

AUDITORS' REPORT

TO THE MEMBERS OF BHARAT SANCHAR NIGAM LIMITED

- A. We have audited the attached Balance Sheet of Bharat Sanchar Nigam Limited as at 31st March 2004 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- B. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- C. We did not audit the financial statements of 49 units (circles, districts, regions, training institutions and factories), whose financial statements reflect total assets of Rs. 952,567,038 thousands as at 31st March, 2004 and total revenues of Rs. 317,562,843 thousands for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the financial statements in respect of these units, is based solely on the report of the other auditors.
- D. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us and reports of other auditors, we set out in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- E. Attention is drawn to the following:

Assets taken over from Department of Telecommunications ("DoT") and DoT balances

- As referred to in Notes 2.1, 5.1, 5.2, 5.6 and 5.7 on Schedule U forming part of the Accounts, net assets (including contingent liabilities) taken over from DoT as on 1st October 2000 have been verified and valued by the management based on internal calculations, and are subject to confirmation from DoT as regards their ownership and value. Consequently we are unable to comment upon whether all assets and liabilities transferred pursuant to the Memorandum of Understanding referred to in Note 2.1 on Schedule U have actually been accounted for or not.*
- As referred to in Note 7.1 on Schedule U, a net amount of Rs. 134,766 thousands recoverable on current account from DoT is subject to confirmation, reconciliation and consequential adjustments.*

License Fee, Spectrum Charges, Inter connect Usage Charges

3. *As stated in Note 12.1 on Schedule U, the Company does not have a system of identifying NLD revenue separately based on the actual usage of pulse. In the absence of such a system it is not possible to quantify the license fee on actual NLD revenue and its impact on the accounts.
Further, the Company has changed its basis for computing NLD revenue for the purpose of calculating license fee. The resultant impact of the change in accounting estimate has not been ascertained, which is not in accordance with AS- 5 "Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies".*
4. *As referred to in Note 11.2 on Schedule U, IUC Charges payable to and receivable from MTNL amounting to Rs.4,502,264 and Rs.12,169,876 thousands respectively and the adjustment to the extent of Rs.2,318,333 thousands of IUC receivable from MTNL against the amount payable to MTNL as interest accrued on bonds, are subject to confirmation, reconciliation and consequential adjustments.*
5. *As referred to in Note 11.3 on Schedule U, no provision has been made for telecom traffic charges payable to Bangladesh Telegraph and Telephone Board and Pakistan Telecom Company Limited for the years ended March 31,2003 and 2004, the quantum of which could not be ascertained. Further the net claim of Rs.1,291,214 thousands payable to Bangladesh Telegraph and Telephone Board and Pakistan Telecom Company Limited has been accounted for as recoverable from DoT, which is subject to confirmation by DoT.*

Retirement Benefits

6. *No provision has been made in these accounts for leave encashment liability in respect of unavailed leave balance as on 1st October 2000, the extent of which has not been ascertained.*
7. *As mentioned in Note 9.3 on Schedule U, no provision has been made in the financial statement for incremental pension liability for the period upto 30.09.2000 resulting from revision of pay scale as on 1st October 2000 which according to the Company's management is to be borne by DoT. However, no confirmation has been received from DoT in this regard.*
8. *No provision has been made in the accounts for gratuity for directly recruited employees. Further, as referred to in Note 9.2 on Schedule U the liability for leave encashment for absorbed employees and directly recruited employees has been provided on an estimated basis, which is not in accordance with Accounting Standard ("AS") -15 "Accounting for Retirement Benefits" issued by the Institute of Chartered Accountants of India ("ICAI") which requires retirement benefits to be provided on the basis of actuarial valuation.*

Cash Basis of Accounting

9. *As stated in Note 2.1 on Schedule T, certain items are accounted for on cash basis, instead of accrual basis, which is not in accordance with the generally accepted accounting principles in India. The impact of such accounting on the profits for the year has not been ascertained.*

Summary

10. *The resultant impact of observations stated in paragraphs 1 to 9 above on the assets, liabilities and profits has not been quantified by the management.*

Fixed Assets and Capital Work-in-Progress

11. *As stated in Note 5.9 on Schedule U, the net book value of Rs 1,508,250 thousands relating to phased out assets has not been adjusted against the carrying value of fixed assets. Consequently depreciation has been provided on such phased out assets. The fixed assets are overstated by Rs 1,508,250 thousands and net profit for the year is understated by Rs 231,215 thousands.*
12. *The observations stated in paragraphs 12.1 to 12.17 below are based on the observations made by the branch auditors in their report and which we have discussed with the management. The resultant impact arising out of these observations on the assets, liabilities and profits of the Company as a whole has not been quantified by the management. However, a few units have quantified the impact which has been included in the respective paragraphs.*

Fixed Assets and Capital Work-in-Progress

- 12.1 *As referred to in Note 5.8 on Schedule U, provision for abandoned/ old outstanding projects as identified by 3 units stood at Rs. 468,432 thousands as at March 31,2004. Pending completion of the review of such projects at other units further provision, if any, is not currently ascertainable.*
- 12.2 *Capital Work in Progress amounting to Rs. 3,037,600 thousands identified by 10 units has not been capitalized pending analysis of status, value and receipt of commissioning certificates. Other units are in the process of identifying such assets. Pending completion of capitalization, the depreciation under provided, if any, on such assets is not ascertainable.*
- 12.3 *As stated in Note 5.3 on Schedule U, the Company has provided depreciation on fixed assets taken over from DoT considering such transfer value as original cost. The Company has not computed the remaining useful life of assets and no revision in rates of depreciation has been made. The depreciation method followed is not in accordance with AS 6 – “Depreciation Accounting” issued by the ICAI and the extent of shortfall in depreciation charge for the year could not be ascertained.*
- 12.4 *As referred to in Note 5.5 on Schedule U, in the absence of information relating to cost of lease-hold land, no adjustment has been made in the accounts towards amortization of the cost of such leasehold land.*

Current assets, Loans and Advances and Current liabilities

- 12.5 *The Management is in the process of reconciling the various differences in the balances between the subsidiary records and the control accounts at the circles.*
- 12.6 *The purchase cost of inventory in certain locations, does not include all costs incurred in bringing the inventories to their present location and condition, the extent of which has not been quantified.*

- 12.7 As referred to in Note 6.2 on Schedule U, provision for obsolete items of inventory aggregating to Rs 476,458 thousands identified by 15 units has been made. *Pending completion of the review at other units, further provision required, if any, is not currently ascertainable.*
- 12.8 As stated in Note 8.1 on Schedule U, Bank Reconciliation Statements have not been prepared at several units. 7 units have reported unmatched reconciling items in the bank reconciliation statements aggregating to Rs.67,943 thousands.
- 12.9 The adequacy or otherwise of the provision for doubtful debts amounting to Rs 22,103,567 thousands as at March 31st, 2004 (including Rs 5,605,374 thousands provided during the year) could not be verified in the absence of relevant information.
- 12.10 As stated in Note 8.2 on Schedule U Cash and Bank balances include Rs 61,442 thousands representing balance in contra accounts which could not be verified by us in the absence of the relevant information.
- 12.11 There have been frauds reported by 11 circles which are under investigation by the vigilance wing of the Company against which an estimated loss of Rs. 403,243 thousands has been provided in these accounts. Pending completion of the investigation, the ultimate financial impact is not ascertainable.

Revenue

- 12.12 As referred to in Significant Accounting Policies on Schedule T, revenue from reciprocal services between the Circle, MTNL and DoT has not been accounted for.
- 12.13 The exchange wise reconciliation of outgoing metered calls and calls billed has not been done in most of the circles of the Company. Consequently the completeness of the bills raised vis-a-vis calls metered could not be verified and to that extent the correctness of the provision for revenue sharing as well as for licence fee payable could not be ascertained.

Inter/Intra circle remittance Account

- 12.14 As stated in Note 13 on Schedule U no adjustment has been made in respect of net difference of Rs 2,449,353 thousands pending reconciliation of inter/intra circle account balances.

Others

- 12.15 As stated in Note 23 (f) on Schedule U, at certain units contingent liabilities have not been ascertained.
- 12.16 In the absence of a system for identifying qualifying assets and the period of time required to get such assets ready for their intended use, the borrowing costs that may be directly attributable are not capitalized as part of the cost of the asset, which is not in accordance with AS – 16 on "Borrowing Costs" issued by ICAI.
- 12.17 As stated in Note 18 on Schedule U, in the absence of necessary details, the Company has not disclosed the cancellable and non-cancellable leases as required by AS-19 on "Leases" issued by ICAI.

Disclosure Under Schedule VI

- 13 *The Company has not made following disclosures required under Schedule VI to the Companies Act, 1956 as per references given after each item:*
- 13.1 *Bifurcation of Land as Freehold and Leasehold.*
- 13.2 *Classification of Sundry Debtors as "Secured" (to the extent of Security Deposits held by the Company).*
- 13.3 *Bifurcation of Sundry Debtors into debts outstanding for a period exceeding six months and other debts.*
- 13.4 *Classification of Cash and Bank balances into cash balances in hand and bank balances and not as balances in contra accounts.*
- 13.5 *Estimated amount of contract remaining to be executed on capital account and not provided for, to the extent not ascertained as stated in Note 25 on Schedule U.*
- 13.6 *Quantity and Value wise break up of closing stock of finished goods and consumption of raw materials*
- 13.7 *Consumption of stores and spares.*
- 13.8 *CIF Value of imports if any, in respect of (a) Raw materials (b) Components and Spare parts and (c) Capital goods.*
- 13.9 *Consumption of imported and indigenous raw materials and spares and percentage to the total consumption.*
- 13.10 *Deferred payment liabilities repayable within one year.*
- 13.11 *Loans and Advances to employees a part of which is secured by hypothecation /mortgage of motor cars and scooters and land (amount not ascertained) have been disclosed as "unsecured".*
- 13.12 *Amount due to Small Scale Industrial Undertakings(SSIs) and the names of the SSIs to whom the amounts due are outstanding for more than 30 days.*
- 13.13 *As stated in Note 6.3 on Schedule U the internal profit of Rs 23,159 thousands for the year has been netted off against administrative expenses since it is not possible to identify the individual items of stores which have been capitalized or expensed.*
- 13.14 *An Unsecured loan in perpetuity has been disclosed as a separate line item "Deferred Government Grant" in the balance sheet.*

Others

- 13.15 *Certain branch auditors have commented on the weaknesses and lacunae in the financial accounting software used by the Company.*

F. Further to our comments in the Annexure referred to in paragraph 'D' above, we report that:

- (a) *Subject to paragraphs 1 to 9 and 12 above and Notes 1 to 4 on Cash Flow Statement*, we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) In our opinion, *subject to paragraphs 1,3,9 & 12 above and II (c) of the Annexure to the Auditors' Report* , proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) *Subject to paragraphs 1,3,9 & 12 above and II(c) of the Annexure to the Auditors' Report*, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) *Subject to paragraphs 3,8,9,12.3,12.4,12.6,12.7,12.15,12.16,12.17 stated above*, in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the applicable accounting standards referred to in Section 211 (3C) of the Act;
- (e) On the basis of written representations received from the directors as on 31st March, 2004 and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on 31st March, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
- (f) In our opinion and to the best of our information and according to the explanations given to us and on consideration of the separate audit reports on individual audited financial statements of 49 units, the said financial statements together with the Notes thereon and attached thereto give in the prescribed manner *except for those stated in paragraph 13 of this report, the information required by the Act, and subject to paragraph 11 above with effect on the profit for the year being understated by Rs 231,215 thousands and the consequential effect on the net assets and subject to paragraphs 1 to 9 and 12 above the effect of which on the profit for the year and net assets could not be ascertained, also give a true and fair view in conformity with the accounting principles generally accepted in India.*
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Anupam Dhawan
Membership No: F084451.
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place : New Delhi

Date :26th August,2004.

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph D of our report dated :

- I.
 - a). *The records maintained by the Company in respect of its fixed assets are not considered to be proper in so far as these do not give full particulars of quantitative details and situation of fixed assets. The fixed asset register has not been updated at several units.*
 - b). It has been represented to us that the fixed assets at most of the circles have been physically verified by the management during the year and that no material discrepancies between the book records and physical inventory have been noticed. However, a number of other auditors have reported that no documentary evidence supporting such physical verification was made available to them.
 - c) No substantial part of fixed assets of the Company has been disposed of during the year.
- II.
 - a). It has been represented to us that inventory has been physically verified by the management at most of the units during the year and that no material discrepancies between the book records and physical inventory have been noticed on such verification. However, a number of other auditors have reported that no documentary evidence supporting such physical verification was made available.
 - b). *In the absence of proper documentation we are unable to comment on the reasonableness and adequacy of procedure of physical verification of inventories followed by the management.*
 - c). *On the basis of our examination of the inventory records and on the basis of the other auditors' reports, in our opinion, the Company is not maintaining proper records of inventory. Further, in the absence of any documentary evidence we are unable to comment on whether any material discrepancies were noticed on physical verification.*
- III. The Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- IV. *On the basis of the other auditors' reports, we are of the opinion that the internal control procedure for purchase of inventory and fixed assets needs to be strengthened to make it commensurate with the size of the Company and nature of its business. However, we are unable to comment on whether there is a continuing failure to correct major weaknesses in internal control as none of the other auditors have reported in this regard.*
- V. There are no transactions that need to be entered in the register maintained in pursuance of Section 301 of the Act.
- VI. The Company has not accepted any deposits from the public.
- VII. *On the basis of the other auditors' reports, in our opinion, the Company's present internal audit system needs to be strengthened to make it commensurate with its size and nature of its business.*

- VIII. *The Company has not maintained cost records as prescribed by the Central Government under clause (d) of sub section (1) of section 209 of the Act.*
- IX. a) *Out of 49 circles, auditors of 34 circles have reported that the Company is not regular in depositing undisputed statutory dues including investor education & protection fund, employees' state insurance, income tax, wealth tax, customs duty, excise duty and other material statutory dues as applicable with the appropriate authorities in India. However, the extent of arrears of statutory dues outstanding as at March 31st 2004 for a period of more than six months from the date they became payable has been reported only by four auditors as set out in Appendix I.*
- b) *Auditors in respect of 29 circles have reported that there are dues of sales tax, income tax, customs duty, wealth tax, excise duty and cess which have not been deposited on account of dispute. However, the amounts involved and the forum where the dispute is pending have been reported only by 14 auditors as detailed in Appendix II.*
- X. The Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- XI. Based on the review of utilization of the funds on an overall basis, in our opinion, the funds raised on short-term basis have not been used for long-term investment and vice versa.
- XII. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- XIII. The Company has not issued any debenture during the year.
- XIV. During the course of our examination of the books and records of the Company carried out in accordance with generally accepted auditing practices in India, we have not come across any instance of fraud by the Company, noticed or reported during the year. However, based on the information given by the Company and reported by certain other auditors, there were instances of fraud on the Company, the details of which are given in Appendix III.

Clauses X, XI, XIII, XIV and XX of the aforesaid order are not applicable to the Company.

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-imbusement 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.

BHARAT SANCHAR NIGAM LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2004

	SCHEDULE	Year ended	Year ended
		31st March 2004 (Rs.000's)	31st March 2003 (Rs.000's)
INCOME			
Income from Services	N	313,993,436	252,931,493
Other Income	O	25,192,467	5,994,525
		339,185,903	258,926,018
EXPENDITURE			
Employees' Remuneration and Benefits	P	63,766,311	62,660,305
Licence fee and Spectrum fee (Refer Note 12 on Schedule U)		37,130,795	34,315,833
Administrative, Operating and Other Expenses	Q	71,118,280	54,654,959
Financial Expenses	R	882,444	3,645,516
Depreciation	E	98,737,422	95,513,093
		271,635,252	250,789,706
Profit before Prior period adjustments and Extraordinary items		67,550,651	8,136,312
Prior period adjustments	S	(589,018)	(4,557,259)
Profit before Extraordinary items		66,961,633	3,579,053
Extraordinary items (Refer Note 12.2 on Schedule U)		23,000,000	23,000,000
Profit before taxation		89,961,633	26,579,053
Tax Expenses			
-Current Tax		20,451,999	2,043,265
-Deferred Tax		9,744,415	10,091,296
Profit after Taxation		59,765,219	14,444,492
Appropriation :			
Contingency Fund (Refer Note 14 on Schedule U)		20,000,000	-
Bonds Redemption Reserve		-	5,362,900
Dividend		2,812,500	2,500,000
Tax on Dividend		367,559	-
Surplus carried to Balance Sheet		36,585,160	6,581,592
		59,765,219	14,444,492
Earnings per Share			
Basic/Diluted earnings per equity share (Rupees)		11.95	2.89
(Refer Note 19 on Schedule U)			
Significant Accounting Policies	T		
Notes to Accounts	U		

This is the Profit and Loss Account referred to in our report of even date

The Schedules referred to above form an integral part of the Profit and Loss Account

For and on behalf of **Bharat Sanchar Nigam Limited**

V.P.Sinha
(Chairman and Managing Director)

Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

S.D.Saxena
Director (Finance)

A.S.Ray
Deputy Director General (Corporate Accounts)

Place : New Delhi
Date : August 2004

H.C.Pant
Company Secretary and General Manager (Legal)

BHARAT SANCHAR NIGAM LIMITED**BALANCE SHEET AS AT 31ST MARCH 2004**

	SCHEDULE	<u>As at 31st March 2004</u> (Rs.000's)	<u>As at 31st March 2003</u> (Rs.000's)
SOURCE OF FUNDS			
Shareholders' Funds			
Capital	A	125,000,000	125,000,000
Reserves and Surplus	B	505,183,259	434,218,011
Deferred Government Grant		7,200,000	7,200,000
Loan Funds			
Secured Loan	C	-	5,100,000
Unsecured Loans	D	75,376,842	78,864,381
Deferred Tax Liability-Net (Refer Note 15.1 on Schedule U)		48,033,540	38,289,125
Total		760,793,641	688,671,517
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	952,878,982	853,406,778
Less: Depreciation		324,262,136	223,305,948
Net Block		628,616,846	630,100,830
Capital Work-in-Progress	F	58,549,917	92,650,554
Decommissioned Assets		1,477,395	1,170,342
		688,644,158	723,921,726
Investment	G	2,000,000	2,000,000
Current Assets and Loans and Advances			
Inventories	H	23,437,496	30,532,810
Sundry Debtors	I	39,794,505	29,451,975
Cash and Bank Balances	J	115,574,751	34,396,844
Loans and Advances	K	97,040,202	68,085,928
		275,846,954	162,467,557
Less : Current Liabilities and Provisions			
Liabilities	L	149,280,684	173,100,827
Provisions	M	58,866,140	33,898,939
		208,146,824	206,999,766
Net Current Assets		67,700,130	(44,532,209)
Intra/Inter Circle Remittance (Refer Note 13 on Schedule U)		2,449,353	7,282,002
Total		760,793,641	688,671,517
Significant Accounting Policies	T		
Notes to Accounts	U		

This is the Balance Sheet referred to in our report of even date

The Schedules referred to above form an integral part of the Balance Sheet

For and on behalf of **Bharat Sanchar Nigam Limited**

Anupam Dhawan
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

V.P.Sinha
(Chairman and Managing Director)

S.D.Saxena
Director (Finance)

A.S.Ray
Deputy Director General (Corporate Accounts)

H.C.Pant
Company Secretary and General Manager (Legal)

Place : New Delhi
Date : 26 August 2004

BHARAT SANCHAR NIGAM LIMITED**SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS**

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE A : CAPITAL		
(Refer Note 2.2 and 3(ii) on Schedule U)		
Authorised		
10,000,000,000 (Previous Year: 10,000,000,000)		
Equity Shares of Rs 10/- each	100,000,000	100,000,000
7,500,000,000 (Previous Year: 7,500,000,000) Preference Shares of Rs. 10/- each	75,000,000	75,000,000
	175,000,000	175,000,000

Issued, Subscribed and Paid Up

5,000,000,000 (Previous Year: 5,000,000,000) Fully paid		
Equity Shares of Rs 10/- each	50,000,000	50,000,000
7,500,000,000 (Previous Year: 7,500,000,000) Fully paid Preference Shares of Rs 10/- each	75,000,000	75,000,000
	125,000,000	125,000,000

Notes: Of the above Equity Shares 4,999,998,400 (Previous Year: 4,999,998,400) Equity Shares of Rs. 10/-each and Preference Shares 7,500,000,000 (Previous Year: 7,500,000,000) of Rs. 10/- each are allotted as fully paid up for consideration other than cash

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
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SCHEDULE B : RESERVE AND SURPLUS**Bond Redemption Reserve**

As per last Balance Sheet	1,704,657		
Additions during the year	-		
Less: Transferred to General Reserve	<u>1,704,657</u>	-	1,704,657

General Reserve

As per last Balance Sheet	364,776,293		
Additions during the year (Refer Note 2.2 on Schedule U)	14,380,088		
Transfer from Bond Redemption Reserve	<u>1,704,657</u>	380,861,038	364,776,293

Contingency Fund (Refer Note 14 on Schedule U)

	20,000,000		-
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Profit and Loss Account

As per last Balance Sheet	67,737,061		
Additions during the year	<u>36,585,160</u>	104,322,221	67,737,061

Total

	505,183,259	434,218,011
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BHARAT SANCHAR NIGAM LIMITED
SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE C : SECURED LOAN		
Bonds (Refer Note 10 on Schedule U)		
5 years 10.40% (Taxable), Secured, redeemable, non-convertible bonds of Rs 10,00,000 /- each.	-	5,100,000
	-	5,100,000

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
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SCHEDULE D : UNSECURED LOANS

Deferred Payment Liabilities		
(Refer note 5.2 on Schedule U)	376,842	1,530,235
Loan		
15 Years Government Loan (Refer Note 2.2 and 3 (i) on Schedule U)	75,000,000	75,000,000
Loan from Government	-	10,000
	75,000,000	75,010,000
Interest accrued and due on Bonds	-	2,324,146
GRAND TOTAL	75,376,842	78,864,381

Note :
Deferred payment liabilities represents arrangement with various suppliers (mainly for cables) with interest ranging from 12% to 15% p.a. payable over a period of 5 to 7 years.

BHARAT SANCHAR NIGAM LIMITED
SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE F : CAPITAL WORK-IN-PROGRESS		
(Refer Note 2.1, 5.7 and 5.8 on Schedule U)		
Land	12,630	18,015
Buildings	5,396,358	8,233,182
Apparatus and Plant	24,070,838	31,834,034
Cables	20,496,549	41,549,345
Subscriber Installations	1,682,759	2,149,234
Lines and Wires	2,137,480	3,462,471
Electrical Fittings and Appliances	2,972,857	4,026,757
Computer	303,013	285,785
Mast and Aerials	895,853	763,857
Installation Test Equipments	148,447	162,758
Office Machinery and Equipment	67,104	82,183
Furniture and fittings	23,389	44,412
Motor Vehicle and Launches	14,423	38,521
Satellite Earth Stations	1,124	-
Overheads awaiting distribution on above components	327,093	-
Total	58,549,917	92,650,554

	As at 31 st March 2004 (Rs.000's)	As at 31st March 2003 (Rs.000's)
SCHEDULE G : INVESTMENTS		
(At cost, unless otherwise specified)		
(Long Term , Unquoted, Non-trade)		
7% Fully paid Redeemable Cumulative Preference Shares of ITI Limited 20,000,000 (Previous Year 20,000,000) shares of Rs. 100/- each	2,000,000	2,000,000
Total	2,000,000	2,000,000

	As at 31 st March 2004 (Rs.000's)	As at 31st March 2003 (Rs.000's)
SCHEDULE H : INVENTORIES		
(Refer Note 6 on Schedule U)		
Building material	83,706	135,353
Lines and Wires	1,916,357	2,447,592
Cables	7,107,924	9,925,298
Apparatus and Plant	9,177,773	9,798,695
Telephone and Telex Instruments	1,930,501	1,465,654
Telegraph and Telex Spares	13,392	32,186
Stock at Factories		
Raw material	661,447	596,615
Finished goods	31,778	18,943
Finished Stock at Various Circles	1,887,466	3,091,778
Stores	627,152	2,676,628
Stores - in - Transit	-	344,068
Total	23,437,496	30,532,810

BHARAT SANCHAR NIGAM LIMITED

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March 2004 (Rs.000's)	As at 31st March 2003 (Rs.000's)
SCHEDULE I : SUNDRY DEBTORS		
(Unsecured, Considered Good)		
Debtors*	61,898,072	46,715,121
Less: Provision for Bad and Doubtful debts (Refer Note 2.2(a) on Schedule T)	(22,103,567)	(17,263,146)
Total	39,794,505	29,451,975

*Not possible to ascertain secured sundry debtors and its ageing.

	As at 31 st March 2004 (Rs.000's)	As at 31st March 2003 (Rs.000's)
SCHEDULE J : CASH AND BANK BALANCES		
(Refer Note 8 on Schedule U)		
Cash on hand including remittances in transit	386,685	1,854,124
Balances with Scheduled bank		
- On Current account	15,155,804	10,382,852
- On Deposit account	99,970,820	22,098,957
Balances in contra accounts	61,442	60,911
Total	115,574,751	34,396,844

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE : K - LOANS AND ADVANCES		
(Unsecured, Considered Good)		
(Refer Note 7 on Schedule U)		
Advances recoverable in Cash or in kind or for value to be received	13,214,426	6,304,795
Capital Advance	2,658,093	970,655
Amount recoverable from DoT on Current Account	18,241,334	20,786,605
Accrued Revenue on Services	28,372,923	24,218,811
Deposits with Government departments / Companies	14,281,761	3,378,692
Advance Tax	20,271,665	12,426,370
Total	97,040,202	68,085,928

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE : L - CURRENT LIABILITIES		
(Refer Note 7 on Schedule U)		
Sundry Creditors	30,280,648	33,741,474
Advances received from customers and others	229,342	48,194
Deposits from customers and others	64,478,336	65,247,301
Income received in advance against services	3,122,637	3,696,140
Claims payable to Government departments	12,253,845	752,838
Claims payable to DoT	18,106,567	37,240,136
Interest accrued on Deposits	255,154	385,302
Other liabilities	8,996,313	8,806,822
Licence Fee, Spectrum charges and Transponder charges payable (Refer Note 12 on Schedule U)	11,424,221	23,182,620
Claims payable to SAARC Countries (Refer Note 11.3 on Schedule U)	133,621	-
Total	149,280,684	173,100,827

BHARAT SANCHAR NIGAM LIMITED
SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	As at 31 st March 2004 (Rs.000's)	As at 31 st March 2003 (Rs.000's)
SCHEDULE : M - PROVISIONS		
Provision for revised wage estimate (Refer Note 9.1 on Schedule U)	2,951,962	6,770,610
Provision for Bonus	2,111,386	2,512,755
Provision for Income - Tax (Refer Note 15.2 on Schedule U)	30,725,416	10,273,406
Provision for phased out assets (Refer Note 5.9 on Schedule U)	1,508,250	2,652,157
Provision for decommissioned assets	1,170,264	1,170,300
Provision for Capital work in progress (Refer Note 5.7 & 5.8 on Schedule U)	468,432	851,262
Provision for obsolete inventory (Refer Note 6.1 and 6.2 on Schedule U)	1,229,333	1,295,770
Provision for leave encashment (Refer Note 9.2 on Schedule U)	12,353,360	7,074,711
Provision for payment to SAARC Countries (Refer Note 11.3 on Schedule U)	1,157,593	-
Other Provisions	2,010,085	1,297,968
Proposed Dividend	2,812,500	-
Provision for Tax on Dividend	367,559	-
Total	58,866,140	33,898,939

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : N - INCOME FROM SERVICES		
Telephones (other than WLL and PCO's)	172,249,034	157,333,024
Income from PCO's	61,554,627	51,742,776
Telegraph & Telex	332,145	440,419
Circuits	5,008,018	4,665,697
Cellular	21,058,923	4,022,752
Value Added Services	2,296,192	1,318,016
Installation / Reconnection Charges	3,954,308	4,808,971
Surcharge on delayed payments	1,791,964	1,572,980
Wireless in Local Loop	1,879,989	668,089
Income from VSNL-net (Refer Note 11.1 on Schedule U)	3,948,675	6,744,851
IUC from MTNL (Refer note 11.2 on Schedule U)	12,169,879	10,547,001
IUC from Other basic service providers	17,338,789	3,543,874
IUC from Other Cellular service providers	9,764,045	4,964,804
Others	646,848	558,239
Total	313,993,436	252,931,493

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : O - OTHER INCOME		
Refund from Universal Service Fund (Refer Note 12.3 on Schedule U)	3,102,468	2,302,000
Interest		
- From Banks	2,892,071	1,473,020
(includes TDS: Rs. 555,005 thousand, Previous Year : Rs. 303,285 thousand)		
- Others	117,909	191,464
Profit on sale of Assets	17,425	21,402
Liquidity Damages	767,190	794,848
Excess provision written back (Refer 12.4 of Schedule U)	16,866,372	-
Others including sale of Directories, publications, Forms, Waste Paper etc.	1,429,032	1,211,791
Total	25,192,467	5,994,525

BHARAT SANCHAR NIGAM LIMITED
SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : P - EMPLOYEES REMUNERATION AND BENEFITS		
Salaries, Wages , Allowance and Other Benefits (Refer Note 9.1 on Schedule U)	52,249,037	54,658,989
Medical Expenses	2,231,324	570,257
Incentive / Bonus	1,951,825	2,672,100
Pension Contribution (Refer Note 9.3 on schedule U)	5,143,574	5,948,212
Leave Contribution (Refer Note 9.2 on Schedule U)	(413,188)	1,122,280
Leave encashment (Refer Note 9.2 on Schedule U)	6,231,374	7,694,504
Contribution to Employees' Providend Fund	109,155	38,864
Staff Welfare Expenses	196,327	321,593
Less: Allocation to Capital Work-in-Progress	(3,933,117)	(10,366,494)
Total	63,766,311	62,660,305

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : Q - ADMINISTRATIVE, OPERATING AND OTHER EXPENSES		
Rent	1,718,824	1,665,724
Rates and Taxes	445,910	714,059
Power and Fuel	11,448,168	10,509,435
Insurance	57,060	45,261
Repairs and Maintenance		
- On Buildings	1,793,977	1,238,348
- On Plant and Machinery	2,134,908	3,028,004
- On Others	4,561,166	4,080,408
Professional and Consultancy charges	362,833	439,393
Printing and Stationery	1,441,914	922,895
Lease Rent (Refer Note 18 on Schedule U)	90,487	259,947
Commission paid on Franchise Services	16,081,844	13,234,544
Communication and Bank charges	353,337	456,656
Advertisement	90,016	926,982
Loss on Sale of Assets	-	364,188
Travel Expenses	1,852,347	1,436,043
Postage	1,134,164	933,825
Security Services	1,829,420	1,377,215
Vehicle Running Expenses (Including hired vehicles)	1,561,521	1,285,322
W/off & Losses other than Bad debts	1,505,038	3,380,832
Provision for doubtful debts and disputed bills	5,605,374	4,846,313
IUC payable to other service providers	13,103,565	21,575
Expenditure on Services and other expenses	4,398,510	4,456,996
Less: Chargeable to Capital Project Works	(428,944)	(501,006)
Less: Chargeable to Stores	-	(29,800)
Less: Income from Factories (Refer Note 6.3 on Schedule U)	(23,159)	(438,200)
Total	71,118,280	54,654,959

BHARAT SANCHAR NIGAM LIMITED

SCHEDULES FORMING PART OF THE FINANCIAL STATEMENTS

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : R - FINANCIAL EXPENSES		
Interest on Bonds	527,494	2,909,295
Interest on Others	343,746	532,192
Finance Charges	11,204	204,029
Total	882,444	3,645,516

	Year ended 31 st March 2004 (Rs.000's)	Year ended 31st March 2003 (Rs.000's)
SCHEDULE : S - PRIOR PERIOD ADJUSTMENT		
Credits		
Income from Services and others	348,610	59,727
Excess depreciation charged in earlier year (Refer Schedule E)	-	557,395
Excess provision for bad debt on earlier years	457,161	1,113,928
Others	2,494,610	885,042
Total	3,300,381	2,616,092
Debit		
Excess income booked last year now reversed	403,940	4,353,809
Salaries and Staff Expenses	183,054	359,538
Power and Fuel	11,211	28,033
Rent	44,113	30,560
Rates and Taxes	-	2,575
Repair	72,631	143,382
Depreciation (Refer Schedule E)	2,925,001	1,394,135
Others	249,449	861,319
Total	3,889,399	7,173,351
Net Adjustment	(589,018)	(4,557,259)