TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) GENERAL ACCOUNTING POLICIES

The measurement basis adopted in the preparation of these financial statements is historical cost. Accrual accounting is used to match income and expenses.

(c) SPECIFIC ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenues for all services are recognised when earned. Billings for telephone services are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue recognition is deferred in respect of that portion of fixed monthly charges which have been billed in advance.

Revenue principally includes telephone line rental, national calls, leased circuits and the rental, sale, maintenance and installation of customer premises equipment and related products.

FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom Wellington Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs.

Effective 1 April 1989 for each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and prepare the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.