NOTES TO ACCOUNTS
(SCHEDULE - U)

1. In pursuance of Telecom Policy 1999, the Government of India formed a Company named "Bharat Sanchar Nigam limited" (BSNL) on 15th September 2000. BSNL took over the ongoing business of Department of Telecom Services ("DTS") and Department of Telecom Operations ("DTO") on 01st October 2000.

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 on 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 and up to previous financial year BSNL has identified net assets of Rs. 6,352,028 lakh against it.

During the current financial year, the management based on physical verification of fixed assets and inventory and reconciliation of various heads of assets and liabilities in the subsidiary and general ledgers which has resulted into increase/decrease in the following assets and liabilities taken over as on 01st October 2000 amounting to net reduction in the assets of Rs.5,910 lakh (P.Y. - Rs. 25,452 lakh):

	(Figures in lakh of Rupee)		
Particulars	**Up to March 31, 2007**	**During the year**	**Up to March 31, 2008**
Assets			
Fixed Assets	5,417,921	(1,224)	5,416,697
Capital Work-in-progress	503,112	(481)	502,631
Inventory	188,647	34	188,681
Sundry Debtors	682,740	1,690	684,430
Advance to contractors	39,448	0	39,448
Deposit with Electricity Boards /others	2,086	52	2,138
Total-A	**6,833,954**	**71**	**6,834,025**
Liabilities			
Customer Deposits	391,656	2,048	393,704
Earnest Money deposits	12,525	(367)	12,158
Security Deposits from Contractors /Suppliers	29,454	(355)	29,099
Working Expense Liability as on 1st October 2000	38,283	4,383	42,666
Contractors Bills payable as on 1st October 2000	10,008	272	10,280
Total-B	**481,926**	**5,981**	**487,907**
Net Assets taken over by the Company (A-B)	**6,352,028**	**(5,910)**	**6,346,118**
Previous Year	**6,377,480**	**(25,452)**	**6,352,028**

The net assets and the contingent liabilities transferred to the Company as on 1st October 2000 are subject to confirmation by DoT as regard to their ownership and the value.

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

	(Figures in lakh of Rupee)		
Particulars	**As at 01st October 2000 (as on 31.03.2007)**	**Additions/ (Deletions) during the year ended 31st March 2008**	**Total structure as at 01st October 2000 (as on 31.03.2008)**
Equity	500,000	-	500,000
9% Non-Cumulative Preference Shares	750,000	-	750,000
15 year Government Loan (Interest at prevalent Government lending rate)#	750,000	-	750,000
Loan from MTNL #	305,600	-	305,600
Capital Reserves*	4,046,428	(5,910)	4,040,518
Total	**6,352,028**	**(5,910)**	**6,346,118**

* represents the difference between the total value of the assets taken over and the long term identified liabilities & the capital structure, as on 01.10.2000 as communicated by DoT.

\# The entire amount has already been repaid.

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 had a moratorium on repayment of the principal and interest thereon up to 31st March 2005. In the current financial year the company has repaid the loan amount of Rs. 300,000 lakh (Rs. 450,000 lakh up to 31.03.2007). The provision for interest @14.5 % p.a., as intimated by the DOT vide letter No. 1-43/2004-B dated 03.02.2005 but disputed by the company, has been made on the overdue amount but BSNL has represented to the Government of India for reduction in the rate of interest. No provision has been made for prepayment charges on loan prepaid, penal charges on alleged delay in payment and date of receipt of the payment etc. amounting to Rs.13,170 lakh, in the absence of any term/condition in the initial order of the loan on these issues. However, according to the Department of Telecommunications, the principal is outstanding to the extent of Rs. 280,000 lakh since the disputed interest amounts were adjusted by the Department whom the company has prepaid the entire outstanding loan.

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

5. Fixed Assets / Depreciation/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. Capital assets acquired by the company after 01.10.2000 is valued at the cost including all direct charges incurred up to the time of installation or put to use.

The provisional transfer values, as indicated above, 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 of the Companies Act without reassessing the remaining useful life of such assets as on that date. Depreciation has been provided at the rates as stated above for all the assets acquired after 01.10.2000 except in the case of Subscribers Installations for which accounting policy has been changed during the year to depreciate over the useful life of 5 years whether acquired from DOT or later after 01.10.2000. This change in accounting policy has resulted into additional charge of depreciation amounting to Rs. 98,963 lakh (except one circle) in the current financial year and accordingly the profit of the current year has been reduced by the same amount.

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 in the absence of clear identification of leasehold lands by all the circles. However, as at 31.03.2008 twenty five circles have identified the leasehold land amounting to Rs.13,619 lakh which is included in the total gross block of the land. In the absence of the information relating to such acquisition in other circles, no adjustment has been made for amortizing the cost of such unidentified lease hold land over the lease period.

The lease period of the leasehold lands on which buildings are constructed, have not been renewed / or the renewals are under dispute. No provision has been made for the 'surrender value / written down value of the building' in the hope that the lease would be ultimately renewed.

5.3 In two cases a portion of land measuring 2,683.16 sq. meters have been transferred to Metropolitan Development Authority & Municipal Authority through registered gift deed to comply with the regulation of concerned authorities.

5.4 Pending transfer of the immovable property in the name of the Company, documents in respect of land & buildings acquired during the periods are under legal process/execution. Further in respect of assets taken over from DoT, formalities for vesting the assets in favour of the Company wherever necessary/applicable are under process. Further some of the assets acquired by the Company are yet to be registered in the name of the Company.

5.5 Certain assets that have been completed and put to use, have not been capitalized in seventeen Circles (P.Y. nine Circles) pursuant to the policy of capitalizing only after completion certificates have been obtained and these are still shown as capital work-in-progress. The amount ascertained in respect of nine circles is Rs. 5,642 lakh (P. Y. Rs. 4,448 lakh). To that extent, these have not been depreciated on account of the fact that the total expenditure on capital works is still to be classified under the proper heads.

5.6 Establishment and administration expenses incurred in units where project work is also undertaken, are allocated to capital and revenue based either on man-month allocated or some other proportionate basis. However, the proportionate provision for the merger of part of IDA with basic pay as Dearness Pay could not be capitalized in respect of employees who were looking after project work in absence of necessary details.

5.7 In four circles, there is a difference of Rs. 78 lakh (net) (P.Y. Rs. 351 lakh -net) between the CWIP subsidiary ledger and general control ledger – the general control ledger balance being more.

6. Inventories

6.1 At several locations physical verification of stock has been conducted by the management during the year. 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. In seven circles (P.Y. fourteen circles), the difference between the physical stock and the financial records amounting to Rs. 6,312 lakh (net) shortage in physical stock (P.Y. Rs.

18,541 Lakh (net)) has been noticed and is under reconciliation. The consequential adjustment will be made after the process of reconciliation is over.

6.2 Prices for the sale of stock from Telecom Factories to circles for self-consumption are predetermined. The predetermined rates include direct cost including overhead allocation at a fixed rate. This practice has resulted in internal profit of Rs. 1,546 lakh (P.Y. Rs. 2,510 lakh) for the year ended 31st March 2008 arising out of such transfer. The said 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.

6.3 In nine circles the non-moving, slow moving, obsolete inventories and replaced/ decommissioned assets are in the process of identification. Pending finalization of the process, no provision if any, that may be required, has been made.

6.4 In certain cases, the Company has placed orders for procuring inventory at provisional prices say 80-90% of the previous purchase price. Final purchase price in such cases is determined at a later date. Price difference in such cases is adjusted on the total material available in stock at the time of finalization of purchase price. The proportionate price differential on the already consumed material is adjusted on the existing stock.

7. Sundry Debtors

7.1 In twenty seven Circles, the difference in the closing balance of subsidiary ledger and the sundry debtor figure of the General Ledger has been noticed - the General Ledger balance which are considered for preparation of financial statement, being more by Rs. 13,887 lakh (P.Y. Rs. 30,022 lakh - GL excess). The management is in the process of reconciling these differences; pending reconciliation no adjustment has been made. The provision for doubtful debts is made on the basis of information available in the subsidiary records.

7.2 The age-wise analysis of the sundry debtors as per sub ledger is given below:

(Rs. in lakh)

Particulars	**As at 31st March 2008**	**As at 31st March 2007**
Debtors exceeding six months	621,006	589,889
Other Debtors	127,275	147,753
Total	**748,281**	**737,642**

7.3 The classification of the sundry debtors as secured (to the extent of the security deposits held by the company), unsecured/considered good and considered doubtful, to the extent available is as follows:

(Rs. in lakh)

Particulars	**As at 31st March 2008**	**As at 31st March 2007**
Considered good in respect of which the company is fully secured	179,713	203,987
Considered good but unsecured	145,959	120,224
Doubtful Debts	422,609	413,431
Total	**748,281**	**737,642**

7.4 The requirement of Schedule VI of the Companies Act 1956 has not been fully complied with respect to classification of Sundry Debtors as Secured, Unsecured & Doubtful and with respect to age-wise analysis as Debtors exceeding six months and other debts.

8. Loans & Advances

8.1 The amount of Rs. 135,497 lakh (P.Y. Rs. 196,971 lakh) under 'advances recoverable in cash or in kind or for value to be received' includes the amount due from employees of Rs 37,367 lakh (P.Y. Rs. 39,981 lakh) whose break up is as under:

(Rs. in lakh)

Particulars	As at 31st March 2008	As at 31st March 2007
Considered good in respect of which the company is fully secured	19,411	21,836
Considered good but unsecured	17,956	18,145
Total	**37,367**	**39,981**

8.2 In seven Circles, it has been noticed that there are differences in the subsidiary ledger of loan & advances and other current assets with those appearing in the General Ledger. The management is in the process of reconciling these differences.

9. DoT Balances

9.1 Net amount of Rs 59,336 lakh (P. Y. Rs 47,433 lakh) recoverable on current account from DoT is subject to confirmation, reconciliation and consequential adjustment.

9.2 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.

10. Cash and Bank Balances

10.1 Bank reconciliation statements have not been prepared in few units of eight circles in respect of some bank accounts.

10.2 In eleven Circles (P.Y. twelve circles), it has been noticed that cheques deposited with the bank & TT sent, have not been credited in the relevant bank accounts of the company amounting to Rs. 4,012 lakh (P.Y. Rs. 13,532 lakh) as on 31.03.2008. The management has taken up the case with the concerned banks for early crediting of the amount in the respective account.

10.3 In eleven circles (P.Y. twelve Circles), unlinked credit items amounting to Rs. 2,160 lakh (P.Y. Rs. 7,180 lakh) and in nine circles (P.Y. eight circles) unlinked debit items amounting to Rs. 907 lakh (P.Y. Rs. 1,274 lakh) are appearing in the bank reconciliation statement as at 31.03.2008. The management is in the process of reconciling all such items at the earliest possible.

10.4 Bank balances in three circles include cheques in hand pending to be deposited on 31.03.2008. Amount to the extent identified is Rs. 127 lakh.

11. Employee Cost

11.1 The Company has made pension contribution as per applicable rates to DoT on the basis of pay scales for absorbed employees 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. However, in the year 2006-07 DoT vide their letter No. 1-45/2003-B dt. 15.6.2006 has intimated that annual pension liability of the Government in respect of employees of DoT/DTS/DTO who retired prior to 01.10.2000 and those who have worked / are working in BSNL on deemed deputation and for those who are absorbed in BSNL shall not exceed 60% of the annual receipts to Government from the item (a)

Dividend income from MTNL/BSNL, (b) License fee from MTNL/BSNL, (c) Corporate Tax/Excise Duty/Service Tax paid by BSNL. Any amount exceeding the receipts on account of 3 items mentioned above shall be borne by BSNL. BSNL has taken up the matter with the Government stating that its liability is restricted to pension contribution as per the rates prescribed in Financial Rules.

11.2 The revision in the pay scale of executive and non-executive is due w.e.f. 01.01.2007. Since negotiations with non executive employees have not yet been concluded and the recommendations in respect of executives are yet to be considered and accepted by the Government, no provision for the effect of the revision in the pay scale of both kinds of staff has been made.

11.3 a) The Company has got done valuation of Gratuity liability through Actuary as per Accounting Standard 15 (revised 2005) 'Employee Benefits' regarding liability towards gratuity as of 31st March 2008 and proposes to take out a policy w.e.f. 01st April 2008. As per the transitional provisions, the additional liability as on March 31, 2008 on account of gratuity liability was Rs. 1,513 lakh, (assuming a service cost of Rs. 877 lakh for the current year being the same as the service cost for the year 2008-09) which has been adjusted against opening reserves and surplus.

b) During the year, the Company has recognized the following amounts in the Profit and Loss Account

Defined Contribution Plans

(Fig. in Lakh)

	Year ended March 31, 2008	Year ended March 31, 2007
Employer's Contribution to Provident Fund	6,263	3,844
Pension Contribution to Government of India	82,115	53,185

Defined Benefit Plans (included under the head provisions for Gratuity)

(Fig. in Lakh)

	Gratuity Unfunded as at March 31, 2008
Current Service Cost	**877**
Interest Cost	**-**
Expected Return on Plan Assets	**-**
Actuarial (gain)/loss	**-**
Past service cost	**3,624**
Curtailment and Settlement Cost/(Credit)	**-**
Net Cost	**4,501**

c) The assumptions used to determine the benefit obligations are as follows:

	Gratuity Unfunded
Discount Rate	**8% p.a.**
Expected Rate of increase in Compensation Levels	**5%**
Expected Rate of Return on Plan Assets	**0**
Expected Average remaining working lives of employees (years)	**26.36**

d) Reconciliation of opening and closing balances of benefit obligations and plan assets, estimated amounts of benefits payable within next year has not been provided since this is the first year of implementation.

12. **Revenues**

12.1 TRAI had changed the rates of ADC under IUC regulation w.e.f. 01.04.2007 as per which BSNL is eligible to receive Access Deficit Charges (ADC) @ 0.75% of Adjusted Gross Revenue (AGR) of other Basic, CMTS, USAL, NLD & ILD operators in place of 1.5% of the AGR in the previous financial year and, similarly, TRAI has reduced per minute based ADC on Incoming ILD calls to Rs. 1 per minute from Rs. 1.60 per minute.

12.2 No interconnect (IUC) agreement exists between BSNL and MTNL for carriage of traffic in each other's network. During the year the company has computed and accounted for the interconnect charges based on the rates prescribed by TRAI in IUC regulation. The claims raised by both the parties are disputed. The net claim receivable as on 31.03.2008 from MTNL is subject to confirmation.

12.3 No claim has been received from Pakistan Telecom Company Limited on account of telecom traffic for the period from 01.01.2002 to 31.03.2008 (telephone), 01.09.2002 to 31.03.2008 (telex) and 01.07.2003 to 31.03.2008 (telegraph). In the absence of relevant details of traffic data, no recognition of income and provisioning for expenditures relating to it has been accounted for the above period.

12.4 No claim has been received from Bangladesh Telegraph & Telephone Board (BTTB) for the period from 01.05.2006 to 31.03.2008 during the current financial year however, the accounting entry has been made based on BSNL data.

12.5 Telephones disconnected due to non-payment up to three months' period are considered as working connection and are processed for permanent closure after this period. Pending permanent closure of such telephone the bills for rental amount are issued and accounted for as income.

12.6 In one circle, prepaid mobile service revenue amounting to Rs 780 lakh which was to be treated as income was wrongly credited to Sundry Debtors. In restoring such wrong credits to the appropriate income heads, sufficient details in support of such prepaid telephone revenue could not be made available by the circle.

13. **License Fee**

For the purpose of calculation of License fee, the Company is segregating the revenue from National Long Distance (NLD) & International Long Distance (ILD) services from the total billed amount based on sample traffic details. In the current financial year also the Company has computed the NLD revenue as 30% of circuit revenue as in the previous financial year and, similarly the NLD component of POI revenue has been taken on actual basis. For the Basic Service excluding circuit revenue the company has computed NLD & ILD revenue as 11.96% and 2.20 % respectively (P.Y. 8.97 % and 0.87 % respectively) of AGR for current financial year. Similarly for Cellular Service revenue the Company has computed NLD & ILD revenue as 8.19 % and 3.46 % respectively (P.Y. 7.76 % and 1.81 % respectively) of AGR for the current financial year.

14. **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. 66,231 lakh (P.Y. Rs. 105,068 lakh) in Inter/Intra-Circle Remittances account. The cumulative impact of such differences between control accounts and subsidiary ledger and the un-reconciled balance in Inter/Intra Circle Remittance account on the affected accounts of income, expenditure, assets and liabilities is presently not ascertainable.

15. **Others**

15.1 In the absence of any agreement between BSNL and MTNL generally no income and expenditure have been recognized on account of use of jointly occupied buildings and other infrastructure owned by either party.

15.2 Three installments of Rs. 4,000 lakh each are overdue for redemption of preference shares in respect of investment in M/s ITI Ltd. at the end of the year.

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)

	For the year ended 31st March, 2008				For the year ended 31st March, 2007			
Particulars	Business Segments		Un - allocable	Total	Business Segments		Un - allocable	Total
Revenue	*Basic	Cellular			Basic	Cellular		
Income From Services	2,101,698	1,134,255	-	3,235,953	2,497,289	964,332	-	3,461,621
Inter Segment Revenue	110,628	47,328	-	157,956	61,057	24,950	-	86,007
Other Income	159,226	6,837	-	166,063	156,412	7,903	64,920	229,235
Net Segment Revenue	**2,371,552**	**1,188,420**	**-**	**3,559,972**	**2,714,758**	**997,185**	**64,920**	**3,776,863**
Segment Results								
Operating Profit Before Interest & Taxes	**(380,452)**	**602,416**	**1,626**	**223,590**	**(13,963)**	**568,287**	**67,438**	**621,762**
Interest Income	2,876	20	400,428	403,324	2,261	13	278,849	281,123
Interest Expenses	(1,623)	(3)	(84,628)	(86,254)	(1,818)	-	(76,122)	(77,940)
Profit Before Prior Period and ExtraOrdinary Items	**(379,199)**	**602,433**	**317,426**	**540,660**	**(13,520)**	**568,300**	**270,165**	**824,945**
Change in Accounting Policy (Depreciation)	(98,963)	-	-	(98,963)				
Prior Period Adjustment	5,279	(1,821)	-	3,458	(4,454)	(5,110)	-	(9,564)
Profit before tax	**(472,883)**	**600,612**	**317,426**	**445,155**	**(17,974)**	**563,190**	**270,165**	**815,381**
Provision for current tax	-	-	(136,094)	(136,094)	-	-	(96,229)	(96,229)
Provision for Wealth tax	-	-	(145)	(145)	-	-	(130)	(130)
Provision for Fringe Benefit Tax			(3,700)	(3,700)	-	-	(3,700)	(3,700)
MAT Credit	-	-	2,171	2,171	-	-	19,470	19,470
Provision for deferred tax	-	-	(6,448)	(6,448)	-	-	45795	45,795
Profit After Tax	**(472,883)**	**600,612**	**173,210**	**300,939**	**(17,974)**	**563,190**	**235,371**	**780,587**
Other Information								
Segment Assets	6,511,724	1,435,575	4,944,648	12,891,947	7,187,516	1,304,467	4,366,089	12,858,072
Segment Liabilities	2,003,733	721,854	1,637,867	4,363,454	1,716,898	655,923	1,338,173	3,710,994
Capital Expenditure	434,380	167,292	(5,191)	596,481	355,595	216,337	5662	577,594
Depreciation	853,032	116,579	-	969,611	810,063	104,868	-	914,931
Non cash expense other than Depreciation	118,131	16,896	-	135,027	155,855	15,628	-	171,483

* includes Head Office Expenses.

17. **Related Party Disclosure**

17.1 **Key Management Personnel**

Designations	Name	Remarks
CMD	Sh. Kuldeep Goyal	Since 06.08.07.
	Sh. A.K.Sinha	Since 06.09.04 to 31.07.07.
Director (F)	Sh. S.D.Saxena	Since 29.10.03.
Director (Plg & NS)	Sh. R.K.Agarwal	Since 11.04.08.
	Sh. Kuldeep Goyal	Since 01.05.07 to 05.08.07.
	Sh. R.L. Dube	Since 15.12.04 to 30.04.07.
Director (HRD)	Sh. Gopal Das	Since 04.10.07.
	Sh. Niranjan Singh	Since 01.05.05 to 30.09.07.
Director (Ops)	Sh. J.R.Gupta	Since 02.11.05.
Director (C&M)	Sh. Rajendra Singh	Since 07.11.07.
Govt. Director	Sh.J.S.Deepak	Since 21.04.08.
	Sh. P.K.Mittal	Since 05.06.08.
	Sh. A. Bandyopadhyay	Since 14.12.06 to 03.03.08.
	Sh. M. Sahu	Since 08.03.06 to 05.02.08
Non Official Part time Director	Sh. S.K. Kak	Since 20.02.08.
	Sh. Mahesh Shah	Since 20.02.08.

17.2 Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 31st March 2008.

Name of the party	Description of transactions	Amount of transactions	Outstanding balances as on 31st March 2008
		(Rs. In lakh)	(Rs. In lakh)
Key Management Personnel	Payment of salary and allowances	40.49 (40.04)	-
	Advance given: Opening balance Extended During the year Total	 0.41 (4.83) 32.03 (27.12) 32.44 (31.95)	
	Repayment of Advance	25.52 (31.54)	6.92 (0.41)

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	2007-08	2006-07
Profit after Tax (Rs. in lakh)	300,939	780,587
Less: Preference dividend including tax (Rs. in lakh)	78,972	78,972
Balance for Equity Shareholders (Rs. in lakh)	221,967	701,615
Number of Equity shares outstanding (in number)	5,000,000,000	5,000,000,000
Face value of shares (in Rs.)	10	10
*Basic earnings per Equity share (in Rs.)	**4.44**	**14.03**

* There are no diluted equity shares.

19. Taxes on Income

19.1 Deferred Tax

The deferred tax has been dealt with in accordance with the contention of the Company before the tax authorities that the Capital reserve arising out of the capital structure at the time of incorporation of the company is not in the nature of grant and hence not to be reduced from the value of fixed assets. According to the company's contention, the depreciation provided in the book on the value of assets without deducting the amount involved in capital reserve is admissible in income tax. On this basis, the Company is recognizing the deferred tax assets/liabilities.

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

(Rs. in lakh)

	2007-08	**2006-07**
(A) The movement in deferred tax account is as follows		
Opening Balance	124,605	170,400
(Write back)/Provision for deferred tax liability (Net)	6,448	(45,795)
Closing Balance	**131,053**	**124,605**
(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	516,704	613,510
Deferred Tax Liabilities	647,757	738,115
Net Deferred Tax Liability	131,053	124,605
(C) Break up of deferred tax assets/liabilities		
Deferred Tax Liabilities:		
Depreciation	630,389	720,747
Others	17,368	17,368
Total	**647,757**	**738,115**
Deferred Tax Assets:		
Provision for debtors	131,642	228,704
Unabsorbed Depreciation	259,055	259,055
Provision for leave encashment	91,283	78,487
Provision for decommissioned asset, wage revision etc.	27,476	27,764
Provision for obsolete inventory and CWIP	3,968	16,424
Provision for contingency	117	364
Provision for payment to staff gratuity fund (DR)	1,114	663
Others	2,049	2,049
Total	**516,704**	**613,510**

Notes:

a. The Company, being a company providing telecommunication services, 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. For this purpose, as a conservative measure, deferred tax provision has been made in respect of the period when only 30% of the profits would be tax free assuming that only 70% of the timing differences would reverse.

19.2 **Current Tax**

During the year the Company has claimed 100% deductions on Business Income under Section 80-IA of the Income Tax Act, 1961. For the current financial year i.e. 2007-08, the Company has become liable to tax under the normal provisions instead of being liable for MAT under section 115 JB in the last year.

19.3 As per the provision of Section 115 JAA, MAT Credit receivable has been recognized on the basis of return filed for the previous financial year i.e. 2006-07.

20. The disclosure relating to provisions in terms of AS 29, to the extent available, are as under:

(Rs. In lakh)

Name of Provisions	Opening Balance as at 01.04.2007	Fresh Provision made during the year	Provision utilized during the year	Provision written back during the year	Closing balance as at 31.03.2008
Wealth Tax	413 (400)	145 (130)	143 (117)	- (-)	415 (413)
Dividend	67,500 (80,000)	150,000 (117,500)	97,500 (130,000)	- (-)	120,000 (67,500)
Tax on Dividend	11,472 (11,220)	25,493 (18,484)	16,570 (18,232)	- (-)	20,395 (11,472)
Phased out assets	10,523 (10,595)	- (-)	- (72)	10,523 (-)	- (10,523)
Leave Encashment	422,839 (405,153)	39,816 (19,225)	1,648 (1,539)	- (-)	461,007 (422,839)
Gratuity	2,111 (490)	2,393 (1,621)	- (-)	- (-)	4,504 (2,111)
Contingencies	824 (853)	360 (110)	90 (139)	8 (-)	1,086 (824)
Total	**515,682 (508,711)**	**218,207 (157,070)**	**115,951 (150,099)**	**10,531 (-)**	**607,407 (515,682)**

Note: Figures in bracket denotes previous year figures.

21. **Remuneration to the Chairman-cum-Managing Director and other Directors.**

Particulars	2007-08	2006-07
	(Rs. In lakh)	(Rs. In lakh)
Salaries & Allowances	36.66	43.89
Perquisites	3.67	1.17
EPF Contribution	3.10	4.05
Sitting Fees	0.20	0
Total	**43.63**	**49.11**

22. **Advance to Directors:**

Particulars	2007-08	2006-07
	(Rs. In lakh)	(Rs. In lakh)
Amount due at the end of the year (TA Advance)	6.92	0.41
Maximum amount due during the year	16.89	10.96

23. **Auditors Remuneration:** (Statutory/Branch Auditors):

Particulars	2007-08 (Rs. in lakh)		2006-07 (Rs. in lakh)	
	Statutory Auditor	Branch Auditors	Statutory Auditor	Branch Auditors
Statutory Audit Fee	9.60	176	9.60	174
Tax Audit Fee	-	19	-	20
As advisor or in any other capacity:				
Certification Charges	0.96	19	0.96	17
Management Services	2.50	3	2.00	-
Reimbursement of Expenses	0.99	21	1.06	18

Note: Fees exclusive of Service Tax & Education Cess wherever applicable.

24. Information required under Para 4-D of part II of Schedule VI of the Companies Act, 1956, to the extent available, are as under:

i) Value of Imports on CIF Basis:

Particulars	2007-08	2006-07
	(Rs. In lakh)	(Rs. In lakh)
Raw Material	-	-
Components & Spares Parts	-	7,445
Capital Goods	24,517	38,220
Total	**24,517**	**45,665**

ii) The expenditure in foreign currency:

Particulars	2007-08	2006-07
	(Rs. In lakh)	(Rs. In lakh)
Expenses on Services	16,550	8,986
Software License Fee	-	1,756
Traveling	171	127
Others	117	50
Total	**16,838**	**10,919**

iii) Consumption of imported and indigenous stores & spares parts (to the extent identified):

Particulars	2007-08		2006-07	
	(Rs. in lakh)	%	(Rs. in lakh)	%
Imported	20,762	46.82	1,354	2.92
Indigenous	23,583	53.18	45,000	97.08
Total	**44,345**	**100.00**	**46,354**	**100.00**

iv) Earnings in Foreign currency:

Particulars	2007-08	2006-07
	(Rs. In lakh)	(Rs. In lakh)
Training Fee	22	23
Income from Services	13,314	3,524
Others	124	-
Total	**13,460**	**3,547**

25.

(a) Information required relating to consumption of stores & spare parts under paragraphs 3(x)(a) of Part II of Schedule VI of the Companies Act, 1956 is not ascertainable for the year ended 31st March 2008 (Previous Year - unascertainable), since consumption of stores is included under the normal heads of repairs & maintenance.

(b) Information required under Para 3 (II) (2) of part II of the Schedule VI of the Companies Act, 1956 in respect of opening stock, closing stock and sales of finished goods have not been shown as the production of goods by the Company is for captive consumption.

(c) Information required under Para 4 (c) of part II of the Schedule VI of the Companies Act, 1956 in respect of installed capacity and actual production details of the factories of the Company have not been furnished as the production of goods by the Company is for captive consumption.

(d) The Company is in the process of identification of Micro, Small and Medium Enterprises under the Micro, Small and Medium Enterprises Development Act, 2006 except for 2 circles. As such the required information in terms of section 22 of MSMED Act in respect of the two circles to the extent available is given below:

Particulars	Amount as at 31.03.2008
The principal amount due to any "supplier"	Rs. 5,864 lakh
The amount of interest paid by the buyer in terms of section 16 of the MSMED Act, 2006	NIL
The amount of interest due and payable for the period of delay in making payment	NIL
The amount of interest accrued and remaining unpaid at the end of each accounting year	NIL
The amount of further interest remaining due and payable even in the succeeding years as per Section 23 of MSMED Act 2006	NIL

26. Contingent Liabilities:

a) Claims not acknowledged as debts are as follows:

Particulars	As at 31.03.2008		As at 31.03.2007	
	No. of Cases	Amount (Rs. In lakh)	No. of Cases	Amount (Rs. In lakh)
TR Billing	203	292	372	618
Enhanced Sales Tax in lieu of C/D Forms	2	159	8	1,052
On account of service tax disputed	73	10,869	67	11,078
Sales tax disputed	48	7,604	42	7,827
Customs duty disputed	2	5	1	-
Central Excise claims	27	1,622	16	1,290
Disputed interest, penal interest & pre-payment charges on 15 year Govt. loan	1	13,170	1	3,358
Others	171	8,167	164	10,358
Total	**527**	**41,888**	**671**	**35,581**

b) Claims pending in court related to Land Acquisition, TR Billing, Service Tax, Central Excise & Sales tax, Arbitration cases and others.

Particulars	**As at 31.03.2008**	**As at 31.03.2007**
No. of cases	25,155	28,640
Amount (Rs. in lakh)	574,985	2,300,204

c) Demands raised by the Income Tax Departments not acknowledged as debt are as follows:

Assessment Year	**As at 31.03.2008**		**As at 31.03.2007**	
	Forum where pending	**Amount (Rs. In lakh)**	**Forum where pending**	**Amount (Rs. In lakh)**
2001-02	ITAT u/s 143	14,501	ITAT u/s 143	14,501
2001-02	Hon'ble High Court u/s 147	81,899	Hon'ble High Court u/s 147	81,899
2002-03	ITAT u/s 143	2,757	ITAT u/s 143	2,757
2003-04	ITAT u/s 143	197,943	ITAT u/s 143	197,943
2004-05	ITAT u/s 143	36,110	ITAT u/s 143	31,107
2005-06	ITAT u/s 143	31,667	-	-
Total		**364,877**		**328,207**

The Income Tax Department has initiated re-assessment proceedings against the Company for the AY 2001-02 and AY 2002-03. The main contention of the department is that the amount shown in the balance sheet of the respective years under the head "Reserve" amounting to Rs. 33,160 crore is to be treated as financial relief/grant/subsidy hence is to be reduced from the actual cost of fixed assets. Consequently the depreciation charged would be lower than what has been claimed by the Company. The re-assessment proceedings are having cascading effect on all the subsequent assessment years also.

During AY 2005-06, the Assessment Officer has not allowed deductions of Rs.3612.40 crore u/s 80 IA claimed by the Company. However, CIT(A) has allowed deductions u/s 80- IA on Rs. 2882.97 crore and for balance Rs. 729.43 crore, an appeal has been filed before ITAT, Delhi Bench. The Company is claiming 100% deductions u/s 80-IA on the business income from the FY 2003-04 and onwards. The impact of such disallowance for other years is not known.

d) Liability on account of bank guarantees given by the Company.

Item	**As at 31.03.2008**		**As at 31.03.2007**	
	With cash margin	Without cash margin	With cash margin	Without cash margin
No. of cases	62	202	8	327
Amount (Rs. In lakh)	818	6,094	41	9,621

e) The Government of Jammu & Kashmir vide notification SRO No. 117 dated 30th March, 2007 has levied tax @ 8% on service provided by Telecom / Cellular Phone Agencies in the State of Jammu & Kashmir. This notification is on the amendment of SRO No.51 dated 01st March 2005 where services provided by Telecom / Cellular Phone Agencies were brought to the tax net. Relying on Hon'ble Supreme Court Judgement dated March 2003 in Writ Petition Civil No. 183 of 2003, J&K Telecom Circle has neither collected tax from subscribers nor deposited with the Government of Jammu & Kashmir (liability not ascertained).

f) In case of few circles, the amount of contingent liability and estimated amount of contract remaining to be executed on capital account has not been ascertained.

27. 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, to the extent available, is Rs. 233,653 lakh (P.Y. Rs. 108,194 lakh).

28. Since the Circles of the Company have not followed uniform grouping of items of Income and Expenditure, the accounts have been compiled from the Trial Balance of the Circles.

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