



**6th
Annual Report
2005-2006**

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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BOARD OF DIRECTORS

1. Shri Ramesh Chandra Chairman
2. Shri K.K. Bajpeyee Managing Director
3. Smt. Saroj Rajware Director (Finance)
4. Shri B. Krishnakumar Director / POM (upto 10.01.2006)
5. Shri Mahesh Mangal Director / NPM (upto 17.7.2006)
6. Shri Kapil Dev Sharma Director (23.08.2006)
7. Shri A.K. Bhatnagar Director
8. Shri Mahesh Kumar Director (w.e.f. 23.08.2006)
9. Shri S. Murali Director
10. Shri Narinder Sharma Director
11. Dr. V.K. Koshy Director

AUDIT COMMITTEE

1. Shri S. Murali Chairman (w.e.f. 21.2.2006)
2. Shri Narinder Sharma Member
3. Dr. V.K. Koshy Member
4. Shri A.K. Bhatnagar Member
5. Shri Kapil Dev Sharma Member

REGD. & CORPORATE OFFICE

10th Floor, Bank of Baroda Building
16, Parliament Street,
New Delhi-110001
Ph.: 23311707, 23311709 Fax 23311711
Email: info@railtelindia.com

Bankers

State Bank of India
ICICI Bank

Auditors

M/s Goyal & Goyal
Chartered Accountants
C-2/4 Community Centre, Phase II,
Ashok Vihar, New Delhi-110052

REGIONAL OFFICES

1. **Regional General Manager (North)**
3rd Floor, Microwave Complex,
Railway Colony Thomson Road,
New Delhi. Tel. +91-11-23220500
2. **Regional General Manager (South)**
2nd Floor, B-Block, Rail Nilayam
Secunderabad 500426
Tel.: +91-40-27820429
3. **Regional General Manager (Eastern)**
1st Floor, New Koilaghat Building
14th Stand Road, Kolkata - 700001
Tel.: 033-22138561-63
Fax: 22138655
4. **Regional General Manager (West)**
1st Floor, Annexe Building
Railway Station, Churchgate,
Mumbai-400020
Telefax: +91-22-22071330

DIRECTORS' REPROT

Gentlemen,

The Directors have pleasure in presenting their sixth annual report together with annual accounts of the Company for the year ended 31st March, 2006.

1. PROJECTS

- 1.1 In the year 2005-06, RailTel has made considerable progress in building its network infrastructure and sales and marketing activities.
- 1.2 During the year 2005-2006, 2382 RKMs of OFC was added while 2846 RKMs of OFC was commissioned with electronics. Total number of Pops (Point of presence) added during the year was 322. With the above progress, the total OFC laid upto the end of March, 2006 was 28871 RKMs and total OFC lit was 25269 RKMs. Total number of PoPs as on 31st March, 2006 were 2407, as compared to 2085 till 31.03.2005, thereby registering an increase of 15.5%.
- 1.3 Substantial progress has been made in commissioning of STM-16 (2.5 GB) backbone during the last financial year. Till 31st March, 2006 Railtel had commissioned STM 16 system on 22,822 RKMs adding 18589 RKMs during the last financial year. Besides, 1244 RKMs of STM-4 (622 MB) network and 2632 RKMs of STM-1 network were added during the year 2005-06, bringing the total installed capacity of STM-4 network to 12552 RKMs and STM-1 (155 MB) capacity to 17722 RKMs as on 31st March, 2006.
- 1.4 As regards MPLS-IP network, core routers have been installed at all 13 cities whereas Edge routers have been installed at 24 cities out of 25 cities. Edge router at Guwahati shall be commissioned shortly. The network would be fully ready for commercial exploitation by June, 2006.
- 1.5 The Company has outsourced the maintenance of OFC to local agencies with a view to ensure continued and uninterrupted connectivity in the OFC links. Besides, the Company is conscious of greater coordination with Indian Railways to make use of the existing infrastructure for maintenance of OFC and microwave equipment(s). The Company has targeted to improve efficiency levels to the extent of 99.5% to ensure customer's satisfaction.
- 1.6 RailTel has already commissioned a cyber café/Internet kiosk on platform no. 12 of New Delhi Railway station in June, 2003 to provide facility of high speed Internet browsing, E-mail, Audio Video chatting, Video Conferencing, IP telephony etc. Further, provisioning of this facility at 82 Railway Stations has been planned in the current financial year. Contract for all the 82 stations have been awarded. Based on performance and success of these cyber cafes, additional stations shall be taken up.

2. SALES & MARKETING

- 2.1 During the year under report, RailTel has expanded its customer base by acquiring new clients and at the same time increased the business from the existing clients. RailTel is presently providing services to major Basic Service Operators and Cellular Service Operators like AirTel, Hutch, BPL Mobile, Aircel, Idea Cellular, Tata Tele services, 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, Equaint, Pacenet, Cablecom among others. With the launch of MPLS-IP network, RailTel is slowly but steadily penetrating into corporate VPN market and expects to garner a substantial chunk of corporate based line and VPN business in the current financial year.
- 2.2 In the previous financial year, the utilization of RailTel's network has increased considerably. RailTel has leased 2464 E1s (5 GB) by end of 2005-06, as compared to 1232 E1s (2.5 GB) leased by the end of 2004-05 which constitutes an increase of 100% in comparison to previous financial year.
- 2.3 RailTel signed a MoU with PGCIL and GAIL on 28th October, 2005 with the intention to connect their network and market telecom services jointly. The primary objective of this alliance is to bring synergies in the area of network planning and development, integration of the network, proper utilization of the network resources and working out common tariff policy, developing cost effective last mile solution and common strategy for product development, sales and marketing among others.
- 2.4 RailTel has appointed M/s SIFY and M/s VSNL as its franchisees for launching cyber cafes at 82 railway stations. With the commissioning of these feature-packed 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.

- 2.5 RailTel has already established regional and territorial offices at Delhi, Kolkata, Secunderabad, Mumbai and territorial offices at Bangalore, Chennai, Ahmedabad, Jaipur, Chandigarh, Lucknow, Bhubaneswar 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.
- 2.6 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. With the amendments in the telecom policy with effect from 1st January, 2006, RailTel decided to migrate to NLD service licence. The Department of Telecommunications (DoT) has already issued LOI to RailTel for NLD services and agreement is to be signed shortly. With NLD licence, RailTel envisages to aggressively enter into lucrative corporate leased line market in addition to offering VPN services.
- 2.7 RailTel participated in 4th International Telecommunication Exhibition & Conference “Telecom India 2005” held from 23rd to 25th November, 2005 at Hotel Grand Hyatt, Mumbai and also in Convergence India 2006 held from 21st to 23rd March, 2006 at Pragati Maidan New Delhi. RailTel made a good impact in this exhibition and showcased its product and services. The stall of RailTel attracted a lot of attention and was visited by large number of visitors.
- 2.8 RailTel’s Regional Office at New Delhi has been able to obtain ISO 9001:2000 certification in March, 2006 from International Certification Ltd. (ICO). Other regions have been advised to follow. In addition, corporate office is also expected to obtain ISO 9000 certification during the current financial year.



RailTel's 5th annual day celebrations - Sitting on the dais are the Hon'ble Ministers of State for Railways with Chairman and the MD, RailTel and others



Shri Ramesh Chandra, Chairman and Shri K.K. Bajpeyee, MD RailTel Corporation alongwith other RailTel's officers at RailTel's stall in Convergence 2006.

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. 234 crores including Rs. 219 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 to RailTel by Indian Railways.

4. FINANCIAL RESULTS

- 4.1 During the financial year 2005-06, RailTel has received total revenue of Rs. 88 crores which is 34.68% higher than the revenue receipt of Rs. 65.34 crores for the financial year 31st March, 2005. Out of this revenue, the income recognized and included in the Profit & Loss Account for the year ended 31st March, 2006 amounted to Rs. 62.69 crores as against that of Rs. 34.46 crores including the interest income but before the interest income during construction period transferred to capital work in progress.
- 4.2 The operating profit earned during the year is Rs. 33.66 crores before interest, depreciation and tax as against that of Rs. 18.61 crores in the preceding year. After providing for interest and depreciation, the net loss amounted to Rs. 10.00 crores

as against that of Rs. 19.50 crores incurred during the preceding financial year. Such loss together with the previous years' losses have been carried over to Balance Sheet.

- 4.3 The Company has availed of loan finance from its Bankers to the extent of Rs. 92 crores upto the end of financial year to meet in part the capital expenditure requirement. As earlier reported, RailTel has also made drawal of funds to the extent of Rs. 150 crores from Indian Railway Finance Corporation (IRFC).



Views of RailTel's stall in Convergence 2006

5. INDUSTRIAL RELATIONS

- 5.1 Cordial industrial relations were maintained during the year.
- 5.2 The total number of employees on the roll of the Company as at 31st March, 2006 were 193. Besides, the Company resorted to direct recruitment of 74 no of Engineers on contractual basis. In addition to the above, the Company had outsourced the services of 196 personnel in different capacities to facilitate work.

6. VIGILANCE

- 6.1 RailTel observed Vigilance Week during 7.11.2005 to 11.11.2005.

7. EMPLOYMENT OF WOMEN, USE OF OFFICIAL LANGUAGE

- 7.1 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.

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

- 8.1 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.

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

- 9.1 The Company is presently engaged in providing of telecom services and as such, the provisions of section 217(1)(e) of the Companies Act, 1956 are not applicable.
- 9.2 The Company has not earned foreign exchange during the year under report. The Company incurred an expenditure of Rs. 52.51 lakhs on account of professional and consultancy fee and Rs. 8.79 lakhs on others (previous year – Rs. 0.80 lakhs) in foreign currency during the year.

10. EXPLANATION TO AUDITORS' QUALIFICATIONS ON THE ANNUAL ACCOUNTS

- 10.1 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.
- 10.2 In regard to non-provision of income recoverable from Railways, it is stated that the terms of the agreement dated 30th July, 2003 are under review and as a result thereof, the effect on the chargeability or otherwise of circuits provided by RailTel to Railways and other issues would be carried out upon finalisation of terms of agreement afresh.
- 10.3 The non-adjustment as stated mainly relates to Right of Way charges, as originally contemplated in the said agreement. Since as already stated above, the agreement is under review, the effect would be taken there against as and when fresh agreement is signed.
- 10.4 In the notes to the accounts forming part of the annual accounts, there is included a self-explanatory note (refer para 3) stating that assets transferable from Railways though commissioned and put to use have not been capitalized, pursuant to the policy of capitalizing only after issue of completion certificate. These assets continue to be shown as work in progress. The Company is using them to earn revenue and such revenue has been accounted for.

11. DIRECTORS' RESPONSIBILITY STATEMENT:

- 11.1 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 along with proper explanation relating to material departures;
 - b) that the Directors have adopted such accounting policies and applied them consistently and made judgements 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.

12. CORPORATE GOVERNANCE

- 12.1 The Company is seized of the concept of corporate governance and the principles underlying the same. As a part of good corporate governance, the Company has been taking steps to implement such concepts. It has already constituted / reconstituted Audit Committee of the Board.
- 12.2 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 2006-07.

13. AUDITORS

- 13.1 The Comptroller and Auditor General of India (CAG) have reappointed M/s Goyal & Goyal of Delhi as Auditors of the Company to audit the annual accounts for the year ended 31st March, 2006. In terms of the authorization given by the members in their last annual general meeting, the Board has already considered and approved payment of audit fee of Rs. 50,000/- 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 2006-07 as and when appointed.

14. COMMENTS OF CAG

- 14.1 The comments of the CAG on the accounts of the Company for the year ended 31st March, 2006 shall also form part of this report.

15. DIRECTORATE

- 15.1 The Govt. of India had appointed three part-time non official Directors on the Board of the Company w.e.f. 19th October, 2005 for a period of three years. The names of these Directors are S/Shri S. Murali, Narinder Sharma and Dr. V.K. Koshy.
- 15.2 Shri B. Krishnakumar, Director (POM) was relieved by RailTel upon his request for repatriation to Indian Railways on 10th January, 2006.
- 15.3 Shri Kapil Dev Sharma, part-time Govt. Nominee Director has been appointed as CSTE at Mumbai and is now posted at Mumbai. In his place, the Ministry will nominate soon the other incumbent on the Board.
- 15.4 Shri Mahesh Mangal, Director (NPM) has been relieved by RailTel w.e.f. 17th July, 2006 upon his selection as D.R.M., Bangalore in the Ministry of Railways.
- 15.5 The Board placed on record its appreciation of services rendered and guidance provided by the out going Directors of the Company from time to time during their tenure with the Company.

16. ACKNOWLEDGMENTS

- 16.1 The Board express its gratitude towards Indian Railways and other Departments for their cooperation and continued assistance.
- 16.2 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.
- 16.3 The Board also expresses its gratitude to CAG and the statutory auditors for their valued contribution.
- 16.4 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: 28th July, 2006

Place: New Delhi



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AUDITOR'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, 2006, 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) **Non Provision of penalty Rs. 338.36 lakh Levied by Department of Telecommunications;**
 - II) **Non Provision of income recoverable from Railways (Amount Unascertained), the impact of which on the Balance Sheet and/or Profit & Loss Account could not be ascertained/ assessed;**
 - III) **Non Adjustment of remission of liability amounting to Rs. 3024 lakh by the railway in lieu of the income recoverable from them, and**
 - IV) **Non Capitalisation of certain Fixed Assets (Value Unascertained) used by the company pending their transfer by railways to the company, the impact of which on the Balance Sheet and/or Profit & Loss Account could not be ascertained/ assessed**

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, 2006;
 - b) In the case of the Profit & Loss Account, of the **LOSS** 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. However, the company is in process of reconciling the Written Down Value as on 31st March, 2006 with the Written Down Value of individual assets. The Fixed Assets have been physically verified by the management during the year and no material discrepancies were noticed on verification. According to the information and explanations given to us, none of the fixed assets have been disposed off during the year.
 - 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. No major weaknesses in internal control procedure have been identified during the course of audit.
- 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. No cost records have been 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 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, however considerable delay has been noticed in case of Provident fund of Kolkata region of the company.

STATEMENT OF ARREARS OF STATUTORY DUES OUTSTANDING FOR MORE THAN SIX MONTHS

| Name of the Statute | Nature of Dues | Amount (Rs. In Lakh) | Period to which the amount relates | Due Date | Date of Payment |
|---------------------|--|----------------------|------------------------------------|------------|-----------------|
| Provident Fund Act | Employers & Employees Contribution to PF | 2.78 | 01-04-2005 to 30-09-2005 | 15.10.2005 | 03.05.2006 |

(b) According to the information and explanations given to us, there are no amount in respect of Sales Tax, Income Tax, Custom 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 | 152.58 | Assessment. Year 2003-04 | CIT (Appeal) |

- i. 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.
- ii. 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.
- iii. 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.
- iv. The company is not a Chit Fund, Nidhi, Mutual benefit fund or Society.

- v. 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.
- vi. The company has not given any guarantees for loans taken by others from banks or financial institutions.
- vii. According to the information and explanations given to us, the term loans were applied for the purpose for which they were obtained.
- viii. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the company has used funds of Rs. 2172.39 lakh out of the working capital for long term investment in fixed assets.
- ix. According to the information and explanations given to us the company has not made any preferential allotment of shares.
- x. The company has not issued any debentures and hence the question of creating securities does not arise.
- xi. The Company has not raised any fund through Public issue.
- xii. 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

SHOBHIT GUPTA
(PARTNER)
M.No:-502897

Place: New Delhi
Date: 27th June, 2006



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C & AG COMMENTS

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT 1956 ON THE ACCOUNTS OF RAILTEL CORPORATION OF INDIA LIMITED, NEW DELHI FOR THE YEAR ENDED 31ST MARCH 2006.

BALANCE SHEET

1. Capital Work in Progress (Schedule-4) Rs. 178.72 crore.

The above includes an amount of Rs. 39.76 lakh on account of incidental expenditure (including interest) during construction (IEDC) on four works, which were not transferred by the Railways to the Company. Though these works, capitalized earlier, have been eliminated from the books of accounts, the related IEDC has not been charged to Profit and Loss Account. This resulted in overstatement of capital work in progress and understatement of loss by Rs. 39.76 lakh.

Place: New Delhi
Date: 7th August, 2006

(Meera Swarup)
Principal Director of Commercial Audit &
Ex-Officio Member, Audit Board-III
New Delhi



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C & AG COMMENTS & MANagements' REPLY.

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT 1956 ON THE ACCOUNTS OF RAILTEL CORPORATION OF INDIA LIMITED, NEW DELHI FOR THE YEAR ENDED 31ST MARCH 2006.

The following is the Management Reply on the comments of CAG on annual accounts of RailTel Corporation of India Limited for the year ended 31st March, 2006.

| BALANCE SHEET | MANAGEMENT REPLY |
|---|---|
| 1.Capital Work in Progress (Schedule-4) Rs. 178.72 crore. | 1.Capital Work in Progress (Schedule-4) Rs. 178.72 crore. |
| <p>The above includes an amount of Rs. 39.76 lakh on account of incidental expenditure (including interest) during construction (IEDC) on four works, which were not transferred by the Railways to the Company. Though these works, capitalized earlier, have been eliminated from the books of accounts, the related IEDC has not been charged to Profit and Loss Account. This resulted in overstatement of capital work in progress and understatement of loss by Rs. 39.76 lakh.</p> | <p>The comment about reallocating IEDC and reversing interest charges on four works consequent on reimbursement of the capital cost by Railways in 2005-06 is accepted and necessary correction would be carried out in the accounts of 2006-07.</p> |
| Place: New Delhi Date: 21st August, 2006 | <div style="display: flex; justify-content: space-around;"> <div data-bbox="767 1021 973 1081"> (Saroj Rajware) Director (Finance) </div> <div data-bbox="1082 1021 1278 1081"> (K.K. Bajpeyee) Managing Director </div> </div> |

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ANNUAL ACCOUNTS

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THE NEW FILE
BALANCE SHEET AS AT 31ST MARCH 2006

| Particulars | Schedules No. | As at 31.03.06 Amount (Rs) | As at 31.03.05 Amount (Rs) |
|--|-----------------|--|-------------------------------|
| SOURCES OF FUNDS | | | |
| Shareholder's Funds | 1 | 2,34,40,88,070 | 2,70,12,98,070 |
| Loan Funds | 2 | 2,17,00,00,000 | 1,70,00,00,000 |
| TOTAL | | 4,51,40,88,070 | 4,40,12,98,070 |
| APPLICATION OF FUNDS | | | |
| Fixed Assets | | | |
| Gross Block | 3 | 7,63,05,79,658 | 7,69,62,55,987 |
| Less: Depreciation | | 75,05,29,565 | 46,23,45,950 |
| Net Block | | 6,88,00,50,093 | 7,23,39,10,037 |
| Capital Work in Progress | 4 | 1,78,71,76,780 | 98,37,32,434 |
| Advances for capital expenditure | 5 | 5,44,30,653 | 7,26,85,042 |
| | | 8,72,16,57,526 | 8,29,03,27,513 |
| Current Assets, Loans & Advances | | | |
| Inventory | | 91,26,742 | 41,11,982 |
| Sundry Debtors | | 4,38,30,062 | 3,02,15,950 |
| Cash & Bank Balances | | 36,67,64,831 | 37,19,38,291 |
| Other Current Assets | | 34,04,453 | 1,01,09,044 |
| Loans & Advances | | 31,05,12,860 | 21,60,62,380 |
| Total Current Assets | (a) | 73,36,38,948 | 63,24,37,647 |
| Less: Current Liabilities & Provisions | | | |
| Current Liabilities | 7 | 1,95,11,83,060 | 1,46,44,38,422 |
| Provisions | | 6,19,820 | 1,91,660 |
| Total Current Liabilities | (b) | 1,95,18,02,880 | 1,46,46,30,082 |
| Long Term Liabilities | (c) | 3,45,81,89,850 | 3,42,69,42,519 |
| Net Current Assets/(Liabilities) | (a) - (b) - (c) | (4,67,63,53,782) | (4,25,91,34,954) |
| Miscellaneous Expenditure | | | |
| (To the extent not written off or adjusted) | | | |
| Preliminary Expenditure | | | 40,03,430 |
| Profit & Loss Account | | (46,87,84,326) | (36,61,02,081) |
| TOTAL | | 4,51,40,88,070 | 4,40,12,98,070 |
| Basic/Diluted Earning per share (Rs.) | | -0.44 | -0.83 |
| Significant Accounting policies & Notes on accounts | | | |
| | 10 | "As per Our report of even date attached" | |

For Goyal & Goyal
Chartered Accountants

SHOBHIT GUPTA
(PARTNER)
M.No:-502897

SAROJ RAJWARE
Director (Finance)

S. C. HANS
Company Secretary

K.K. BAJPEYEE
Managing Director

Place: New Delhi
Date: 27th June, 2006

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDING ON 31ST MARCH 2006

| Particulars | Schedules No. | For the year ended on 31.03.06 | | For the year ended on 31.03.05 | |
|---|---------------|--|-----------------------|--------------------------------|-----------------------|
| | | Amount (Rs) | | Amount (Rs) | |
| INCOME | | | | | |
| Lease Revenue -IP-2 Licence | | 402,144,870 | | 23,28,96,469 | |
| Lease Revenue - ISP Licence | | 2,20,62,593 | | 207,88,122 | |
| Lease Revenue-IP-1 Licence | | 12,56,92,869 | | 6,90,67,227 | |
| Lease Revenue- VPN Licence | | 1,13,50,072 | | 36,13,124 | |
| Interest from Banks (Gross) TDS Rs.58,29,062/- | | | | | |
| Previous Year Rs. 28,97,714/- | | 2,58,24,606 | | 1,59,68,774 | |
| Other Income | | 3,98,92,100 | | 22,81,145 | |
| | | <u>62,69,67,110</u> | | <u>34,46,14,861</u> | |
| Less: Interest Income during Construction period transferred to Capital work in progress | | 2,25,27,594 | 60,44,39,516 | 1,59,68,774 | 32,86,46,087 |
| EXPENDITURE | | | | | |
| Employee's Remuneration & Benefits | 8 | 9,35,12,269 | | 5,93,62,059 | |
| Administrative & Other Expenses | 9 | 11,20,24,604 | | 6,54,02,451 | |
| Operational & Maintenance Expenses | | 10,08,59,458 | | 49,67,8,933 | |
| License fees to DOT | | 2,53,52,227 | | 1,74,36,892 | |
| Revenue share with Railways | | 3,24,14,566 | | 1,82,16,458 | |
| Preliminary expenses written off | | 40,03,430 | | 40,03,431 | |
| Prior period Adjustments (Net) | | 33,84,136 | | 6,44,559 | |
| | | <u>37,15,50,690</u> | | <u>21,47,44,783</u> | |
| Incidental Expenditure during construction period transferred to capital work in progress | | 10,37,54,232 | 26,77,96,458 | 7,22,90,554 | 14,24,54,229 |
| Net Profit before interest, depreciation & tax | | | 33,66,43,058 | | 18,61,91,858 |
| Interest on Loan | | 19,20,72,107 | | 17,17,12,930 | |
| Less Interest on Loan Capitalised | | 6,43,41,569 | 12,77,30,538 | 7,33,05,624 | 9,84,07,306 |
| Depreciation | | 19,98,76,395 | | 17,79,38,075 | |
| Amortisation of Right of way | | 11,34,00,000 | | 12,58,74,000 | |
| | | <u>31,32,76,395</u> | | <u>30,38,12,075</u> | |
| Less : Adjusted from Capital Reserve | | - | 31,32,76,395 | 1,24,74,000 | 29,13,38,075 |
| Add:- Depreciation adjustment for earlier year | | | 43,01,630 | | 85,40,507 |
| | | | <u>(10,00,62,245)</u> | | <u>(19,50,13,016)</u> |
| Net Profit / (Loss) before tax | | | | | |
| Less:- Provision for Taxation (FBT) | | | 26,20,000 | | - |
| Net Profit / (Loss) after tax for the year | | | (10,26,82,245) | | (19,50,13,016) |
| Surplus / (Loss) brought forward from previous year | | | (36,61,02,081) | | (17,10,89,065) |
| Total Accumulated Surplus / (Loss) Up to | | | | | |
| 31.03.06 carried over to Balance Sheet | | | (46,87,84,326) | | (36,61,02,081) |
| Significant Accounting policies & Notes on Accounts | | | | | |
| | 10 | "As per Our report of even date attached" | | | |

For Goyal & Goyal
Chartered Accountants

SHOBHIT GUPTA
(PARTNER)

M.No:-502897

SAROJ RAJWARE
Director (Finance)

S. C. HANS
Company Secretary

K.K. BAJPEYEE
Managing Director

Place: New Delhi

Date: 27th June, 2006

SCHEDULES ANNEXED TO AND FORMING AN INTEGRAL PART OF THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006.

SCHEDULE 1

SHAREHOLDERS' FUNDS

| Particulars | As on 31.03.06 Amount (Rs) | As on 31.03.05 Amount (Rs) |
|--|-------------------------------|-------------------------------|
| Share Capital | | |
| Authorised Capital | | |
| 1,00,00,00,000 Equity shares of Rs. 10/- each | <u>10,00,00,00,000</u> | <u>10,00,00,00,000</u> |
| Issued, Subscribed & Paid up Capital | | |
| 15,000,007 Equity Shares of Rs. 10/- each | 15,00,00,070 | 15,00,00,070 |
| 219,408,800 Equity shares of Rs 10/- each allotted for consideration other than cash | 2,19,40,88,000 | 2,19,40,88,000 |
| TOTAL (a) | <u>2,34,40,88,070</u> | <u>2,34,40,88,070</u> |
| RESERVE & SURPLUS | | |
| Capital Reserve | | |
| Balance b/f | 35,72,10,000 | - |
| Add: Transfer during the year | - | <u>37,80,00,000</u> |
| | 35,72,10,000 | 37,80,00,000 |
| Less: Adjusted during the year | <u>35,72,10,000</u> | <u>2,07,90,000</u> |
| TOTAL (b) | <u>-</u> | <u>35,72,10,000</u> |
| GRAND TOTAL (a) + (b) | <u>2,34,40,88,070</u> | <u>2,70,12,98,070</u> |

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SCHEDULE 2

LOAN FUNDS

| Particulars | As on 31.03.06 Amount (Rs) | As on 31.03.05 Amount (Rs) |
|--|---------------------------------|---------------------------------|
| Secured Loans | | - |
| Term Loan | | |
| Syndicated Term Loan from Banks led by State Bank of India | 92,00,00,000 | 20,00,00,000 |
| TOTAL (a) | 92,00,00,000 | 20,00,00,000 |

Above loans are secured by way of:-

- A. First ranking mortgage/hypothecation charge, as appropriate charges over all the company's immovable and movable assets on pari passu basis.
- B. 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.
- C. Assignment /Charge of proceeds from sale of network including payments from DOT in the events of Termination/ Cancellation of Licence.
- D. 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.
- E. Assignment /Charge of contractor guarantees and liquidated damages.
- F. 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. | 1,25,00,00,000 | 1,50,00,00,000 |
| TOTAL (b) | 1,25,00,00,000 | 1,50,00,00,000 |
| GRAND TOTAL (a) + (b) | 2,17,00,00,000 | 1,70,00,00,000 |

Loans due for repayment within one year NIL NIL

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SCHEDULE 3
Amount in Rs.

FIXED ASSETS

| PARTICULARS | GROSS BLOCK | | | DEPRECIATION & AMORTISATION | | | NET BLOCK | |
|--|-----------------------|---------------------------|-----------------------|-----------------------------|---------------------|----------------------|-----------------------|-----------------------|
| | AS ON 1/04/05 | ADDITIONS DURING THE YEAR | TOTAL AS ON 31/03/06 | AS ON 1/4/2005 | FOR THE YEAR | TOTAL AS ON 31/03/06 | AS ON 31/03/06 | AS ON 31/03/05 |
| A. FIXED ASSETS | | | | | | | | |
| RIGHT OF WAY | 3,78,00,00,000 | - | 3,40,20,00,000 | 20,97,90,000 | 11,34,00,000 | 30,24,00,000 | 3,09,96,00,000 | 3,57,02,10,000 |
| COMPUTER | 1,28,83,846 | 57,35,126 | 1,86,18,972 | 23,95,326 | 28,06,320 | 52,01,646 | 1,34,17,326 | 1,04,88,520 |
| FURNITURE & FIXTURE | 53,18,204 | 4,28,952 | 57,47,156 | 13,56,317 | 2,48,245 | 16,04,562 | 41,42,594 | 39,61,887 |
| OFFICE EQUIPMENTS | 75,65,346 | 48,00,464 | 1,23,30,336 | 10,14,848 | 8,36,677 | 18,49,249 | 1,04,81,087 | 65,50,498 |
| LEASEHOLD IMPROVEMENTS | 2,15,54,677 | 6,38,757 | 2,21,93,434 | 4,43,464 | 21,86,002 | 26,29,466 | 1,95,63,968 | 2,11,11,213 |
| VEHICLES | - | 5,72,393 | 5,72,393 | - | 14,153 | 14,153 | 5,58,240 | - |
| OFC & RELATED ASSETS | 3,26,82,41,827 | 18,12,87,141 | 3,40,95,41,769 | 20,80,95,822 | 16,05,76,592 | 36,45,74,022 | 3,04,49,67,747 | 3,06,01,46,005 |
| TELECOM & RADIO EQUIPMENTS | 54,24,96,890 | 12,84,92,514 | 66,74,32,450 | 3,52,14,479 | 2,90,40,859 | 6,40,53,226 | 60,33,79,224 | 50,72,82,411 |
| PRE FAB BUILDING | 5,71,95,197 | 3,39,47,951 | 9,11,43,148 | 34,35,694 | 39,67,547 | 74,03,241 | 8,37,39,907 | 5,37,59,503 |
| B. CAPITAL EXPENDITURE ON ASSETS NOT OWNED BY THE COMPANY | | | | | | | | |
| | 10,00,000 | - | 10,00,000 | 6,00,000 | 2,00,000 | 8,00,000 | 2,00,000 | 4,00,000 |
| TOTAL A & B | 7,69,62,55,987 | 35,59,03,298 | 7,63,05,79,658 | 46,23,45,950 | 31,32,76,395 | 75,05,29,565 | 6,88,00,50,093 | 7,23,39,10,037 |
| PREVIOUS YEAR | 7,28,41,63,939 | 46,78,94,783 | 7,69,62,55,987 | 15,87,58,382 | 30,38,12,075 | 46,23,45,950 | 7,23,39,10,037 | 7,12,54,05,557 |

SCHEDULE 4

CAPITAL WORK IN PROGRESS

| Particulars | As on 31.03.06 Amount (Rs) | | As on 31.03.05 Amount (Rs) |
|--|----------------------------------|-----------------------|----------------------------------|
| OFC laying works by Railways against deposit works | 32,71,75,654 | | 47,42,34,671 |
| Other OFC laying works, Pre Fab Building etc. | 36,51,68,266 | | 9,11,91,781 |
| Installation of STM / MPLS Equipment | <u>1,09,48,32,860</u> | | <u>39,01,10,832</u> |
| | | 1,78,71,76,780 | 95,55,37,284 |
| Add | | | |
| Net Incidental expenditure brought forward from last year | 2,81,95,150 | | 947,85,538 |
| Borrowing Cost Capitalised (Net) | 4,18,13,975 | | 5,73,36,850 |
| Incidental expenditure incurred | <u>10,37,54,232</u> | | <u>7,22,90,554</u> |
| | <u>17,37,63,357</u> | | <u>22,44,12,942</u> |
| Less | | | |
| Net Incidental expenditure allocated to projects during the year | 17,37,63,357 | - | 19,62,17,792 |
| | | | 2,81,95,150 |
| TOTAL | | 1,78,71,76,780 | 98,37,32,434 |

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SCHEDULE 5

ADVANCES FOR CAPITAL EXPENDITURE

| Particulars | As on 31.03.06 Amount (Rs) | As on 31.03.05 Amount (Rs) |
|---|------------------------------------|------------------------------------|
| Unsecured, Unconfirmed considered good | | |
| - covered by Bank Guarantees | - | 1,11,644 |
| - others | 5,44,30,653 | 7,25,73,398 |
| TOTAL | 5,44,30,653 | 7,26,85,042 |



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CURRENT ASSETS, LOANS & ADVANCES

| Particulars | As on 31.03.06 Amount (Rs) | As on 31.03.05 Amount (Rs) |
|---|----------------------------------|----------------------------------|
| CURRENT ASSETS | | |
| Inventories (At Cost) | | |
| (Taken, valued and certified by the management) | | |
| Stores & Spares | 91,26,742 | 41,11,982 |
| Sundry Debtors | | |
| (Unsecured, Unconfirmed) | | |
| Debts outstanding for period exceeding six months | | |
| - Considered Good | 26,58,123 | 16,38,852 |
| - Considered Doubtful | 18,54,747 | 18,54,747 |
| | 45,12,870 | 34,93,599 |
| Less: Provision for doubtful debts | 18,54,747 | 18,54,747 |
| | 26,58,123 | 16,38,852 |
| Other Debts Considered good | 4,11,71,939 | 4,38,30,062 |
| | 4,38,30,062 | 2,85,77,098 |
| | | 3,02,15,950 |
| Cash & Bank Balances | | |
| Cheques in Hand | 61,905,779 | 13,48,82,575 |
| Funds in Transit | 11,830,602 | 1,15,52,160 |
| Cash / Imprest Balances | 6,8617 | 8,5163 |
| | 7,38,04,998 | 14,65,19,898 |
| Balances with Scheduled Banks in | | |
| Current account | 1,19,49,998 | 1,48,13,263 |
| Collection account | 1,21,65,234 | 1,36,28,921 |
| Term deposits | 26,88,44,601 | 36,67,64,831 |
| | 26,88,44,601 | 19,69,76,209 |
| <i>(Includes Rs NIL (Previous Year Rs. 2 crore) pledged with SBI against Bank Guarantees)</i> | | 37,19,38,291 |
| Other Current Assets | | |
| Accrued Interest on Term deposits | 34,04,453 | 1,01,09,044 |
| LOANS AND ADVANCES | | |
| (Unsecured, Unconfirmed considered good) | | |
| Staff Advances | 24,8170 | 27,02,159 |
| Advances recoverable in cash or in kind or for value to be received | 26,04,37,671 | 18,83,56,131 |
| Prepaid taxes | 4,98,27,019 | 31,05,12,860 |
| | 31,05,12,860 | 2,50,04,090 |
| | | 21,60,62,380 |
| TOTAL | 73,36,38,948 | 63,24,37,647 |

SCHEDULE 7

CURRENT LIABILITIES & PROVISIONS

| Particulars | As on 31.03.06 Amount (Rs) | | As on 31.03.05 Amount (Rs) | |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|
| Current Liabilities | | | | |
| Sundry Creditors | | | | |
| For capital expenditure | 1,05,70,30,667 | | 77,58,93,347 | |
| For others | 7,15,53,042 | | 4,13,70,452 | |
| | 1,12,85,83,709 | | 81,72,63,799 | |
| Deposits & Customers' Advances | 79,96,92,376 | | 57,39,89,377 | |
| Book Overdraft (Uncashed Cheques) | 80,49,215 | | 18,20,828 | |
| Other liabilities | 1,48,57,760 | 1,95,11,83,060 | 7,13,64,418 | 1,46,44,38,422 |
| | | | | |
| Provisions | | | | |
| Provision for leave salary contribution | 45,8160 | | 1,19,288 | |
| Provision for Gratuity | 16,1660 | 6,19,820 | 72,372 | 1,91,660 |
| | | | | |
| TOTAL | | 1,95,18,02,880 | | 1,46,46,30,082 |

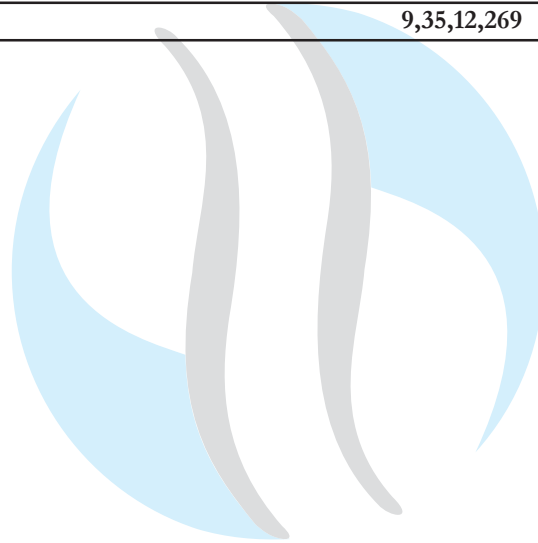
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SCHEDULE 8

EMPLOYEES REMUNERATION & BENEFITS

| Particulars | For the Year Ended on 31.03.06 | For the Year Ended on 31.03.05 |
|---|--------------------------------|--------------------------------|
| | Amount Rs. | Amount Rs. |
| Director's Remuneration | 41,74,958 | 29,33,874 |
| Salary, Wages, Perquisites & Allowances | 8,43,88,314 | 5,39,51,906 |
| Employer's Contribution to PF | 10,95,429 | 74,801 |
| Gratuity | 89,288 | 28,524 |
| Leave Salary Contribution | 3,38,872 | 42,247 |
| Staff Welfare Expenses | 34,25,408 | 23,30,707 |
| TOTAL | 9,35,12,269 | 5,93,62,059 |



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SCHEDULE 9

ADMINISTRATIVE & OTHER EXPENSES

| Particulars | For the Year Ended on 31.03.06 | For the Year Ended on 31.03.05 |
|---|--------------------------------|--------------------------------|
| | Amount Rs. | Amount Rs. |
| Auditor Remuneration | 1,00,098 | 81,610 |
| Books & Periodicals | 5,72,338 | 1,77,513 |
| Communication Expenses | 81,89,281 | 45,69,648 |
| Conveyance Expenses | 24,03,165 | 13,33,462 |
| Electricity & Power Expenses | 1,26,35,409 | 23,48,361 |
| Bank Charges & Commission | 3,57,146 | 12,55,643 |
| Insurance Expenses | 45,865 | 51,649 |
| Misc. Expenses | 69,82,427 | 46,26,118 |
| Legal & Professional Expenses | 82,51,377 | 42,60,982 |
| Rates & Taxes | 27,462 | 7,92,743 |
| Rent office premises | 68,17,055 | 65,96,089 |
| Repair & Maintenance - Others | 29,00,391 | 19,38,428 |
| Tender Expenses. | 39,22,064 | 17,31,805 |
| Training & Recruitment Expenses | 22,76,842 | 8,26,905 |
| Travelling Expenses | 1,33,77,939 | 69,24,975 |
| Printing & Stationary Expenses | 27,14,586 | 23,24,963 |
| Vehicle hire charges | 69,85,028 | 53,44,870 |
| Provision for doubtful Debts | - | 18,54,747 |
| Donation | - | 10,04,118 |
| Business promotion Expenses | 22,38,616 | 7,08,763 |
| Exhibition & Stall Expenses | 14,54,824 | 11,71,633 |
| Hire Charges Optic Fiber | 12,84,367 | - |
| Hire Charges Radio Modem | 13,12,601 | 9,64,374 |
| Protection Bandwidth & Connectivity Charges | 1,54,90,879 | 90,30,051 |
| Internet Bandwidth | 1,16,84,844 | 54,83,001 |
| TOTAL | 11,20,24,604 | 6,54,02,451 |

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SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

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.

The irrevocable and exclusive right held by the Company to install, construct, own, operate, maintain and keep the Optical Fiber Network on, under or over the Railway land for laying cable, pipes etc. alongside, under, over or across the track, access, easements, quasi-easements and all other rights relating or incidental to the Optical Fiber Network, free from all encumbrances, subject to exceptions, is capitalised and is treated as RIGHT OF WAY.

Addition to building on lands not owned by the Company are capitalised as Leasehold Improvement.

3. Capital Works-in-Progress

- a) Expenses incidental to construction of various assets are apportioned on pro-rata basis to respective assets.
- b) 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 of capital work in progress.
- c) In respect of supply-cum-erection contracts, the value of supplies received and accepted at site, is treated as capital work-in-progress.
- d) Contracts under deposit work are accounted for on the basis of statement of account received from executing agencies/ technical assessments of the works executed.
- e) Income identifiable with capital work-in-progress is adjusted against the cost of different works on pro-rata basis.

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.

6. Segment Reporting

The primary segment of the Company is Business segment and secondary segment is Geographical segment.

In business segment revenue and expenses that are directly identifiable to a segment are attributed to the relevant segment. The Company does not have any inter segment revenue. The expenditure on the repair & maintenance of optic fiber cable has been allocated only on the Bandwidth and Dark fiber. Certain other expenditure such as Salary, wages, other administrative expenditure, interest cost, preliminary expenses and depreciation are not allocable to segment and consequently have been classified as other unallocable expenditure. Secondary Segment is not applicable to the company since the business of the company does not extend beyond the territory of the country.

Assets and liabilities have not been allocated segment-wise in the absence of meaningful basis for allocation between segments.

INCOME

7. 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

8. Depreciation

- a) Depreciation is charged as per straight-line method on fixed assets of the Company at the rates notified under Schedule XIV of the Companies Act, 1956.
- b) Right of way is amortised over its useful life i.e. 30 years on straight-line basis.
- c) Depreciation on Leasehold Improvement is provided @ 10% per year as straight-line method.
- d) Depreciation on Pre Fabricated Building is provided @ 4.75% per year on straight-line method.

9. 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.

10. Miscellaneous Expenditure

Preliminary expenses incurred before 1.04.2004 towards incorporation of the Company is to be written off to the Profit & Loss account over a period of five years from the date of commencement of commercial operations.

11. 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.

12. License Fees and Revenue share

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

13. Foreign Currency Transaction

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

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NOTES TO ACCOUNTS

1. Loan from IRFC

Out of a loan of Rs. 150 crore provided by Indian Railway Finance Corporation Ltd., Rs. 25 crore was due for repayment on 01.04.2006 and has been paid on 31.03.2006.

2. Fixed Assets / Capital Works-in-progress

Fixed assets have been taken over from Railways after physical verification by the management. The value of the assets have been kept at the original cost of the asset and depreciation has been provided on the written down value method at the rates prescribed in Schedule XIV to the Companies Act, 1956 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.

3. 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. These assets continue to be shown as works-in-progress. However, the Company is using them to earn revenue and such revenue has been accounted for.

4. 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 (henceforth referred as the RIGHT) to install, control, own, operate, maintain and keep optical fiber network under or over (as appropriate) on the Railways land, value for which was determined in the agreement at Rs. 37800 lakh.

b. The Company was required to pay an annual grant fees equivalent to Rs. 1134 lakh (3% of the value of Right of way assessed) during the term of the agreement of 30 years. A moratorium of 5 years has been granted to the Company for commencement of payment of the grant fee.

c. The Company had capitalised the RIGHT as Right of Way under Fixed Assets by creating a liability of Rs. 37800 lakhs as grant fee payable over a period of thirty years. During 2003-04, the Company had created a liability of Rs. 37800 lakh as explained above, whereas the actual liability to Railways over a period of thirty years was Rs. 34020 lakh (=1134*30 lakh) only. The difference of Rs. 3780 lakh was credited to the Capital Reserve Account in 2004-05.

d. The Comptroller and Auditor General of India (CAG) had commented in the Annual Financial Statement of 2004-05 that the treatment of Right of Way as in para “c” above was not appropriate, as this had resulted in overstatement of assets. The management of the Company had committed to review the treatment in 2005-06.

e. The RIGHT, which comes for a grant fee of Rs. 34020 lakh (Rs. 1134 lakh*30) for the entire period of agreement, has now been capitalised by the Company as the Right of Way. The excess of assets (under Right of Way) of Rs. 3780 lakh (including amortization of Rs 207.90 lakh up to 2004-05) has now been reversed from Fixed Assets by Adjustments during the year in Schedule – 3. Correspondingly, the Capital Reserve of Rs. 3780 lakh (including Adjustment of Rs 208 lakh during 2004-05) has now been removed from Schedule – 1, resulting in reduction in Shareholder’s Funds in the Balance Sheet by the same amount.

f. A long term liability of Rs. 34020 lakh corresponding to the Fixed Asset under Right of Way (in para “e” above) has now been created in the books of the Company. This in compliance of the comments of the CAG made in 2004-05.

g. To provide for the grant fee to be paid, amortization of the Rs. 1134 lakh has now been provided during the current year. Together with Rs. 1890 lakh provided for this till the end of previous year i.e. 31.03.2005, the total provision under this head comes to Rs. 3024 lakh.

h. As part of the ongoing process of review of agreement, Railways have in principle agreed that the grant fee to be payable by RailTel up to 31.03.2006 will be waived off against the cost of bandwidth utilized by the Railways.

5. In terms of clause 3.3 of the agreement entered into with the Ministry of Railways on 30th July 2003, the financial arrangements between the Company and the Ministry of Railways are under review.

6. In terms of Para 3.4 of the agreement with the Ministry of Railways, the Railways have to pay for the long haul telecom services provided by the Company. Based on the information of circuits currently being used by Railways, a statement of circuits and chargeable amounts for the years 2003-04 to 2005-06 has been furnished to the Ministry of Railways for their acceptance. Ministry

of Railways have not yet accepted the assessment and made preliminary observation that only long haul circuits on sections which have been taken over by the Company should be charged to them. Further, Ministry of Railways is in the process of confirming the position with their Zonal Railways. The exercise of assessing this income would be completed shortly. As such the assessment of income to be recoverable from the Railways is still under finalization.

7. Contingent Liabilities:

Claims against the Company not acknowledged as debts are Rs. 1413.34 lakh. (Previous Year Rs. 1179.61 lakh)

8. Estimated amounts of contracts remaining to be executed on capital account and not provided for (As certified by the management) Rs. 6601.41 lakh. (Previous Year Rs. 14533.12 lakh.)
9. Balances shown under advances, sundry debtors, creditors and service tax are subject to confirmation/ reconciliation and consequential adjustment, 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. As per the information available with the Company, there are no outstanding balances of small-scale industries lying for more than thirty days as at the end of the year.

12. Total remuneration and benefits paid to the Directors during the year are as per following:-

| Particulars | 2005-06 | 2004-05 |
|----------------|------------|------------|
| | (Rs.) | (Rs.) |
| Remuneration | 26.86 lakh | 20.84 lakh |
| Other payments | 14.89 lakh | 8.56 lakh |

13. Auditor's remuneration includes:-

| | 2005-06 | 2004-05 |
|------------------------|-----------------|---------------|
| | (Rs.) | (Rs.) |
| Statutory Audit Fee | 72,650 | 48,750 |
| Tax Audit Fee | 22,448 | 22,040 |
| Other Services | 2,500 | 2,500 |
| Out of Pocket Expenses | 2,500 | 8,500 |
| Total | 1,00,098 | 81,610 |

Statutory Audit fee includes Rs. 16,530 (Previous Year Rs. 10,000/-) for previous year.

14. Sundry Debtors include Rs. 53.93 lakh (Previous year 35.68 lakh) due from those customers from whom the company has also received advances for other circuits. The same have not been adjusted against one another since the accounting for various circuits is done independently.
15. The Income tax department has raised a demand for Rs. 119.61 lakh (Including interest) and Rs. 152.58 lakh (Including interest) for assessment year 2002-03 and 2003-04 respectively. No liability for the same has been provided since the matter is under appeal with CIT (XVIII) Delhi. The Company is hopeful for getting relief for the same. However the Company has deposited Rs. 119.61 lakh for A.Y. 2002-03 and Rs. Nil for A.Y. 2003-04 respectively and included the same under Current Assets, Loans & Advances.
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 appeal.
16. Department of Telecommunication has levied penalty of Rs. 338.36 lakh on account of interest. The Company is of the view is that the same is unjustified and is in process of filing an appeal with Telecom Dispute settlement and Appellate Tribunal. Therefore, no provision has been made for the same.
17. OFC in Virar-Surat was capitalised during 2003-04 at Rs. 389.31 lakh as this work was envisaged to be done as a Deposit work through Railways. Later, Railways decided to complete this section out of their own funds. Since the same has not been transferred by the Railways to the Company, the Entry for the section has been reversed/ adjusted during the year. The section will

RailTel Corporation of India Ltd.

be capitalised as and when Railways transfer the same to the Company. In addition to this Company has reversed capital work in progress on the route Kota-Baroda section because of refund of full money by the Western Railways.

18. The Company has not created Deferred Tax assets as a matter of prudence in terms of Accounting Standard (AS-22) on Accounting of Taxes on Income issued by the Institute of Chartered Accountants of India, as 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.

19. Under the agreement with the Railways the Company is required to make payment for maintenance of its OFC to the Railway. Until the Railways take over the maintenance, the Company is making its own arrangements for maintenance. Therefore, no provision for payment of maintenance charges to Railways has been made in the accounts.

20. Operating lease

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, 2006 are as under;

| | |
|--|----------------------|
| Not later than one-year | Rs. 2950 lakh |
| Later than one year and up to five years | Rs. 1484 lakh |
| Later than five years | Rs. 3340 lakh |
| Total | Rs. 7774 lakh |

21. Earning Per Share:-

| | 2005-06 | 2004-05 |
|--|--------------|--------------|
| Net Profit/ Loss(-) available for Equity Shareholders (a)(Rs.) | (-)102682245 | (-)195013016 |
| Weighted Average No. of Equity share of Rs. 10 each (b) | 234408807 | 234408807 |
| Basic/ diluted Earning per share (a)/(b) (Rs.) | (-)0.44 | (-)0.83 |

22. Additional information pursuant to Schedule VI of the Companies Act, 1956, is as follows: (Amount in Rs.)

| | 2005-06 | 2004-05 |
|---|------------|-----------|
| a. Value of imports calculated on CIF basis | | |
| i. Capital goods | NIL | NIL |
| ii. Spare parts | NIL | NIL |
| b. Expenditure in foreign currency | | |
| i. Professional and consultancy fee | 52.51 lakh | NIL |
| ii. Others | 8.79 lakh | 0.80 lakh |
| c. Value of components, stores and spare parts consumed (imported and indigenous) | NIL | NIL |
| d. Earning in foreign exchange | NIL | NIL |

23. Related Party Disclosure

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

| Name of the related parties | Designation | Nature of Relationship |
|-----------------------------|---------------------|------------------------|
| 1. Sh. K. K. Bajpeyee | Managing Director | Key Management Person |
| 2. Sh. B. Krishna Kumar | 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. Sh. V.K. Koshy | Director (Non Off.) | Key Management Person |
| 6. Sh. Narender 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 | 2005-06 (Rs.) | 2004-05 (Rs.) |
|--|------------------|------------------|
| Managerial Remuneration (Key Management Person) | 41.75 lakh | 29.34 lakh |

24. Details of Provisions are as follows:-

| | 2005-06 | | 2004-05 | |
|---------------------------------|-----------------|----------------------------|-----------------|----------------------------|
| | Gratuity Rs. | Leave Encashment Rs. | Gratuity Rs. | Leave Encashment Rs. |
| Opening Balance | 72,372 | 1,19,288 | 43,848 | 77,041 |
| Addition during the year | 89,288 | 3,38,872 | 28,524 | 42,247 |
| Less:- Adjusted during the year | NIL | NIL | NIL | NIL |
| Closing Balance | 1,61,660 | 4,58,160 | 72,372 | 1,19,288 |

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25. SEGMENTAL REPORTING BY FOLLOWING BUSINESS SEGMENT AS PRIMARY SEGMENT

(Previous Year figures are in brackets)

(Rs. In Lakh)

| | IP-1 LICENCE | IP-2 LICENCE | ISP LICENCE | VPN LICENCE | OTHER | Consol- idated Total |
|---------------------------------------|----------------------------------|------------------------------------|---------------------------------|-------------------------------|----------------------------|--------------------------------------|
| Revenue External or Total Sale | 1,256.93 (690.67) | 4,021.45 (2,328.97) | 220.63 (207.88) | 113.50 (36.13) | 431.89 (22.81) | 6,044.40 (3,286.46) |
| Inter Segment Sale | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Segment Revenue | 1,256.93 (690.67) | 4,021.45 (2,365.10) | 220.63 (207.88) | 113.50 (36.13) | 431.89 (22.81) | 6,044.40 (3,322.59) |
| Segment Expenses | | | | | | |
| Repair & Maintenance P& M | 240.17 (112.29) | 768.42 (384.51) | 0.00 0.00 | 0.00 0.00 | 0.00 0.00 | 1,008.59 (496.80) |
| Licence Fees to DOT | 0.00 0.00 | 241.27 (174.37) | 2.79 0.00 | 9.08 0.00 | 0.38 0.00 | 253.52 (174.37) |
| Protection Bandwidth | 0.00 0.00 | 180.88 (99.94) | 0.00 0.00 | 0.00 0.00 | 0.00 0.00 | 180.88 (99.94) |
| Internet Bandwidth | 0.00 0.00 | 0.00 0.00 | 116.85 (54.83) | 0.00 0.00 | 0.00 0.00 | 116.85 (54.83) |
| Revenue Share with Railways | 160.06 (79.24) | 151.19 (94.60) | 8.71 (8.32) | 4.18 (1.45) | 0.00 0.00 | 324.14 (183.61) |
| Total Segment expenses | 400.23 (191.53) | 1,342.13 (753.42) | 128.35 (63.15) | 13.27 (1.45) | 0.38 0.00 | 1,884.36 1,009.55 |
| Segment Result | 856.70 (499.14) | 2,679.32 (1,611.68) | 92.28 (144.73) | 100.23 0.00 | 431.89 (22.81) | 4,160.42 (2,278.36) |
| Unallocated Expenses | | | | | | 793.98 (416.44) |
| Operating Profit | | | | | | 3,366.44 (1,861.92) |
| Interest Expenses | | | | | | 1,277.31 (984.07) |
| Depreciation | | | | | | 3,089.75 (2,827.98) |
| Provision for taxation | | | | | | 26.20 0.00 |
| Net Profit / (Loss) | | | | | | 1,026.82 (1,950.13) |

26. Figures for the previous year have been rearranged and regrouped wherever necessary to make them comparable with this years presentation.

27. BALANCE SHEET ABSTRACT & COMPANY'S GENERAL PROFILE

I Registration Code

State Code

5 5

Registration No.

1 0 7 9 0 5

Balance Sheet Date

3 1 0 3 2 0 0 6

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue

N I L

Right Issue

N I L

Bonus Issue

N I L

Private Placements

N I L

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

4 5 1 4 0 8 8

Total Assets

4 5 1 4 0 8 8

Sources of Funds

Paid - up Capital

2 3 4 4 0 8 8

Share Application Money

0 0 0 0 0 0

Secured Loans

9 2 0 0 0 0

Reserve and Surplus

N I L

Unsecured Loans

1 2 5 0 0 0

Application of Funds

Net Fixed Assets

8 7 2 1 6 5 8

Investments

N I L

(includes CWIP & Advance for Capital Expenditure)

Net Current Assets

(-) 4 6 7 6 3 5 4

Misc. Expenditure

N I L

Accumulated Losses

4 6 8 7 8 4

IV. Performance of Company (Amount in Rs. Thousands)

Turnover including other incomes

6 0 4 4 4 0

Total Expenditure

7 0 4 5 0 2

+ -
✓

Profit/Loss Before Tax

1 0 0 0 6 2

+ -
✓

Profit/Loss after Tax

1 0 2 6 8 2

Earning per Share in Rs.

(-) 0 . 4 4

Dividend Rate%

N I L

V. Generic Name of Three Principal Services of Company

Item Code No.

N A

Product Description

Rent from Tower Space

Item Code No.

N A

Product Description

Sale of Bandwidth

Item Code No.

N A

Product Description

Sale of VPN

For Goyal & Goyal
Chartered Accountants

SHOBHIT GUPTA
(PARTNER)
M.No:-502897

SAROJ RAJWARE
Director (Finance)

S. C. HANS
Company Secretary

K.K. BAJPEYEE
Managing Director

Place: New Delhi

Date: 27th June, 2006

CASH FLOW STATEMENT FOR THE YEAR 2005-06

(Amount in Rs.)

| | CURRENT YEAR (2005-06) | PREVIOUS YEAR (2004-05) |
|--|---------------------------|----------------------------|
| Cash Flow From Operating Activities | | |
| Net Profit/ (Loss) Before Tax | (100,062,245) | (195,013,016) |
| Adjusted for:- | | |
| Preliminary expenses charged off | 4,003,430 | 4,003,431 |
| Miscellaneous Expenditure written off | - | 977,318 |
| Depreciation | 195,574,765 | 177,713,568 |
| Amortisation of right of way | 113,400,000 | 105,084,000 |
| Interest received | (25,824,606) | (26,134,620) |
| Interest on Loan | 192,072,107 | 171,712,930 |
| Net cash from operating activities before change in working capital (a) | 379,163,451 | 238,343,611 |
| Working Capital changes | | |
| Increase/ (Decrease) in Inventory | 5,014,760 | (604,497) |
| Increase/(Decrease) in other current assets | (6,704,591) | 848,532 |
| Increase/(Decrease) in other Loans & Advances | 94,450,480 | 21,993,623 |
| Increase/ (Decrease) in Current Liabilities | 206,035,478 | 97,415,818 |
| Increase/ (Decrease) in Long term Liability | 31,247,331 | 18,216,458 |
| Increase / (Decrease) in sundry debtors | 13,614,112 | 25,283,777 |
| Income Tax Paid | 2,620,000 | - |
| Net (Increase) Decrease in Working Capital (b) | 128,288,048 | 68,110,841 |
| Net cash from operating activities (a)+(b) | 507,451,499 | 306,454,452 |
| Cash Flow From Investing Activities | | |
| Increase/(Decrease) in Gross Block | (65,675,179) | 412,092,048 |
| Increase/ (Decrease) in Capital Work in Progress | 803,444,346 | 464,884,729 |
| Increase/ (Decrease) in Advance to Parties | (18,254,389) | 161,363,398 |
| Interest received | 25,824,606 | 26,134,620 |
| Increase/ (Decrease) in Current Liabilities for capital works | 281,137,320 | (138,574,587) |
| Net cash from investing activities before Extraordinary Item | (412,552,852) | (1,150,780,142) |
| Extraordinary Item | | |
| Adjustment for Capital Reserve | (378,000,000) | 378,000,000 |
| Increase/ (Decrease) in Long term Liability | - | (378,000,000) |
| Net cash from investing activities | (790,552,852) | (394,780,142) |
| Cash Flow From Financing Activities | | |
| Repayment of Loan to IRFC | (250,000,000) | - |
| Loan from State Bank of India | 720,000,000 | 200,000,000 |
| Interest on Loan | (192,072,107) | (171,712,930) |
| | 277,927,893 | 28,287,070 |

| | | |
|---|--------------------|--------------------|
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (5,173,460) | (60,038,620) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 371,938,291 | 431,976,911 |
| CASH AND CASH EQUIVALENT AT END OF PERIOD | <u>366,764,831</u> | <u>371,938,291</u> |

“As per Our report of even date attached”

For Goyal & Goyal
Chartered Accountants

SHOBHIT GUPTA
(PARTNER)
M.No:-502897

SAROJ RAJWARE
Director (Finance)

S. C. HANS
Company Secretary

K.K. BAJPEYEE
Managing Director

Place: New Delhi
Date: 27th June, 2006



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