

SIGNIFICANT ACCOUNTING POLICIES (SCHEDULE -T)

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

2. Revenue Recognition

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

- a) Revenue for all services is recognized when earned. Un-billed revenues from the billing date to the end of the year are recorded as accrued revenue during the period in which the services are provided. Provision is made against the amount of disputed billings and debtors bad and doubtful 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.
- e) Income from SIM, recharge coupons of Mobile, Prepaid Calling Cards, and Prepaid internet connection cards are treated as income of the year in which the payment is received since the extent of use of these cards within the financial year could not be ascertained.
- f) Wherever there is uncertainty in realization of income, such as liquidated damages, claims on local authorities etc., the same are recognized on payment / collection basis.
- g) Other income by way of interest on loans to employees, security deposit with government and local authorities being not material are accounted for on collection.

3. FIXED ASSETS

- 3.1 Fixed assets are carried at cost less depreciation. Cost includes directly related establishment and other expenses including employee remuneration and benefits, on actual basis directly identifiable to the construction or creation of the asset.
- 3.2 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.
- 3.3 Assets are capitalized to the extent completion certificates have been obtained, wherever applicable.

4. 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 up to Rs. 5000/- are depreciated fully in the year of purchase. Entry License Fee is amortized over the license period of 20 years.

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

The depreciation on all buildings is charged as per normal applicable rates. All telephone exchange building, administrative offices and captive consumption assembling premises/workshops are considered as normal building and not the factory building.

5. IMPAIRMENT OF ASSETS

Assets, which are impaired by disuse or obsolescence, are segregated from the concerned assets category and shown as decommissioned assets and provision made for the difference between the net carrying cost and the net realizable value.

6. INVESTMENTS

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

7. INVENTORIES

Inventories are valued at cost ascertained generally on weighted average method except obsolete/non moving inventories that are valued at net realizable value.

8 FOREIGN CURRENCY TRANSACTIONS

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

9. EXTRA ORDINARY ITEMS

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

10. 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 and FR & SR. The pension contribution covers the liability on account of gratuity. However, no provision is made for gratuity for BSNL recruited employees since the period of employment in the company is less than five years.
- b) Company's contributions towards Employees Provident Fund are accounted for on accrual basis.
- c) For employees on deemed deputation from Government, leave salary contribution is provided. Such leave salary contribution takes care of leave encashment of such employees. Leave encashment for other employees has been provided on estimated basis.

11. MANUFACTURING EXPENSES

Expenses incurred at Factory unit are allocated to the cost of manufactured product either consumed or capitalized.

12. 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 recognized on the timing differences between accounting income and the taxable income for the period taking into consideration the contents of Accounting Standard Interpretations 3 and quantified using the tax rates in force or substantively enacted as on the Balance Sheet date.

Deferred Tax Assets are recognized (including the contents in the interpretation ASI (3)) and carried forward to the extent, that there is a virtual certainty that such deferred tax assets can be realized.

13. CONTINGENT LIABILITIES

Contingent Liabilities, barring frivolous claims are disclosed and those liabilities, which are possible of maturing, are provided for.

14. 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.

15. SEGMENT REPORTING

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

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

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

Income, which relates to the Company, as a whole and not allocable to individual business segment is included in "Un-allocable Corporate Income".

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 Un-allocable Expenditure".

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

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

1. In pursuance of New Telecom Policy 1999, the Government of India formed a Company named “Bharat Sanchar Nigam limited” (BSNL) 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 Government 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. 6,300,000 lakh.

During the current financial year, the management based on physical verification of fixed assets and inventory and reconciliation of various subsidiary and general ledgers, has additionally identified the following assets and liabilities taken over as on 01st October 2000 amounting to net assets of Rs. 91,538 lakh (P.Y. - Rs. 143,801 lakh):

Particulars	(Figures in lakh of Rupees)		
	Upto March 31, 2004	During the year	Upto March 31, 2005
Assets			
Fixed Assets	5,340,994	71,271	5,412,265
Capital Work-in-progress	498,699	2,256	500,955
Inventory	182,879	1,601	184,480
Sundry Debtors	658,979	3,186 ^a	662,165
Advance to contractors	39,355	93 ^b	39,448
Deposit with Electricity Boards /others		1,879	1,879
Total-A	6,720,906	80,286	6,801,192
Liabilities			
Customer Deposits	386,065	405	386,470
Earnest Money deposit	11,340	780 ^c	12,120
Security Deposits from Contractors /Suppliers	25,630	2,497 ^d	28,127
Working Expenses Liability as on 1 st October 2000	29,144	7,654 ^e	36,798
Contractors Bills payable as on 1 st October 2000	20,534	(22,588) ^f	(2,054)
Total-B	472,713	(11,252)	461,461
Net Assets taken over by the Company (A-B)	6,248,193	91,538	6,339,731
Previous Year	6,104,392	143,801	6,248,193

- a) Rs. 3,186 lakh pertains to Sundry Debtors omitted to have been included in the opening balance, now added.
- b) Rs. 93 lakh pertains to Outstanding Advances to ITI/HCL as on 01st October 2000 and not taken over earlier.
- c) Rs.780 lakh pertains to Earnest Money Deposit received from Contractors/Suppliers, outstanding as on 01st October and not taken over earlier.
- d) Rs. 2,497 lakh pertains to Security Deposit received from Contractors/Suppliers, outstanding as on 01st October 2000 and not taken over earlier.

- e) Rs. 7,654 lakh pertains to liabilities for expenses existing as on 01st October 2000 and not taken over earlier.
- f) Rs.(22,588) lakh pertains to liabilities for Contractors Bill existing as on 01st October 2000 and not taken over earlier.

The net assets and the contingent liabilities transferred to the Company as of 1st October 2000 are subject to confirmation by DoT as regard 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 are as follows:

Particulars	(Figures in lakh of Rupees)		
	As at 01st October 2000 (as on 31.03.2004)	Additions during the year ended 31 st March 2005	Total structure as on 01st October 2000 (as on 31.03.2005)
Equity	500,000	—	500,000
Non-Cumulative Preference Shares (9%)	750,000	—	750,000
15 years Government Loan (Interest – Prevalent Government lending rate)	750,000	—	750,000
Loan from MTNL	305,600	—	305,600
Capital Reserves	3,942,592	91,538	4,034,130
Total	6,248,192	91,538	6,339,730

- 2.3 In pursuance of clause 13 of Agreement of Transfer executed between the Government of India and BSNL 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. Loan from Government of India

The Government loan of Rs. 750,000 lakh to the Company will have moratorium on repayment of principal and interest thereon up to 31st March 2005. No interest is to accrue on the Government loan up to 31st March 2005.

4. The value of fixed assets, inventories, debtors and liability taken over by the Company is subject to remarks in Para 5, 6 and 7 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.

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 as on that date.

- 5.2 Land at several locations has been taken over at a nominal value say Rs. 1, wherever original cost is not available. Cost of land includes leasehold and free hold land including those, which have not been segregated separately as leasehold land. In the absence of the information relating to such acquisition, no adjustment has been made by amortizing the cost of lease hold land over the lease period in many units.
- 5.3 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. Further some of the assets acquired by the Company during the year are yet to be registered in the name of the Company.
- 5.4 In accordance with the decision of the Board of the Company to phase out 1 Million lines of analogue exchange during the year ended 31st March 2001, provision of Rs. 33,325 lakh being the net book value of such exchanges had been made in the financial statements. Out of these provision net assets amounting to Rs. 22,699 lakh has been adjusted up to March 31, 2005. Balance net assets of Rs. 10,626 lakh are still to be identified and the provisions adjusted. However, the Company has been depreciating these unidentified assets resulting in a possible provision of excess depreciation. The exact quantum of such excess depreciation has not been identified.

The management is in process of identifying all such assets as well excess depreciation so as to carry out necessary adjustments..

- 5.5 Certain assets that have been completed and put to use have not been capitalized, pursuant to policy of capitalizing only after completion certificates have been obtained; these are still shown as capital work-in-progress. The amount involved is Rs. 567.01 lakh as pointed by the Branch Auditors. To that extent, these have not been depreciated on account of the fact total expenditure on Capital Works still to be classified in the proper heads.
- 5.6 The Capital Work-In-Progress includes expenditure incurred on the works done for the Railways amounting to Rs. 1,972 lakh, which is reimbursable from them. However, the amount of recovery is to be mutually agreed which is still pending.

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. The management is in the process of reconciling the differences and will take necessary action on such differences.
- 6.2 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 loss of Rs 62 lakh (P. Y. Profit of Rs. 232 lakh) for the period ended 31st March 2005 arising out of such transfer. The said amount has been treated as 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. Sundry Debtors

In some of the units, it has been noticed that there are difference in the closing balance of subsidiary sub ledger and the sundry debtor figure of the General Ledger. The management is in the process of reconciling these differences.

8. DoT Balances

8.1 Net amount of Rs.50,760 lakh (P. Y. Rs. 1,348 lakh) recoverable on current account from DoT is subject to confirmation, reconciliation and consequential adjustment.

8.2 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.

9. Cash and Bank Balances

9.1 Bank reconciliation statements have not been prepared at few units in respect of some bank accounts.

9.2 In some of the units it has been noticed that the cheque/TT had been deposited with the bank but the same has not been credited in the relevant account of the company amounting to Rs 1,309 lakh as on 31.03.2005. The management has taken up the case with the concerned banks for early crediting of the amount in the respective account.

9.3 In some of the units unlinked debit and credit items are appearing in the bank reconciliation statement amounting to Rs 1,738 lakh and Rs 4,078 lakh respectively as at 31.03.2005. The management is in the process of reconciling all such items at the earliest possible.

10. Employee Cost

10.1 Except Group A employees all other Group B, C & D employees have been absorbed by the Company. Consequent upon 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 up to March 31, 2005 amounting to Rs. 334,103 lakh (P. Y. Rs. 123,534 lakh) has been made on an estimated basis for the above groups of employees. The current year's provision of Rs. 210,835 lakh includes a sum of Rs.137,725 lakh relating to previous periods

10.2 The Company has made monthly pension contribution as per applicable rates to DoT on the basis of revised IDA pay scales for absorbed employees, which came into effect from October 1, 2000, and for other employees working on deemed deputation, as per the CDA pay scales in accordance with Financial Rule 116 of the Government of India. The liability on account of pension payable to all such employees will be that of Government of India as communicated by the Secretary, Department of Telecommunication vide their DO No: 1-45/2003-B dated. 15.03. 2005.

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. Whereas the international traffic revenue is based on the details given by VSNL, with regard to other service providers it is based on records kept by BSNL.

- 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 12,348 lakh (P.Y. Rs. 45,023 lakh) and the amount receivable of Rs 78,297 lakh (P.Y. Rs. 121,699 lakh) from MTNL have been determined based on the rates prescribed by TRAI in the IUC regulation.
- 11.3 No claim has been received from Pakistan Telecom Company Limited on account of telecom traffic for the period from 01.01.2002 to 31.03.2005 (telephone), 01.09.2002 to 31.03.2005 (telex) and 01.07.2003 to 31.03.2005 (telegraph). In the absence of relevant details of traffic data, no provision for income or expenditures relating to it has been created for the above period.

12. License Fee

- 12.1 The Company does not have a system of identifying the revenue from NLD (National Long Distance) service. In the current year the Company has computed the NLD revenue as 30% of circuit revenue plus 4.61% of the basic service revenue excluding circuits and 8.25% of cellular service revenue and 10% of POI revenue. However, in the previous year the company has computed NLD revenue as 30% of Circuit revenue plus 4% of basic revenue (excluding circuits) and cellular service revenue. 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 for BSNL has decided that the Company will be liable to pay license fee and spectrum charges in full, and at the same time BSNL will be allowed reimbursement of license fee (excluding USF levy) for losses incurred on account of rural telephony operations or other socially desirable project. According to the said package BSNL has got 100% reimbursement of license fee from 2001-02 to 2003-04. However, for the current financial year the reimbursement of license fee is restricted to 2/3rd of license fee (excluding USF levy) paid and the quantum of such reimbursement in the financial year 2005-06 will be restricted to 1/3rd.
- 12.3 As per package mentioned in Para 12.2 BSNL was reimbursed an amount of Rs. 176,590 lakh (P.Y. Rs. 230,000 lakh) in the current financial year. This reimbursed amount has been disclosed as extraordinary item.
- 12.4 During the year, the Company has received re-imburement for maintenance of VPTs from Universal Service Fund amounting to Rs 111,707 lakh (P.Y. Rs. 31,025 lakh) which has been accounted for as other income.

13. Inter/Intra Circle Remittance Balance

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 94,502 lakh (P.Y. Rs 90,300 lakh) 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. Loss due to Tsunami waves

During the current year the Tsunami Waves has hit many lower coastal areas in Indian Ocean destroying the assets of BSNL at Andaman & Nicobar Islands extensively. The loss has been assessed by the circle amounting to Rs 1,653 lakh (P.Y. NIL), which has been duly charged to profit, & loss account in Schedule Q.

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 theYear ended 31st March 2005	(Rs. in lakh) For theYear ended 31st March 2004
(A) The movement in deferred tax account is as follows		
Opening Balance	480,335	382,891
(Write back)/Provision for deferred tax liability (Net)	(175,933)	97,444
Closing Balance	304,402	480,335
(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	602,477	523,988
Deferred Tax Liabilities	906,879	1,004,323
(C) Break up of deferred tax assets/liabilities		
Deferred Tax Liabilities:		
Depreciation	984,885	984,885
Others	19,438	19,438
Previous year's Deferred Tax liabilities written back (Net)	(97,444)	-
Total	(A) 906,879	1,004,323
Deferred Tax Assets:		
Provision for debtors	100,829	85,284
Unabsorbed Depreciation	378,353	341,475
Provision for leave encashment	44,276	43,896
Provision for decommissioned asset, wage revision etc.	60,256	42,103
Provision for obsolete inventory and CWIP	18,763	11,230
Total	(B) 602,477	523,988
Net Deferred Tax Liabilities	(A) – (B) 304,402	480,335

Notes:

- a. The Company being a company providing telecommunication service is eligible to claim deduction under Section 80 IA 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 recognized in the year in which the timing differences have originated.

15.2 Current Tax

In the current year BSNL has written back an amount of Rs. 130,196 lakh, the excess provision for income tax made in year 2003-04 due to the provisioning of tax without availing the benefit of section 80 IA (other than the cellular business) because of the disallowance of section 80 IA benefit by the Assessing Authority in its order for the Assessment year 2001-02. However in the Assessment Order of 2002-03, the Assessing authority has accepted the claim of the company for the deduction under Sec 80 IA on whole business (including basic segment) and the same has also been noted in the appeal order for the assessment year 2001-02 by the appellate authority also. As per the legal opinion and the clarification issued by the Ministry of Finance, BSNL is eligible for deduction u/s 80 IA of the Income Tax Act, 1961.

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.

Information about Business Segments – Primary								(Rs. In lakh)	
Particulars	For the year ended 31st March, 2005				For the year ended 31st March, 2004				
	Business Segments		Un – allocable	Total	Business Segments		Un - allocable	Total	
Revenue	Basic	Cellular			Basic	Cellular			
Income From Services	2,985,354	395,644	-	3,380,998	2,928,596	211,338	-	3,139,934	
Other Income	166,558	11,166	6,229	183,953	212,050	1,929	7,846	221,825	
Total	3,151,912	406,810	6,229	3,564,951	3,140,646	213,267	7,846	3,361,759	
Less: Inter Segment Revenue	24,615	11,380	-	35,995	-	-	-	-	
Net Segment Revenue	3,127,297	395,430	-	3,528,956	2,140,646	213,267	7,846	3,361,759	
Segment Results									
Operating Profit Before Interest & Taxes	359,571	225,994	3,340	588,905	535,334	112,223	3,303	650,860	
Interest Income	1,314	1	78,737	80,052	-	-	30,100	30,100	
Interest Expenses	-	-	101	101	-	-	5,453	5,453	
Profit Before Prior Period and Extraordinary Items	360,885	225,995	81,976	668,856	535,334	112,223	27,950	675,507	
Prior Period Adjustment	(54,515)	1,077	-	(53,438)	(5,471)	(419)	-	(5,890)	
Profit Before Extraordinary Items	306,370	227,072	81,976	615,418	529,863	111,804	27,950	669,617	
Extraordinary Items	176,590	-	-	176,590	230,000	-	-	230,000	
Profit before tax	482,960	227,072	81,976	792,008	759,863	111,804	27,950	899,617	
Provision for current tax	-	-	78,816	78,816	-	-	204,520	204,520	
Provision for Wealth Tax	-	-	992	992	-	-	-	-	
Excess Corporate Tax provision written back	-	-	(130,196)	(130,196)	-	-	-	-	
Provision for Deferred Tax	-	-	(175,933)	(175,933)	-	-	97,444	97,444	
Profit After Tax	482,960	227,072	308,297	1018,329	759,863	111,804	(274,014)	597,653	
Other Information									
Segment Assets	7,146,676	518,621	3,116,003	10,781,299	7,984,773	296,602	1,383,536	9,664,911	
Segment Liabilities	1,457,699	277,791	863,817	2,599,307	1,606,086	126,708	348,674	2,081,468	
Capital Expenditure	481,224	275,598	-	756,822	578,915	77,871	-	656,786	
Depreciation	915,413	47,073	-	962,486	951,972	35,402	-	987,374	

17. Related Party Disclosure

17.1 Key Management Personnel

A.K.Sinha	Chairman-cum-Managing Director Since 16.09.2004.
V.P. Sinha	Chairman-cum-Managing Director up to 16.09.2004
S.D.Saxena	Director (Finance) since 29.10.2003
S.C. Choudhury	Director (Operations) since 14.11.2003
R.L. Dube	Director (PL & NS) since 15.12.2004
G.S.Grover	Director (C&M) since 01.05.2005
Niranjan Singh	Director (HRD) since 01.05.2005
R.N.Prabhakar	Director (Government Nominee) since 06.02.2004
Y.S.Bhave	Director (Government Nominee) since 21.12.2004
Dr. J. Sridhara Sarma	Director (Government Nominee) up to 21.12.2004
V.P.Sinha	Director (Planning) up to 30.11.2004.
S. K. Jain	Director (HRD) up to 30.04.2005.
N. K. Mangala	Director (C&M) up to 30.04.2005
Arun Bharat Ram	Director since 29.07.2002 up to 28.07.2005
Ashok Jhunjhunwala	Director since 29.07.2002 up to 28.07.2005
Vivek Singhal	Director since 29.07.2002 up to 28.07.2005

17.2 Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 31st March 2005.

Name of the party	Description of transactions	Amount of transaction (Rs. In lakh)	Outstanding balances as on 31 st March 2005 (Rs. In lakh)
Key Management Personnel	Payment of salary and allowances	40 (37)	-
	Advance given	14 (11)	1 (0)
	Repayment of Advance	13 (11)	-

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. Earning Per Share

Description	For the year ended 31st March 2005	For the year ended 31st March 2004
Profit after taxation (Rs. in lakh)	1,018,329	597,653
Preference dividend including tax (Rs. in lakh)	76,967	-
Weighted average number of Equity Shares outstanding (in number)	5,000,000,000	5,000,000,000
Face value of shares (in Rs.)	10	10
Basic and Diluted earnings per share (in Rs.)	18.83	11.95

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

	For the year ended 31st March 2005 (Rs. In Lakh)	For the year ended 31st March 2004 (Rs. in Lakh)
Salaries & Allowances	32	28
Perquisites	3	5
Pension and Leave salary contribution	0	3
EPF Contribution	4	0
Sitting Fees	1	1
Total	40	37

20. Amount due from Directors

	For the year ended 31st March 2005 (Rs. In Lakh)	For the year ended 31st March 2004 (Rs. In Lakh)
Amount due at the end of the year	1	--
Maximum amount due during the year	<u>11</u>	<u>5</u>

21. Auditors Remuneration: Payment made to Statutory/Branch Auditors

	For the year ended 31st March 2005. (Rs. in lakh)		For the year ended 31st March 2004. (Rs. in lakh)	
	Statutory Auditors	Branch Auditors	Statutory Auditors	Branch Auditors
Statutory Audit Fee	9	173	9	164
Tax Audit Fee	-	17	-	2
As advisor or in any other capacity:				
Certification Charges	1	15	-	30
Management Services	4*	-	-	-
Reimbursement of Expenses	4*	20	-	-

Note:

Fees inclusive of Service Tax & Education Cess wherever applicable.

* Paid for previous year to previous auditors.

Contingent Liabilities:

22.

- a) 48,327 cases of Claims not acknowledged as debts related to TR Billing, enhanced Sales Tax in lieu of C/D Forms, Service Tax disputed, Sales Tax disputed, Customs duty disputed, Central Excise claims for delayed payment of Service Tax/Excise duty, DOP claim and others, involving amount Rs. 23,062 lakh (P. Y. - Rs. 43,081 lakh).
- b) 20,550 cases are pending in court related to Land Acquisition, TR Billing, Service Tax Central Excise & Sales tax, Arbitration cases and others, involving an amount of Rs. 66,001 lakh (P. Y. Rs. 28,197 lakh).
- c) 461 cases of bank guarantees given involving amount Rs. 436 lakh (P. Y. Rs. 6,596 lakh).
- d) The assessment proceedings for the assessment year 2001-02 under Section 143 of the Income Tax Act were completed on 11.02.2004. The Company is liable to pay tax under Section 115JB of the Income Tax Act. By assessment order, an addition of Rs. 367,727 lakh was made on book profit on account of license fee and spectrum charges and provision for bad and doubtful debts and an additional demand of Rs. 35,147 lakh was raised against the company. An appeal was filed with CIT (Appeal), which by his order dated 10.05.2005 reduced the additions to Rs. 110,402 lakh mainly on account of provision for bad and doubtful debts and allowed the license fee and spectrum charges as admissible expenses.

For the assessment year 2002-03 the assessment under Section 143 of Income Tax Act was completed on 28.02.2005. By assessment order an additional demand of Rs. 146,843 lakh was raised against the Company on account of add back of Rs. 447,746 lakh mainly on account of Rs. 340,319 lakh of license fee and spectrum charges, Rs. 58,350 lakh - income from MTNL and Rs. 30,937 lakh – interest on MTNL Bond. This demand is raised without considering the tax deductions under Section 80IA and it is as per normal provision instead of under Section 115JB provisions. An appeal is already filed with CIT (Appeal) on 16.03.2005 and is under progress.

For the assessment year 2003-04 and 2004-05 notice under Section 143(2) of Income Tax Act has been received but assessment proceedings has not been started yet.

- e) Various State governments have levied the Sales Tax on telephone rentals. The matter is sub-judiced and pending in the Hon'ble Supreme Court for the final decision. The liability on account of this is estimated around Rs. 81,272 lakh (P.Y. Rs. 72,945 lakh).
- f) In case of few circles the amount of contingent liability and estimated amount of contract executed on capital accounted has not been ascertained.

23. 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 176,324 lakh (P.Y. Rs. 134,404 lakh).

24. (a) 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.

(b) 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 2005 (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.

(c) 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.

(d) Licensed capacity, installed capacity and actual production details have not been furnished as the production of goods by the Company is for captive consumption.

(e) 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 2005. Hence, the disclosure of total outstanding dues to SSIs 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 SSI as per Small Scale and Ancillary Undertakings Act, 1993 is not presently determined (Previous Year: undeterminable).

(f) The requirement of Schedule VI of the Companies Act 1956, of disclosure has not been complied with respect to classification of Sundry Debtors as secured & unsecured and outstanding for a period exceeding six months.

25. The expenditure in foreign currency

	For the year ended 31st March 2005 (Rs. In lakh)	For the year ended 31st March 2004 (Rs. In lakh)
Travelling	99	93
Legal and Professional	-	2
Others	463	604
Traffic Account	775	-
Advertising	-	-
Total	1,337	699

26. Earnings in Foreign currency

	For the year ended 31st March 2005 (Rs. In lakh)	For the year ended 31st March 2004 (Rs. In lakh)
Training Fees	32	19
Traffic Revenue	168	-
Others	-	-
Total	200	19

27. Imports on CIF Basis:

	For the year ended 31st March 2005 (Rs. in lakh)
Raw Material	-
Components & Spares Parts	5
Capital Goods	57,116
Total	57,121

28. Value of imported stores & spares parts consumed

	For the year ended 31st March 2005 (Rs. in lakh)
Imported	36,500
Indigenous	37,381
Total	73,881

- 29.** The loss on account of foreign exchange rate fluctuation in the current year is Rs. 4 lakh (P.Y. Rs. 0.77 lakh)
- 30.** Some of the state governments have formulated the policy of levying the annual track rent for the cable laid in their states. The company has written to such state governments disputing the policy but the financial implications are unascertainable at this stage.
- 31.** Insurance charges of Rs. 648 lakh recovered from subscriber for WLL Handset Insurance are shown in the current liabilities pending final adjustments.
- 32.** 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.
- 33.** Figures of the previous year have been regrouped or reclassified wherever necessary to conform to the current years grouping and classification.