

**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 15<sup>th</sup> September 2000. BSNL took over the ongoing business of Department of Telecom Services (“DTS”) and Department of Telecom Operations (“DTO”) on 01<sup>st</sup> October 2000.

2. **Assets and Liabilities taken over from DoT**

2.1 In pursuance of the Memorandum of Understanding dated 30<sup>th</sup> 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 01<sup>st</sup> 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. **6,339,166** lakh (P.Y. Rs. 6,346,118 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, has taken over as on 01<sup>st</sup> October 2000 amounting to net reduction in the assets of (-) Rs. 341 lakh [P.Y. (-) Rs. 6,952 lakh]:

Particulars	(Figures in lakh of Rupee)		
	Up to March 31, 2009	During the year	Up to March 31, 2010
<b>Assets</b>			
Fixed Assets	5,416,744	287	5,417,031
Capital Work-in-progress	502,631	0	502,631
Inventory	188,127	44	188,171
Sundry Debtors	684,430	(229)	684,201
Advance to contractors	39,448	0	39,448
Deposit with Electricity Boards /others	2,173	11	2,184
<b>Total-A</b>	<b>6,833,553</b>	<b>113</b>	<b>6,833,666</b>
<b>Liabilities</b>			
Customer Deposits	393,704	0	393,704
Earnest Money deposits	12,124	(2)	12,122
Security Deposits from Contractors /Suppliers	29,030	(17)	29,013
Working Expense Liability as on 1 <sup>st</sup> October 2000	43,254	236	43,490
Contractors Bills payable as on 1 <sup>st</sup> October 2000	16,275	237	16,512
<b>Total-B</b>	<b>494,387</b>	<b>454</b>	<b>494,841</b>
<b>Net Assets taken over by the Company (A-B)</b>	<b>6,339,166</b>	<b>(341)</b>	<b>6,338,825</b>
<b>Previous Year</b>	<b>6,346,118</b>	<b>(6,952)</b>	<b>6,339,166</b>

The net assets and the contingent liabilities transferred to the Company as on 1<sup>st</sup> 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 13<sup>th</sup> December 2001 has been treated as consideration for transferring the above stated assets and liabilities and is as follows:

Particulars	(Figures in lakh of Rupee)		
	As at 01 <sup>st</sup> October 2000 (as on 31.03.2009)	Additions/ (Deletions) during the year ended 31 <sup>st</sup> March 2010	Total structure as at 01 <sup>st</sup> October 2000 (as on 31.03.2010)
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*	4,033,566	(341)	4,033,225
<b>Total</b>	<b>6,339,166</b>	<b>(341)</b>	<b>6,338,825</b>

- \* 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 30<sup>th</sup> 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 31<sup>st</sup> 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. 16,948 lakh (P.Y. Rs. 10,396 lakh), which is also the difference between the outstanding balance principal amount of the loan as in the books of BSNL and DOT. The amount outstanding on account of loan as at 31.03.2010 is Rs. 81,370 lakh.

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 1<sup>st</sup> 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 30<sup>th</sup> 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 1<sup>st</sup> 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 three units (P.Y. two units) of one circle (P.Y. two circles), the depreciation has not been calculated as per the policies of the Company.

5.2 The spectrum for 3G services and Broadband Wireless access services has been earmarked for BSNL on 08.08.2008. As per order of the DoT one time spectrum fee at a price equal to highest bid as will be 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. As per instructions issued by the Ministry of Communications & IT through letters having number P-11014/13/2008-PP dated nil and number P-11014/13/2008-PP dated 12.06.2010 the company has provided in the current financial year for the auction-winning price amounting to Rs. 10186.58 crore & Rs. 8313.80 crore for 3G spectrum and BWA spectrum respectively. Both the amounts have been paid in 2010-11. As per terms and conditions of NIA the right to use above-mentioned spectrum will be for a period of 20 years from the date of award of right to commercially use the allocated spectrum block. Accordingly the Company is amortizing w.e.f. 08.08.2009 the one time spectrum fee over the period of twenty years as per straight-line method.

5.3 Land at several locations has been taken over at a nominal value say Rs. 1, wherever original cost is not available. As at 31.03.2010 thirty circles (P.Y. twenty eight 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 a few 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.

Fixed asset amount to Rs. nil (P.Y. Rs. 527 lakh) in circle nil (P.Y. one circle) could not be accounted in the books due to late identification.

5.4 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.

5.5 Certain assets that have been completed and put to use, have not been capitalized in twenty seven circles (P.Y. twenty five 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 twelve circles (P.Y. eleven circles) is Rs. 43,434 lakh (P. Y. Rs. 21,476 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.

5.6 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.

5.7 In two circles (P.Y. two circles), there is a difference of Rs. 2,527 lakh (net) (P.Y. Rs. 57 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 thirteen circles (P.Y. three circles) there is difference between the Store Ledger and the General Ledger. The difference between the Store Ledger and the General Ledger to the extent identified in thirteen circles (P.Y.

three circles) amounting to Rs. 9,225 lakh (net) (P.Y. Rs. 575 lakh (net)) 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 loss of Rs. 2,275 lakh (P.Y. profit of Rs. 1,404 lakh) for the year ended 31<sup>st</sup> March 2010 arising out of such transfer. The said amount has been added to 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 one circles (P.Y. twenty 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 seven circles (P.Y. twenty eight 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. 14,116 lakh (P.Y. Rs. 8,788 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:

			(Rs. in lakh)	
Particulars	As at 31 <sup>st</sup> March 2010	As at 31 <sup>st</sup> March 2009		
Debtors exceeding six months	525,046	545,615		
Other Debtors	132,621	104,251		
<b>Total</b>	<b>657,667</b>	<b>649,866</b>		

- 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:

			(Rs. in lakh)	
Particulars	As at 31 <sup>st</sup> March 2010	As at 31 <sup>st</sup> March 2009		
Considered good in respect of which the company is fully secured	131,910	127,592		
Considered good but unsecured	130,915	122,543		
Doubtful Debts	394,842	399,731		
<b>Total</b>	<b>657,667</b>	<b>649,866</b>		

- 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 as per general ledger.

## 8. Loans & Advances

- 8.1 The amount of Rs. 286,897 lakh (P.Y. Rs. 186,080 lakh) under 'advances recoverable in cash or in kind or for value to be received' includes the amount due from employees of Rs. 134,346 lakh (P.Y. Rs. 37,264 lakh) whose break up is as under:

(Rs. in lakh)		
Particulars	As at 31 <sup>st</sup> March 2010	As at 31 <sup>st</sup> March 2009
Considered good in respect of which the company is fully secured	14,115	16,917
Considered good but unsecured	120,231	20,347
<b>Total</b>	<b>134,346</b>	<b>37,264</b>

- 8.2 In twenty eight circles (P.Y. eighteen 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.1,627,362 lakh (P. Y. net recoverable - Rs. 77,520 lakh) payable on current account to 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 three (P.Y. six) collection accounts of units of two circles (P.Y. four circles) have not been prepared.
- 10.2 In sixteen circles (P.Y. fourteen 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. 7,452 lakh (P.Y. Rs. 8,596 lakh) as on 31.03.2010. 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. sixteen circles), unlinked credit items amounting to Rs. 752 lakh (P.Y. Rs. 1,677 lakh) and in fourteen circles (P.Y. thirteen circles) unlinked debit items amounting to Rs. 330 lakh (P.Y. Rs. 1,446 lakh) are appearing in the bank reconciliation statement as on 31.03.2010. The management is in the process of reconciling all such items at the earliest possible.
- 10.4 Bank balances in five circles (P.Y. one circle) include cheques in hand pending to be deposited in to bank on 31.03.2010. Amount quantified in three circles (P.Y. nil circle) is Rs. 581 lakh (P.Y. nil). In two circles (P.Y. three circles) cash/cheque/DD amounting to Rs. 30 lakh (P.Y. Rs. 46 lakh) has been received but remains pending to be accounted in the books as on 31.03.2010.

## 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 Negotiations regarding revision of the pay scales of non-executives which is due w.e.f. 01.01.2007 have been completed and approved by the Board. Accordingly total actual liabilities towards arrears of pay & allowances, pension contribution, employer's share of EPF contribution, administrative charges towards EPF contributions etc for the period from 01.01.2007 to 31.03.2010 come to Rs.393,193 lakh out of which Rs. 289,987 lakh has been recognized as expense in the current financial year as the remaining balance of liability amounting to Rs. 103,206 lakh has already been accounted for as expense in the financial year 2008-09.

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 & Pension Contribution to Government of India is charged to Profit & Loss Account. These amounts are shown as under:

	(Rs. in lakh)	
	Year ended March 31, 2010	Year ended March 31, 2009
Employer's Contribution to Provident Fund	10,098	6,878
Pension Contribution to Government of India	202,353	128,839

**b. Defined Benefit Plans**

**I) Gratuity:**

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.

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

	(Rs. in lakh)	
	Year ended March 31, 2010	Year ended March 31, 2009
Current Service Cost	2,529	1,151
Interest Cost	767	430
Expected Return on Plan Assets	535	287
Total actuarial (gain)/loss	3,921	2,667
Past Service Cost	-	-
Curtailment and Settlement Cost/(Credit)	-	-
<b>Net Cost</b>	<b>6,682</b>	<b>3,961</b>

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

	Year ended March 31, 2010	Year ended March 31, 2009
Discount Rate	8%	8%
Expected Rate of Increase in Compensation Levels	7%	7%
Expected Rate of Return on Plan Assets	8%	8%
Expected average remaining working lives of employees (years)	26.60	26.47
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, 2010	Year ended March 31, 2009
Present value of obligations as at beginning of year	9,589	5,378
Interest Cost	767	430
Current Service Cost	2,529	1,151
Benefits Paid	24	0
Actuarial (gain)/Loss on obligations (Balancing Figure)	4,464	2,630
Present value of obligations as at end of year	17,325	9,589

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

(Rs. in lakh)

	Year ended March 31, 2010	Year ended March 31, 2009
Fair value of plan assets as at beginning of year	5,628	0
Contributions during the year	3,961	5,378
Expected return on plan assets @ 8%	535	287
Benefits paid	24	0
Actuarial Gain / (Loss) on Plan assets	543	(37)
Fair value of plan assets as at the end of year	10,643	5,628

v) **Reconciliation of fair value of assets and obligations for Gratuity as on March 31, 2010**

(Rs. in lakh)

	Year ended March 31, 2010	Year ended March 31, 2009
Fair value of plan assets at the end of year	10,643	5,628
Present value of obligations as at end of year	17,325	9,589
Unfunded amount recognized in Balance Sheet	6,682	3,961

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

(Rs. in lakh)

	Year ended March 31, 2010	Year ended March 31, 2009
Life Insurance Corporation of India	3,584	1,997
SBI Life Insurance	1,529	850
HDFC Standard Life Insurance	3,903	1,937
Reliance Life Insurance	1,627	844
Total	<b>10,643</b>	<b>5,628</b>

**II) Leave Encashment:**

Leave encashment is also a defined benefit plan. The liability towards Leave Encashment has been determined through actuarial valuation as per Accounting Standard 15 (revised 2005) 'Employee Benefit' as of 31<sup>st</sup> March 2010 and the Company proposes to invest in "Group Leave Encashment Scheme". As per the transitional provisions, the additional liability as on March 31, 2010 on account of Leave Encashment liability was Rs. 33,186 lakh (assuming a service cost of Rs.13,293 lakh for the current year being the same as the service cost for the year 2010-11) which has been adjusted against the opening reserves and surplus.

i) **Defined benefits / expenses for Leave Encashment recognized for the year**  
(Rs. in lakh)

	<b>Leave Encashment unfunded as at March 31, 2010</b>
Current Service Cost	13,293
Interest Cost	-
Expected Return on Plan Assets	-
Total actuarial (gain)/loss	-
Past Service Cost	518,474
Curtailment and Settlement Cost/(Credit)	-
<b>Net Cost</b>	<b>531,767</b>

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

	<b>Leave Encashment unfunded</b>
Discount Rate	8% p.a.
Expected Rate of Increase in Compensation Levels	7%
Expected Rate of Return on Plan Assets	-
Expected average remaining working lives of employees (years)	12
Withdrawal Rate	1% to 3% depending on age
Mortality Table	LIC (1994-96) Ultimate

iii) 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 will be implemented in the financial year 2010-11.

**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 31.03.2010 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 31.03.2010 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 the Company has computed the NLD revenue as 70% (P.Y. 30%) of Leased line revenue. The NLD & ILD component of POI revenue has been taken on actual basis as was done in previous financial year. For the Basic Service excluding circuit revenue the company has computed NLD & ILD revenue as 14.84% and 6.21% respectively (P.Y. 14.84% and 6.21% respectively) of AGR for the current financial year. Similarly for Cellular Service revenue the Company has computed NLD & ILD revenue as 13.48% and 3.93% respectively (P.Y. 11.20 % and 2.61 % respectively) of AGR for the current financial year.
- 13.2 The Company has decided to compute and recognize the License Fee payable as revenue share on AGR after taking into account the decision of Hon'ble Telecom Dispute Settlement and Appellate Tribunal (the 'TDSAT') dated 30<sup>th</sup> August 2007 in case of other operators which specifies that revenues not related to licensed activities are not to be included in the computation of revenue share. However the decision of the company to recognize the revenue share on AGR as per Hon'ble TDSAT judgement is subject to final judgement against the Appeal in this regard pending before the Hon'ble Supreme Court in case of other operators. The impact of such decision of the company, which has been accounted in the current financial year is of Rs. 25,359 lakh pertaining to current financial year and Rs.121,061 lakh for previous financial years.

### 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. 138,933 lakh (P.Y. Rs. 111,349 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 Five 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.
- 15.3 The company has taken vehicles for Senior Executives under Operating Lease, which expires between May 2009 to January 2015 (P.Y. nil). The gross rental expenses, excluding service tax, for such vehicles are Rs. 43 lakh (P.Y. nil). The committed lease rentals in the future are:

<b>(Rs. in lakh)</b>		
Particulars	2009-10	2008-09
Not later than one year (excluding service tax)	95	Nil
Later than one year and not later than five years (excluding service tax)	196	Nil
Total	<b>291</b>	<b>Nil</b>

## 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, 2010				For the year ended 31st March, 2009			
	Business Segments		Un-allocable	Total	Business Segments		Un - allocable	Total
Revenue	Other than Cellular	Cellular			Other than Cellular	Cellular		
Income From Services	1,721,600	1,069,744	-	2,791,344	1,898,285	1,118,353	304	3,016,942
Inter Segment Revenue	105,126	43,472	-	148,598	121,980	55,506	-	177,486
Other Income	133,200	32,674	1,624	167,498	161,728	12,218	1,800	175,746
<b>Net Segment Revenue</b>	<b>1,959,926</b>	<b>1,145,890</b>	<b>1,624</b>	<b>3,107,440</b>	<b>2,181,993</b>	<b>1,186,077</b>	<b>2,104</b>	<b>3,370,174</b>
<b>Segment Results</b>								
<b>Operating Profit Before Interest &amp; Taxes</b>	<b>(736,787)</b>	<b>381,711</b>	<b>(58,724)</b>	<b>(413,801)</b>	<b>(483,673)</b>	<b>533,179</b>	<b>(246,292)</b>	<b>(196,786)</b>
Interest Income	5,562	319	239,818	245,699	5,465	115	382,924	388,504
Interest Expenses	(596)	(0)	(34,565)	(35,161)	(1,031)	-	(43,294)	(44,325)
<b>Profit Before Prior Period and ExtraOrdinary Items</b>	<b>(731,821)</b>	<b>382,029</b>	<b>146,529</b>	<b>(203,263)</b>	<b>(479,239)</b>	<b>533,294</b>	<b>93,338</b>	<b>147,393</b>
Change in Accounting Policy (Depreciation)	-	-	-	-	(1,622)	-	-	(1,622)
Prior Period Adjustment	(8,357)	(8,128)	-	(16,485)	(15,502)	(3,005)	(101)	(18,608)
<b>Profit Before ExtraOrdinary Items</b>	<b>(740,178)</b>	<b>373,901</b>	<b>146,529</b>	<b>(219,748)</b>	<b>(496,363)</b>	<b>530,289</b>	<b>93,237</b>	<b>127,163</b>
Extraordinary Items	-	-	-	-	-	-	-	-
<b>Profit before tax</b>	<b>(740,178)</b>	<b>373,901</b>	<b>146,529</b>	<b>(219,748)</b>	<b>(496,363)</b>	<b>530,289</b>	<b>93,237</b>	<b>127,163</b>
Provision for current tax	-	-	-	-	-	-	(132,322)	(132,322)
Provision for Wealth tax	-	-	(116)	(116)	-	-	(125)	(125)
Provision for Fringe Benefit Tax	-	-	-	-	-	-	(3,800)	(3,800)
MAT Credit	-	-	-	-	-	-	-	-
Provision for deferred tax	-	-	52,100	52,100	-	-	66,569	66,569
<b>Provision for earlier year's tax</b>	<b>-</b>	<b>-</b>	<b>(14,501)</b>	<b>(14,501)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit After Tax</b>	<b>(740,178)</b>	<b>373,901</b>	<b>184,012</b>	<b>(182,265)</b>	<b>(496,363)</b>	<b>530,289</b>	<b>23,559</b>	<b>57,485</b>
<b>Other Information</b>								
Segment Assets	8,529,182	2,807,182	3,115,427	14,451,791	7,223,504	2,281,961	5,024,759	14,530,224
Segment Liabilities	1,994,197	2,400,477	1,469,911	5,864,585	2,054,332	1,059,219	1,518,273	4,631,824
Capital Expenditure	506,133	2,423,137	(6,077)	2,923,193	554,622	446,650	2,481	1,003,753
Depreciation	683,147	236,076	456	919,679	718,074	133,625	642	852,341
Non cash expense other than Depreciation	104,822	16,459	-	121,281	173,789	21,525	-	195,314

## 17. Related Party Disclosure

### 17.1 Key Management Personnel

Designation	Name	Remarks
CMD	Shri Kuldeep Goyal	From 06.08.2007
Director (F)	Shri Gopal Das	From 29.10.2008 to 20.06.2009
	Shri Kuldeep Goyal	From 21.06.2009
Director (Consumer Mobility)	Shri R. K. Aggarwal	From 11.04.2008
Director (HRD)	Shri Gopal Das	From 04.10.2007
Director (Consumer Fixed Access)	Shri Rajesh Wadhwa	From 01.08.2008
Director (Enterprise)	Shri Rajendra Singh	From 07.11.2007
Govt .Director	Shri J.S. Deepak	From 21.04.2008 to 17.03.2010
	Shri P.K. Mittal	From 05.06.2008 to 11.02.2010
	Shri R.N. Jha	From 12.02.2010
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 31<sup>st</sup> March 2010.

(Rs. In lakh)			
Name of the party	Description of transactions	Amount of transactions	Outstanding balances as on 31 <sup>st</sup> March 2009
Key Management Personnel	Payment of salary and allowances	84.33 (97.84)	--
	Advance given:		
	Opening balance	8.41 (6.92)	--
	Extended During the year	16.20 (28.20)	--
	Total	24.61 (35.12)	--
	Repayment of Advance	15.30 (26.71)	9.31 (8.41)

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	2009-10	2008-09
Profit after Tax (Rs. in lakh)	(182,265)	57485
*Less: Preference dividend including tax (Rs. in lakh)	0	0
Balance for Equity Shareholders (Rs. in lakh)	(182,265)	57485
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.)	(3.65)	1.15

\* No provision for dividend on preference capital has been made due to loss.

\*\* 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)	
	2009-10	2008-09
<b>(A) The movement in deferred tax account is as follows</b>		
Opening Balance	64,484	131,053
Provision for deferred tax liability (Net)	(52,100)	(66,569)
<b>Closing Balance</b>	<b>12,384</b>	<b>64,484</b>
<b>(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:</b>		
Deferred Tax Assets	567,152	543,902
Deferred Tax Liabilities	579,536	608,386
Net Deferred Tax Liability	12,384	64,484
<b>(C) Break up of deferred tax assets/liabilities</b>		
<b>Deferred Tax Liabilities:</b>		
Depreciation	562,168	591,018
Others	17,368	17,368
<b>Total</b>	<b>579,536</b>	<b>608,386</b>
<b>Deferred Tax Assets:</b>		
Provision for bad & doubt full debts	153,525	138,299
Unabsorbed Depreciation	259,055	259,055
Provision for leave encashment	104,530	98,061
Provision for decommissioned asset, wage revision etc.	27,700	28,141
Provision for obsolete inventory and CWIP	4,241	3,234
Provision for contingency	50	45
Provision for payment to staff gratuity fund (DR)	1,609	625
Others	16,442	16,442
<b>Total</b>	<b>567,152</b>	<b>543,902</b>

**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**

The provision for income tax for the current year has not been made since the Company is not having any taxable income either under normal provisions of the Income Tax Act, 1961 or special provision u/s 115JB (MAT) of the Income Tax Act, 1961. However, provision for income tax for the assessment year 2001-02 amounting to Rs. 14,501 lakh has been made during the year since relief cannot be obtained from Hon'ble ITAT due to retrospective change in the law itself.

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 01.04.2009	Fresh Provision made during the year	Provision utilized during the year	Provision written back during the year	Closing balance as at 31.03.2010
Wealth Tax	418 (415)	116 (125)	119 (122)	- (-)	415 (418)
Dividend	0 (120,000)	0 (0)	0 (120,000)	- (-)	0 (0)
Tax on Dividend	0 (20,395)	0 (0)	0 (20,395)	- (-)	0 (0)
Phased out assets	0 (0)	- (-)	- (-)	0 (0)	0 (-)
Leave Encashment	489,496 (461,007)	65,212 (30,187)	4,208 (1,698)	0 (-)	550,500 (489,496)
Gratuity	3,964 (4,504)	6,686 (4,840)	3,963 (5,380)	- (-)	6,687 (3,964)
Contingencies	781 (1,086)	233 (215)	149 (480)	64 (40)	801 (781)
<b>Total</b>	<b>494,659 (607,407)</b>	<b>72,247 (35,367)</b>	<b>8,439 (148,075)</b>	<b>64 (40)</b>	<b>558,403 (494,659)</b>

Note: Figures in bracket denotes previous year figures.

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

Particulars	(Rs. In lakh)	
	2009-10	2008-09
Salaries & Allowances	70.34	88.42
Perquisites	4.36	4.51
EPF Contribution	9.63	4.91
Sitting Fees	4.10	3.15
<b>Total</b>	<b>88.43</b>	<b>100.99</b>

**22. Advance to Directors:**

Particulars	(Rs. In lakh)	
	2009-10	2008-09
Amount due at the end of the year (TA Advance)	9.31	8.41
Maximum amount due during the year	10.97	17.22

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

Particulars	2009-10 (Rs. in lakh)		2008-09 (Rs. in lakh)	
	Statutory Auditor	Branch Auditors	Statutory Auditor	Branch Auditors
Statutory Audit Fee	10.56	189	9.60	183
Tax Audit Fee		22	-	19
<b>As advisor or in any other capacity:</b>				
Certification Charges	1.58	27	0.96	18
Management Services	3.40	4	2.90	6
Reimbursement of Expenses	1.40	23	1.17	20

**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	(Rs. In lakh)	
	2009-10	2008-09
Raw Material	-	-
Components & Spares Parts	801	3,496
Capital Goods	80,975	82,854
<b>Total</b>	<b>81,776</b>	<b>86,350</b>

ii) **The expenditure in foreign currency:**

(Rs. In lakh)

Particulars	2009-10	2008-09
Expenses on Services	37,880	33,245
Traveling	96	142
Others	9,733	5,039
<b>Total</b>	<b>47,709</b>	<b>38,426</b>

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

Particulars	2009-10		2008-09	
	(Rs. in lakh)	%	(Rs. in lakh)	%
Imported	44,601	40.44	32,004	37.20
Indigenous	65,676	59.56	54,022	62.80
<b>Total</b>	<b>110,277</b>	<b>100.00</b>	<b>86,026</b>	<b>100.00</b>

iv) **Earnings in Foreign currency:**

(Rs. In lakh)

Particulars	2009-10	2008-09
Training Fee	8	33
Income from Services	20,063	17,133
Others		-
<b>Total</b>	<b>20,071</b>	<b>17,166</b>

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 31<sup>st</sup> March 2010 (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 one circle (P.Y. 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:

(Rs. In lakh)

Particulars	Amount as at 31.03.2010
The principal amount due to any "supplier"	244
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 31.03.2010		As at 31.03.2009	
	No. of Cases	Amount (Rs. In lakh)	No. of Cases	Amount (Rs. In lakh)
TR Billing	44	22	105	1,587
Enhanced Sales Tax in lieu of C/D Forms	11	1,906	13	1,696
On account of service tax disputed	71	17,829	37	8,249
Sales tax disputed	33	9,348	49	4,635
Customs duty disputed	1	4	1	126
Central Excise claims	18	1,556	27	2,506
Disputed interest, penal interest & pre-payment charges on 15 year Govt. loan	1	16,948	1	10,396
License Fee & Spectrum charges (difference between LF & Spectrum as per non-TDSAT and TDSAT)	1	146,420	-	-
Others	65	3950	87	9,334
<b>Total</b>	<b>245</b>	<b>197983</b>	<b>320</b>	<b>38,529</b>

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

Particulars	As at 31.03.2010	As at 31.03.2009
No. of cases	25,680	27,889
Amount (Rs. in lakh)	879,161	123,614

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

Assessment Year	As at 31.03.2010		As at 31.03.2009	
	Forum where pending	Amount (Rs. In lakh)	Forum where pending	Amount (Rs. In lakh)
2001-02	Appeal decided by ITAT against assessment u/s 143 (3)	-	ITAT against Assessment u/s 143	14,501
2001-02 (Refer Note-1)	Writ pending at 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)	Appeal decided by ITAT against assessment u/s 143 (3)	-	ITAT against Assessment u/s 143	2,757
2002-03 (Refer Note-3)	Appeal pending at CIT (A) against penalty order u/s 271 (1) (c)	27,307	CIT (A) against Penalty proceedings u/s 271(1)(c) (pending to be filed before CIT Appeal)	27,307
2003-04	Appeal pending at ITAT against assessment u/s 143 (3)	197,943	ITAT against Assessment u/s 143	197,943
2004-05	Appeal pending at ITAT against assessment u/s 143 (3)	36,110	ITAT against Assessment u/s 143	36,110
2004-05 (Refer Note-4)	Appeal pending at ITAT against assessment u/s 263/143 (3)	100,856	-	-
2005-06	Appeal pending at ITAT against	31,667	ITAT against	31,667

	assessment u/s 143(3)		Assessment u/s 143	
<b>2005-06 (Refer Note-5)</b>	Appeal pending at CIT (A) against penalty order u/s 271(1)(c)	115,316	-	-
<b>2006-07 (Refer Note 6)</b>	Appeal being filed at ITAT against assessment u/s 143(3)	51,890	CIT (A) against Assessment u/s 143	51,890
<b>2007-08 (Refer Note 7)</b>	Appeal pending at CIT (A) against assessment u/s 143(3)	35,218	-	-
<b>Total</b>		<b>678,206</b>		<b>444,074</b>

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. 3,316,000 lakh 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 will have 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 partly decided partly in favour of BSNL and Appeal effect of the same has been adjusted by Assessing Officer against pending demand of A.Y. 2005-06.
- (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. 27,307 lakh has been raised against the Company. The Company is in appeal against it before CIT (A).
- (4) Assessment Order u/s 263/143(3) dated 25.09.2009 has been passed for the A.Y. 2004-05, whereby deductions u/s 80-IA amounting to Rs. 452,830 lakh was disallowed. An additional demand of Rs. 100,856 lakh has been raised against the company. The Appeal filed against this Assessment has been decided partly by CIT (A) in favour of BSNL vide their Order dated 30.04.2010 and Appeal effect of the same is still awaited. Further Appeal has been filed with Hon'ble ITAT against the Order of CIT (A).
- (5) During the year penalty for A.Y. 2005-06 u/s 271 (1) (c) has been imposed to the extent of Rs. 115,316 lakh. The Company is in appeal against the same before CIT (A).
- (6) Appeal for the A.Y. 2006-07 has been decided by CIT (A). However, Appeal effect of the same is pending.
- (7) During the year the assessment for A.Y. 2007-08 has been finalized creating a demand of Rs. 35,218 lakh against which the Company is in appeal before CIT (A).
- (8) Penalty proceedings u/s 271 (1) (c) of the I.T. Act 1961 which was initiated against the Company for A.Y. 2001-02, A.Y. 2003-04, A.Y. 2004-05, A.Y. 2006-07 and A.Y. 2007-08, has been kept in abeyance. The additional demand, if any has not been quantified.
- (9) Additional Interest u/s 234B and 220, if any, arising out of abovementioned Income Tax proceedings has not been quantified since demand has not been finally crystallized against the company.
- (10) Amount shown are nearest to rupees in lakh.

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

Item	As at 31.03.2010		As at 31.03.2009	
	With cash margin	Without cash margin	With cash margin	Without cash margin
No. of cases	29	234	21	241
Amount (Rs. In lakh)	459	4,172	306	4,286

- 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 01<sup>st</sup> 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. 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. 303,477 lakh (P.Y. Rs. 427,207 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.