

SIGNIFICANT ACCOUNTING POLICIES (SCHEDULE -T)

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- 1.1 The financial statements of Bharat Sanchar Nigam Limited (the “Company” or “BSNL”) are prepared under the historical cost convention in accordance with Indian Generally Accepted Accounting Principles and in accordance with the provisions of the Companies Act, 1956 (the “Act”).

The preparation of the financial statements in conformity with accounting principles generally accepted in India, requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Balance Sheet date, reported amounts of revenues and expenses for the year and disclosures of contingent assets and liabilities as of the Balance Sheet date. The estimates and assumptions used in the accompanying financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ from these estimates.

2. INCOME AND EXPENDITURE

- 2.1 The accounts are prepared under the historical cost convention adopting the accrual method of accounting except for the following items, which are accounted on cash basis:

- a) Annual recurring charges for overlapping financial years.
- b) Interest on loans and advances to employees and on security deposits with the Government and the local authorities.
- c) Interest income/liquidated damages when realisability is uncertain.
- d) Income from prepaid calling cards and internet connections.
- e) Claims from/on local authorities and other bodies on account of Civil and Electrical works.
- f) Medical reimbursements to employees.

2.2 Revenue Recognition

- a) Revenue for all services is recognized when earned. Unbilled 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 against the amount of disputed billings to the extent considered necessary by the management. Further provision is being made for bad and doubtful debts in regard to debts outstanding for more than two years.
- 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”)/Mahanagar Telephone Nigam Limited (“MTNL”) and the Company, reciprocal services are not being billed or provided for.
- d) Sale Proceeds of scrap arising from maintenance and project work are taken into miscellaneous income in the year of sale.

2.3 **Employees Benefits**

- a) In respect of employees of DoT who have opted for absorption in the Company, and employees on deemed deputation from Government, pension contribution is provided at the applicable rates as per Government Pension Rules, 1972. The pension contribution covers the liability on account of gratuity.
- b) Company's contributions towards Provident Fund are accounted for on accrual basis.
- c) For employees on deemed deputation from Government, leave salary contribution is provided @ 11% of the basic pay to DoT. Such leave salary contribution takes care of leave encashment of such employees. Leave encashment for other employees has been provided on accrual basis

2.4 **Licence Fees**

The one time licence fee paid by the Company for acquiring new licences has been capitalized and is being amortised over the licence period.

The variable licence fees computed at prescribed rates of revenues is being charged to profit and loss in the year in which revenue arises. Revenue for this purpose comprises of Adjusted Gross Revenue ("AGR") as prescribed by DoT.

2.5 **Bond Issue Expenses**

Bond issue expenses are charged off in the year in which they are incurred.

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, on actual basis directly identifiable to the construction of the asset.
- 3.2 Assets are capitalized as per the practices described below; to the extent completion certificates have been issued, wherever applicable.
 - a) Land is capitalized when possession of the land is taken.
 - b) Building is capitalized to the extent it is ready for use based on completion certificate. In case of building purchased, capitalization is done after possession is taken over.
 - c) Apparatus and Plants principally consisting of Telephone Exchanges, Transmission Equipments and Air-conditioning Plant are capitalized as and when an Exchange is commissioned and put to use either in full or in part.
 - d) Lines and Wires are capitalized as and when erected or laid to the extent completion certificates have been issued thereof.
 - e) Cables are capitalized as and when ready for connection to the main system.
 - f) Vehicles and other assets are capitalized as and when purchased.
- 3.3 Expenditure on replacement of assets, equipment, instruments and rehabilitation work is capitalized if, in the opinion of the management, it results in enhancement of revenue generating capacity.

3.4 The cost of stores and materials is charged to project at the time of issue.

3.5 Depreciation

Depreciation is provided based on the Written Down Value method at the rates prescribed in Schedule XIV to the Companies Act, 1956. Assets costing upto Rs. 5000/- are depreciated fully in the year of purchase.

4. INVESTMENTS

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

5. INVENTORIES

a) Inventories other than Exchange Equipment are valued at cost ascertained generally on weighted average method.

b) Exchange equipment is valued at acquisition cost.

6. FOREIGN CURRENCY TRANSACTIONS

a) Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the year-end are translated into rupees at the rates of exchange prevailing at the year end. All non-monetary assets and liabilities are stated at the rates prevailing on the date of the transaction.

b) Gains / (losses) arising out of fluctuations in the exchange rates are recognized in income in the year in which they arise. Exchange differences on the reporting date or settlement date arising from repayment of liabilities incurred for the purpose of acquiring fixed assets are adjusted in the cost of the asset.

7. GRANT

Government grants in the form of budgetary support is recognised as income and disclosed in the Profit and Loss account as an extraordinary item. The grant received in the form of 'Loan in Perpetuity' is accounted for as deferred government grant and is not apportioned to Profit and Loss account.

8. SEGMENT REPORTING

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

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

(b) Income which relates to the Company as a whole and not allocable to individual business segment is included in "Unallocable Corporate Income".

(c) Expenses that are directly identifiable with/allocable to segments are considered for determining Segment Results. The expenses, which relate to the Company as a whole and not allocable to individual business segment is included under "Other Unallocable Expenditure".

(d) Segment Assets and Liabilities include those directly identifiable with the respective segments. Unallocable corporate assets and liabilities represent the assets and liabilities that related to the Company as a whole and not allocable to any segment.

9. 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 and based on the expected outcome of the assessment.

In accordance with the AS-22, Deferred Tax Liability is recognised on the timing differences between accounting income and the taxable income for the period and quantified using the tax rates enacted or substantively enacted as on the Balance Sheet date.

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

10. EARNING PER SHARE

The earnings considered in accounting the company's Earning Per Share ("EPS") comprises the Net Profit after tax and includes the Post Tax effect of any Extraordinary items. The number of shares used in computing Basic & Diluted EPS is the weighted average number of shares outstanding during the year.

**NOTES TO ACCOUNTS
(SCHEDULE - U)**

1. In pursuance of New Telecom Policy, 1999 Government decided to retain the function of policy formulation, licencing and administrative related functions of DoT and to carry out the operations relating to provision of telecom services in the country and maintaining the telecom network/telecom factories provided by DoT, a Company named “Bharat Sanchar Nigam limited” was formed on 15th September 2000. BSNL took over, on 01st October 2000, the ongoing business of Department of Telecom services (“DTS”) and Department of Telecom Operations (“DTO”).

2. Assets and Liabilities taken over from DoT

- 2.1 In pursuance of the Memorandum of Understanding dated 30th September 2000 executed between President of India and BSNL all assets and liabilities in respect of business carried out by DTS and DTO were transferred to the Company with effect from 01st October 2000 at a provisional value of Rs. 630,000,000 thousands.

During the year, the management based on physical verification of fixed assets and inventory and reconciliation of various subsidiary and general ledgers, has additionally identified the net assets taken over as on 01st October 2000 amounting to Rs. 14,380,088 thousands (Previous Year- Rs. 13,043,350 thousands)

The movements in the assets and liabilities taken over by the company are as follows:-

Particulars	(Figures in thousands of Rupees)		
	Upto March 31, 2003	During the year	Upto March 31, 2004
Assets			
Fixed Assets	529,080,527	5,018,855	534,099,382
Capital Work-in-progress	50,657,447	(787,565)	49,869,882
Inventory	18,122,629	165,231	18,287,860
Sundry Debtors	57,516,385	8,381,509 ^a	65,897,894
Advances to contractors	3,931,869	3,615 ^b	3,935,484
Total-A	659,308,857	12,781,645	672,090,502
Liabilities			
Customer Deposits	38,606,500	-	38,606,500
Earnest Money deposit	945,020	188,996 ^c	1,134,016
Security Deposits from Contractors /Suppliers	1,924,565	638,449 ^d	2,563,014
Working Expenses Liability as on 1 st October 2000	2,644,864	269515 ^e	2,914,379
Contractors Bills payable as on 1 st October 2000	4,748,793	(2,695,403) ^f	2,053,390
Total-B	48,869,742	(1,598,443)	47,271,299
Net Assets taken over by the Company (A-B)	610,439,115	14,380,088	624,819,203
Previous Year	597,396,000	13,043,350	610,439,350
Contingent liabilities taken over by the Company (Refer note 23 (d))	-	-	-

- a) Rs. 8,381,509 thousands pertains to Sundry Debtors omitted to have been included in the opening balance, now added.
- b) Rs. 3,615 thousands pertains to Outstanding Advances to ITI/HCL as on 01st October 2000 and not taken over earlier.
- c) Rs. 188,996 thousands pertains to Earnest Money Deposit received from Contractors/Suppliers, outstanding as on 01st October not taken over earlier.
- d) Rs. 638,449 thousands pertains to Security Deposit received from Contractors/Suppliers, outstanding as on 01st October 2000 not taken over earlier.
- e) Rs. 269,515 thousands pertains to liabilities for expenses existing as on 01st October 2000 not taken over earlier.
- f) Rs. (2,695,403) thousands pertains to liabilities for Contractors Bill existing as on 01st October 2000 not taken over earlier.

The net assets (including contingent liabilities) transferred to the Company as of 1st October 2000 are subject to confirmation by DoT as regards to ownership and the value.

- 2.2 The Capital structure for BSNL concurred in by Ministry of Finance and conveyed by Department of Telecommunications vide their U.O.No. 1-2/2000-B (Pt.) dated 13 December 2001 as consideration for transferring the above stated assets and liabilities is as follows:

Particulars	(Figures in thousands of Rupees)		
	As at 01st October 2000 (Adjusted)	Additions during the year ended 31 st March 2004	Total structure as on 01st October 2000 (Adjusted)
Equity	50,000,000	-	50,000,000
Non-Cumulative Preference Shares (9%)	75,000,000	-	75,000,000
15 years Government Loan (Interest –Prevalent Government lending rate)	75,000,000	-	75,000,000
Loan from MTNL	30,560,000	-	30,560,000
Reserves #	379,879,115	14,380,088	394,259,203
Total	610,439,115	14,380,088	624,819,203

The balance of Capital Employed is to be arrived as per the Audited Accounts

* Reserves adjusted for net of assets and liabilities existing as on 01st October 2000, taken over during the year ended 31st March 2004 (refer note 2.1 above)

- 2.3 In pursuance of clause 13 of Agreement of Transfer executed between the President of India and the Company dated 30th September 2000 all costs, charges and expenses including stamp duties, registration charges, transfer duties, any other taxes, levies, duties or charges relating to or in connection with completion of transfer of assets and liabilities shall be borne by the Government of India.
- 3 The DoT vide their U.O.No.1-2/2000-B (Pt.) dated 24th August 2001 have communicated the decision of the Ministry of Finance to the following effect:
- (i) The Government loan of Rs. 75,000,000 thousands to the Company will have moratorium on repayment on principal and interest thereon up to 31st March 2004. No interest will accrue on the Government loan of Rs. 75,000,000 thousands to the Company up to 31st March 2004. The amount of interest is not ascertainable since the rate of interest is not given in the loan document.

- (ii) To exempt the Company from payment of dividend on preference equity up to 31st March 2004 and on equity up to 31st March 2002. The Company will enjoy 50% and 25% waiver on dividend due on equity for the years 2002-03 and 2003-04 respectively.
 - (iii) The amount which the Company will be allowed to retain during the initial 3 years, i.e. up to 2002-03 for meeting the losses on account of rural telephony operations or other socially desirable projects will be decided annually by the Department of Telecom in consultation with Ministry of Finance. The Government has decided to extend this facility upto March 31,2004 and for the subsequent periods the Cabinet has decided that, to enable BSNL to expand its rural telecom network, the existing reliefs and concessions will be extended to BSNL on a year to year basis, after reviewing the budgetary position before the commencement of each financial year.
4. The value of fixed assets, inventories, debtors and liability taken over by the Company is subject to remarks in para 5, 6 and 8 below.

5. FIXED ASSETS / CAPITAL WORK-IN-PROGRESS

- 5.1 Fixed Assets taken over from DOT as on 1st October 2000 are based on physical verification conducted by the management. The value of fixed assets taken over including capital work-in-progress has been determined by the management using the Original Cost of the asset (wherever available) or alternatively the value arrived at by applying Strategic Business Plan ("SBP") rates, which is based on technical assessment, as reduced by the depreciation up to 30th September 2000 on Straight Line Basis at the rates prescribed by DoT.
- 5.2 Fixed assets taken over as of 1st October 2000 include assets purchased under deferred payment plan. The Company is in the process of determining such liability as of 1st October 2000, which would be required to be adjusted from opening balance of net assets taken over by the Company as of 1st October 2000.
- 5.3 The provisional transfer values in respect of assets transferred from DoT on 1st October 2000 have been treated as its original cost and depreciation has been provided on written down value method at the rates prescribed in Schedule-XIV to the Act without reassessing the remaining useful life of such assets.
- 5.4 In line with, the Government system of accounting, cost of certain assets like furniture and fixtures, electrical appliances and fittings are charged off to the working expenses. Therefore no value is attached to such assets taken over from DoT at the time of transfer except in certain locations.
- 5.5 Land at several locations has been taken over at a nominal value of Re. 1, wherever original cost is not available. Cost of land includes lease-hold land including those which have not been segregated separately as free hold and lease hold. In the absence of the information relating to such acquisition, no adjustment has been made by amortizing the cost of land over the lease period including those acquired during the year.
- 5.6 Pending transfer in the name of the Company, documents in respect of Land, Buildings acquired during the period are under legal process/execution. Further in respect of assets taken over from DoT, formalities for vesting assets in favour of the Company wherever necessary/applicable are under process.
- 5.7 As per accounting practice followed by DoT, capitalization of various items of fixed assets at some units was being done only to the extent of payment released by the units instead of total bill amount till 30th September 2000. This has resulted in under-provision for liabilities and understatement of assets as of 1st October 2000. Resultant impact on fixed assets, capital work in progress, depreciation and liabilities is not ascertainable.

- 5.8 Capital Work in Progress includes abandoned /old outstanding projects aggregating to Rs 468,432 thousands related to 3 units against which provision has been made. Similar projects at other units are under review and the necessary provision, if any, will be made on completion of such review.
- 5.9 In accordance with Board's decision to phase out 1 Million lines of analogue exchange during the year ended 31st March 2001, provision of Rs. 3,332,500 thousands being the net book value of such exchanges had been made in the financial statements. During the year ended March 31, 2003, the Company had written back excess provision of Rs. 598,450 thousands relating to the fully depreciated assets and adjusted Rs. 81,890 thousands against the net book value of the assets. In the current year, the Company has further written back an excess provision of Rs. 373,110 thousands and also adjusted Rs. 770,797 thousands against the net book value of fixed assets. However, the remaining amount Rs. 1508,250 thousands has not been adjusted in the fixed assets account till date. Depreciation for the year includes Rs. 231,215 thousands (Previous Year: Rs. 317,930 thousands) relating to these unadjusted exchanges.

6. Inventories

- 6.1 At several locations physical verification of stock has been conducted by the management during the period. Physical inventory taken is being reconciled with the detailed inventory records and the same will be further reconciled with the balance as per the financial books. Since the store depots maintained only numerical accounts and the financial accounting is done by the accounts branch at a later date, there appears some difference between the physical stock and the financials. During the year, in addition to the existing provisions, further provision has been made for Rs. 14,588 thousands. The management is in the process of computerizing the entire inventory management, which will solve all such problems in the future.
- 6.2 Provision for inventory includes provision for obsolete items aggregating to Rs. 476,458 thousands identified by 15 units. The management is currently reviewing inventories at other units and provision for obsolete items of these units will be made on completion of this review.
- 6.3 Prices for the sale of stock from telecom factories to circles for self consumption are predetermined. The predetermined rates include direct cost plus overhead allocation at a fixed rate. This practice has resulted in internal profit of Rs. 23,159 thousands (Previous Year Rs. 438,200 thousands) for the period ended 31st March 2004 arising out of such transfer. The amount has been netted off against the administrative expenses in the profit and loss statement for the year since it is not possible to identify the individual items of stores, which have been capitalized or expensed off.

7. DoT Balances

- 7.1 Net amount of Rs. 134,766 thousands recoverable on current account from DoT is subject to confirmation, reconciliation and consequential adjustment.
- 7.2 There is no agreement between the Company and DoT for interest recoverable/ payable on outstanding amounts of DoT, hence no accrual for interest has been made on the amount payable to/ recoverable from DoT during the period under review.

8. Cash and Bank Balances

- 8.1 Bank reconciliation statements have not been prepared at several units.
- 8.2 Cash and bank balances include Rs. 61,442 thousands (Previous Year: Rs. 60,910 thousands) representing balance in contra accounts, which is pending reconciliation.

9. Employee Cost

- 9.1 Except Group A employees all other Group B,C & D employees have been absorbed by the Company. Group A employees have been sanctioned a sum of Rs. 2,750/- p.m. from 01.10.2000 for the period they worked in BSNL. Accordingly a provision of Rs. 739,085 thousand have been made during the current year. However, this amount will be adjusted when the absorption for Group A will take place.
- 9.2 Consequent to the absorption of all the Group B, C & D employees, DoT has transferred the liability on leave encashment to BSNL. The leave salary contribution paid to DoT for the period 01.10.2000 to date of absorption has been adjusted against amounts payable to DoT. The provision for leave encashment for the period October 1, 2000 to March 31, 2004 amounting to Rs. 12,353,360 thousands has been made on an estimated basis for the above groups of employees.
- 9.3 Effective October 1, 2000, the Company has made monthly pension contribution as per applicable rates to DoT on the basis of revised pay scales which came into force effective October 1, 2000. The incremental pension liability resulting from such pay revision relating to the period upto September 30, 2000 shall, in the opinion of the management be borne by DoT.

10. Bonds

During the year, the Company has redeemed the BSNL Bonds worth Rs. 5,100,000 thousands with interest. In view of this redemption, the Bond Redemption Reserve has also been adjusted with General Reserve.

11. Revenues

- 11.1 Income and expenses on account of international calls terminating or originating on the Company's network has been accounted for as per revenue sharing arrangement existing between Videsh Sanchar Nigam Limited ("VSNL") and BSNL. However, the incoming and outgoing international traffic is based on the details given by VSNL.
- 11.2 No interconnect (IUC) agreement exists between BSNL and MTNL for carriage of national long distance calls. During the year, the Company has computed and accounted for the interconnect charges on provisional billing basis. The amount payable of Rs.4,502,264 thousands and the amount receivable of Rs.12,169,876 thousands from MTNL have been determined based on the rates prescribed by TRAI in the IUC regulation. The amount payable to MTNL has been adjusted against the interest accrued and due on bonds. This is subject to confirmation and reconciliation.
- 11.3 Net claim amounting to Rs. 1,291,214 thousands has been received during the year from Bangladesh Telegraph & Telephone Board and Pakistan Telecom Company Limited on account of telecom traffic for the period upto March 31, 2002 which has been accounted for as recoverable from DoT since a significant part of the claim relates to the period when operations were carried out by DoT. No provision has, however, been made for such charges payable for the years ended March 31, 2003 and 2004 as the relevant information is not readily available.

12. License Fee

- 12.1 The Company does not have a system of identifying the revenue from NLD (National Long Distance). During the year ended March 31, 2003 most of the circles assumed NLD revenue as equivalent to revenue from STD for the purpose of calculating license fee on NLD revenue while a few circles had estimated NLD revenue as 30% of gross income. However, in the current year the Company has computed the NLD revenue as 30% of circuit revenue plus 4% of the balance revenue excluding circuits. The resultant impact of the change in accounting estimate for determining license fees is not currently ascertainable.
- 12.2 DoT in its approval of a package of measures in the form of financial/fiscal relief's for BSNL has decided that the Company will be liable to pay licence fee and spectrum charges in full. However, it will be allowed to retain/reimburse upto 31st March 2004, losses incurred on account of rural telephony operations or other social desirable projects. An amount of Rs. 23,000,000 thousands (Previous Year Rs. 23,000,000 thousands) reimbursed during the year ended 31st March 2004 has been disclosed as Extraordinary item in accordance with AS-5 "Net Profit or Loss for the period, Prior Period and Extraordinary items and Changes in Accounting Policy" issued by ICAI.
- 12.3 During the year, the Company has received re-imburement for maintenance of VPTs from Universal Service Fund amounting to Rs 3,102,468 thousands (Previous Year Rs.2,302,000 thousands) which has been accounted for as other income.
- 12.4 Excess provision written back (Refer Schedule O) during the year includes Rs. 15,732,466 thousands relating to license fee provided for the year 2000-01 since it is not payable to DoT.
13. The management is in the process of reconciling the various differences between the subsidiary records and the corresponding control accounts and the balance of Rs 2,449,353 thousands (Previous Year Rs. 7,282,000 thousands) in Inter/Intra-Circle Remittances account. The cumulative impact of such differences between control accounts and subsidiary ledger and the unreconciled balance in Inter/Intra Circle Remittances account on the affected accounts of income, expenditure, assets and liabilities is presently not ascertainable.
14. A contingency fund of Rs. 20,000,000 thousands has been created by appropriation of profits to meet various contingencies that may arise in future based on the decision made by the Board.

15 Taxes on Income

15.1 Deferred Tax

The break up of deferred tax assets and deferred tax liabilities into major components of respective balances is as under:

	For the Year ended 31st March 2004	(Rs. in '000s) For the Year ended 31st March 2003
(A) The movement in deferred tax account is as follows		
Opening Balance	38,289,125	-
Cumulative deferred tax liability upto 31st March 2002 adjusted against reserves	-	28,197,835
Provision for current year deferred tax liability (Net)	9,744,415	10,091,290
Closing Balance	48,033,540	38,289,125
(B) Deferred Tax assets and liabilities are being offset as they relate to taxes on income levied by the same governing taxation laws. The following amounts are shown in the balance sheet:		
Deferred Tax Assets	52,398,785	17,589,850
Deferred Tax Liabilities	100,432,325	55,878,975
(C) Break up of deferred tax assets/liabilities		
Deferred Tax Liabilities:		
Depreciation	98,488,565	55,553,595
Others	1,943,760	325,380
Total	(A) 100,432,325	55,878,975
Deferred Tax Assets:		
Provision for debtors	8,528,398	6,562,280
Unabsorbed Depreciation	34,147,503	2,937,270
Provision for leave encashment	4,389,582	2,538,050
Others - decommissioned asset, wage revision others	4,210,264	4,188,500
Provision for obsolete inventory and CWIP	1,123,038	1,190,030
Others	-	173,720
Total	(B) 52,398,785	17,589,850
Net Deferred Tax Liabilities	(A) - (B) 48,033,540	38,289,125

Notes:

- a. The Company being a company providing telecommunication service is eligible to claim deduction under Section 80(I)A of the Income Tax Act 1961 with respect 100 % of the profits and gains derived from this business for the first five years and thereafter at 30% of the profits for the second five years (referred to as the Tax Holiday Period).
- b. In accordance with Accounting Standard Interpretation (ASI)-3 issued by the Institute of Chartered Accountants of India, the deferred tax in respect of timing differences which originate and reverse during the tax holiday period have not been recognized. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period have been recognised in the year in which the timing difference have originated.

15.2 Current Tax

Current year provision for tax has been computed in accordance with the provision of The Income Tax Act, 1961 after taking the benefit of Section 80 IA for the Cellular Segment of the Company.

16. Segmental Information

Primary Segment: Basic and Cellular services have been considered as primary business segments for reporting under AS-17 “Segment Reporting” issued by ICAI.

Secondary Segment: The Company caters only to the Indian market representing a singular economic environment with similar risks and returns and hence there are no reportable geographical segments.

Particulars	Information about Business Segments – Primary				(Rs. in ‘000s)			
	For the year ended 31st March, 2004				For the year ended 31st March, 2003			
	Business Segments		Un – allocable	Total	Business Segments		Un - allocable	Total
Basic	Cellular	Basic			Cellular			
Revenue								
Income From Services	292,859,627	21,133,808	-	313,993,435	248,908,742	4,022,752	-	252,931,494
Other Income	21,204,998	192,874	784,616	22,182,488	3,509,562	4,231	816,250	4,330,043
Total	314,064,625	21,326,682	784,616	336,175,923	252,418,304	4,026,983	816,250	257,261,537
Segment Results								
Operating Profit Before Interest & Taxes	53,533,411	11,222,282	330,319	65,086,012	17,553,744	1,508,346	(9,148,750)	9,913,340
Interest Income	-	-	3,009,981	3,009,981	-	-	1,664,452	1,664,452
Interest Expenses	-	-	545,342	545,342	-	-	3,441,487	3,441,487
Profit Before Prior Period and ExtraOrdinary Items	53,533,411	11,222,282	2,794,958	67,550,651	17,553,744	1,508,346	(10,925,785)	8,136,305
Prior Period Adjustment	(547,081)	(41,937)	-	(589,018)	(4,557,258)	-	-	(4,557,258)
Profit Before ExtraOrdinary Items	52,986,330	11,180,345	2,794,958	66,961,633	12,996,486	1,508,346	(10,925,785)	3,579,047
Extraordinary Items	23,000,000	-	-	23,000,000	23,000,000	-	-	23,000,000
Profit before tax	75,986,330	11,180,345	2,794,958	89,961,633	35,996,486	1,508,346	(10,925,785)	26,579,047
Provision for current tax	-	-	20,451,999	20,451,999	-	-	2,043,270	2,043,270
Provision for deferred tax	-	-	9,744,415	9,744,415	-	-	10,091,290	10,091,290
Profit After Tax	75,986,330	11,180,345	(27,401,456)	59,765,219	35,996,486	1,508,346	(23,060,345)	14,444,487
Other Information								
Segment Assets	798,477,280	29,660,217	138,353,615	966,491,112	818,278,424	21,286,722	48,824,135	888,389,281
Segment Liabilities	160,608,571	12,670,822	34,867,431	208,146,824	171,465,350	10,900,000	24,634,410	206,999,760
Capital Expenditure	57,891,517	7,787,104	-	65,678,621	142,442,000	1,972,080	-	144,414,080
Depreciation	95,197,187	3,540,235	-	98,737,422	94,305,463	1,207,631	-	95,513,094
Non cash Expenditure	41,579,747	3,294,638	8,564,091	53,438,476	6,982,320	-	6,149,610	13,131,930

Note:

The Company does not have an inter-segment transfer pricing policy. As a result, inter-segment revenue has not been disclosed.

17. Related Party Disclosure

17.1 Key Management Personnel

V.P.Sinha	Chairman-cum-Managing Director Since 01.01.2004.
S.D.Saxena	Director
N.K.Mangla	Director
S.K.Jain	Director
S.C.Choudhary	Director
R.N.Prabhakar	Director (Government Nominee)
J.Sreedhara Sarma	Director (Government Nominee)
Arun Bharat Ram	Director
Ashok Jhunjhunwala	Director
Vivek Singhal	Director
Prithipal Singh	Chairman-cum-Managing Director upto 31.12.2003.
Nirmal Saroop	Director upto 29.10.2003.
H.C. Kochhar	Director upto 29.10.2003.
P.C.Rawal	Director(Government Nominee) upto 22.10.2003
P.K.Chanda	Director(Government Nominee) upto 13.08.2003.
B.B.Singh	Director(Government Nominee) upto 06.02.2004
Tarun Das	Director upto 26.12.2003.

17.2 Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 31st March 2004.

Name of the party	Description of transactions	Amount of transaction (Rs. '000')	Outstanding balances as on 31 st March 2004 (Rs. '000')
Key Management Personnel	Payment of salary and allowances	3,668 (3,040)	123(120)
	Advance given	1,065 (2,530)	0 (490)
	Repayment of Advance	1,065 (3,520)	0 (490)

Note: Figures in bracket denotes previous year figures.

17.3 The Company being a wholly State owned enterprise, no disclosure as regards to related party relationship with other State controlled enterprises and transactions with such enterprises has been made.

18. Operating Leases

In absence of the necessary details, the Company has not disclosed the cancelable and non-cancellable leases as required by AS-19 "Leases" issued by ICAI.

19. Earning Per Share

Description	For the year ended 31st March 2004	For the year ended 31st March 2003
Profit after taxation (Rs. in thousands)	59,765,219	14,444,492
Preference dividend (Refer Note 3(ii))	-	-
Weighted average number of Equity Shares	5,000,000,000	5,000,000,000

outstanding (in no.)		
Face value of shares (in Rs.)	10	10
Basic and Diluted earnings per share	11.95	2.89

20. Remuneration paid to the Chairman-cum-Managing Director and other Directors.

	For the year ended 31st March 2004 (Rs. '000')	For the year ended 31st March 2003 (Rs. '000')
Salaries & Allowances	2,872	2,300
Perquisites	540	250
Pension and Leave salary contribution	256	490
Total	3,668	3,040

21. Amount due from Directors

	For the year ended 31st March 2004 (Rs. '000')	For the year ended 31st March 2003 (Rs. '000')
Amount due at the end of the year	--	490
Maximum amount due during the year	491	530

22. Auditors Remuneration

	For the year ended 31st March 2004		For the year ended 31st March 2003	
	Statutory Auditors (Rs. '000')	Branch Auditors (Rs. '000')	Statutory Auditors (Rs. '000')	Branch Auditors (Rs. '000')
Audit Fees ^a	864	16,361	840	15,880
Others *	-	3,039	-	1,640
Total	864	19,400	840	17,520

a) Represents the amount as per Comptroller and Auditor General communication. However the amount as per branch notes to account is Rs. 17,175* thousands (previous year-Rs. 15,590 thousands).

* inclusive of Service Tax to the extent provided.. However, some circles have not included Service Tax on Audit Fee.

23. Contingent Liabilities:

- a) Claims not acknowledged as debts Rs. 4,308,066 thousands (Previous Year- 3,587,200 thousands).
- b) Pending court cases Rs. 2,819,688 thousands (Previous Year- 701,010 thousands).
- c) The Company had received a notice under section 142 (1) of the Income Tax Act, 1961 for the assessment year 2001-02. The Assessing Officer has added Rs. 135,482,800 thousands

to the income of the Company. The proposed additions was mainly on account of disallowance of depreciation for the full year as the various assets were transferred to it as on 1st October 2000 and on account of surplus of amount of net assets taken over by the Company provisionally assessed by DoT over the amount as assessed by the Company. The case relating to assessment year 2001-02 is pending in ITAT.

- d) Trade tax department had raised a demand of Rs. 693,710 thousands on telephone services in U.P. (East) circle for period 1987 to April 2003. This included sales tax demand mainly on telephone rentals. The demand was challenged by Company in Allahabad High Court which decided in Company's favour. Subsequently, the U.P. Government filed an appeal in the Supreme Court against the High Court's judgement. The Supreme Court upheld the application of sales tax on telephones rentals. The Company has filed a writ petition challenging the validity and legality of the levy of sales tax as per the said State sales tax/trade tax act. The writ petition has been accepted by the Apex court and the matter is sub-judice at present.

Similar demands have been raised by various State Governments. The liability on account of this levy of local sales tax by different states on the Company for relevant period is estimated at around Rs. 7,294,482 thousands (Previous Year 25,600,000 thousands)

- e) Guarantees given- Rs. 659,646 thousands (Previous Year- Amount indeterminable).
 f) In case of few circles, the amount of contingent liability has not been ascertained.

24. Estimated amount of contracts remaining to be executed on Capital Account and not provided for (Net of advances) in relation to execution of works and purchase of equipment is Rs 13,440,421 thousands (Previous Year: 19,015,880 thousands). However in case of a few circles, this information has not been ascertained.

25. Information required under paragraph 4D(a) of Part-II of Schedule VI to the Companies Act, 1956 relating to purchase of raw material, component and spare parts and capital goods is not ascertainable since there is no segregation between purchase of indigenous and imported goods.

26. The expenditure in foreign currency

	For the year ended 31st March 2004 (Rs. '000')	For the year ended 31st March 2003 (Rs. '000')
Travelling	9,281	7,760
Legal and Professional	161	-
Others	60,427	9,390
Traffic Account	-	10
Advertising	-	320
Total	69,869	17,480

27. Earnings in Foreign currency

	For the year ended 31st March 2004 (Rs. '000')	For the year ended 31st March 2003 (Rs. '000')
Training Fees	1,906	860
Traffic Revenue	-	20
Total	1,906	880

28. Licensed capacity, Installed capacity and Actual production details have not been furnished as the production of goods by the Company is for captive consumption.

29. **Details of raw materials consumed**

	For the year ended 31st March 2004 (Rs. '000')	For the year ended 31st March 2003 (Rs. '000')
Raw Materials * (Refer Note below)	297,183	1,067,920

(Note : To the extent available from branch notes to accounts)

* The Company presently does not have any system to identify the item-wise details of raw materials. Hence, item-wise break-up of raw materials has not been disclosed.

30. Particulars in respect of opening stock, closing stock and sales of finished goods have not been furnished as the production of goods by the Company is for captive consumption.

31. Information required under paragraphs 3(x)(a) and 4D(c) of Part II of Schedule VI to the Companies Act, 1956 is not ascertainable for the year ended 31st March 2003 (Previous Year: Unascertainable), since (i) consumption of stores is included under the normal heads of capital expenditure and/or repairs & maintenance, and (ii) the issue of imported and indigenous items are not priced/identified.

32. The Company has not identified the Small Scale Industrial Undertaking ("SSI") as defined under the Industries (Development & Regulation) Act, 1951 for the year ended 31st March 2004. Hence, the disclosure of total outstanding dues to SSI's as well as the names of SSIs to whom the Company owes any sum, which is outstanding for over 30 days, as required by Part I of Schedule VI to the Companies Act, 1956 has not been made (Previous Year: Unascertainable). Further, the liability for interest, if any, payable in terms of Interest on Delayed Payments to Small Scale and Ancillary Undertakings Act, 1993 is not presently determined (Previous Year: Undeterminable).

33. Since the units of the Company have not followed uniform grouping of items of Income and Expenditure, the accounts have been compiled from the trial balances of the units.

34. Figures of the previous year have been regrouped or reclassified wherever necessary to conform to the current years grouping and classification.