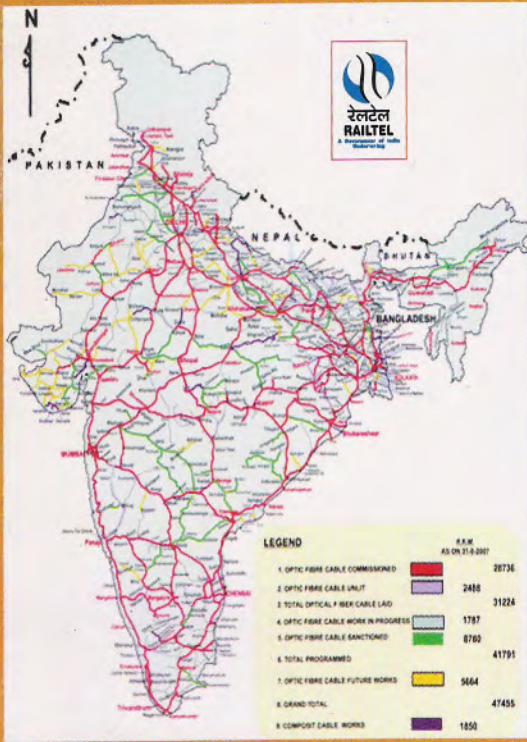


रेलटेल कॉर्पोरेशन ऑफ इण्डिया लिमिटेड

(भारत सरकार का उपक्रम)

RAILTEL CORPORATION OF INDIA LIMITED

(A Government of India Undertaking)



2006-2007

SEVENTH ANNUAL REPORT

सातवीं वार्षिक रिपोर्ट



MISSION VISION

7th
Annual Report
2006-2007

रेलटेल
RAILTEL

A Government of India
Undertaking

RAILTEL CORPORATION OF INDIA LTD.

(A Govt. of India Undertaking)

MISSION / VISION

TO BECOME A PREMIER
TELECOM INFRASTRUCTURE SERVICE PROVIDER
TO OFFER COST-EFFECTIVE STATE OF THE ART
BROADBAND COMMUNICATION SOLUTIONS
IN ALL PARTS OF THE COUNTRY
BY UTILIZING INDIAN RAILWAYS' SEAMLESS RIGHT OF WAY

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◆

रेलटेल
RAILTEL
A Government of India
Undertaking

BOARD OF DIRECTORS

1. Shri Ramesh Chandra..... Chairman (upto 31.8.2007)
2. Shri. S.K. Vasishta.....Managing Director (3.7.2007)
3. Smt. Saroj Rajware.....Director (Finance)
4. Shri Rajiv Sinha..... Director (POM)
5. Shri R.K. Bahuguna..... Director (NPM) (w.e.f. 19.7.2007)
6. Shri R.C. Adwal..... Director (w.e.f. 8.8.2007)
7. Shri Naresh Salecha..... Director (w.e.f. 28.9.2006)
8. Shri S. Murali.....Director
9. Shri Narinder Sharma..... Director
10. Dr. V.K. Koshy..... Director
11. Shri Sumant Chak.....Director (w.e.f. 5.03.2007)

AUDIT COMMITTEE

1. Shri S. Murali.....Chairman
2. Shri Narinder Sharma.....Member
3. Dr. V.K. Koshy.....Member
4. Shri Naresh Salecha.....Member
5. Shri R.C. Adwal.....Member

DIRECTORS' REPORT

Gentlemen,

The Directors have pleasure in presenting their 7th annual report together with audited annual accounts of the Company for the year ended 31st March, 2007.

2. FINANCIAL RESULTS

2.1 During the financial year 2006-07, RailTel has received total revenue of Rs. 115 crores which is 31% higher than the revenue receipt of Rs. 88 crores for the financial year 31st March, 2006. Out of this revenue, the income recognized and included in the Profit & Loss Account for the year ended 31st March, 2007 amounted to Rs. 116.59 crores as against that of Rs. 62.70 crores including the interest income but before the interest income during construction period transferred to capital work in progress.

2.2 The operating profit earned during the year is Rs. 62.57 crores before interest, depreciation and tax as against that of Rs. 33.66 crores in the preceding year. Consequent to signing of a revised agreement by the Company with the Ministry of Railways in September, 2006, it was decided by Railways not to charge RailTel grant fee of Rs. 11.34 crores per annum for use of their Right of Way by RailTel etc.. At the same time, the share of RailTel's gross revenue has been enhanced to 5% / 7% in place of 4% earlier. After providing for interest and depreciation and giving effect to the earlier years' adjustment on RoW charges, the net profit before tax amounted to Rs. 41.08 crores. A provision for FBT of Rs. 0.23 crore has been made. The net surplus has been adjusted against the total accumulated losses and balance loss has been carried over to the Balance Sheet.

2.3 The Company has further availed of loan finance from its Bankers to the extent of Rs. 55 crores during the year and upto the end of financial year, the total outstanding was Rs. 147 crores as against the revised sanctioned loan of Rs. 250 crores. As earlier reported, RailTel has also made drawal of funds to the extent of Rs. 150 crores from Indian Railway Finance Corporation (IRFC), which is as of now reduced to Rs. 100 crores after payment of two instalments of such loan by RailTel to IRFC. The terms of repayment has since been revised to provide for quarterly payments in place of yearly payment.

3. CAPITAL STRUCTURE

3.1 The authorized capital of the Company is Rs. 1000 crores. As on 31st March, 2006, the issued, subscribed and paid up share capital of the Company stood at Rs. 320.93 crores including Rs. 305.93 crores equity allotted for consideration other than cash against the OFC related assets of Railways.

Further shares would soon be allotted against the OFC related assets already transferred /under transfer or use to RailTel by Indian Railways.

4. REVISED AGREEMENT WITH THE MINISTRY OF RAILWAYS

In super session of the earlier Agreement dated 30th July, 2003, RailTel has signed a first revised Agreement on 21st September, 2006 with the Ministry of Railways containing the revised terms and conditions as were negotiated and finalized. While such revised



Signing of revised Agreement on 21st September, 2006
by M.D. RaiTel and AM/Plng, Ministry of Railways

Agreement inter alia provides for (i) no Right of Way charges payable by RailTel and (ii) revenue share revised slightly, equal emphasis has been laid therein to (i) to take back ownership of 1 or 2 pair of fibres against proportionate adjustable cost, (ii) ownership of short haul STM-1 and PD mux to be transferred back to Railways and cost adjusted against issue of fresh equity for OFC and (iii) long haul services to be provided to Railways by RailTel on fibre pair transferred to Railways for which Railways to pay annual lease charges at mutually agreed incremental cost for recovery of principal, interest, repairs and maintenance etc.

5. NLD LICENCE

With the amendments in the telecom policy with effect from 1st January, 2006, RailTel decided to migrate to NLD service licence. Accordingly, RailTel has signed the NLD agreement with DoT on 7th July, 2006. With NLD licence, RailTel envisages to further aggressively enter into lucrative corporate leased line market in addition to offering VPN services.

6. PROJECTS

In the year 2006-07, RailTel has continued its efforts to strengthen its network infrastructure and by commissioning further Optical Fibre Cable, besides concentrating on sales and marketing activities.

6.1 During the year 2006-07, 1919 RKMs of OFC was added while 2855 RKMs of OFC was commissioned with electronics. The total OFC laid upto the end of March, 2007 was 30790 RKMs and total OFC lit was 28124 RKMs. The total number of stations put on OFC network was 2828 as on 31st March, 2007, as compared to 2407 till 31st March, 2006 thereby registering an increase of 17.49%.

6.2 Simultaneously, continued progress has been made in commissioning of STM-16 (2.5 GB) backbone during the last financial year. Till 31st March, 2007, RailTel had commissioned STM 16 system on 26195 RKMs adding 3373 RKMs during the last financial year. Besides, 2053 RKMs of STM-4 network and 12552 RKMs of STM-1 network were added during the year 2006-07, bringing the total installed capacity of STM-4 network to 14605 RKMs and STM-1 capacity to 21137 RKMs as on 31st March, 2007.

6.3 The MPLS-IP network has been fully commissioned except for edge router at Guwahati.

6.4 The Company is outsourcing the maintenance of OFC to local agencies with a view to ensure continued and uninterrupted connectivity in the OFC links. Simultaneously, the Company also continued its efforts to ensure greater coordination with Indian Railways to make use of the existing infrastructure for maintenance of OFC and microwave tower(s). The Company has targeted to improve efficiency levels to the extent of 99.5% to ensure customer's satisfaction.

6.5 It is worth mentioning here that the Railway Board have taken a policy decision that all future telecom works in connection with major IT applications like PRS / UTS, FOIS / COIS, Crew management and control charting, and Disaster Recovery and Data Warehousing solution will be done by RailTel.

7. SALES & MARKETING

7.1. During the year under report, RailTel has continued to acquire more customers /clients and at the same time increase its business from the existing clients. RailTel is presently providing services to

TTSL/TTML, Reliance Infocom, Spice, Bharti Infotel, etc. RailTel is also providing bandwidth services and tower space to internet service providers, Mobile Service Operators and other service providers like SIFY, VSNL, Equant, Tulip IT, British Gas Broadband, STPI, Spectranet, HCL Infinet, Qrtel, MyGuru online, Net4Technologies, Asianet, Hathways, among others. With the launch of MPLS-IP network, RailTel is targeting corporate VPN market and expects to garner a substantial chunk of corporate leased lines and VPN business in the current financial year. It has also secured a contract from State Bank of India for leasing of bandwidth and MPLS bandwidth for Rs. 9.30 crore over a period of three years. Some of other VPN customers include Bajaj Hindustan, ABC Exports, IRCON International, IRCTC, Amar Ujaja etc

7.2 In the previous financial year, the utilization of RailTel's network has increased considerably. RailTel has leased 7696 E1s (15 Gbps) by end of 2006-07, as compared to 2432 E1s (5 Gbps) leased by the end of 2005-06 which constitutes an increase of 216 % in comparison to previous financial year.

7.3 RailTel has appointed M/s SIFY and M/s VSNL as its franchisees for launching cyber cafes at 82 railway stations. 19 Cyber Cafes have since been commissioned. With the commissioning of the balance cafes shortly, the traveling passengers and the public can avail Internet browsing, Email services, Voice Over Internet Protocol (VOIP), fax, video conferencing etc. at Railway Stations. It is also proposed to provide Wi-Fi hot spot at some of the important stations under Public Private Partnership. Agreement with M/s Airlink has been signed to this effect.

7.4 RailTel has established regional offices at Delhi, Kolkata, Secunderabad, Mumbai and territorial offices at Bangalore, Chennai, Ahmedabad, Jaipur, Chandigarh, Lucknow, Bhubneswar for project execution, operation and maintenance of OFC, SDH electronics and routers as well as sales and marketing of bandwidth, internet leased lines, VPNs, tower space etc.

7.5 RailTel has been offering leased line services to Service Providers under IP-II licence and ISP services including VPN services under ISP licence with VPN registration as well as Infrastructure Leasing under IP-I.

7.6 RailTel has also plans to enter into switched voice NLD segment. Based on the recommendation of Price Waterhouse Coopers (Consultants appointed by RailTel), RailTel has decided to launch NGN based NLD network in 18 cities in phase I during current year and 27 more cities in FY 2009, covering a total of 45 cities. Tender for phase I has already been invited and is under evaluation. Also POI (Point of Interconnect) agreements have been signed with some of the service providers.

8. ISO CERTIFICATION

ISO 9001:2000 certification has been obtained by all the Regions as well as corporate office of RailTel from Mody International Certification Ltd. during the financial year under report.

9. INDUSTRIAL RELATIONS

9.1 Cordial industrial relations were maintained during the year.

9.2 The total number of employees on the roll of the Company as at 31st March, 2007 were 249. Besides, the Company resorted to direct recruitment of 62 Engineers on contractual basis. In addition to the above, the Company had outsourced the services of 225 personnel in different capacities to facilitate work.



6th Annual day celebration by RailTel Sitting on dias from left are S/Shri KK Bajpeyee, Ramesh Chandra JP Batra and Smt. Saroj Rajware.

10. VIGILANCE

10.1 RailTel observed Vigilance Week during 6th November to 10th November 2006. Also 8 field inspections were conducted and the shortcomings noted in the execution of works have been notified to field units for taking corrective measures.

11. EMPLOYMENT OF WOMEN, USE OF OFFICIAL LANGUAGE ETC.

11.1 There is adequate representation of women employees in the Company. Further Company is following the guidelines of the Official Languages Act. The Annual Report is also concurrently published in Hindi. The Company would progressively increase the use in Hindi in accordance with the official language policy of the Government. The Officers and staff possess working knowledge in Hindi in day to day work.

11.2 No Presidential Directive was received from the Government during the financial year under report.

11.3 Ministry of Railways have entered into first revised agreement with the Corporation on 21st September, 2006 in relation to transfer of OFC related assets on the revised terms and conditions as have been agreed to by both the parties.

12. PARTICULARS OF EMPLOYEES U/S 217 (2A) OF THE COMPANIES ACT, 1956.

12.1 There was no employee of the Company who received remuneration in excess of the limits prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rule, 1975.

13. PARTICULARS RELATING TO CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION ETC.

13.1 The Company is presently engaged in providing of telecom services and as such, the information under the applicable provisions of section 217(1)(e) of the Companies Act, 1956 is not applicable.

13.2 The Company has not earned foreign exchange during the year under report. The Company incurred an expenditure of Rs. Nil (52.51 lakhs) on account of professional and consultancy fee and Rs. 6.34 lakhs on others (previous year – Rs. 0.80 lakhs) in foreign currency during the year.

14. EXPLANATION TO AUDITORS' QUALIFICATIONS ON THE ANNUAL ACCOUNTS

The Auditors have made observations in their Report on the annual accounts of the Company for the year ended 31st March, 2007 and the same are replied /dealt with as under :

I. Allotment of shares for Rs. 5667 lakhs was made on 14th March, 2007. Simultaneously action to transfer 2/4 fibres of OFC to Railways was also underway. Subsequently, it was decided to transfer 2/4 fibres of OFC to Railways w.e.f. the date of revised agreement with Railways. As a result, adjustment of Rs. 4126.35 lakhs would be made from equity to be issued to the Railways against future acquisition of OFC related assets.

II & III. There are three types of assets which are to be transferred to Railways. 2/4 fibres of OFC, STM-1 equipment received from Railways to be transferred back to them and STM-1 and primary multiplexing equipment created by RailTel and to be transferred to Railways. Necessary adjustment for 2/4 fibers have been made in the accounts. In respect of transfer of STM-1 equipment valued at Rs. 3426.00 lakhs, the same is being pursued with Railways and the Company proposes to effect transfer of these assets in the current financial year and make the necessary adjustments as provided in the agreement. Further in regard to STM-1 and primary multiplexing equipments created by RailTel, the same has been identified and their values worked out and on transfer of these assets, necessary adjustments will be made in the books of accounts in the current year after confirmation from Railways.

IV. The Company had paid a sum of Rs. 338.36 lakhs to Department of Telecommunications under protest against their demand on account of alleged short payment of fee, penalty and interest etc. against the use of IP II services by RailTel. The Company has reflected the said amount as advance recoverable in cash or in kind, pending receipt of judgment of TDSAT on similar issues taken up by the Association, as reported in the previous year. The Company has been advised that the judgment in the matter will apply uniformly. Therefore, no provision has been made for the same.

15. DIRECTORS' RESPONSIBILITY STATEMENT:

15.1 In terms of the provisions of section 217(2AA) of the Companies Act, 1956, as amended, your Directors confirm as under:

- a) that in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- b) that the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- c) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for prevention and detecting fraud and other irregularities; and
- d) that the Directors have prepared the annual accounts on a going concern basis.

16. CORPORATE GOVERNANCE AND MOU RATING

16.1 The Company is seized of the concept of corporate governance and the principles underlying the same. As a part of good corporate governance practices, the Company has been taking steps to implement such concepts. It has already constituted / re-constituted Audit Committee of the Board.

- 16.2 RailTel is also signing an MoU with the Government of India, Ministry of Railways thereby laying inter alia the physical and financial targets for the year 2007-08. During 2005-06, RailTel has got "Good" rating under such MoU for that financial year.

17. AUDITORS

- 17.1 The Comptroller and Auditor General of India (CAG) have re-appointed M/s Goyal & Goyal of Delhi as Auditors of the Company to audit the annual accounts for the year ended 31st March, 2007. In terms of the authorization given by the members in their last annual general meeting, the Board has already considered and approve payment of audit fee of Rs. 75,000/- plus service tax to them, in addition to reimbursement of expenses and other fee on account of tax audit as per last year. Similarly, the approval of the shareholders is solicited for authorizing the Board for fixation of remuneration payable to the statutory auditors for the year 2007-08 as and when appointed.

18. COMMENTS OF CAG

- 18.1 The comments of the CAG on the accounts of the Company for the year ended 31st March, 2007 shall also form part of this report.

19. DIRECTORATE

- 19.1 At present, the Board of the Corporation consists of a part time Chairman, Managing Director and three functional Directors and two Govt. Nominees and four part time non-official Directors.
- 19.2 The Board met four times for transacting business during the financial year 2006-07.
- 19.3 Shri Rajiv Sinha has joined the Company as Director / POM w.e.f. 27th October, 2006. In addition, Mr. Naresh Salecha has also been appointed as Govt. Director on the Board of the Company w.e.f. 28th September, 2006 vice Shri A.K. Bhatnagar.
- 19.4 Shri Sumant Chak has also been recently appointed by the Government of India as part time non official Director, in addition to three existing such Directors on the Board.
- 19.5 Shri S.K. Vasishta joined the Company as the Managing Director w.e.f. 3rd July, 2007 vice Shri K.K. Bajpeyee who supernnauted from services.
- 19.6 Shri R.K. Bahuguna also joined the Company as Director /Network Planning & Marketing w.e.f. 19th July, 2007.
- 19.7 The Board placed on record its appreciation of services rendered and guidance provided by the out went Directors Shri KK Bajpeyee and Shri A.K. Bhatnagar.

20. AUDIT COMMITTEE

An Audit Committee of the Board of Directors was earlier constituted by the Corporation and at present, such Committee consists of the following Directors :

1. Shri S. Murali
2. Shri Narinder Sharma
3. Dr. VK Koshy
4. Shri Naresh Salecha
5. Shri RC Adwal

Shri S. Murali has been elected as Chairman of the Audit Committee.

21. ACKNOWLEDGMENTS

21.1 The Board express its gratitude towards Indian Railways and other Departments for their cooperation and continued assistance.

21.2 The Company is also thankful to the IRFC and the syndicate of banks led by State Bank of India in extending cooperation and timely financial support to the Company.

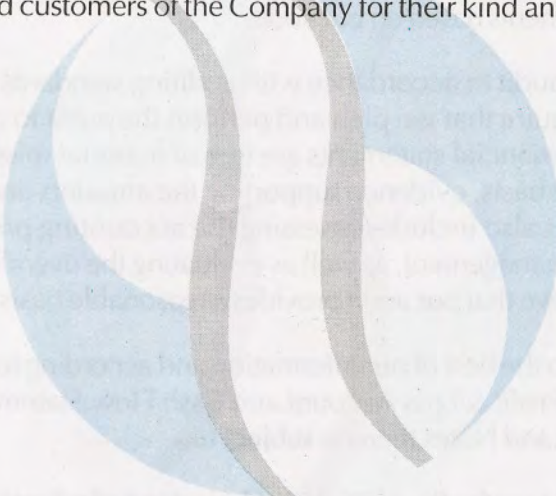
21.3 The Board also expresses its gratitude to CAG and the statutory auditors for their valued contribution.

21.4 The Board also places on record its appreciation of the services rendered by all categories of employees and others, which have enabled RailTel to achieve its objectives. The Board also expresses its gratitude to the valued customers of the Company for their kind and continued patronage.

For and on behalf of the Board

Chairman

Dated: 29th August, 2007
Place: New Delhi



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GOYAL & GOYAL

CHARTERED ACCOUNTANTS

AUDITORS'S REPORT

TO THE MEMBERS OF RAILTEL CORPORATION OF INDIA LIMITED

1. We have audited the attached Balance Sheet of **RAILTEL CORPORATION OF INDIA LIMITED** as at 31st March, 2007, the Profit & Loss Account and the Cash Flow Statement for the year ended on that date all of which we have signed under reference to this report. These financial statements are the responsibility of the company. Our responsibility is to express an opinion on these financial statements based on our audit.
 2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.
 3. In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit & Loss Account and Cash Flow Statement read with the Significant Accounting Policies and Notes thereon **subject to:-**
 - I) **Allotment of shares for Rs. 4126.35 Lakhs instead of adjusting the same from the amount due from railways as required under clause 3.2.4 of the agreement with ministry of railways dated 21/9/2006 (hereinafter referred to as "the agreement"), thereby enhancing the Share Capital by 4126.35 lakhs on one hand and Current Assets on the other hand ;**
 - II) **Non Transfer of Short Haul and Long Haul (STM-1) Equipments to Railways costing Rs. 3426.00 lakhs (Written down value of Rs. 2745.61 lakhs) as required under clause 3.1.4 of the agreement;**
 - III) **Non-Transfer of short Haul STM-1 and primary multiplexing Equipments to railways as required under clause 3.1.5 of the agreement (Value not determined by the company) and**
 - IV) **Non Provision of penalty Rs. 365.55 lakhs paid to Department of Telecommunications;**
- give, in the prescribed manner the information required by the Companies Act, 1956 ("the Act") and also give a true and fair view in conformity with Accounting Principles generally accepted in India: .
- a) In the case of the Balance Sheet, of the state of affairs of the company as at 31st March, 2007;
 - b) In the case of the Profit & Loss Account, of the PROFIT for the year ended on that date; and
 - c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.
4. We have obtained all the information and explanations, which to the best of our knowledge and

belief were necessary for the purposes of our audit. In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from our examination of those books. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.

5. In our opinion, these accounts have been prepared in compliance with the applicable accounting standards referred to in section 211 (3C) of the Act.
6. Provision of section 274(1)(g) of the Companies Act, 1956 are not applicable to the directors of the company in view of General Circular No. 8/2002 dated 22/03/2002, issued by the Department of Company Affairs.
7. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956 and according to the information and explanations given to us during the course of audit and on the basis of such checks as were considered appropriate, we further state that: -

- i. The company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The company carries out physical verification as an ongoing process and the same has been done for eastern region during the year and no material discrepancies were noticed on such verification. Certain assets have been transferred to railways; however the same do not affect the status of the company as a going concern.
- ii. The inventory consists of spares parts only. According to information and explanation given to us, physical verification of inventory has been done by the management on yearly basis. In our opinion, the frequency of such verification is reasonable having regard to the size of the company and nature of its business.

The company has maintained proper records of inventory. As explained to us, there were no material discrepancies noticed on physical verification of stock as compared to book records.

- iii. (a) According to the records of the company examined by us and the information and explanations given to us, no loans have been granted by the company to companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956.
(b) According to the records of the company examined by us and the information and explanations given to us, no loans have been taken by the company from companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- iv. In our opinion, and according to the information and explanations given to us it appears that there are adequate internal control procedures commensurate with the size of the company and the nature of its business, with regard to purchases of Inventory, Fixed Assets and sale of goods and services. However internal control system for capitalisation of assets received from railways needs to be strengthened.

- v. According to the information and explanations given to us, we are of the opinion that there has not been any transaction during the year that need to be entered in the register maintained under section 301 of the Companies Act 1956.
- vi. The company has not accepted any Public Deposits.
- vii. The company has an Internal Audit System commensurate with its size and nature of its business.
- viii. According to the information and explanations given to us, no cost records have been maintained by the company as prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956.
- ix. (a) According to the information and explanations given to us, the company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Educational and Protection Fund, Employees State Insurances, Income tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty, Service tax, cess and any other statutory dues with the appropriate authorities.

(b) According to the information and explanations given to us, there are no amount in respect of Sales Tax, Income Tax, Service Tax, Custom Duty, Wealth Tax, Excise duty and Cess that have not been deposited with the appropriate authorities on account of any dispute, other than those mentioned in following table:-

STATEMENT OF DISPUTED DUES

Name of the Statute	Nature of Dues	Amount (Rs. In Lakh)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961.	Assessed Tax & Interest	161.98	Assessment. Year 2003-04	CIT (Appeal)

- x. The accumulated losses at the end of the financial year are less than fifty percent of its net worth and the company has not incurred cash losses in this financial year and in the immediately preceding financial year.
- xi. According to the information and explanations given to us, the company has not made any default in repayment of dues to financial institutions or banks. The company does not have any borrowings by way of debentures.
- xii. In our opinion and according to the information and explanations given to us, the company has not granted any loans on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. The company is not a Chit Fund, Nidhi, Mutual benefit fund or Society.
- xiv. To the best of our knowledge and according to the information and explanations given to us, the company is not dealing or trading in shares, debentures and other securities.

- xv. The company has not given any guarantees for loans taken by others from banks or financial institutions.
- xvi. According to the information and explanations given to us, the term loans were applied for the purpose for which they were obtained.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, in our opinion, there are no funds raised on a short-term basis, which have been used for long-term investment.
- xviii. According to the information and explanations given to us the company has not made any preferential allotment of shares.
- xix. The company has not issued any debentures and hence the question of creating securities does not arise.
- xx. The Company has not raised any fund through Public issue.
- xxi. To the best of our knowledge and belief, and according to the information and explanation given to us, no fraud on or by the company has been noticed during the course of our audit.

For Goyal & Goyal
Chartered Accountants

Place: New Delhi
Date: 27th August, 2007

MUKESH GOYAL
(PARTNER)
M.No:-80494

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RAILTEL
A Government of India
Undertaking



गोपनीय
स./No स.ले.प. III/प्रति/अकाउंट्स/12-8/2006-07/ 900
कार्यालय
प्रधान निदेशक, वाणिज्यिक लेखा परीक्षा
एवं पदेन सदस्य लेखा परीक्षा बोर्ड-III,
नई दिल्ली
OFFICE OF THE
PRINCIPAL DIRECTOR OF COMMERCIAL AUDIT
& EX-OFFICIO MEMBER, AUDIT BOARD-III.
NEW DELHI

दिनांक/Dated 26 SEP 2007

सेवा में,

प्रबंध निदेशक,
रेलटेल कॉर्पोरेशन ऑफ इन्डिया लिमिटेड,
नई दिल्ली ।

विषय: कंपनी अधिनियम की धारा 619(4) के अधीन, रेलटेल कॉर्पोरेशन ऑफ इन्डिया लिमिटेड नई दिल्ली के वर्ष 2006-07 के लेखाओं पर भारत के नियंत्रक-महालेखा परीक्षक की टिप्पणियां।

महोदय,

मैं रेलटेल कॉर्पोरेशन ऑफ इन्डिया लिमिटेड, नई दिल्ली के वर्ष 2006-07 की समाप्ति हेतु कंपनी अधिनियम 1956 की धारा 619(4) के अधीन लेखों पर भारत के नियंत्रक-महालेखा परीक्षक की टिप्पणियां अग्रेषित करता हूँ।

2. कृपया इस पत्र की संलग्नकों सहित प्राप्ति की पावती भेजी जाए।

संलग्न: यथोपरि।

भवदीय,

ई.आर. सोलोमन

(ई.आर. सोलोमन)
प्रधान निदेशक

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COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF RAIATEL CORPORATION OF INDIA LIMITED, NEW DELHI FOR THE YEAR ENDED 31 MARCH 2007

The preparation of financial statements of Railtel Corporation of India Limited, New Delhi for the year ended 31 March 2007 in accordance with the financial reporting framework prescribed under the Companies Act, 1956, is the responsibility of the management of the company. The statutory auditor appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956, is responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956, based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 27 August 2007.

I on the behalf of the Comptroller and Auditor General of India have conducted a supplementary audit under Section 619(3) (b) of the Companies Act, 1956, of the financial statements of Railtel Corporation of India Limited, New Delhi for the year ended 31 March 2007. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matter under Section 619(4) of the Companies Act 1956 which has come to my attention and which in my view is necessary for enabling a better understanding of the financial statements and the related Audit Report:

Profit and Loss Account

(1) **MAT Credit Entitlement: Rs. 4.50 crore**

The Company has recognised Minimum Alternative Tax (MAT) Credit Entitlement as an asset on the assumption that it would be in a position to utilize MAT credit in future in view of current trends available. As the Company's assumption is contrary to its assertion made in Note 17 (Schedule 10) that there was no virtual certainty that taxable income would be available in the near future, MAT credit should not have been recognised as an asset. This resulted in overstatement of profit for the year after tax as well as current assets by Rs. 4.50 crore.

(2) **Basic/Diluted Earning per share: Rs. 1.58**

The basic/diluted earning per share worked out to be Rs. 1.27 as 86529600 shares, allotted in 2006-07 for consideration other than cash, should have been considered from the date of recognition of assets (i.e., prior to 1 April 2006), instead of the date of allotment of shares, as required by Accounting Standard-20 prescribed under Section 211 (3C) of the Companies Act 1956.

Balance Sheet

(3) Net Current Assets/Liabilities: (-) Rs. 8.19 crore

The above has been arrived at by reducing long term liabilities of Rs. 9.97 crore. As long term liabilities are not current liabilities, these should not be reduced from the current assets for the purpose of working out Net Current Assets/Liabilities. This resulted in understatement of Net Current assets/Liabilities by Rs. 9.97 crore.

For and on the behalf of the
Comptroller & Auditor General of India

(E.R. Solomon)

Principal Director of Commercial Audit &
Ex-officio Member Audit Board-III,
New Delhi

Place: New Delhi

Dated: 26 September 2007



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C & AG Comments & Managements' Reply.

S. No	Comment	Reply
1.	<p>MAT Credit Entitlement : Rs.4.5 crores</p> <p>The Company has recognized Minimum Alternative Tax (MAT) Credit Entitlement as an asset on the assumption that it would be in a position to utilize MAT credit in future in view of current trends available. As the Company's assumption is contrary to its assertion made in Note 17 (Schedule 10) that there was no virtual certainty that taxable income would be available in the near future, MAT credit should not have been recognized as an asset. This resulted in overstatement of profit for the year after tax as well as current assets by Rs.4.50 crores.</p>	<p>The Company has unabsorbed depreciation and carried forward losses under tax laws and there is no virtual certainty with convincing evidence that taxable income will be available in the near future against which the deferred tax assets could be realized. Thus the deferred tax asset has not been recognized by the Company. However, based on the growth in the past, the present trends available and the assessment of the management, the company is of the view that it will be in a position to utilize the MAT credit entitlement during the next seven assessment years i.e. the period available under the tax laws for availing the same. The MAT credit entitlement has therefore been correctly accounted for by the company.</p>
2.	<p>Basic/Diluted Earning per share : Rs.1.58 crores</p> <p>The basic/diluted earning per share worked out to be Rs.1.27 as 86529600 shares, allotted in 2006-07 for consideration other than cash, should have been considered from the date of recognition of assets (i.e. prior to 1 April 2006), instead of the date of allotment of shares, as required by Accounting Standard-20 prescribed under Section 211 (3C) of the Companies Act 1956.</p>	<p>Noted.</p>
3.	<p>Net current Assets/Liabilities: (-) Rs.8.19 crore</p> <p>The above has been arrived at by reducing long term liabilities of Rs.9.97 crore. As long term liabilities are not current liabilities, these should not be reduced from the current assets for the purpose of working out Net Current Assets/Liabilities. This resulted in under-statement of Net Current assets/ liabilities by Rs.9.97 crore.</p>	<p>The long term liability of Rs. 997 lakh comprise of revenue share payable to Railways, which is under moratorium upto July '08. These were shown as long term liabilities as per the advice of C&AG. Being in the nature of current liabilities and there being no requirement under Companies Act to show them separately, they have been treated as current liabilities for working out the Net Current Assets.</p>

C & AG Comments & Management's Reply

Sl. No.	Comment	Reply
1.	<p>MAT Credit Entitlement: Rs.4.5 crores</p> <p>The Company has recognised Minimum Alternative Tax (MAT) Credit Entitlement as an asset on the assumption that it would be in a position to utilize MAT credit in future in view of current trends available. As per Company's assumption it cannot be ascertained more in Note 17 (Reserves & Provisions) that there was no virtual certainty that taxable income would be available in the near future. MAT credit should not be recognised as an asset. This results in overstatement of profit for the year as well as current assets by Rs.4.5 crores.</p>	<p>The Company has unabsorbed depreciation and carried forward losses under tax laws and there is no virtual certainty with convincing evidence that taxable income will be available in the near future against which the deferred tax assets could be realized. Thus, the deferred tax asset has not been recognized by the Company. However, based on the growth in the past, Company has never based on the growth in the past, the deferred tax assets and the assessment of the virtual certainty of the view that it will be in a position to utilize the MAT credit entitlement in the next assessment year, i.e. the period covered by the next assessment year, i.e. the period covered by the next assessment year, i.e. the period covered by the next assessment year. The MAT credit entitlement has therefore been correctly accounted for by the company.</p>
2.	<p>Basic/Dividend Entitlement: Rs.1.27 crores</p> <p>The book value of shares held by shareholders as on 31.03.2008 is Rs.1.27 as 8622669 shares allotted in 2006-07 for consideration other than cash, should have been recognised from the date of recognition of shares (prior to 1 April 2006) instead of the allotment of shares, as per Accounting Standard-30 prescribed under Section 211 (3C) of the Companies Act, 1956.</p>	<p>The book value of shares held by shareholders as on 31.03.2008 is Rs.1.27 as 8622669 shares allotted in 2006-07 for consideration other than cash, should have been recognised from the date of recognition of shares (prior to 1 April 2006) instead of the allotment of shares, as per Accounting Standard-30 prescribed under Section 211 (3C) of the Companies Act, 1956.</p>
3.	<p>Net current Assets/Liability: Nil</p> <p>The above has been determined on the basis of long term liabilities of Rs.9.77 crore, as against current liabilities of Rs.9.77 crore, which is under long term liabilities, stated current liabilities should not be reduced from the current assets for the purpose of working out Net Current Assets/Liabilities. This resulted in understatement of Net Current Assets/Liability by Rs.9.77 crore.</p>	<p>The above has been determined on the basis of long term liabilities of Rs.9.77 crore, as against current liabilities of Rs.9.77 crore, which is under long term liabilities, stated current liabilities should not be reduced from the current assets for the purpose of working out Net Current Assets/Liabilities. This resulted in understatement of Net Current Assets/Liability by Rs.9.77 crore.</p>

ANNUAL ACCOUNTS



A Government of India Undertaking

Balance Sheet as at 31st March, 2007

Particulars	Schedules	As at 31.03.07 Amount in Rs Lakhs	As at 31.03.06 Amount in Rs Lakhs
SOURCES OF FUNDS			
Shareholders' Funds	1	32094	23441
Loan Funds	2	27200	21700
Total		59294	45141
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	61137	76306
<i>Less: Depreciation</i>		8014	7505
Net Block		53123	68801
Capital Work in Progress	4	6220	17872
Advances for capital expenditure	5	167	544
		59510	87217
Current Assets, Loans & Advances			
Inventories	6	91	91
Sundry Debtors		969	438
Cash & Bank Balances		7025	3668
Other Current Assets		5	34
Loans & Advances		11201	3105
Total	(a)	19291	7336
Less: Current Liabilities & Provisions			
Current Liabilities	7	19103	19512
Provisions		10	6
Total	(b)	19113	19518
Long Term Liabilities	(c)	997	34582
Net Current Assets/Liabilities(-)	(a) - (b) - (c)	-819	-46764
Profit & Loss Account		603	4688
Total		59294	45141

Significant Accounting policies & Notes on accounts 10

"As per our report of even date attached"

For Goyal & Goyal
Chartered Accountants

Date: 27th August 2007
Place: New Delhi

Mukesh Goyal
(Partner)
M.No: 80494

S. C. HANS
Company Secretary

SAROJ RAJWARE
Director (Finance)

S.K. VASISHTA
Managing Director

Profit & Loss Account for the year ended on 31st March, 2007

Particulars	Schedules	Amount in Rs Lakhs For the Year Ended on 31.03.07		Amount in Rs Lakhs For the Year Ended on 31.03.06	
INCOME					
Lease Revenue -IP-2 Licence		8364		4021	
Lease Revenue - ISP Licence		596		221	
Lease Revenue-IP-1 Licence		2162		1257	
Lease Revenue- VPN Licence		174		113	
Interest from Banks (Gross) TDS Rs 66.48 lakh (Previous Year 58.29 lakh)		295		258	
Other Income		68		399	
		<u>11659</u>		<u>6269</u>	
Less: Interest Income during Construction period transferred to Capital work in progress		227	11432	225	6044
EXPENDITURE					
Employee's Remuneration & Benefits	8	1170		933	
Administrative & Other Expenses	9	1818		1122	
O&M Expenses		1376		1009	
License fees to DOT		529		254	
Revenue share to Railways		531		324	
Preliminary expenses charged off		0		40	
Prior period Adjustments (Net)		426		34	
		<u>5850</u>		<u>3716</u>	
Less:- Incidental Expenditure during construction period transferred to capital work in progress		675	5175	1038	2678
Net Profit before interest, depreciation & tax			6257		3366
Interest on Loan		2098		1921	
Less:- Interest on Loan Capitalised		458	1640	644	1277
Depreciation		3201		1999	
Amortisation of Right of way		0		1134	
		3201		3133	
Less:- Depreciation adjustment for earlier years		-2692	509	43	3090
Net Profit / Loss(-) for the year before tax			4108		-1001
Less:- Tax Expenses					
For FBT (Including Rs 3.1 lakh for earlier year)			23		26
For Minimum Alternate Tax			450		
Add: MAT Credit Entitlement			-450		
Net Profit /Loss(-) for the year after tax			4085		-1027
Surplus / Loss(-) brought forward from previous year			-4688		-3661
Total Accumulated Loss(-) Carried over to Balance Sheet			-603		-4688
Basic/Diluted Earning per share (Rs.)			1.58		-0.44

Significant Accounting policies & Notes on Accounts 10
"As per our report of even date attached"

For Goyal & Goyal
Chartered Accountants

Date: 27th August 2007
Place: New Delhi

Mukesh Goyal
(Partner)
M.No: 80494

S. C. HANS
Company Secretary

SAROJ RAJWARE
Director (Finance)

S.K. VASISHTA
Managing Director

Schedules annexed to and forming an integral part of the Balance Sheet and Profit & Loss Account for the year ended 31 st March, 2007.

SHAREHOLDERS' FUNDS

Schedule 1

Particulars	As at 31.03.07 Amount in Rs Lakhs	As at 31.03.06 Amount in Rs Lakhs
Share Capital		
Authorised Capital		
1,00,00,00,000 Equity shares of Rs. 10/- each	<u>100000</u>	<u>100000</u>
Issued, Subscribed & Paid up Capital		
1,50,00,007 Equity Shares of Rs. 10/- each	1500	1500
30,59,38,400(Previous year 21,94,08,800) Equity shares of Rs 10/- each allotted for consideration other than cash	30594	21941
TOTAL	<u><u>32094</u></u>	<u><u>23441</u></u>

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LOAN FUNDS

Schedule 2

Particulars	As at 31.03.07 Amount in Rs Lakhs	As at 31.03.06 Amount in Rs Lakhs
Secured Loans		
Term Loan		
Syndicated Term Loan from Banks led by State Bank of India	14700	9200
TOTAL (a)	14700	9200

Above loans are secured by way of:-

- First ranking mortgage/Hypothecation charge, as appropriate charges over all the company's immovable and movable assets on pari passu basis.
- First Charge on Project account. During the currency of loan, all payments received would get deposited in the principal project account to be maintained at State Bank of India, CAG Branch, New Delhi.
- Assignment/Charge of proceeds from sale of network including payments from DOT in the events of Termination/ Cancellation of Licence.
- Charge / Assignment in favours of lender of the borrowers right under projects assignments duly acknowledged and consented to by the relevant counter parties to such project assignments.
- Assignment/Charge of contractor guarantees and liquidated damages.
- Security / charge over any letters of credits and/or performance bonds provided by the shareholders/ vendors in favours of the company all in form and manner satisfactory to SBI.

Unsecured Loans

Term Loan from Indian Railway Finance Corporation Ltd.	12500	12500
TOTAL (b)	12500	12500
GRAND TOTAL (a) + (b)	27200	21700

Loans due for repayment within one year 4184

NIL

FIXED ASSETS

SCHEDULE 3

Amount in Rs Lakhs

PARTICULARS	GROSS BLOCK				DEPRECIATION							NET BLOCK			
	As At 1-4-2006	Additiond During the Year	Transfer Adjustment During the Year	Total As on 31.03.2007	Prior Period Adjustment on Account of							Total	Total Upto 31/03/07	As On 31-03- 2007	As On 31-03- 2006
					Upto 31-03-2006	For The Year	Correction in earlier Years	Change in Rates	Assets booked during the year	Assets Transferred during the year					
A. FIXED ASSETS															
Right of Way	34020	0	-34020	0	3024	0	0	0	0	-3024	-3024	0	0	30996	
Computers	186	39	0	225	52	33	1	0	0	0	1	86	139	134	
Furniture & Fixtures	57	15	0	72	16	9	2	0	0	0	2	27	45	41	
Office Equipments	123	43	-1	165	18	18	1	0	0	-1	0	36	129	105	
Lease Hold Improvements	222	5	0	227	26	23	2	0	0	0	2	51	176	196	
Vehicles	6	0	0	6	0 (.14)	1	0	0	0	0	0	1	5	6	
OFC and Related Assets	33621	11075	-6488	38208	3615	1906	-12	402	348	-725	13	5534	32674	30006	
Telecom & Radio Equipments	7149	1975	0	9124	672	536	9	216	88	0	313	1521	7603	6477	
Prefab Buildings	912	74	-4	982	74	43	1	0	0	0	1	118	864	838	
MPLS Network	0	3914	0	3914	0	124	0	0	0	0	0	124	3790	0	
STM-16 Network	0	7994	0	7994	0	506	0	0	0	0	0	506	7488	0	
Free Hold Land	0	210	0	210	0	0	0	0	0	0	0	0	210	0	
B.Capital Expenditure on assets not owned by the Company															
	10	0	0	10	8	2	0	0	0	0	0	10	0	2	
TOTAL	76306	25344	-40513	61137	7505	3201	4	618	436	-3750	-2692	8014	53123	68801	
PREVIOUS YEAR	76963	3559	-4216	76306	4623	3133	-2	-208	0	-41	-251	7505	68801	72340	

CAPITAL WORK IN PROGRESS

Schedule 4

Particulars	As at 31.03.07 Amount in Rs Lakhs	As at 31.03.06 Amount in Rs Lakhs
OFC laying works by Railways against deposit works	1405	3272
Other OFC laying works, Pre Fab Building etc.	4519	3652
Installation of STM Equipment	296	10948
	6220	17872
Add		
Net Incidental expenditure brought forward from last year	-	282
Borrowing Cost Capitalised (Net)	231	418
Incidental expenditure for earlier year re allocated	75	-
Incidental expenditure incurred during the year	675	1038
	981	1738
Less		
Net Incidental expenditure allocated to projects during the year	981	1738
	0	0
TOTAL	6220	17872

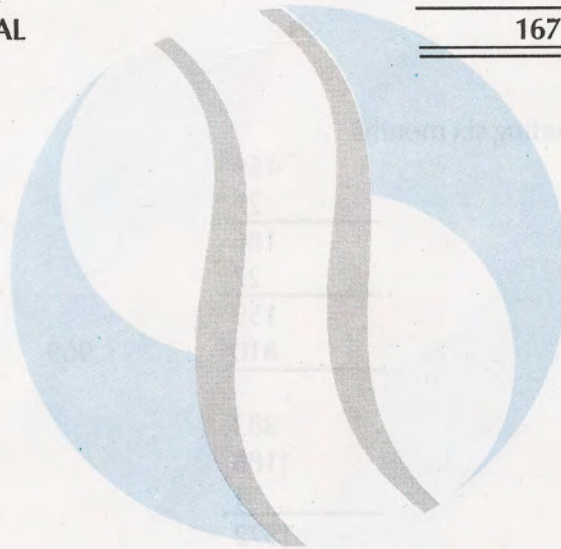
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ADVANCES FOR CAPITAL EXPENDITURE

Schedule 5

Particulars	As at 31.03.07 Amount in Rs Lakhs	As at 31.03.06 Amount in Rs Lakhs
Unsecured, Unconfirmed considered good		
- covered by Bank Guarantees	0	0
- others	167	544
TOTAL	167	544



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CURRENT ASSETS, LOANS & ADVANCES

Schedule 6

Particulars	As at 31.03.07 Amount in Rs Lakhs		As at 31.03.06 Amount in Rs Lakhs	
CURRENT ASSETS				
Inventory (At Cost) (Taken, valued and certified by the Management)				
Stores & Spares		91		91
Sundry Debtors (Unsecured, Unconfirmed)				
Debts outstanding for period exceeding six months				
- Considered Good	159		26	
- Considered Doubtful	27		19	
	186		45	
Less: Provision for doubtful debts	27		19	
	159		26	
Other Debts Considered good	810	969	412	438
Cash & Bank Balances				
Cheques in Hand	383		619	
Funds in Transit	1188		118	
Cash / Imprest Balances	1		1	
	1572		738	
Balances with Scheduled Banks in				
Current account	103		120	
Collection account	44		122	
Term deposits	5306	7025	2688	3668
Other Current Assets				
Accrued Interest on Term deposits		5		34
LOANS AND ADVANCES (Unsecured, Unconfirmed considered good)				
Advances recoverable in cash or in kind or for value to be received	10028		2607	
MAT Credit Entitlement	450			
Prepaid taxes	723	11201	498	3105
	11201		498	
TOTAL		19291		7336

CURRENT LIABILITIES & PROVISIONS

Schedule 7

Particulars	As at 31.03.07 Amount in Rs Lakhs		As at 31.03.06 Amount in Rs Lakhs	
Current Liabilities				
Sundry Creditors				
For capital expenditure	8299		10570	
For others	1605		716	
	9904		11286	
Deposits & Customers' Advances	8789		7997	
Book Ovredraft (Uncashed Cheques)	0		80	
Other liabilities	410	19103	149	19512
Provisions				
Provision for leave salary contribution	6		4	
Provision for Gratuity	4	10	2	6
TOTAL		19113		19518

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EMPLOYEES REMUNERATION & BENEFITS

Schedule 8

Particulars	For the Year Ended on 31.03.07 Amount in Rs Lakhs	For the Year Ended on 31.03.06 Amount in Rs Lakhs
Directors Remuneration	27	39
Salary, Wages, Allowances and Perquisite	1043	845
Employers Contribution to PF	14	11
Gratuity	4	1
Leave Salary Contribution	4	3
Staff Welfare Expenses	78	34
TOTAL	1170	933

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ADMINISTRATIVE & OTHER EXPENSES

Schedule 9

Particulars	For the Year Ended on 31.03.07 Amount in Rs Lakhs	For the Year Ended on 31.03.06 Amount in Rs Lakhs
Auditor Remuneration	1	1
Books & Periodicals	5	6
Communication Expenses	97	82
Conveyance Expenses	43	24
Electricity & Power Expenses	153	126
Bank Charges & Commission	10	4
Insurance Expenses	1	0 (0.46)
Miscellaneous Expenses	72	71
Legal & Professional Expenses	134	82
Rates & Taxes	15	0 (0.27)
Rent office premises	95	68
Repair & Maintenance - Others	37	29
Tender Expenses.	44	39
Training & Recruitment Expenses	47	23
Travelling Expenses	130	135
Printing & Stationary Expenses	39	27
Vehicle hire charges	85	70
Share of Revenue with KRCL	122	0
Business promotion Expenses	17	22
Cyber Café Internet Expenses	5	0
Provision for Doubtful Debts	27	0
Franchise Expenses	4	0
Exhibition & Stall Expenses	27	15
Hire Charges Optic Fiber	24	13
Hire Charges Radio Modem	19	13
Protection Bandwidth & Connectivity Charges	256	155
Internet Bandwidth	309	117
TOTAL	1818	1122

SCHEDULE 10

SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES

1. General

The Financial Statements are prepared under the historic cost convention, in accordance with the accounting standards issued by the Institute of Chartered Accountants of India and in accordance with the applicable requirements of the Companies Act, 1956.

2. Fixed Assets

Fixed Assets are stated at cost less accumulated depreciation. Cost includes all the expenses related to bringing the assets to their present location and condition.

Expenditure related to and incurred during construction period are capitalised as part of the construction cost and allocated to relevant fixed assets.

Addition to buildings on land not owned by the Company are capitalised as Leasehold Improvements.

3. Capital Works-in-Progress

- a) Corporate office expenses directly attributable to construction for the year and other corporate office expenses incidental to construction are allocated to regions for apportionment to capital work in progress of the respective regions on the basis of route KM of assets commissioned under each region and thereafter capitalised in the ratio of income and accretion to capital work in progress.
- b) Expenses incidental to construction of various assets are apportioned on pro-rata basis to respective assets.
- c) Income identifiable with capital work-in-progress is adjusted against the cost of different works on pro-rata basis.
- d) In respect of supply-cum-erection contracts, the value of supplies received and accepted at site, is treated as capital work-in-progress.
- e) Contracts under deposit work are accounted for on the basis of statement of account received from executing agencies/ technical assessments of the works executed.

4. Borrowing costs

Borrowing costs attributable to the acquisition of qualifying assets during construction are capitalised as part of the cost of acquisition. Such borrowing costs are apportioned on the average of capital work-in-progress during the year.

5. Inventories

Stores and spares are stated at cost.

INCOME

6. Income recognition

Income is recognised on completion of provision of services. Service revenue includes Income from

lease, renting or sale of end-to-end bandwidth, hire charges for tower space and accommodation, Internet bandwidth and VPN services and is net of discount. Income from services is recognised on transfer of all significant risks and rewards to the customer and when no significant uncertainty exists regarding realisation of the consideration and on time proportion basis in accordance with the related contract.

EXPENDITURE

7. Depreciation

Depreciation has been provided as under

Lease hold improvements	:	On straight line method @ 10% per annum
Prefabricated Building	:	On straight line method @ 4.75 per annum
Telecom Radio Assets, MPLS/STM-16 Network	:	On straight line method @ 6.33% per annum (previous year 4.75%)
Optical & Related Asset	:	On straight line method @ 5.28% per Annum (previous year 4.75%)
Expenditure on assets not owned by the Company	:	On straight line method @ 20% per annum
Other Assets	:	On straight line method at the rates prescribed in Schedule VI of the Companies Act, 1956

8. Other Expenditure

Expenses common to operation and construction activities are allocated to the "Profit & Loss account" and "Incidental expenses during construction" in proportion to the income earned and accretion to capital work in progress.

9. Impairment of Assets:

An asset is treated as impaired when the carrying amount of assets exceeds its recoverable value. An impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired.

10. Retirement Benefits

The liability for retirement benefits of the employees in respect of gratuity and leave encashment is provided for on the basis of actuarial valuation at the end of the year based on projected unit credit method.

11. License Fees and Revenue share

The variable license fees computed at prescribed rates is charged to the profit & loss account in the year to which the revenue relates.

12. Foreign Currency Transaction

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction.

13. Taxes on Income:

- a) Provision for current tax is made in accordance with the provisions of the Income Tax Act, 1961.
- b) Deferred tax on account of timing difference between taxable and accounting income is provided considering the tax rates and tax laws enacted or substantively enacted by the Balance Sheet date, in accordance with Accounting Standard-22 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India.

14. Provisions, Contingent Liabilities & Contingent Assets:

- a) Provisions are recognised in respect of obligations, based on the evidence available, and wherever their existence on the Balance Sheet date is considered probable.
- b) Contingent liabilities are determined on the basis of available information. These liabilities are not provided for and are disclosed by way of notes on accounts.
- c) Contingent assets are not recognized in the accounts.

B) Notes to Accounts

1. Fixed Assets / Capital Works-in-progress

Fixed assets have been taken over from Railways after physical verification by the management, at a pre-determined price. Depreciation has been provided on them without reassessing the remaining useful life of such assets as on the date of takeover. The impact, if any, on the accounts of the Company due to this cannot be ascertained.

2. Certain assets transferable from Railways though commissioned and put to use have not been capitalised, pursuant to the policy of capitalising only after issue of completion certificate. However, the Company is using them to earn revenue and such revenue has been accounted for.

3. Right of Way

- a. In accordance with the agreement entered into with the Ministry of Railways on 30th July 2003, vide Clause 3, the Railways agreed to grant to the Company, subject to the provisions of the said agreement, for a period of thirty years an irrevocable and exclusive right to install, control, own, operate, maintain and keep optical fiber network under or over (as appropriate) on the Railways land.
- b. The grant fee payable during the term of the agreement, Rs. 34020 lakh (Rs. 1134 lakh X 30years) was capitalised as Right of Way, under fixed assets, by creating a corresponding long term liability.
- c. The Right of Way was amortised over the term of agreement and the amount amortised up to 31.03.2006 was Rs.3024 lakh.

As per the revised agreement executed by the company with the Ministry of Railways dated 21.09.2006, Ministry of Railways has agreed not to charge RailTel annual grant fee of Rs 1134 lakh for use of Railways Right of Way with the retrospective effect from 30/07/03.

As a result of this revised agreement, the following accounting adjustments have been made:

- a) The value of right of way amounting to Rs. 34020 Lakh has been decapitalised with corresponding adjustment of Long term liability.
 - b) The accumulated amortization of Right of Way amounting to Rs.3024 Lakh has been derecognised, by crediting to Profit and Loss Account.
4. Due to change in Revenue Sharing ratio with Railways, as per the new agreement a sum of Rs 96.28 lakhs has been credited to profit & Loss account and included in prior period adjustments.
 5. As per the revised agreement, 2/4 fibres of OFC has been transferred to Railways w.e.f. 21.9.2006, i.e. the date of revised agreement at original cost and a sum of Rs. 6829.59 lakhs on account of the same has been shown as recoverable from Railways. There are three types of assets which are to be transferred to Railways. 2/4 fibres of OFC, STM-1 equipment received from Railways to be transferred back to them and STM-1 and primary multiplexing equipment created by RailTel and to be transferred to Railways. Necessary adjustment for 2/4 fibers have been made in the accounts. In respect of transfer of STM-1 equipment valued at Rs. 3426.00 lakhs, the same is being pursued with Railways and the Company proposes to effect transfer of these assets in the current financial year and make the necessary adjustments as provided in the agreement. Further in regard to STM-1 and primary multiplexing equipments created by RailTel, the same have been identified and their values worked out and on transfer of these assets, necessary adjustments will be made in the books of accounts in the current year after confirmation from Railways. However, in regard to adjustment of value of assets against equity, it is stated that after due consideration, the Committee of the Board of Directors opined that pending finalization of value of assets and also provisioning in the railway budget for transfer of OFC related assets to the Company, it would be appropriate and in the interest of the Company to issue equity against the assets taken over by RailTel and adjust the value of assets to be transferred to Railways by RailTel against equity in future. The value of the same works out to Rs. 4126.35 lakhs.
6. **Depreciation**
 - a. During the year, the Company has changed the rates of Depreciation, in respect of Telecom & Radio Equipments from 4.75% p.a. to 6.33% p.a. and in respect of OFC & Related assets from 4.75% p.a. to 5.28% p.a. retrospectively. Due to this a sum of Rs 617.89 lakhs has been charged as depreciation for earlier years.
 - b. Some of the OFC & Related assets have been transferred to Railways during the year with retrospective effect. As a result, accumulated depreciation amounting to Rs. 724.69 lakhs has been written back and shown under depreciation adjustment for earlier years.
 - c. A sum of Rs. 435.89 lakhs relating to depreciation for earlier years on the assets capitalised during the year from back date has been charged to profit & loss account.
 7. **Contingent Liabilities:**
 - a. Claims against the Company not acknowledged as debts are Rs. 1515.61 lakh. (Previous Year Rs. 1413.34 lakh)
 - b. Bank Guarantees issued on behalf of the company Rs. 1125.33 lakhs (previous year 1109.00 lakhs).
 8. Estimated amount of contracts remaining to be executed on capital account and not provided for (As certified by the management) Rs. 2122.59 lakh (net of advances) (previous Year Rs. 6601.41 lakh)

9. Balances shown under advances, sundry debtors, creditors and service tax are subject to confirmation/reconciliation and consequential adjustments, if any.
10. In the opinion of the management, the value of current assets, loans and advances on realisation in the ordinary course of business, will not be less than the value at which these are stated in the Balance Sheet.
11. (a). To the extent information available, there are no Small Scale Industrial Undertakings to whom company owes an amount, which is outstanding for more than 30 days (previous year: NIL).
- (b) The company has not received any information from its suppliers regarding registration under "The Micro, Small and Medium Enterprises Development Act 2006". Hence the information required to be given in accordance with section 22 of the said Act, is not ascertainable. Hence not disclosed.
12. (a) Provision for current tax for the year has been made under Minimum Alternate Tax (MAT) as per provision of section 115JB of the Income Tax Act, 1961.
- (b) In accordance with the Guidance Note on Accounting for Credit Available in respect of MAT under the Income Tax Act, 1961, issued by the Institute of Chartered Accountants of India, the Company has recognized this MAT credit as an asset under the head Loans and Advances and has credited the same to the Profit & Loss account under "Provision for Taxation".
13. Total remuneration and benefits paid to the Directors during the year are as under:-

Particulars	2006-07 (Rs. In lakhs)	2005-06 (Rs. In lakhs)
Remuneration	18.71	26.86
Other payments	7.51	11.47

In addition the part time non-official directors have been paid sitting fee during the year as under

1. Dr. V.K. Koshy, Director	0.25	0.15
2. Sh. Narinder Sharma, Director	0.30	0.15
3. Sh. S.Murali, Director	0.35	0.10

14. Auditor's remuneration includes:-

Particulars		
Statutory Audit Fee	0.84	0.73
Tax Audit Fee	0.22	0.22
Other Services	0.06	0.02
Out of Pocket Expenses	0.03	0.03
Total	<u>1.15</u>	<u>1.00</u>

Statutory Audit fee includes NIL (Previous Year Rs. 0.17 lakhs) relating to earlier years.

15. The Income tax department raised demands of tax and interest amounting to Rs. 124.81 lakh (previous year 119.61) and Rs. 161.98 lakh (previous year 152.58 lakh) for assessment years 2002-03 and 2003-04 respectively. The Company deposited Rs. 119.61 lakh for A.Y. 2002-03 under protest and filed appeals against the assessment orders before the Commissioner of Income Tax (Appeals). During the year, the appeal for the A.Y. 2002-03 has been decided in favour of the company, the department has filed an appeal with the Income Tax Appellate Tribunal. However the Company is hopeful of similar appellate decision for the A.Y. 2003-04. Therefore no provisions the demands have been made in the accounts.

Further in respect of the above Assessment years penalty proceedings u/s 271(1) (c) were also initiated which were kept in abeyance till the disposal of the appeals.

16. Department of Telecommunication has levied penalty of Rs. 365.55 lakh (Previous year 338.36 lakhs) on account of interest. The Company has paid the demand amount under protest. The company is of the view that the levy is unjustified. On similar issue the other operators have already gone in appeal with Telecom Dispute Settlement and Appellate Tribunal (TDSAT). The company has been advised that the judgement in the matter will apply uniformly. Therefore, no provision has been made for the same.
17. The Company has Deferred Tax asset (net) as at the Balance Sheet date which has not been recognized as a matter of prudence in terms of Accounting Standard (AS-22) 'Accounting of Taxes on Income' issued by the Institute of Chartered Accountants of India. The Company has unabsorbed depreciation and carried forward losses under tax laws and there is no virtual certainty that taxable income will be available in the near future against which the deferred tax assets could be realised.
18. Based on the guiding principles given in the Accounting Standards on Segment Reporting (AS-17) the company is primarily in the business of various Telecom services which have similar risks and returns. The company business activity falls within a single geographical and business segment (Telecom Services), and it has no other primary reportable segment.
19. Operating lease as per Accounting Standard 19 - 'LEASES'

A. General description on leasing arrangement

The Company has been offering Bandwidth, Dark Fibers, Internet services, VPN services and tower space to its customer as operating lease for fixed period.

B. Future minimum lease rentals receivable under operating lease for each of the following period as on March 31, 2007 are as under;

	As on 31.03.07 (Rs. In Lakh)	As on 31.03.06 (Rs. In Lakh)
Not later than one-year	2288	2950
Later than one year and up to five years	2217	1484
Later than five years	3820	3340
Total	8325	7774

20. Earning Per Share:- The calculation of EPS as per the Accounting standard –20 is as follows:

	2006-07 (Rs. In Lakh)	2005-06 (Rs. In Lakh)
Net Profit/ Loss (-) available for Equity Shareholders (a)(Rs.)	4085	(-) 1027
Weighted Average No. of Equity share of Rs. 10 each (b)	2587	2344
Basic/ diluted Earning per share (a)/(b) (Rs.)	(+) 1.58	(-)0.44

21. Additional information pursuant to Schedule VI of the Companies Act, 1956, is as follows:

a. Value of imports calculated on CIF basis		
i. Capital goods	605.98	NIL
ii. Spare parts	NIL	NIL
b. Expenditure in foreign currency		
i. Professional and consultancy fee	NIL	52.51
ii. Others	6.34	8.79
c. Value of components, stores and spare parts consumed (imported and indigenous)	NIL	NIL
d. Earning in foreign exchange	NIL	NIL

22. Related Party Disclosure as per Accounting Standard-18.

List of the related party with whom transaction have taken place during the year and nature of relationship.

Name of the related parties	Designation	Nature of Relationship
1. Sh. K. K. Bajpeyee	Managing Director	Key Management Person
2. Sh. Rajiv Sinha	Director (P.O.M.)	Key Management Person
3. Sh. Mahesh Mangal	Director (N.P.M.)	Key Management Person
4. Smt. Saroj Rajware	Director (Finance)	Key Management Person
5. Dr. V.K. Koshy	Director (Non Off.)	Key Management Person
6. Sh. Narinder Sharma	Director (Non Off.)	Key Management Person
7. Sh. S.Murali	Director (Non Off.)	Key Management Person

Detail of Related party transaction during the year:-

Nature of transaction	2006-07 (Rs. In lakhs)	2005-06 (Rs. In lakhs)
Managerial Remuneration (Key Management Person)	27.12	38.73
23. Pending issuance of notification under Section 441A of the Companies Act, 1956, no provision has been made towards cess on the turnover of the company.		
24. Loans and advances includes Rs 5.68 lakhs (previous year Rs .21 lakh) (Maximum outstanding due during the year Rs. 6.49 lakhs (Previous year Rs. 4.50 Lakhs) due from directors.		
25. Loans and advances includes Rs 8,285.39 lakhs (previous year Rs. 731.19 Lakhs) due from Railways.		
26. Balances due to/due from Railways on various account are subject to reconciliation/confirmation.		
27. Detail of Prior Period adjustments (Net) is as given below:-		
	2006-07 (Rs. Lakhs)	2005-06 (Rs. Lakhs)
IEDC Reversal of earlier years	318.36	NIL
DoT Share on Revenue	2.66	1.99
O & M Charges	25.16	8.62
Electricity & Power	9.81	3.50
Rent	42.13	NIL
Reversal of Income	106.85	7.31
Traveling Expenses	0.79	11.61
Others	96.98	12.48
Total	522.05	45.51
Less:-		
Revenue share to Rly's for earlier years	96.28	11.67
Total	425.77	33.84
28. Long term liabilities are on account of Revenue Share payable to Railways which is subject to a moratorium for five years from the date of original agreement i.e. till 29/07/08.		
29. Sundry Debtors includes Rs. 118.93 lakhs (Previous Year Rs. 53.93 lakhs) due from those customers from whom the company has received Rs. 300.91 lakhs as advance amount for other matters. The same have not been adjusted against one another since the accounting for various circuits are done independently.		
30. The Company has been allotted free hold land at Gurgaon by Haryana Urban Development Authority. The same has been capitalised during the year. The necessary conveyance deed is however yet to be executed.		
31. In the opinion of the management, during the year there are no indications that impairment of any asset has taken place. accordingly, no provision for impairment of assets is required as per AS 28.		
32. a. Unless otherwise stated, the figures are in Rupees Lakhs.		
b. Previous year's figures have been recast/regrouped/rearranged wherever considered necessary to conform to this year's presentation.		

CASH FLOW STATEMENT FOR THE YEAR 2006-07

(Amount in Rs. Lakhs)

	CURRENT YEAR (2006-07)	PREVIOUS YEAR (2005-06)	
Cash Flow From Operating Activities			
Net Profit/ (Loss) Before Tax	4,108	(1,001)	
Adjusted for:-			
Preliminary expenses charged off		40	
Miscellaneous Expenditure written off	-	-	
Depreciation	3,201	1,999	
Amortisation of Right of ways	-	1,134	
Provision for Doubtful Debts	27	-	
Extraordinary Items considered separately	329	(4)	
Interest received	(295)	(258)	
Interest on Loan	2,098	1,921	
<i>Net cash from operating activities before Extraordinary Item and change in working capital (a)</i>	<u>9,468</u>	<u>3,831</u>	
Extraordinary Item			
Depreciation adjustment for earlier years	(2,692)	(43)	
IEDC Reversal of earlier years	(318)	-	
Reversal of Income	(107)	(8)	
Revenue share of earlier years	96	12	
<i>Net cash from operating activities after Extraordinary Item before change in working capital (a)</i>	<u>6,447</u>	<u>3,792</u>	
Working Capital changes			
(Increase)/ Decrease in Inventory	0	(50)	
(Increase)/Decrease in other current assets	29	67	
(Increase) /Decrease in other Loans & Advances	(8,096)	(944)	
Increase/ (Decrease) in Current Liabilities	1,866	2,060	
Increase/ (Decrease) in Long term Liability	435	312	
(Increase) / Decrease in Gross sundry debtors	(558)	(136)	
Income Tax Paid (FBT)	(23)	(26)	
<i>Net (Increase) /Decrease in Working Capital (b)</i>	<u>(6,347)</u>	<u>1,283</u>	
<i>Net cash from operating activities (a)+(b)</i>			5,075
Cash Flow From Investing Activities			
(Increase)/ Decrease in Gross Block	15,169	657	
(Increase) / Decrease in Capital Work in Progress	11,652	(8,034)	
(Increase)/ Decrease in Advance to Parties	377	183	
Interest received	295	258	
Increase/ (Decrease) in Current Liabilities for capital works	(2,271)	2,811	
<i>Net cash from investing activities before Extraordinary Item</i>	<u>25,222</u>	<u>(4,125)</u>	
Extraordinary Item			
Adjustment for Capital Reserve		(3,780)	
Increase/ (Decrease) in Long term Liability	(34,020)	-	
<i>Net cash from investing activities</i>			(7,905)
Cash Flow From Financing Activities			
Equity Shares issued to Indian Railway	8,653	-	
		100	
		(8,798)	

Repayment of Loan to IRFC	-	(2,500)	
Loan from State Bank of India	5,500	7,200	
Interest on Loan	(2,098)	(1,921)	
		12,055	2,779
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,357	(51)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		3,668	3,719
CASH AND CASH EQUIVALENT AT END OF PERIOD		7,025	3,668

"As per Our report of even date attached"

For Goyal & Goyal
Chartered Accountants

Date: 27th August 2007
Place: New Delhi

MUKESH GOYAL
(Partner)
M.No: 80494

S. C. HANS
Company Secretary

SAROJ RAJWARE
Director (Finance)

S.K. VASISHTA
Managing Director



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RAILTEL
A Government of India
Undertaking