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<tr><td rowspan="6">CAPITALISATION OF BORROWING COST</td><td>Policy Ref</td><td>PN-2</td></tr>
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Objective

1. The objective of this policy is to prescribe the accounting treatment for the capitalisation of borrowing cost. This policy is set up in compliance with accounting standard *AASB123- Borrowing Costs*.

2. The principal accounting issues covered under this policy are assets eligible for capitalisation of borrowing costs and borrowing costs eligible for capitalisation.

Scope

3. This policy shall apply to the accounting for borrowing cost attributable to the replacement, alteration, construction and purchase of plant, property and equipment by the Company.

4. This policy applies to both the Company and customer initiated works.

5. This policy should also be read in conjunction with *Policy PN-1- Property, Plant and Equipment*.

Definition

6. Unless otherwise stated, the following terms are used with the meanings specified.

   ▪ *Property, Plant and Equipment* are tangible assets that

     (a) are held by the Company for use in the production or supply of goods and services, for rental to others or for administrative purpose and

     (b) are expected to be used for more than one period.

     Items included, but not exhaustive, are:
     - land
     - easement
     - transmission building
     - transmission assets (e.g. towers, conductor, switchgear, transformers, reactive plant, secondary equipment)
     - depreciable spares
     - motor vehicles
     - computer and softwares
     - construction in progress

   ▪ *Borrowing Costs* are interest and other cost incurred by the Company in connection with the borrowing of funds. Such other costs include:

- amortisation of discounts and premiums relating to the borrowing
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance charges in respect of finance leases
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

▪ *Qualifying asset/project* is an item of property, plant and equipment that takes a substantial period of time to complete.

Fundamental Concepts

7. Borrowing costs are generally expensed in the Income Statement except to the extent they are capitalised in accordance with paragraph 10.

8. The cost of an asset includes the cost necessarily incurred to bring it to its intended in-service state. If the asset is estimated to cost a significant amount and takes a prolonged construction period, the borrowing cost incurred during that period as a result of the expenditure on the asset should be regarded as part of the cost of the asset and hence, be capitalised.

9. However, the amount of borrowing cost capitalised shall not exceed the total amount of borrowing cost incurred for each period under review.

Capitalisation Policy

10. Borrowing costs directly attributable to <u>all construction and acquisition projects</u> that take a substantial period of time to complete.

Commencement of Capitalisation

11. Borrowing costs should be capitalised as part of the cost for a qualifying asset when:

    ▪ expenditures for the assets are being incurred

    ▪ borrowing costs are being incurred

    ▪ activities necessary to prepare the assets for its intended use are in progress

Capitalisation Method

12. There are two accepted methods to capitalise borrowing cost:

- If funds are specifically borrowed to fund a qualifying asset, the actual borrowing costs incurred, net of any investment income earned from temporary investment of the borrowings, would be capitalised;

- If funds cannot be specifically identified with a qualifying asset, a capitalisation rate should be applied to the expenditure on that asset to determine the eligible capitalised borrowing cost.

13. Generally, the Company adopts the second approach as it uses a pooling of fund concept. In addition, the capitalisation exercise is carried out on a monthly basis.

14. The capitalisation rate ("CR") is the weighted average of the borrowing costs applicable to the Company's outstanding borrowings. The capitalisation rate is reviewed by the Company's Treasury and approved by the Finance Director every six months (1 April and 1 October respectively).

Cessation of Capitalisation

15. Capitalisation of borrowing cost shall cease when the asset is transferred from work in progress to in-service.

16. In the event that a construction is being carried out in parts or stages, each part or stage shall be treated separately. Capitalisation shall cease when that part or stage obtains in –service status.

17. When the construction or acquisition is interrupted due to unforseen external factors or delays that are inherent in the construction or acquisition process, borrowing costs should continue to be capitalised.

Disclosure

18. The Company's financial report should disclose:

- the accounting policy for borrowing cost

- the amount of borrowing cost capitalised during the period

- the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation

Other
For further guidance on the application of this accounting policy contact the Financial Controller.