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. 6,377,480 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. 25,452 lakh (P.Y. - Rs. 37,750 lakh increase in assets):

	(Figures in lakh of Rupee)		
Particulars	**Up to March 31, 2006**	**During the year**	**Up to March 31, 2007**
Assets			
Fixed Assets	5,419,025	(1,104)	5,417,921
Capital Work-in-progress	501,575	1,537	503,112
Inventory	188,020	627	188,647
Sundry Debtors	693,549	(10,809)	682,740
Advance to contractors	39,448	0	39,448
Deposit with Electricity Boards /others	2,011	75	2,086
Total-A	**6,843,628**	**(9,674)**	**6,833,954**
Liabilities			
Customer Deposits	387,686	3,970	391,656
Earnest Money deposits	12,461	64	12,525
Security Deposits from Contractors /Suppliers	28,331	1,123	29,454
Working Expense Liability as on 1st October 2000	37,757	526	38,283
Contractors Bills payable as on 1st October 2000	(87)	10,095	10,008
Total-B	**466,148**	**15,778**	**481,926**
Net Assets taken over by the Company (A-B)	**6,377,480**	**(25,452)**	**6,352,028**
Previous Year	**6,339,730**	**37,750**	**6,377,480**

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 31.03.2006)**	**Additions/ (Deletions) during the year ended 31st March 2007**	**Total structure as at 01st October 2000 (as on 31.03.2007)**
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*	4,071,880	(25,452)	4,046,428
Total	**6,377,480**	**(25,452)**	**6,352,028**

* 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.

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. 250,000 lakh (P.Y. Rs. 200,000 lakh). The provision for interest @14.5 % p.a., as intimated by the DOT vide letter No. 1-43/2004-B dated 03.02.2005, has been made on the outstanding loan amount but BSNL has represented to the Government of India for reduction in the rate of interest. Hence, interest accrued and due has neither been remitted nor any liability for the delay in payment of interest has been accounted for unremitted amount.

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 / 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, 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. Similarly, the depreciation has been provided at the rates as stated above for all the assets capitalized after corporatisation without assessing whether the possible useful life of such assets are likely to be lower than the life estimated in the Schedule XIV of the Companies Act. 1956.

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 for amortizing the cost of lease hold land over the lease period in many Circles.

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

5.3 Pending transfer 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 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 of earlier years. Out of this provision net assets amounting to Rs. 72 lakh (P. Y. Rs. 22,730 lakh) has been utilized for write off during the year 2006-07.

Balance net assets of Rs. 10,523 lakh (P. Y. Rs. 10,595 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 the process of identifying all such assets as well as 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 in 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 involved is Rs. 4,448 lakh (P. Y. Rs. 11,382 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 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, where the later method is followed, under or over absorbed balance is taken to revenue.

5.7 In two units, there is a difference of Rs. 351 lakh (net) (P.Y. Rs. 717 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 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. In fourteen circles, the difference between the physical stock and the financial records amounting to Rs. 18,541 lakh (net) shortage in physical stock (P.Y. Rs. 3,544 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 plus overhead allocation at a fixed rate. This practice has resulted in internal profit of Rs. 2,510 lakh (P.Y. Rs. 2,179 lakh - loss) for the year ended 31st March 2007 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 some of the 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.

7. Sundry Debtors

7.1 In many 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 being more by Rs. 30,022 lakh (P.Y. Rs. 28,969 lakh - GL excess). The management is in the process of reconciling these differences; pending reconciliation no adjustment has been made.

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 2007	As at 31st March 2006
Debtors exceeding six months	589,889	488,741
Other Debtors	147,753	200,197
Total	**737,642**	**688,938**

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

(Rs. in lakh)

Particulars	As at 31st March 2007	As at 31st March 2006
Considered good in respect of which the company is fully secured	203,987	195,398
Considered good but unsecured	120,224	163,431
Doubtful Debts	413,431	330,109
Total	**737,642**	**688,938**

7.4 The requirement of Schedule VI of the Companies Act 1956, of disclosure has not been fully complied with respect to classification of Sundry Debtors as Secured & Unsecured and amount outstanding for a period exceeding six months.

8. Loans & Advances

8.1 The amount of Rs. 196,971 lakh (P.Y. Rs. 148,579 lakh) under 'advances recoverable in cash or in kind or for value to be received' includes an amount due from employees of Rs. 39,981 lakh (P.Y. Rs. 46,718 lakh) whose break up is as under:

(Rs. in lakh)

Particulars	As at 31st March 2007	As at 31st March 2006
Considered good in respect of which the company is fully secured	21,836	24,224
Considered good but unsecured	18,145	22,494
Total	**39,981**	**46,718**

8.2 In some of the 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. 47,433 lakh (P. Y. Rs. 59,912 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 certain circles in respect of some bank accounts.

10.2 In 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. 13,532 lakh (P.Y. Rs. 1,744 lakh) as on 31.03.2007. The management has taken up the case with the concerned banks for early crediting of the amount in the respective account.

10.3 In thirteen Circles, unlinked debit and credit items are appearing in the bank reconciliation statement amounting to Rs. 1,274 lakh (P.Y. Rs. 1,803 lakh) and Rs. 7,180 lakh (P.Y. Rs. 2,678 lakh) respectively as at 31.03.2007. The management is in the process of reconciling all such items at the earliest possible.

11. Employee Cost

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.

12. **Revenues**

12.1 TRAI had changed the IUC regulation w.e.f. 01.03.2006 under which BSNL is eligible to receive Access Deficit Charges (ADC) @ 1.5% of Adjusted Gross Revenue (AGR) of other Basic, CMTS, USAL, NLD & ILD operators in place of the per minute based ADC amount for above mentioned license services. However, per minute based ADC will also remain applicable for outgoing and incoming ILD calls in addition to AGR based ADC. From the financial year 2007-08 TRAI has abolished per minute based ADC on outgoing call and rates of AGR based ADC and income ILD calls have been reduced to 50%.

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. As per BSNL books net claims receivable from MTNL as on 31.03.2007 is Rs. 134,750 lakh (P.Y. Rs. 141,701 lakh), which is subject to confirmation by MTNL.

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 31.03.2007 (telephone), 01.09.2002 to 31.03.2007 (telex) and 01.07.2003 to 31.03.2007 (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 01.04.2005 to 31.03.2007 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.

13. **License Fee**

13.1 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. The NLD component of POI revenue has been taken on actual basis. However, in previous financial year the NLD portion was 10% of POI revenue. For the Basic Service excluding circuit revenue the company has computed NLD & ILD revenue respectively as 8.97% and 0.87% of AGR for current financial year. Similarly for Cellular Service revenue the Company has computed NLD & ILD revenue respectively as 7.76% and 1.81% of AGR for the current financial year. However, in the previous financial year the Company had computed NLD & ILD revenue as 3.69% and 0.53% of AGR for the first nine months and 2.47% and 0.19% of AGR for the last three months. Similarly, the Company had computed NLD & ILD revenue as 7.33% and 0.98% of AGR for the first nine months and 2.98% and 0.35% of AGR for the last three months for the Cellular Service revenue.

13.2 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 up to 2005-06. According to the said package BSNL has got reimbursement to the extent of $1/3^{rd}$ of license fee (excluding USF Levy) paid in the previous financial year amounting to Rs. 58,296 lakh. For the current financial year i.e. for 2006-07 no such reimbursement commitments is communicated by the Govt. of India.

13.3 During the year, the Company has received re-imbursement for provision, operation & maintenance of VPTs (including replacement of MARR VPTs) and rural household connections from Universal Service Obligation Fund amounting to Rs. 106,995 lakh (P.Y. Rs. 176,575 lakh) as front loaded and equated annual subsidy which has been accounted for as other income. In addition to that the Company has also recognized an income of Rs. 64,920 lakh (P.Y. Rs. nil) in the current financial year on account of claims made to USO Fund due on account of provision, operation and maintenance of VPTs & rural house hold connections on accrual basis of accounting, due to change in policy of recognition from receipt basis .

13.4 As per package mentioned in Para 13.2 BSNL was reimbursed an amount of Rs. 58,296 lakh in the previous financial year, however, no such reimbursement had been received for the current financial year. This reimbursed amount is disclosed as 'extraordinary item'.

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. 105,068 lakh (P.Y. Rs. 92,839 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**

(i) Insurance charges of Rs. 339 lakh (P.Y. Rs. 328 lakh) recovered from WLL subscribers for WLL handset insurance are shown in the current liabilities pending final adjustments.

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

(iii) Gujarat circle has implemented ERP package SAP-R/3 during the current financial year i.e. 2006-07 which is in the process of streamlining and stabilizing.

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, 2007				For the year ended 31st March, 2006			
	Business Segments			Total	Business Segments			Total
Revenue	**Basic**	**Cellular**	**Un - allocable**		**Basic**	**Cellular**	**Un - allocable**	
Income From Services	2,497,289	964,332	-	3,461,621	2,967,218	646,676	-	3,613,894
Inter Segment Revenue	61,057	24,950	-	86,007	43,509	23,701	-	67,210
Other Income	156,412	7,903	64,920	229,235	224,776	5,829	-	230,605
Net Segment Revenue	**2,714,758**	**997,185**	**64,920**	**3,776,863**	**3,235,503**	**676,206**	-	**3,911,709**
Segment Results								
Operating Profit Before Interest & Taxes	**(13,963)**	**568,287**	**67,438**	**621,762**	**376,716**	**388,055**	**(2,179)**	**762,592**
Interest Income	2,261	13	278,849	281,123	1,257	7	172,076	173,340
Interest Expenses	(1,818)	-	(76,122)	(77,940)	(2,495)	-	(106,485)	(108,980)
Profit Before Prior Period and ExtraOrdinary Items	**(13,520)**	**568,300**	**270,165**	**824,945**	**375,478**	**388,062**	**63,412**	**826,952**
Prior Period Adjustment	(4,454)	(5,110)	-	(9,564)	(37,274)	(3,276)	-	(40,550)
Profit Before ExtraOrdinary Items	**(17,974)**	**563,190**	**270,165**	**815,381**	**338,204**	**384,786**	**63,412**	**786,402**
Extraordinary Items	-	-	-	-	58,296	-	-	58,296
Profit before tax	**(17,974)**	**563,190**	**270,165**	**815,381**	**396,500**	**384,786**	**63,412**	**844,698**

Provision for current tax	-	-	(96,229)	(96,229)	-	-	**(80,130)**	(80,130)
Provision for Wealth tax	-	-	(130)	(130)	-	-	(501)	(501)
Provision for Fringe Benefit Tax	-	-	(3,700)	(3,700)	-		**(4,100)**	(4,100)
MAT Credit	-	-	19,470	19,470	-	-	-	-
Provision for deferred tax	-	-	45,795	45,795	-	-	134002	134,002
Profit After Tax	**(17,974)**	**563,190**	**235,371**	**780,587**	**396,500**	**384,786**	**112,683**	**893,969**
Other Information								
Segment Assets	7,187,516	1,304,467	4,366,089	12,858,072	7,458,371	935,711	3,547,658	11,941,740
Segment Liabilities	1,716,898	655,923	1,338,173	3,710,994	1,516,071	562,977	1,165,037	3,244,085
Capital Expenditure	355,595	216,337	5,662	577,594	453,636	228,156	(499)	681,293
Depreciation	810,063	104,868	-	914,931	867,067	70,604	-	937,671
Non cash expense other than Depreciation	155,402	7,813	-	163,215	194,372	12,203	-	206,575

17. **Related Party Disclosure**

17.1 **Key Management Personnel**

A.K.Sinha	Chairman-cum-Managing Director since 16.09.2004.
S.D.Saxena	Director (Finance) since 29.10.2003
Niranjan Singh	Director (HRD) since 01.05.2005
J.R.Gupta	Director (Operation) since 02.11.2005
Kuldeep Goyal	Director (Plg. & NS) since 01.05.2007
A. Bandyopadhyay	Director (Government Nominee) since 14.12.2006
M. Sahu	Director (Government Nominee) since 08.03.2006
Y.S.Bhave	Director (Government Nominee) since 21.12.2004 to 14.12.2006
R.L. Dube	Director (PL & NS) since 15.12.2004 to 30.04.2007
G.S.Grover	Director (C&M) since 01.05.2005 to 12.03.2007

17.2 Disclosure of transactions between the Company and related parties and the status of outstanding balances as on 31st March 2007.

Name of the party	**Description of transactions**	**Amount of transactions**	**Outstanding balances as on 31st March 2007**
		(Rs. In lakh)	**(Rs. In lakh)**
Key Management Personnel	Payment of salary and allowances	40.04 (36.96)	-
	Advance given: Opening balance Extended During the year Total	 4.83 (1.13) 27.12 (13.61) 31.95 (14.74)	
	Repayment of Advance	31.54 (9.91)	0.41 (4.83)

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	2006-07	2005-06
Profit after Tax (Rs. in lakh)	780,587	893,970
(-) Extra-ordinary income (net of taxes) (Rs. in lakh)	0	52,766
Profit after taxation excluding Extraordinary Income net of tax (Rs. in lakh)	780,587	841,204
Preference dividend including tax (Rs. in lakh)	78,972	76,967
Balance for Equity Shareholders (Rs. in lakh)	701,615	764,237
Number of Equity shares outstanding (in number)	5,000,000,000	5,000,000,000
Face value of shares (in Rs.)	10	10
Basic/Diluted earnings per Equity share (in Rs.)	**14.03**	**15.28**

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 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)

	2006-07	2005-06
(A) The movement in deferred tax account is as follows		
Opening Balance	170,400	304,402
(Write back)/Provision for deferred tax liability (Net)	(45,795)	(134,002)
Closing Balance	**124,605**	**170,400**
(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	613,510	633,497
Deferred Tax Liabilities	738,115	803,897
Net Deferred Tax Liability	124,605	170,400
(C) Break up of deferred tax assets/liabilities		
Deferred Tax Liabilities:		
Depreciation	720,747	881,903
Others	17,368	19,438
Previous year's Deferred Tax liabilities written back (Net)	0	(97,444)
Total	**738,115**	**803,897**

Deferred Tax Assets:		
Provision for debtors	228704	113,731
Unabsorbed Depreciation	259,055	381,703
Provision for leave encashment	78,487	44,358
Provision for decommissioned asset, wage revision etc.	27,764	71,899
Provision for obsolete inventory and CWIP	16,424	21,806
Provision for contingency	364	0
Provision for payment to staff gratuity fund (DR)	663	0
Others	2,049	0
Total	**613,510**	**633,497**

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.

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. Hence, the Company has made Current Tax Provisions for MAT (Minimum Alternative Tax) on Book Profit under Section 115-JB of the Income Tax Act, 1961.

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. The MAT credit in respect of the Assessment Year 2007-08 available for the current financial year has not been accounted for in view of the uncertainties involved in the assessment.

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

(Rs. In lakh)

Nature of provisions	**Opening Balance as at 01.04.2006**	**Fresh Provision made during the year**	**Provision utilized during the year**	**Provision written back during the year**	**Closing balance as at 31.03.2007**
Wealth Tax #	400	130	117	-	413
Dividend #	80,000	117,500	130,000	-	67,500
Tax on Dividend #	11,220	18,484	18,232	-	11,472
Phased out assets#	10,595	-	72	-	10,523
Leave encashment#	405,153	19,225	1,539	-	422,839
Gratuity#	490	1,621	-	-	2,111
Contingencies	853*	110	139	-	824
Total	**508,711**	**157,070**	**150,099**	**-**	**515,682**
Previous Year	**11,693**	**6,299**	**1,597**	**2,477**	**14,189**

\# Previous year details not available.

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

Particulars	2006-07	2005-06
	(Rs. In lakh)	(Rs. In lakh)
Salaries & Allowances	43.89	32.17
Perquisites	1.17	0.88
EPF Contribution	4.05	3.51
Sitting Fees	0	0.40
Total	**49.11**	**36.96**

22. **Advance to Directors:**

Particulars	2006-07	2005-06
	(Rs. In lakh)	(Rs. In lakh)
Amount due at the end of the year (TA Advance)	0.41	4.83
Maximum amount due during the year	10.96	5.31

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

Particulars	2006-07 (Rs. in lakh)		2005-06 (Rs. in lakh)	
	Statutory Auditor	**Branch Auditors**	**Statutory Auditor**	**Branch Auditors**
Statutory Audit Fee	9.60	174	9.60	172
Tax Audit Fee	-	20	-	20
As advisor or in any other capacity:				
Certification Charges	0.96	17	0.96	21
Management Services	2.00	-	2.00	-
Reimbursement of Expenses	1.06	18	0.75	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) Imports on CIF Basis:

Particulars	2006-07	2005-06
	(Rs. In lakh)	**(Rs. In lakh)**
Raw Material	-	-
Components & Spares Parts	7,445	-
Capital Goods	38,220	102,540
Total	**45,665**	**102,540**

ii) The expenditure in foreign currency:

Particulars	2006-07	2005-06
	(Rs. In lakh)	**(Rs. In lakh)**
Expenses on Services	8,986	1,790
Software License Fee	1,756	1,673
Travelling	127	53
Others	50	701
Total	**10,919**	**4,217**

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

Particulars	2006-07		2005-06	
	(Rs. in lakh)	**%**	**(Rs. in lakh)**	**%**
Imported	1,354	2.92	40,887	43.69
Indigenous	45,000	97.08	52,689	56.31
Total	**46,354**	**100.00**	**93,576**	**100.00**

iv) Earnings in Foreign currency:

Particulars	2006-07	2005-06
	(Rs. In lakh)	**(Rs. In lakh)**
Training Fee	23	24
Income from Services	3,524	10,277
Total	**3,547**	**10,301**

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 2007 (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 have not been furnished as the production of goods by the Company is for captive consumption.

(d) 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 2007. 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).

(e) The Management is initiating necessary steps for identifying enterprises which have provided goods and services to the company which qualify under the definition of medium and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act 2006. Accordingly the disclosure in respect of amount payable to such micro, small and medium enterprises as at 31st March, 2007 has not been made in the financial statement.

26. Contingent Liabilities:

a) Claims not acknowledged as debts are as follows:

(Rs. In lakh)

Particulars	**2006-07**		**2005-06**	
	No. of Cases	**Amount**	**No. of Cases**	**Amount**
TR Billing	372	618	29	58
Enhanced Sales Tax in liew of C/D Forms	8	1,052	-	-
On account of service tax disputed	67	11,078	121	11,250
Sales tax disputed	42	7,827	16	3,805
Customs duty disputed	1	-	-	-
Central Excise claims	16	1,290	39	4,342
Others	164	10,358	111	16,641
Total	**670**	**32,224**	**316**	**36,096**

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

Particulars	**2006-07**	**2005-06**
No. of cases	28,640	32,166
Amount (Rs. in lakh)	2,300,204	137,976

c) Liability on account of bank guarantees given.

Item	**2006-07**		**2005-06**	
	With cash margin	Without cash margin	With cash margin	Without cash margin
No. of cases	8	327	8	122
Amount (Rs. In lakh)	40.74	9,620.89	2,557.18	443.79

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

(Rs. In lakh)

Assessment Year	**As on 31.03.2007**		**As on 31.03.2006**	
	Forum where pending	**Amount**	**Forum where pending**	**Amount**
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	-	-
2002-03	ITAT u/s 143	2,757	ITAT u/s 143	2,757
2003-04	ITAT u/s 143	197,943	CIT (Appeal) u/s 143	380,155
2004-05	ITAT u/s 143	31,107	-	-
Total		**328,207**		**397,413**

The main contention of the Income Tax Department on the net demand raised pertaining to Assessment Years 2001-02 to 2004-05 is that the amount shown in balance sheet of the respective years under the head “Reserve” amounting to Rs. 33,160 crore is to be treated as grant/subsidy hence is to be reduced from the cost of the fixed assets. Consequently the depreciation charged would be lower than what has been claimed by the Company. The matter is pending before Hon'ble Delhi High Court.

e) Various State governments had levied sales tax on telephone rentals and other telecom services in the previous years. The Hon’ble Supreme Court in its judgement dated March 2006, in writ petition (civil) no. 183 of 2003, has held that imposition of sales tax on telecommunication services is untenable in law. However, certain State Governments have attached various bank accounts involving Rs. 6,573 lakh (P.Y. not ascertainable) which is shown as recoverable pending refund.

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.

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. 108,194.32 lakh (P.Y. Rs. 1,48,241 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.