ACCOUNTING POLICIES
(Schedule T)

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of Bharat Sanchar Nigam Limited (the "Company" or "BSNL") are prepared under the historical cost convention adopting the accrual method of accounting in accordance with Indian Generally Accepted Accounting Principles and in accordance with the provisions of the Companies Act, 1956 (the "Act").

2. REVENUE RECOGNITION

Income from services is accounted for on accrual basis and in conformity with Accounting Standard – 9 of ICAI. Accordingly,

a) Revenue for all services is recognized when earned and are realizable at the time of billing. Un-billed revenues from the billing date to the end of the year are recorded as accrued revenue during the period in which the services are provided. Provision is made in respect of bills considered to be disputed (by the management), debts outstanding for more than two years and for debts due for less than 2 years, to the extent considered necessary by the management.

b) Installation Charges recovered from subscribers at the time of new telephone connections are recognized as income in the first year of the billing.

c) In terms of the arrangement between Department of Telecommunications ("DoT") and the Company, the charges for telecommunication services and other infrastructural services provided by BSNL to DoT are neither being billed nor provided for.

d) Sale proceeds of scrap arising from maintenance and project works are taken into miscellaneous income in the year of sale.

e) Income from SIMs, recharge coupons of Mobile, Prepaid Calling Cards, and Prepaid internet connection cards are treated as income of the year in which the payment is received since the extent of use of these cards within the financial year could not be ascertained.

f) Wherever there is uncertainty in realization of income, such as liquidated damages, claims on Government Departments & local authorities etc., these are recognized on collection basis.

g) The claims on account of reimbursement for provision of infrastructure, operation and maintenance of Village Public Telephones (VPTs) and Rural Household Connections (RDELs) receivable from U.S.O. fund are accounted for as revenue on account of the fact that the claim for infrastructure cannot be credited to the concerned asset account since the claim amount could not be segregated asset wise.

h) Other income by way of interest on loans to employees, security deposit with Government Departments and local authorities, being not material, are accounted for on collection.

3. FIXED ASSETS

3.1 Fixed assets are carried at cost less depreciation. Cost includes directly related establishment and other expenses including employee remuneration and benefits, directly identifiable to the construction or creation of the assets.

3.2 Expenditure on replacement of assets, equipments, instruments and rehabilitation works is capitalized if, in the opinion of the management, it results in enhancement of revenue generating capacity.

3.3 Assets are capitalized to the extent completion certificates have been obtained, wherever applicable.

3.4 The cost of stores and materials at the time of issue to a project, is debited to CWIP.

3.5 Apparatus and plants principally consisting of telephone exchanges, transmission equipments and air conditioning plants etc. are capitalized as and when an exchange is commissioned and put to use.

3.6 Cables are capitalized as and when ready for connection to the main system.

3.7 Intangible assets are stated at cost of acquiring the same less accumulated depreciation / amortization.

4. DEPRECIATION/AMORTIZATION

Depreciation is provided based on the Written Down Value method at the rates prescribed in Schedule XIV to the Companies Act, 1956 except for Subscriber Installation. The Subscriber Installation is depreciated over the useful life of 5 years on Written Down Value method.

Assets costing up to Rs. 5,000 are depreciated fully in the year of purchase. Similarly, partition works costing up to Rs. 2,00,000 are depreciated fully in the year of construction.

The depreciation on machinery & tools used both for project and maintenance work is charged to profit and loss account instead of capitalization.

All telephone exchange buildings, administrative offices and captive consumption assembling premises/workshops are considered as normal building and not as factory building. Accordingly depreciation is charged uniformly.

Intangible assets such as Entry License Fee for Telecom Service operations are amortized over the license period (i.e. 20 years) and standalone computer software applications are amortized over the license period subject to maximum of 10 years as per straight line method.

5. IMPAIRMENT OF ASSETS

Assets, which are impaired by disuse or obsolescence, are segregated from the concerned assets category and shown as 'Decommissioned Assets' and provision made for the loss, if any, due to the difference between their net carrying cost and the net realizable value.

6. INVESTMENTS

Long-term investments are carried at cost, after providing for any diminution in value, if such diminution is of a permanent nature.

7. INVENTORIES

Inventories are valued at cost or net realizable value as the case may be - cost ascertained generally on weighted average method; obsolete/non moving inventories are valued at net realizable value.

8 FOREIGN CURRENCY TRANSACTIONS

(i) Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction i.e. on the date of payment or receipt as the case may be.

(ii) All Foreign Currency Liabilities and monetary assets are stated at the exchange rate prevailing as at the date of Balance Sheet and the difference taken to Profit and Loss Accounts as Exchange Fluctuation Loss or Gain.

9. EXTRAORDINARY ITEMS

Extra-ordinary items of income and expenditure, as covered by AS – 5, are disclosed separately.

10. EMPLOYEES' BENEFITS

10.1 SHORT TERM EMPLOYEE BENEFITS:

Short Term employee benefits are recognized in the period during which the services have been rendered.

10.2 LONG TERM EMPLOYEE BENEFITS:

10.2.1 DEFINED CONTRIBUTION PLAN:

a) Pension Contribution (including gratuity)

The employees of DoT who have opted for absorption / absorbed in the company, and the employees on deemed deputation from Government are eligible for pension, which is a defined contribution plan. The company makes monthly contribution (including liability on account of gratuity) at the applicable rates as per Government Pension Rules, 1972 and FR & SR to the Government who administers the same**.**

b) Employees' Provident Fund

All directly recruited employees of the company are entitled to receive benefits under the Provident Fund. Both employees and employer make monthly contribution to the plan at a predetermined rate of employee's basic salary and dearness allowance. These contributions to Provident fund are administered by the Provident Fund Commissioner. Contributions to Provident Fund are expensed in the Profit and Loss Account.

c) Contribution for Leave Salary

For employees on deemed deputation from Government, Leave salary contribution is provided and such leave salary contribution takes care of leave encashment also.

10.2.2 DEFINED BENEFIT PLANS:

a) Leave Encashment:

The liability on account of unavailed leave in respect of absorbed employees and directly recruited employees at the year end is fully provided for on estimated basis.

b) Gratuity

The company provides for gratuity, a defined benefit plan (the Gratuity Plan) covering all directly recruited eligible employees. In accordance with the payment of Gratuity Act, 1972, the Gratuity Plan provides a lump sum payment to vested employees on retirement, deaths, incapacitation or termination of employment. Liabilities with regards to the Gratuity Plan are determined by actuarial valuation on balance sheet date and are expensed in the profit and loss account

c) Other benefits including post employment medical care

Medical reimbursements and other personal claim bills of existing / retired employees are accounted for on actual basis in respect of bills received till the cut off period in the accounts at the concerned primary units as per the prescribed limits.

11. MANUFACTURING EXPENSES

Expenses incurred at Factory units are allocated to the cost of the manufactured products.

12. PRIOR PERIOD ITEMS

Items of Income/expenditure exceeding Rs. 5 lakh are only considered for being treated as 'prior period items'.

13. TAXES ON INCOME

Taxes on Income for the current period are determined on the basis of taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961.

In accordance with the AS-22, Deferred Tax Liability is recognized on the timing differences between accounting income and the taxable income for the period taking into consideration the contents of Accounting Standard Interpretations 3 and quantified using the tax rates in force or substantively enacted as on the Balance Sheet date.

Deferred Tax Assets are recognized and carried forward to the extent there is a virtual certainty that such deferred tax assets can be realized.

14. PROVISIONS

Provisions are recognized when the Company has a present obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

15. CONTINGENT LIABILITIES

Liabilities, though contingent, are provided for if there are reasonable chances of maturing such liabilities as per management. Other contingent liabilities, barring frivolous claims, not acknowledged as debts, are disclosed by way of notes.

16. EARNING PER SHARE

Earning Per Share ("EPS") comprises the Net Profit after tax (excluding extraordinary income net of tax). The number of shares used in computing Basic & Diluted EPS is the weighted average number of shares outstanding during the year.

17. SEGMENT REPORTING

The primary segment consists of ‘basic’ and ‘cellular’ services provided. The manufacturing activities have not been treated as a separate segment since such activities are essentially carried on as support service to other segments.

The following specific accounting policies have been followed for segment reporting:

Segment Revenue includes service income and other income directly identifiable with/allocable to the segment.

Income/expense, which relates to the Company, as a whole and not allocable to individual business segment is included in “Un-allocable Corporate Income/expense respectively”.

Expenses that are directly identifiable with/allocable to segments are considered for determining Segment Results.

Segment Assets and Liabilities include those directly identifiable with the respective segments. Un-allocable corporate assets and liabilities represent the assets and liabilities that relate to the Company as a whole and not allocable to any segment.