehold 1Jul2011	50	0%
1700	Buildings	P015	Concrete Buildings Freehold 1Jul2011	50	0%

1700	Buildings	P016	Wooden Buildings Freehold 1Jul2011	40	0%
1700	Buildings	P001	Brick Buildings on Freehold Land	50	0%
1700	Buildings	P008	Brick Buildings on Leasehold Land	50	0%
1700	Buildings	P006	Brick Equip Shelters on Freehold Land	20	0%
1700	Buildings	P012	Brick Equip Shelters on Leasehold Land	20	0%
1700	Buildings	P002	Concrete Buildings on Freehold Land	50	0%
1700	Buildings	P009	Concrete Buildings on Leasehold Land	50	0%
1700	Buildings	P007	Metal Equip Shelters on Freehold Land	20	0%
1700	Buildings	P013	Metal Equip Shelters on Leasehold Land	20	0%
1700	Buildings	P003	Wooden Buildings on Freehold Land	40	0%
1700	Buildings	P010	Wooden Buildings on Leasehold Land	40	0%
1700	Buildings	P005	Wooden Equip Shelters on Freehold Land	20	0%
1700	Buildings	P011	Wooden Equip Shelters on Leasehold Land	20	0%
2100	Building Finance Lease	P017	Building Finance Lease Assets	35	0%
1720	Building Fit-outs	P020	Building Fixtures - Short Life	5	10%
1720	Building Fit-outs	P019	Building Fixtures Long life	10	10%
1720	Building Fit-outs	P021	Building Fixtures: Seismic Bracing	15	10%
1720	Building Fit-outs	P026	Internal Computer Cabling	7	30%
1720	Building Fit-outs	P025	Internal Power Cabling	25	8%
1720	Building Fit-outs	P027	Internal Telecoms Cabling	10	13%
1720	Building Fit-outs	P028	Leasehold Improvements	10	10%
1720	Building Fit-outs	P018	POOL Other Property Assets (NZ<$2000)	5	10%
1730	Towers & Masts	TOWR	Towers & Masts	15	8%

1740	Fire Services	P023	Alarm Systems	10	10%
1750	Security Systems	P024	Security Systems Electronic	10	20%
1760	Office Equipment	P039	Appliances	8	25%
1760	Office Equipment	P032	Electronic Office Equipment	5	40%
1760	Office Equipment	P036	POOL Mobile Telephones	1	67%
1760	Office Equipment	P031	POOL Office Equipment (NZ<$2000)	5	40%
1760	Office Equipment	P033	Video-conferencing Equipment	5	40%
1770	Office Furniture	P034	Chairs and Miscellaneous Furniture	7	16%
1770	Office Furniture	P035	Office Furniture	7	16%
1800	Cars / Station Wagons / Motorcycles	P030	Cars / Station Wagons / Motorcycles	6	30%
1810	Tools & Plant Incl Trailers	TP01	Mobile Services Masts Towers	15	8%
1810	Tools & Plant Incl Trailers	TP02	NMS POOL (Tools & Plant) <$2000	5	25%
1810	Tools & Plant Incl Trailers	TP05	Pwr Mech Aid Incl Trail Long Life	10	13%
1810	Tools & Plant Incl Trailers	TP06	Pwr Mech Aid Incl Trail Short Life	5	13%
1810	Tools & Plant Incl Trailers	TP04	Workshops Plant	5	10%
1820	Test Instruments	TP03	Cust Testing Sys PSTN / ISDN Testing	10	25%
1820	Test Instruments	TP07	Outside Plant Special Test Eqp Etc	5	25%
1820	Test Instruments	TP08	Radio Telephone Equipment	5	40%
1820	Test Instruments	ATST	Test Instruments	5	25%
1910	Land Easement Costs	P037	Land Easement Costs	99	0%
1930	Software Code	IT02	Application Software (2yr)	2	50%
1930	Software Code	IT04	Application Software (4yr)	4	50%
1930	Software Code	IT06	Application Software (6yr)	6	50%
1930	Software Code	IT08	Application Software (8yr)	8	50%
1930	Software Code	ITFS	Foundation Software	10	50%
1930	Software Code	IT12	Integration Interface Software	4	50%
1930	Software Code	IT11	Product & Service Lines	4	50%
1930	Software Code	IT10	Virtual Server	4	50%
1940	Operating System Software	EMSS	Element Management System Software	2	50%

1940	Operating System Software	OSSS	OSS Software	4	50%
1950	Shrink Wrap Software	IT00	Software Licences	4	50%

APPENDIX K: ACCOUNTING TREATMENT – REPLACEMENT OF NETWORK CABLING

Replacement network cabling

The accounting treatment for the costs of replacing network cabling depends on:

- the age of any plant being replaced;
- the capacity of any replacement cables; and,
- the size of the project.

Length of cable	Age of cable	Usable capacity of cable	Decision
Less than 50m	Any age of cable	Equal capacity	Maintenance
		Greater capacity	Capital
Greater than 50m	< 10 yrs - overhead	Greater capacity	Capital
	> 10 yrs - overhead	Greater capacity	Capital
	< 15 yrs – underground	Equal capacity	Maintenance
	> 15 yrs - underground	Equal capacity	Capital

Table 1: Network Cabling Decision Table

Age of cables

Capitalise the costs of replacing network cables if the plant is old enough to be regarded as substantially written off (e.g. the useful life of the cables exceeds 70% of the accounting book life of the plant).

For the purposes of this policy, cables can be regarded as being substantially written off if the original cables are older than:

- underground cables 15 years
- overhead cables 10 years

It may be difficult to accurately establish the age of an existing cable because of inadequate, old or damaged records. In such cases, the age of a cable can be estimated from available data, the type of cable construction and "good judgement".

As a general guide for the replacement of overhead cables:

- Capitalise where a complete area (e.g. street) requires reconstruction, as it is likely that the whole area has reached the end of its service life.
- Expense where a single pole and/or aerial cabling requires reconstruction as it is likely that the pole and cabling has deteriorated prematurely and not reached its normal expected service life.

Project size

Expense small replacement cabling projects that are less than 50 metres long and that provide equal or less capacity than the existing cabling.

Cable works less than 50 metres long are generally small, reactive maintenance works that usually meet the local body criteria of "emergency conditions" and do not require formal local body permits or design specifications. Cable works over 50 metres need to consider the future network plans, age and capacity of the plant and require design.

Rehabilitation of local access distribution cabling

The treatment of the costs (material and labour) of rehabilitating local access distribution cabling (RLG systems) is dependent on:

- the age of the pillar (e.g. old or new asset); and
- the extent of work undertaken on the pillar (e.g. replacement/upgrade or routine repair).

Terminal rehabilitation

Capitalise where the pillar is replaced in its entirety, or where a substantial part of the whole pillar is replaced or upgraded resulting in an "as new" pillar.

Expense rework, recurring repairs, preventative maintenance, relocation of plant, and the premature replacement (partial or total) of filled cable RLG terminals.

Aerial lead-in rehabilitation

Capitalise improvements (e.g. installing an external termination point (ETP)), and the replacement of lead-ins older than 10 years

Expense repairs, changes to house wiring and jacks, and the replacement of lead-ins less than 10 years old

Underground cable rehabilitation

Capitalise or Expense the costs for the replacement of cables according to the age of plant and length of cables.

Unfilled Plastic Cable systems are more than 15 years old, and therefore, can be regarded as substantially written off, with the replacement costs capitalised.

Service lead-ins

All materials, labour and overhead costs directly related to the installation and replacement of service lead-ins to customer premises are treated as capital.

Chorus retains ownership of the service lead-in up to the network demarcation point.

With residential connections the network demarcation point will be the first socket connected to the Chorus network cable. If an external test point is provided then this point becomes the demarcation point.

With business connections, Chorus installs a lead-in cable and usually terminates it on a frame known as the Chorus Network Frame (TNF). This tends to be a lockable cover over the cable termination, or in the case of large buildings, a locked room accessible only to Chorus staff.

The useful life for service leads is 20 years

APPENDIX L: SOFWARE CAPITALISATION

Capitalisation of software

The asset capitalisation policy for software is the same for other assets however, as the acquisition process of software can be significantly different to that for other assets. The following sections cover some of the scenarios that are specific to software.

Purchase of standard packages

Type of package	Definition	Treatment
Standard desktop Common Operating Environment (COE)	Standard Chorus desktop packages which include operating systems, mail messaging systems, Excel and Word come with the PC. The cost of these packages is expensed with the cost of distributed outsourcing services supplied by contractors.	Expense with cost of leasing PC. Not included within fixed asset register.
Additional to the COE	Additional approved but non-standard desktop software.	Capitalise under enterprise licence
Off the shelf	Operating and application software purchased and owned by Chorus for other systems.	Capitalise

Table 2: Standard Packages

Software development

Software development means the creation of new functionality (build) and the implementation and integration of purchased packages (buy) or total replacement of existing capabilities in an application system.

The costs of software development (including licence fees) should only be capitalised when:

- the completed cost exceeds $500; or

- the development gives rise to an enduring benefit.

Any research costs incurred until these conditions are met should be expensed as incurred (e.g. discovery phase).

This capitalisation policy also applies to enhancements of Telecom IT systems for Chorus benefit and paid for by Chorus under the Shared Systems Agreement.

Development of end-user desktop applications

As a general rule software developments based on end-user desktop applications (e.g. Microsoft Excel and Access) will not meet the tests of the previous section and will have to be expensed.

Capitalisation guide for software development

Capitalisable costs include:

- direct costs for material, labour costs, purchases and attributable overhead
- interest capitalisation
- costs to develop or obtain software that allows for access or conversion of old data by new systems

Note that direct costs may include data centre capacity, software licences and support and maintenance during the development phase.

Cost treatment of specific activities depends on the project phase (e.g. discovery, design, build).

Specific activities of each phase are set out in **Appendix 2**.

Unsuccessful software developments

The cost of an unsuccessful development can be written off and deducted if the software can no longer be used and the project is stopped. This includes the case where the software development is never implemented.

Completion of a project write-off form is required and must be signed by the Business Owner, Project Manager and Finance Manager.

Enhancements

An enhancement of software means the modification of and addition to an application to meet modified or new user requirements, including:

- Adding new features or functionality
- Enhancing current features or removing functionality
- Increasing capacity or performance

- Extending the life of the software
- Providing a new version of the software that has more capacity or increased performance

Enhancements (or upgrades) that provide a new and enduring benefit are an advantage to the business.

Software applications will often have to be modified when the host computers and operating systems are replaced from time to time.

The modifications may include both enhancements that meet the above conditions and maintenance and the costs must be treated as capital and expense respectively.

Enhancements are to be capitalised when they meet all the conditions of:

- Substantially extending the service potential or life of an existing asset; and
- Software development capitalisation

Software licences

The purchase of software licences may involve a licence for right-to-use the copyright for more than 12-months and an annual fee. These costs should be treated as follows:

Type of right to use copyright	Treatment
Indefinite life	Capitalise for accounting with a useful life equal to the economic life of the licence. Depreciate for tax as a tangible depreciable tax asset with a useful life equal to the economic life of the licence: – DV or SL depreciation – can be pooled

Fixed life of >1yr	Capitalise for accounting with a useful life specific to the asset equal to the life of the licence. If the licence has an option to renew without obstacles (e.g. essentially unconditional or conditional on the payment of pre-determined fees), then the life is the total life including extensions. Depreciate for tax as a depreciable intangible tax asset using a straight-line rate with useful-life as above.
Annual fees	Expense

Maintenance

Maintenance corrects errors or keeps software updated with current information to ensure that the software continues to operate in its original intended state.

Generally, maintenance of software includes routine changes, which do not materially increase the capacity, functionality or performance of the software. Maintenance activities include the design of and changes to an application, including associated testing activities. Payments made for maintenance of software are expensed (and are tax deductible) as the business does not gain an enduring benefit.

Care must be taken to ensure that the costs of maintenance do not include any enhancements and any bundled costs must be apportioned between expenses and capital e.g. license and support costs must be separated and treated appropriately.

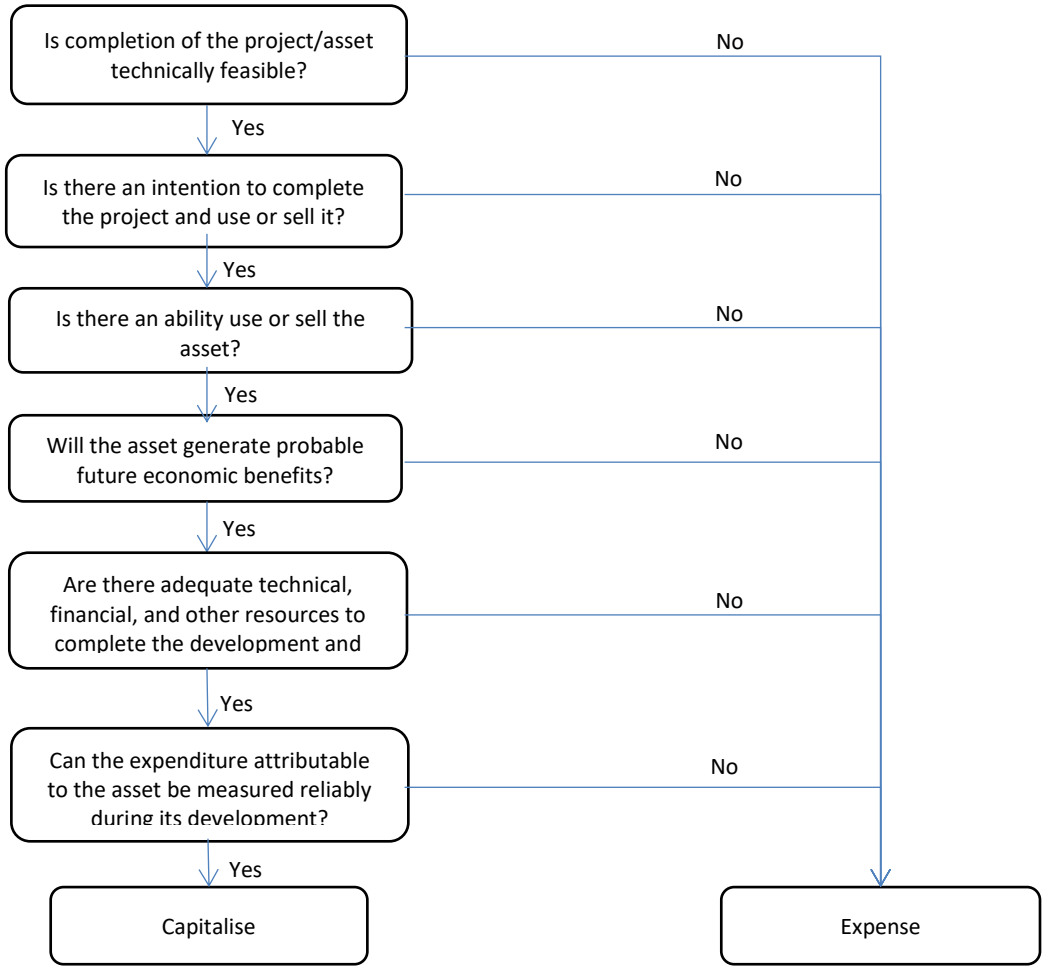
Website costs

Initial development of software for internal and external websites should be capitalised as software if it meets the general recognition requirements NZ IAS 38 *Intangible Assets*.

Ongoing costs for passive sites (those which act purely as a means to advertise products or services) should be expensed as incurred.

APPENDIX M: PRODUCT DEVELOPMENT – ACCOUNTING TREATMENT

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the following can be demonstrated:



APPENDIX N: LABOUR RATES

FY20 Activity codes and values:

BU	Career Level	ActTyp	COAr	Short text
Corporate	0	CORP00	1000	CORP00 RATE - $0
	3	CORP03	1000	CORP03 RATE - $56
	4	CORP04	1000	CORP04 RATE - $67
	5	CORP05	1000	CORP05 RATE - $79
	6	CORP06	1000	CORP06 RATE - $106
	7	CORP07	1000	CORP07 RATE - $121
	8	CORP08	1000	CORP08 RATE - $147
	9	CORP09	1000	CORP09 RATE - $179
	10	CORP10	1000	CORP10 RATE - $207
CTO	0	CTO00	1000	CTO00 RATE - $0
	3	CTO03	1000	CTO03 RATE - $68
	4	CTO04	1000	CTO04 RATE - $68
	5	CTO05	1000	CTO05 RATE - $79
	6	CTO06	1000	CTO06 RATE - $94
	7	CTO07	1000	CTO07 RATE - $114
	8	CTO08	1000	CTO08 RATE - $134
	9	CTO09	1000	CTO09 RATE - $169
	10	CTO10	1000	CTO10 RATE - $215
Customer Care	0	CC00	1000	CC00 RATE - $0
	3	CC03	1000	CC03 RATE - $68
	4	CC04	1000	CC04 RATE - $68
	5	CC05	1000	CC05 RATE - $86
	6	CC06	1000	CC06 RATE - $105
	7	CC07	1000	CC07 RATE - $123
	8	CC08	1000	CC08 RATE - $146
	9	CC09	1000	CC09 RATE - $163
	10	CC10	1000	CC010 RATE - $163
PSM	0	PSM00	1000	PSM00 RATE - $0
	3	PSM03	1000	PSM03 RATE - $67
	4	PSM04	1000	PSM04 RATE - $62
	5	PSM05	1000	PSM05 RATE - $83
	6	PSM06	1000	PSM06 RATE - $99
	7	PSM07	1000	PSM07 RATE - $118
	8	PSM08	1000	PSM08 RATE - $149
	9	PSM09	1000	PSM09 RATE - $158
	10	PSM10	1000	PSM10 RATE - $223
NFM	0	NFM00	1000	NFM00 RATE - $0
	3	NFM03	1000	NFM03 RATE - $77
	4	NFM04	1000	NFM04 RATE - $88
	5	NFM05	1000	NFM05 RATE - $99
	6	NFM06	1000	NFM06 RATE - $111
	7	NFM07	1000	NFM07 RATE - $132
	8	NFM08	1000	NFM08 RATE - $160
	9	NFM09	1000	NFM09 RATE - $194
	10	NFM10	1000	NFM10 RATE - $243