

**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. 6,346,118 lakh (P.Y. Rs. 6,352,028) 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, has taken over as on 01st October 2000 amounting to net reduction in the assets of Rs. 6,952 lakh [P.Y. (-)Rs. 5,910 lakh]:

Particulars	(Figures in lakh of Rupee)		
	Up to March 31, 2008	During the year	Up to March 31, 2009
Assets			
Fixed Assets	5,416,697	47	5,416,744
Capital Work-in-progress	502,631	0	502,631
Inventory	188,681	(554)	188,127
Sundry Debtors	684,430	0	684,430
Advance to contractors	39,448	0	39,448
Deposit with Electricity Boards /others	2,138	35	2,173
Total-A	6,834,025	(472)	6,833,553
Liabilities			
Customer Deposits	393,704	0	393,704
Earnest Money deposits	12,158	(34)	12,124
Security Deposits from Contractors /Suppliers	29,099	(69)	29,030
Working Expense Liability as on 1 st October 2000	42,666	588	43,254
Contractors Bills payable as on 1 st October 2000	10,280	5,995	16,275
Total-B	487,907	6,480	494,387
Net Assets taken over by the Company (A-B)	6,346,118	(6,952)	6,339,166
Previous Year	6,352,028	(5,910)	6,346,118

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:

Particulars	(Figures in lakh of Rupee)		
	As at 01 st October 2000 (as on 31.03.2008)	Additions/ (Deletions) during the year ended 31 st March 2009	Total structure as at 01 st October 2000 (as on 31.03.2009)
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*	4,040,518	(6,952)	4,033,566
Total	6,346,118	(6,952)	6,339,166

* 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. 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 balance principal amount as per its books but BSNL has represented to the Government of India for reduction in the rate of interest. In the absence of any term/condition in the initial order of the loan, 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. 10,396 lakh (P.Y. Rs. 13,170 lakh), which is also the difference between the outstanding balance principal amount of the loan as in the books of BSNL and DOT.

4. The value of fixed assets, inventories and debtors 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, 1956 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 which are depreciated over the useful life of 5 years on written down value method. However, in two units of two circles, the depreciation has not been calculated as per the policies of the Company.

- 5.2 Land at several locations has been taken over at a nominal value say Rs. 1, wherever original cost is not available. As at 31.03.2009 twenty eight circles (P.Y. twenty five circles) have identified the leasehold land. In the absence of the information relating to such acquisition in other cases, 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 leases would be ultimately renewed.

In one circle fixed assets amounting to Rs. 527 lakh could not be accounted in the books due to late identification.

- 5.3 Pending transfer of the immovable property 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 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.

- 5.4 Certain assets that have been completed and put to use, have not been capitalized in twenty five circles (P.Y. seventeen circles) pursuant to the policy of capitalizing only after completion certificates have been obtained and till then these are still shown as capital work-in-progress. The amount ascertained in respect of eleven circles (P.Y. nine circles) is Rs. 21,476 lakh (P. Y. Rs. 5,642 lakh). To that extent, these have not been depreciated on account of the fact that the total expenditure on such capital works is still to be classified under the proper heads.

- 5.5 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.

- 5.6 In two circles (P.Y. four circles), there is a difference of Rs. 57 lakh (net) (P.Y. Rs. 78 lakh - net) between the CWIP subsidiary ledger and general control ledger.

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 three circles (P.Y. not identified), the difference between the Store Ledger and the General Ledger to the extent identified amounting to Rs. 575 lakh (net) (P.Y. not identified) 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 transfer 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. 1,404 lakh (P.Y. Rs. 1,546 lakh) for the year ended 31st March 2009 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 twenty circles (P.Y. nine circles) the non-moving, slow moving and obsolete inventories 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 eight circles (P.Y. 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. 8,788 lakh (P.Y. Rs. 13,887 lakh - GL excess) to the extent identified. 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:

Particulars	(Rs. in lakh)	
	As at 31 st March 2009	As at 31 st March 2008
Debtors exceeding six months	545,615	621,006
Other Debtors	104,251	127,275
Total	649,866	748,281

- 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 as per sub ledger is as follows:

Particulars	(Rs. in lakh)	
	As at 31 st March 2009	As at 31 st March 2008
Considered good in respect of which the company is fully secured	127,592	179,713
Considered good but unsecured	122,543	145,959
Doubtful Debts	399,731	422,609
Total	649,866	748,281

- 7.4 The requirement of Schedule VI of the Companies Act, 1956 has been 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 as per sub ledger and not general ledger.

8. Loans & Advances

- 8.1 The amount of Rs. 186,080 lakh (P.Y. Rs. 135,497 lakh) under 'advances recoverable in cash or in kind or for value to be received' includes the amount due from employees of Rs. 37,264 lakh (P.Y. Rs. 37,367 lakh) whose break up is as under:

Particulars	(Rs. in lakh)	
	As at 31 st March 2009	As at 31 st March 2008
Considered good in respect of which the company is fully secured	16,917	19,411
Considered good but unsecured	20,347	17,956
Total	37,264	37,367

- 8.2 In eighteen circles (P.Y. seven circles), it has been noticed that there are differences in the subsidiary ledger of loans & advances with those appearing in general ledger. The management is in the process of reconciling the differences of current assets as well as other current liabilities.

9. DoT Balances

- 9.1 Net amount of Rs. 77,520 lakh (P. Y. Rs. 59,336 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 on current account, 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 in respect of six collection accounts of units under four circles have not been prepared.
- 10.2 In fourteen circles (P.Y. eleven 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. 8,596 lakh (P.Y. Rs. 4,012 lakh) as on 31.03.2009. The management has taken up the case with the concerned banks for early crediting of the amount in the respective account.
- 10.3 In sixteen circles (P.Y. eleven circles), unlinked credit items amounting to Rs. 1,677 lakh (P.Y. Rs. 2,160 lakh) and in thirteen circles (P.Y. nine circles) unlinked debit items amounting to Rs. 1,446 lakh (P.Y. Rs. 907 lakh) are appearing in the bank reconciliation statement as at 31.03.2009. The management is in the process of reconciling all such items at the earliest possible.
- 10.4 Bank balances in one circle include cheques in hand pending to be deposited in to bank on 31.03.2009. Amount has not been quantified. In three circles cash/cheque/DD amounting to Rs. 46 lakh (P.Y. not ascertained) has been received but remains pending to be accounted in the books as on 31.03.2009.

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 scales of non-executives are due w.e.f. 01.01.2007. Since negotiations with non executive employees have not yet been concluded, no provision for the effect of the revision in the pay scale of such staff has been made except to the extent of interest free pay advance made in F.Y.2009-10 but before Balance Sheet date which is adjustable against pay finally to be revised, which has been accounted for as an expenditure. However, the liabilities towards amount payable to the executives as approved by the Board in accordance with DPE Guidelines has been fully recognized.
- 11.3 During the year, the Company has recognized the following amounts in the Profit and Loss Account:

a. Defined Contribution Plans

Contribution to defined contribution plan i.e. Employer's contribution to Provident Fund for the year is charged to Profit & Loss Account. These amounts are shown as under:

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Employer's Contribution to Provident Fund	6,878	6,263
Pension Contribution to Government of India	128,839	82,115

b. Defined Benefit Plans

The Employee's Gratuity Fund Scheme administered by BSNL Employees Gratuity Fund Trust through four fund managers namely Life Insurance Corporation of India, SBI Life Insurance Company Limited, HDFC Standard Life Insurance Company Limited and Reliance Life Insurance Company Limited, is a defined benefit plan. The present value of obligation is determined on actuarial valuation using Projected Unit Credit Method to arrive the final obligation.

Leave encashment is also a defined benefit plan but it is not funded and the provision of the liability has been made on estimated basis.

i) Defined benefits / expenses for Gratuity recognized for the year

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Current Service Cost	1,151	877
Interest Cost	430	-
Expected Return on Plan Assets	287	-
Total actuarial (gain)/loss	2,667	-
Past Service Cost	-	3,624
Curtailment and Settlement Cost/(Credit)	-	-
Net Cost	3,961	4,501

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

	Year ended March 31, 2009	Year ended March 31, 2008
Discount Rate	8%	8%
Expected Rate of Increase in Compensation Levels	7%	5%
Expected Rate of Return on Plan Assets	8%	NIL
Expected average remaining working lives of employees (years)	26.47	26.36
Mortality Table	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate

iii) **Reconciliation of opening and closing balances of defined benefit obligations for Gratuity**

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Present value of obligations as at beginning of year*	5,378	NIL
Interest Cost	430	NIL
Current Service Cost*	1,151	877
Benefits Paid	0	NIL
Actuarial (gain)/Loss on obligations (Balancing Figure)	2,630	NIL
Present value of obligations as at end of year*	9,589	4,501

* Investment was made in August 2008 considering the additional liabilities amounting to Rs. 877 lakh of 2008-09. Therefore, the present value of obligation at the beginning of the year is Rs. 5,378 (i.e. sum of Rs. 4,501 lakh and Rs. 877 lakh)

iv) **Reconciliation of opening and closing balances of fair value of plan assets for Gratuity**

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Fair value of plan assets at beginning of year	0	NIL
Contributions during the year	5,378	NIL
Expected return on plan assets @ 8%	287	NIL
Benefits paid	0	NIL
Actuarial Gain / (Loss) on Plan assets	(37)	NIL
Fair value of plan assets at the end of year	5,628	NIL

v) **Reconciliation of fair value of assets and obligations for Gratuity as on March 31, 2009**

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Fair value of plan assets at the end of year	5,628	NIL
Present value of obligations as at end of year	9,589	4,501
Unfunded amount recognized in Balance Sheet	3,961	4,501

vi) **Gratuity Fund Investment details (Fund manager wise, to the extent funded)**

(Rs. in lakh)

	Year ended March 31, 2009	Year ended March 31, 2008
Life Insurance Corporation of India (35.49%)	1,997	NIL
SBI Life Insurance (15.09%)	850	NIL
HDFC Standard Life Insurance (34.42%)	1,937	NIL
Reliance Life Insurance (15%)	844	NIL
Total (100%)	5,628	NIL

12. **Revenues**

12.1 TRAI has reduced per minute based ADC on incoming ILD calls to Rs. 0.50 per minute from Rs. 1.00 per minute for the period of 01.04.2008 to 30.09.2008. The AGR based ADC and ADC on ILD calls (per minute basis) have been abolished from 01.04.2008 and 01.10.2008 respectively.

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 31.03.2009 from MTNL is subject to confirmation.

- 12.3 No claim has been received from Bangladesh Telegraph & Telephone Board (BTTB) now known as Bangladesh Telecom Corporation Limited (BTCL) for the period from 01.05.2006 to 31.03.2009 during the current financial year. However, the accounting entry has been made based on BSNL data.
- 12.4 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.

13 License Fee and Spectrum Charges

- 13.1 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 Leased line 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 14.84% and 6.21% respectively (P.Y. 11.96 % and 2.20 % respectively) of AGR for current financial year. Similarly for Cellular Service revenue the Company has computed NLD & ILD revenue as 11.20 % and 2.61 % respectively (P.Y. 8.19 % and 3.46 % respectively) of AGR for the current financial year.
- 13.2 The spectrum for 3G services and Broadband Wireless access services has been earmarked for BSNL on 08.08.2008. As per which one time spectrum fee at a price equal to highest bid as determined in respective service areas is payable by the Company. Further BSNL is also to pay annual spectrum usage charge of 1% of AGR after a period of one year from the date of earmarking of frequencies. The amount as per bid is not determined by the Government of India and accordingly liability accruing on this account shall be accounted for in the year of payment/credit and therefore no effect has been given in the books of accounts. However, the reserve bid price for spectrum for BSNL service area for 3G is Rs. 1860 crore & for broadband wireless access it is 50% of 3G reserve price and this spectrum allotment will be for a duration of 20 years & 15 years respectively as per guidelines for auctions issued by the Department of Telecommunications on 1st August, 2008.

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. 111,349 lakh (P.Y. Rs. 66,231 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 Four installments of Rs. 4,000 lakh each are overdue for redemption of 7% Redeemable Cumulative Preference shares in respect of investment in M/s ITI Ltd. at the end of the year and no dividend has been received till date.

16. Segmental Information

Primary Segment: Cellular and Other than 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.

SEGMENT REPORTING

(Rs. in lakh)

Particulars	For the year ended 31st March, 2009				For the year ended 31st March, 2008			
	Business Segments		Un – allocable	Total	Business Segments		Un – allocable	Total
	Other than Cellular	Cellular			Other than Cellular	Cellular		
Income From Services	1,908,198	1,118,355	304	3,026,857	2,149,673	1,134,254	303	3,284,230
Inter Segment Revenue	121,980	55,506	-	177,486	110,628	47,328	-	157,956
Other Income	151,815	12,216	1,800	165,831	100,320	6,112	10,697	117,129
Net Segment Revenue	2,181,993	1,186,077	2,104	3,370,174	2,360,621	1,187,694	11,000	3,559,315
Segment Results								
Operating Profit Before Interest & Taxes	(483,673)	533,179	(246,292)	(196,786)	(288,069)	602,498	(90,838)	223,591
Interest Income	5,465	115	382,924	388,504	2,865	20	400,439	403,324
Interest Expenses	(1,031)	-	(43,294)	(44,325)	(1,623)	(3)	(84,628)	(86,254)
Profit Before Prior Period and ExtraOrdinary Items	(479,239)	533,294	93,338	147,393	(286,827)	602,515	224,973	540,661
Change in Accounting Policy (Depreciation)	(1,622)	-	-	(1,622)	(98,964)	-	-	(98,964)
Prior Period Adjustment	(15,502)	(3,005)	(101)	(18,608)	5,279	(1,821)	-	3,458
Profit Before ExtraOrdinary Items	(496,363)	530,289	93,237	127,163	(380,512)	600,694	224,973	445,155
Extraordinary Items	-	-	-	-	-	-	-	-
Profit before tax	(496,363)	530,289	93,237	127,163	(380,512)	600,694	224,973	445,155
Provision for current tax	-	-	(132,322)	(132,322)	-	-	(136,094)	(136,094)
Provision for Wealth tax	-	-	(125)	(125)	-	-	(145)	(145)
Provision for Fringe Benefit Tax	-	-	(3,800)	(3,800)	-	-	(3,700)	(3,700)
MAT Credit	-	-	-	-	-	-	2,171	2,171
Provision for deferred tax	-	-	66,569	66,569	-	-	(6,448)	(6,448)
Profit After Tax	(496,363)	530,289	23,559	57,485	(380,512)	600,694	80,757	300,939
Other Information								
Segment Assets	7,223,504	2,281,961	5,024,759	14,530,223	6,869,971	1,474,351	5,060,075	13,404,397
Segment Liabilities	2,054,332	1,059,219	1,518,273	4,631,824	2,003,733	721,854	1,637,867	4,363,454
Capital Expenditure	554,622	446,650	2,481	1,003,753	429,123	167,292	66	596,481
Depreciation	718,074	133,625	642	852,341	852,495	116,579	536	969,610
Non cash expense other than Depreciation	173,789	21,525	-	195,314	118,131	16,896	-	135,027

17. Related Party Disclosure

17.1 Key Management Personnel

Designation	Name	Remarks
CMD	Shri Kuldeep Goyal	From 06.08.2007
Director (F)	Shri S.D. Saxena	From 29.10.2003 to 20.12.2008
	Shri Gopal Das	From 29.12.2008 to 15.07.2009
Director (Plg & NS)	Shri R. K. Aggarwal	From 11.04.2008
Director (HRD)	Shri Gopal Das	From 04.10.2007
Director (Ops)	Shri J.R.Gupta	From 02.11.2005 to 31.07.2008
	Shri Rajesh Wadhwa	From 01.08.2008
Director (C & M)	Shri Rajendra Singh	From 07.11.2007
Govt .Director	Shri J.S. Deepak	From 21.04.2008
	Shri P.K. Mittal	From 05.06.2008
Non-official Part-time Director	Dr. S.K.Kak	From 20.02.2008
	Shri Mahesh Shah	From 20.02.2008
	Shri Sanjiv Gupta	From 05.09.2008

17.2 Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 31st March 2009.

(Rs. In lakh)

Name of the party	Description of transactions	Amount of transactions	Outstanding balances as on 31 st March 2009
Key Management Personnel	Payment of salary and allowances	97.84 (44.16)	--
	Advance given:		
	Opening balance	6.92 (0.41)	--
	Extended During the year	28.20 (32.03)	--
	Total	35.12 (32.44)	--
	Repayment of Advance	26.71 (25.52)	8.41 (6.92)

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	2008-09	2007-08
Profit after Tax (Rs. in lakh)	57485	300,939
*Less: Preference dividend including tax (Rs. in lakh)	0	78,972
Balance for Equity Shareholders (Rs. in lakh)	57485	221,967
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.)	1.15	4.44

* No provision for dividend on preference capital has been made due to inadequacy of distributable profit.

** 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. The Company contends that the Capital reserve arising out of the capital structure at the time of incorporation of the company is not in the nature of financial relief 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)	
	2008-09	2007-08
(A) The movement in deferred tax account is as follows		
Opening Balance	131,053	124,605
Provision for deferred tax liability (Net)	(66,569)	6,448
Closing Balance	64,484	131,053
(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	543,902	516,704
Deferred Tax Liabilities	608,386	647,757
Net Deferred Tax Liability	64,484	131,053
(C) Break up of deferred tax assets/liabilities		
Deferred Tax Liabilities:		
Depreciation	591,018	630,389
Others	17,368	17,368
Total	608,386	647,757
Deferred Tax Assets:		
Provision for bad & doubt full debts	138,299	131,642
Unabsorbed Depreciation	259,055	259,055
Provision for leave encashment	98,061	91,283
Provision for decommissioned asset, wage revision etc.	28,141	27,476
Provision for obsolete inventory and CWIP	3,234	3,968
Provision for contingency	45	117
Provision for payment to staff gratuity fund (DR)	625	1,114
Others	16,442	2,049
Total	543,902	516,704

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 to 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). Accordingly, BSNL has opted for Tax Holiday Period from financial year 2003-04 and onwards.
- 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 30% deductions on Business Income under Section 80-IA of the Income Tax Act, 1961. Accordingly Tax Provisions has made under normal provisions of the Income Tax Act, 1961.

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 01.04.2008	Fresh Provision made during the year	Provision utilized during the year	Provision written back during the year	Closing balance as at 31.03.2009
Wealth Tax	415 (413)	125 (145)	122 (143)	- (-)	418 (415)
Dividend	120,000 (67,500)	0 (150,000)	120,000 (97,500)	- (-)	0 (120,000)
Tax on Dividend	20,395 (11,472)	0 (25,493)	20,395 (16,570)	- (-)	0 (20,395)
Phased out assets	0 (10,523)	- (-)	- (-)	0 (10,523)	0 (-)
Leave Encashment	461,007 (422,839)	30,187 (39,816)	1,698 (1,648)	0 (-)	489,496 (461,007)
Gratuity	4,504 (2,111)	4,840 (2,393)	5,380 (-)	- (-)	3,964 (4,504)
Contingencies	1,086 (824)	215 (360)	480 (90)	40 (8)	781 (1,086)
Total	607,407 (515,682)	35,367 (218,207)	148,075 (115,951)	40 (10,531)	494659 (607,407)

Note: Figures in bracket denotes previous year figures.

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

(Rs. In lakh)		
Particulars	2008-09	2007-08
Salaries & Allowances	88.42	37.39
Perquisites	4.51	3.67
EPF Contribution	4.91	3.10
Sitting Fees	3.15	0.20
Total	100.99	44.36

22. Advance to Directors:**(Rs. In lakh)**

Particulars	2008-09	2007-08
Amount due at the end of the year (TA Advance)	8.41	6.92
Maximum amount due during the year	17.22	16.89

23. Auditors Remuneration: (Statutory/Branch Auditors):**(Rs. in lakh)**

Particulars	2008-09 (Rs. in lakh)		2007-08 (Rs. in lakh)	
	Statutory Auditor	Branch Auditors	Statutory Auditor	Branch Auditors
Statutory Audit Fee	9.60	183	9.60	176
Tax Audit Fee	–	19	-	19
As advisor or in any other capacity:				
Certification Charges	0.96	18	0.96	19
Management Services	2.90	6	2.50	3
Reimbursement of Expenses	1.17	20	0.99	21

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:****(Rs. In lakh)**

Particulars	2008-09	2007-08
Raw Material	-	-
Components & Spares Parts	3,496	-
Capital Goods	82,854	24,517
Total	86,350	24,517

ii) The expenditure in foreign currency:**(Rs. In lakh)**

Particulars	2008-09	2007-08
Expenses on Services	33,245	16,550
Traveling	142	171
Others	5,039	117
Total	38,426	16,838

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

Particulars	2008-09		2007-08	
	(Rs. in lakh)	%	(Rs. in lakh)	%
Imported	32,004	37.20	20,762	46.82
Indigenous	54,022	62.80	23,583	53.18
Total	86,026	100.00	44,345	100.00

iv) **Earnings in Foreign currency:**

Particulars	(Rs. In lakh)	
	2008-09	2007-08
Training Fee	33	22
Income from Services	17,133	13,314
Others	-	124
Total	17,166	13,460

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 2009 (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 three circles. The required information in terms of section 22 of MSMED Act to extent available in respect of the three circles are given below:

Particulars	(Rs. In lakh)
	Amount as at 31.03.2009
The principal amount due to any "supplier"	87
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 31.03.2009		As at 31.03.2008	
	No. of Cases	Amount (Rs. In lakh)	No. of Cases	Amount (Rs. In lakh)
TR Billing	105	1,587	203	292
Enhanced Sales Tax in lieu of C/D Forms	13	1,696	2	159
On account of service tax disputed	37	8,249	73	10,869
Sales tax disputed	49	4,635	48	7,604
Customs duty disputed	1	126	2	5
Central Excise claims	27	2,506	27	1,622
Disputed interest, penal interest & pre-payment charges on 15 year Govt. loan	1	10,396	1	13,170
Others	87	9,334	171	8,167
Total	320	38,529	527	41,888

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

Particulars	As at 31.03.2009	As at 31.03.2008
No. of cases	27,889	25,155
Amount (Rs. in lakh)	123,614	574,985

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

Assessment Year	As at 31.03.2009		As at 31.03.2008	
	Forum where pending	Amount (Rs. In lakh)	Forum where pending	Amount (Rs. In lakh)
2001-02	ITAT against Assessment u/s 143	14,501	ITAT against Assessment u/s 143	14,501
2001-02 (Refer Note-1)	Hon'ble Delhi High Court against re-assessment u/s 147	81,899	Hon'ble Delhi High Court against re-assessment u/s 147	81,899
2002-03 (Refer Note-2)	ITAT against Assessment u/s 143	2,757	ITAT against Assessment u/s 143	2,757
2002-03 (Refer Note-3)	CIT (A) against Penalty proceedings u/s 271(1)(c) (pending to be filed before CIT Appeal)	27,307	---	---
2003-04	ITAT against Assessment u/s 143	197,943	ITAT against Assessment u/s 143	197,943
2004-05	ITAT against Assessment u/s 143	36,110	ITAT against Assessment u/z 143	36,110
2005-06 (Refer Note-4)	ITAT against Assessment u/s 143	31,667	ITAT against Assessment u/s 143	31,667
2006-07	CIT (A) against Assessment u/s 143	51,890	---	---
Total		444,074		364,877

Note:

- (1) The Income Tax Department has initiated re-assessment proceedings against the Company for the A.Y. 2001-02 and A.Y. 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.
- (2) Appeal at ITAT against Assessment u/s 143 pertaining to A.Y. 2002-03 has been decided partly in favour of BSNL. However, Appeal effect of the same has not been quantified by Assessing Officer.
- (3) Penalty Order u/s 271(1)(c) of the I.T. Act, 1961 has been passed for the A.Y. 2002-03 and the demand of Rs. 273.07 crores has been raised against the Company. The Company is in the process of filing Appeal against it before CIT (A).
- (4) During A.Y. 2005-06, the Assessing Officer has not allowed deductions u/s 80-IA of Rs. 3612.40 crore claimed by the Company. However, CIT(A) has allowed deduction u/s 80-IA on Rs. 2,882.97 crore and for balance Rs. 729.43 crore, an appeal has been filed before ITAT, Delhi Benches. The Company is claiming 100% deductions u/s 80-IA on the business income from the F.Y. 2003-04 and onwards. The impact of such disallowance for other years is not known.
- (5) The Commissioner of Income Tax, Delhi-I, New Delhi has vide his Order u/s 263 dated 23.03.2009 has stated that for the F.Y. 2003-04 (A.Y. 2004-05) excess deduction u/s 80 IA has been granted on Income amounting Rs. 4,528.30 crore. The Assessing Officer has been directed to frame the assessment afresh after examining the applicability of Section 80 IA of the Act and giving due opportunity of being heard to the Assessee and pass a speaking order. Accordingly Assessment proceedings u/s 143 is under progress. The additional demand, if any, has not been quantified.
- (6) Penalty proceedings u/s 271 (1) (c) of the I.T. Act, 1961 has been initiated against the company for A.Y. 2001-02 and A.Y. 2003-04 to A.Y. 2006-07 also and have been kept in abeyance. The additional demand, if any, has not been quantified.
- (7) Additional Interest, if any, arising out of abovementioned Income Tax proceedings has not been quantified.

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

Item	As at 31.03.2009		As at 31.03.2008	
	With cash margin	Without cash margin	With cash margin	Without cash margin
No. of cases	21	241	62	202
Amount (Rs. In lakh)	306	4,286	818	6,094

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 and demand has been raised for Rs.1,733 lakh (P.Y. not ascertainable). 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.

- 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. 427,207 lakh (P.Y. Rs. 233,653 lakh).
- 28. BSNL is executing various projects for various Government departments on reimbursement basis.
- 29. Figures of the previous year have been regrouped or reclassified wherever necessary to conform to the current years grouping and classification.