PROPERTY, PLANT AND EQUIPMENT	Policy Ref	PN-1
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Objective

1. The objective of this policy is to prescribe the accounting treatments for property, plant and equipment. This policy is set up in compliance with accounting standard *AASB116- Property, Plant and Equipment*.

2. The principal accounting issues covered under this policy are recognition of assets, determination of their carrying cost and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

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

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

5. This policy should also be read in conjunction with Policy PN-2- Capitalisation of Borrowing Cost, Policy PN-3 - Depreciation.

6. This policy does not cover items of plant, property and equipment acquired under lease, refer to Policy PN 11 – Leases.

Definition

7. 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 include, but not exhaustive, are:
        - land
        - easement
        - transmission building
        - transmission assets (e.g. towers, conductor, switchgear, transformers, reactive plant, secondary equipment)
        - depreciable spares (refer to Para 14 to 18)
        - motor vehicles
        - computer and softwares

- tools and equipment
- construction in progress
- buildings
- heavy machinery
- distribution network (electricity)
- distribution network (gas)

▪ *Useful/Service Life* is either

(a) the period of time over which an asset is expected to be used by the Company; or,

(b) the number of production or similar units expected to be obtained from the asset by the Company.

▪ *Cost* is the amount of cash or cash equivalent paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

▪ *Fair Value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

▪ *Retirement/Restoration Cost* is the cost incurred to decommission, remove and/or make safe assets at the end of their service lives.

▪ *Carrying Amount* is the amount at which the asset is recognised after deducting any accumulated depreciation and impairment losses.

▪ *Impairment Loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

▪ *Recoverable Amount* is the higher of an asset's net selling price and its value in use.

Fundamental Concepts

8. An asset will only be recognised as an item of property, plant and equipment if it satisfies two key criteria:

▪ It is probable that <u>future economic benefits</u> associated with the item will flow to the Company; and

▪ The <u>cost</u> of the item can be <u>measured reliably</u>

Economic benefits are explained in Appendix 1.

9. In addition, major components in an item of property, plant and equipment may have different useful/service lives as the other components they relate to. These components should be treated as separate assets with their own distinct useful/service life.

10. Assets of similar nature and function are classified as one asset class.

11. An exception would be an asset that may not generate direct economic benefits to the Company but enable the Company to derive economic benefits from related assets. Assets purchased or constructed for Health, Safety and Environmental purposes would qualify as an item of property, plant and equipment even though they may not generate direct economic benefits to the Company.

Capitalisation Policy

12. An individual asset, other than depreciable spare, is recognised as plant, property and equipment if it has:

    (a) satisfied criteria listed in Para 8 to 11
    (b) service potential more than one year; and,
    (c) purchase or construction cost is more than $500

13. A collection of assets of cost less than $500 individually should not be capitalised even if the collective amount exceeds $500.

Depreciable Spares

14. Depreciable spares are different from normal stores lines. They are usually components of property, plant and equipment items that would not be available in short notice and would not be expected to be used in normal circumstances.

15. In addition, depreciable spares are generally associated to a class or category of assets such as the transformers and capacitor banks.

16. An item will qualify as a depreciable spare and be recognised as an item of plant, property and equipment if it satisfies the following criteria:

    - The unit price is more than $500;
    - It will be redundant if the associated asset is retired or discontinued;
    - It will be used for more than one period; and,

- If the item is not held, it will lead to significant portion of the plant to be shut down resulting in serious disruption to the operations

17. The depreciable spares should assume the same useful/service life of its associated assets and consistent depreciation method.

18. Examples of depreciable spares are (but not exhaustive):

- Transformers

- Capacitor banks

Cost to be Capitalised

19. The cost of an item of plant, property and equipment (purchased or constructed) comprises mainly:

- the purchase price;

- import duties and non refundable taxes (i.e. GST is excluded from the cost)

- initial delivery and handling cost (including freight)

- cost of site preparation

- installation and assembly cost

- professional fees (e.g. design, architectural and engineering)

- cost of testing to bring the asset into service (this should be net of any proceeds that may be generated from the testing process)

- borrowing cost capitalised (refer to *Policy PN-2 - Capitalisation of Borrowing Cost*)

- direct material cost

- systematic allocation of direct labour and overheads attributable to bringing the asset to its working condition. See Para 23 to 26.

20. In addition to the above, retirement/restoration cost should also be included in the cost of an item of property, plant and equipment to the extent it is recognised

as a provision under *Policy PN-7- Provisions, Contingent Liabilities and Contingent Assets*. In brief, such cost should be significant, can be accurately measured, specific to the asset and is probable to occur at the end of the service life of the asset.

21. Examples of retirement/restoration cost are:

    - cost of dismantling and removing assets from site
    - cost of restoring the site

22. Incidental revenue and related expenses while bringing an asset to its working condition should not be capitalised. For example, savage sales of scrapped metals/equipments from a capital project are recognised in the Income Statement instead of being capitalised.

Capitalisation of labour and direct overheads

23. Timesheets are used to capture the direct time spent by each employee on projects.

24. Different fully absorbed charge rates ("charge rates") are adopted for different groups of employees. Charge rates are determined by Accounting Services and are reviewed annually.

25. Direct labour and overheads are capitalised for each project on a monthly basis using the formula

Charge rate X Time spent on project (based on time sheet)

26. Capitalisation of direct labour and overhead shall cease once the project is transferred from work in progress to in-service.

Replacement, Improvement, Maintenance and Relocation

27. If a replacement item satisfies the criteria set out in Para 8 to 11, it should be capitalised as a plant, property and equipment item when its cost are incurred.

28. The carrying amount of the asset being replaced should then be written off to the Income Statement.

29. The cost incurred for a major inspection or overhaul can be capitalised, regardless whether any replacement is made, if it also meets the criteria set out in Para 8 to 11. In addition, a separate component of an asset must have been

identified which is represented by the major inspection or overhaul costs and this has already been depreciated to reflect the consumption of the benefits which are now being replaced or restored.

30. The carrying amount or the written down value of the previous inspection cost capitalised, as mentioned in Para 31 should then be written off to the Income Statement.

31. Routine maintenance and servicing expenditure should be expensed in the Income Statement as they only serve to keep the existing assets in their current working conditions.

32. Expenditure incurred to relocate an asset from one site to another should be expensed in the Income Statement and not capitalised unless the useful life of the asset is extended or the efficiency of the asset is being improved.

Accounting Treatment Subsequent to Initial Capitalisation

33. An item of property, plant and equipment shall be carried at its cost (as determined in Para 19 to 21) less any accumulated depreciation and any accumulated impairment losses.

Impairment Loss

34. An item of property, plant and equipment may be impaired if its recoverable amount is less than its carrying amount.

35. Any compensation from third parties for items of property, plant and equipment that are impaired, lost or given up will be recognised in the Income Statement in the period it becomes receivable.

36. Cost of items restored, purchased or constructed as replacement will be capitalised in accordance to policy set in Para 8 to 11.

37. To determine whether an item of Property, Plant or Equipment is impaired refer to PN 12 - Impairment.

Depreciation

38. The Company adopts the straight line depreciation method based on useful lives of the assets.

39. The depreciation policy is outlined in *Policy PN-2 - Depreciation*.

Retirement, Replacement and Disposal

40. The carrying amount of an item of property, plant and equipment should not continue to be capitalised, i.e. derecognised, if it is retired, replaced or disposed.

41. The gain or loss upon de-recognition should be recognised in the Income Statement. However, any gain should not be classified as a revenue item.

42. The gain or loss is computed as:

    Gain/Loss = (Sales proceed) – (Related disposal cost) – (Carrying amount of asset)

Disclosure

43. For compliance with AASB116, the Company should disclose in its financial report, for each class of property, plant and equipment:

    (a) the measurement bases used for determining the gross carrying amount
    (b) the depreciation method used
    (c) the useful lives or depreciation rates used
    (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated losses) at the beginning and end of the period
    (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
        (i) additions
        (ii) disposals
        (iii) increase or decreases from impairment losses recognised or reversed directly in equity
        (iv) impairment losses recognised in Income Statement
        (v) impairment losses reversed in Income Statement
        (vi) depreciation
        (vii) other changes

44. Additional disclosure include:

    (a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities
    (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course if its construction (i.e. as Construction in progress)
    (c) the amount of contractual commitments for the acquisition of property, plant and equipment
    (d) if it is not disclosed separately on the face of the Income Statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the Income Statement.

Regulatory Requirements

Compliance with the office of the Regulator General (ORG) Victoria is required by the company. Asset upward revaluations are not permitted under the ORG's guidelines unless specifically agreed to or required by the ORG. While the guidelines so not state any specific guidelines for asset downward revaluations, there are indicators that any writes due to impairment are not prohibitive. Notwithstanding this, no write downs should occur without the approval of the Financial Controller.

Other

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

APPENDIX 1

Economic Benefits

1. Economic benefits are deemed to be derived by an asset in the following situations:

   - Revenue contracts associated with the capital expenditure made are entered into. For example, revenue contracts entered into for the Cranbourne project.
   - SPI PowerNet's initiated capital works that are part of the regulated asset base.
   - Improvement work which substantially reduces the Company's operating cost, such as maintenance cost.
   - Work that substantially improves the quality, quantity or both of the output from the transmission assets.
   - Replacement components or unit which extend the service life of the existing asset(s) beyond its expected service life on installation.
   - Replacement which increase the efficiency, capacity or functionality of the existing asset.