

TELECOM SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

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

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses on disposal are recognised in earnings.

Land and capital work in progress are not depreciated.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at expected realisable value after providing for bad and doubtful accounts.

INVENTORIES

Inventories are comprised principally 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 due consideration for excess and obsolete items. Cost is determined on a first in first out basis.

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 both operating and finance leases. Expenses relating to operating leases are charged against earnings as incurred. Finance leases, which effectively transfer to the entity substantially all the risks and benefits of ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased asset and corresponding liabilities are disclosed and the leased assets are amortised over the period the entity is expected to benefit from their use.

No material finance leases have been entered into as lessor.

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 accrued personnel costs.