TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS—*continued*

(B) DEPRECIATION

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their estimated economic lives, which are as follows:

Telecommunication equipment and plant:	
Customer local loop	5–30 years
Junctions and trunk transmission systems	10–30 years
Switching equipment	5–15 years
Customer premises equipment	5 years
Other network equipment	5–25 years
Buildings	40–100 years
Motor vehicles	5 years
Furniture and fittings	5–10 years
Computer equipment	3–5 years

Land and capital work in progress are not depreciated.

(C) INVENTORIES

Inventories are comprised of materials for self constructed network assets, critical maintenance spares and customer premises equipment held for rental or resale. They are stated at the lower of cost and net realisable value after provision for excess and obsolete items. Cost is determined on a first in first out basis.

Inventories also include revenue work in progress. Profit is recognised on completion of the contract.

(D) ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for doubtful debts.

(E) LEASES

The Company is lessor of customer premises equipment. Rental income applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are taken to revenue as earned.

Additionally the Company is lessee of certain plant, equipment, land and buildings under operating leases. Expenses relating to operating leases are charged against earnings as incurred.

No material finance leases have been entered into as lessor or lessee.

(F) COMPENSATED ABSENCES

The liability for employees' compensation for future absences is accrued in respect of employees' services already rendered and where the obligation relates to rights which have vested. Such liability is reflected as personnel accruals within accounts payable and accruals.

(G) LIABILITY FOR EMPLOYEES' SEVERANCE PAYMENTS

Employees whose services with the Company are terminated are normally entitled to lump-sum severance payments determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The continued period during which a terminating employee served both the New Zealand Post Office and subsequently the Telecom Group constitutes the length of service.

Severance payments are accrued in respect of any employees whose positions have been specifically designated as being surplus to the needs of the Company. Such liabilities are reflected as personnel accruals within accounts payable and accruals.

(H) PENSIONS

Contributions are made into the Government Superannuation Fund (the "Fund") in respect of those employees who are members of the Fund at a rate specified under the Sale and Purchase Agreement whereby Telecom acquired the telecommunication business of the New Zealand Post Office on 1 April 1987. Additionally, full provision is made for the accrued pension costs relating to members of the Telecom Employees' Pension Plan (the "Plan") upon the basis of actuarial valuations which are to be made at least once every three years. Contributions to the Fund and the Plan are charged against earnings.

(I) FOREIGN CURRENCIES

The financial statements are expressed in New Zealand dollars. Foreign currency transactions are recorded at the exchange rate ruling at the date of the transaction except for hedged transactions which are recorded at the hedged exchange rate. Monetary assets and liabilities denominated in foreign currencies have been translated to New Zealand currency at the spot rates of exchange ruling at balance date. Realised and unrealised profits and losses on foreign exchange transactions are recognised in earnings for the period.

The Company enters into contracts with Telecom (as the Group's central treasury operation) to manage the Company's foreign exchange exposure.