

SCHEDULE - M

A. SIGNIFICANT ACCOUNTING POLICIES

1.0 Accounting Convention :

Financial statements are prepared on the basis of historical cost and on accrual basis following going concern concept, accounting standards and generally accepted accounting principles except otherwise stated elsewhere.

2.0 Basis of Accounting :

All expenses and incomes are booked initially in the natural heads of accounts and then transferred to functional heads wherever required.

3.0 Subsidies / Grants from Government:

3.1 Subsidies / Grants on Capital Account are deducted from the cost of respective assets to which they relate. The unspent amount at the year end, if any, is shown as Current Liabilities.

3.2 Subsidies / Grants on Revenue Account are credited to Profit & Loss Account under the head Other Receipts and the relevant expenses are debited to the respective heads.

4.0 Fixed Assets :

4.1 Land:

Land includes cost of acquisition, compensation and cash rehabilitation expenses incurred for concerned displaced persons. Other expenditure incurred on acquisition of Land viz. Resettlement cost, compensation in lieu of employment etc are, however, treated as revenue expenditure.

4.2 Plant & Machinery :

Plant & Machinery include cost and expenses incurred for erection / installation and other attributable costs of bringing those assets to working conditions for their intended use.

4.3 Railway Siding :

Pending commissioning, payments made to the railway authorities for construction of railway siding are shown under Capital Work-in-Progress.

4.4 **Development :**

Expenses net of income of the projects / mines under development are booked to Development account and grouped under Capital Work-in-Progress till the projects / mines are brought to revenue account. Except otherwise specially stated in the project report to determine the commercial readiness of the project to yield production on a sustainable basis and completion of required development activity during the period of construction, projects and mines under development are brought to revenue :

- (a) From beginning of the financial year immediately after the year in which the Project achieves physical output of 25% of rated capacity as per approved project report, or
 - (b) 2 years of touching of coal, or
 - (c) From the beginning of the financial year in which the value of production is more than total expenses,
- Whichever event occurs first.

4.5 **Prospecting & Boring and other Development Expenditure :**

The cost of exploration and other development expenditure incurred in one “Five year” plan period will be kept in Capital work-in-progress till the end of subsequent two “Five year” plan periods for formulation of projects before it is written-off except in the case of Blocks identified for sale or proposed to be sold to outside agency which will be kept in C.W.I.P till finalisation of sale.

5.0 **Investments :**

All investments, being long term in nature, are stated at cost.

6.0 **Inventories :**

- 6.1 Book stock of coal / coke is considered in the Accounts where the variance between book stock and measured stock is upto +/- 5% and in cases where the variance is beyond +/- 5% the measured stock is considered. Such stock are valued at Net Realisable Value or cost whichever is lower.
 - 6.1.1 Slurry, middling of washeries are valued at net realisable value.
- 6.2. Stock of stores & spare parts at Central & Area Stores are valued at cost calculated on the basis of weighted average method. The year-end inventory of stores & spare parts lying at collieries / sub-stores / consuming centres, initially charged off, are valued at issue price of Area Stores, Cost / estimated cost. Workshop jobs including work-in-progress are valued at cost.

6.2.1 **Stores & Spares**

The closing stock of stores and spare parts has been considered in the Accounts as per balances appearing in priced stores ledger of the Central Stores and as per physically verified stores lying at the collieries/units.

6.2.2 Stores & spare parts include loose tools.

6.2.3 Provisions are made at the rate of 100% for unserviceable, damaged and obsolete stores and at the rate of 50% for stores & spares not moved for 5 years excepting insurance items.

6.3. Stock of stationery (other than lying at printing press), bricks, sand, medicine (except at Central Hospitals), aircraft spares and scraps are not considered in inventory.

7.0. **Depreciation :**

7.1. Depreciation on Fixed Assets is provided on straight line method at the rates and manner specified in Schedule XIV of the Companies Act, 1956 (as amended) except for telecommunication equipments. Depreciation on such equipments is charged over the technically estimated life, at higher rates, viz. :- @15.83% and @10.55%. Depreciation on the assets added / disposed off during the year is provided on pro-rata basis with reference to the month of addition / disposal.

7.2. Value of land acquired under Coal Bearing Area (Acquisition & Development) Act, 1957 is amortised on the basis of the balance life of the project. Value of leasehold land is amortised on the basis of lease period or balance life of the project whichever is earlier.

7.3. Prospecting, Boring and Development expenditure are amortised from the year when the Mine is brought under Revenue in 20 years or working life of the Project whichever is less.

7.4. Assets attracting 100% depreciation, other than items costing Rs.5,000/- are taken out from the Accounts after expiry of 2 years following the year in which these are fully depreciated.

8.0 **Impairment of Asset:**

Impairment loss is recognised wherever the carrying amount of an asset is in excess of its recoverable amount and the same is recognized as an expense in the statement of profit and loss and carrying amount of the asset is reduced to its recoverable amount.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

9.0 **Foreign Currency Transactions:**

9.1 Year-end balance of foreign currency transactions is translated at the year-end rates and the corresponding effect is given in the respective accounts. Transactions completed during the year are adjusted on actual basis.

9.2 Transactions covered by cross currency swap options contracts to be settled on future dates are recognised at the year-end rates of the underlying foreign currency. Effects arising out of such contracts are taken into accounts on the date of settlement.

10.0 **Retirement Benefits:**

Year-end liability on account of gratuity and leave encashment is provided for on actuarial valuation basis.

11.0 **Recognition of Income and Expenditure:**

Income and Expenditure are generally recognised on accrual basis and provision is made for all known liabilities.

12.0 **Borrowing Costs:**

Borrowing Cost directly attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as expenses in the period in which they are incurred.

13.0 **Taxation:**

Provision of current income tax is made in accordance with the Income Tax Act., 1961. Deferred tax liabilities and assets are recognised at substantively enacted tax rates, subject to the consideration of prudence, on timing difference, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent period.

14.0 **Provision:**

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to present value and are determined based on best estimate required to settle the obligation at the balance sheet date.

15.0 **Contingent Liability:**

Contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligations or reliable estimate of the amount of the obligations can not be made.

Contingent liabilities are not provided for in the accounts and are disclosed by way of Notes.

16.0 **Overburden Removal (OBR) Expenses :**

In Opencast mines with rated capacity of 1 million tonnes and above, the cost of OBR is charged on average ratio (Coal : OB) at each mine with due adjustment for advance stripping and ratio variance account after the mines are brought to revenue. Net of balance of advance stripping and ratio variance at the end of the year is shown as Deferred Revenue Expenditure or Current Liabilities as the case may be.

The reported quantity of overburden is considered in the Accounts where the variance between reported quantity and measured quantity is within the permissible limits detailed hereunder:-

Annual Quantum of OBR Of the Mine	Permissible limits of variance	(whichever is less)
	%	Quantum (in Mill.Cu. Mtr.)
A less than 1 Mill. CUM	+/- 5%	0.03
Between 1 and 5 Mill. CUM	+/- 3%	0.2
More than 5 Mill. CUM	+/-2%	(-)

B. Notes to Accounts – Schedule – M

1. Principles of Consolidation

- 1.1 The consolidated financial statements relate to Coal India Ltd. and its subsidiaries. The financial statements of the Company and its subsidiary companies are combined on a line-by-line basis adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses in accordance with Accounting Standard – 21 – “Consolidated Financial Statements” issued by the Institute of Chartered Accountants of India.
- 1.2 Significant Accounting Policies and Notes to these Consolidated Financial Statements are intended to serve as a means of informative disclosure and a guide to better understanding the consolidated position of the Companies. Recognizing this purpose, the Company has disclosed only such Policies and Notes from the individual financial statements, which fairly present the needed disclosures.

2. Fixed Assets

- 2.1. Land includes certain land taken on possession by the Company for which legal formalities in respect of title deeds etc. are pending. However, land taken on possession by the Company, for which values are yet to be ascertained pending completion of legal formalities have not been included.
- 2.2. The net value of assets of Rs. 817.02 lakhs (details not available) acquired by Eastern Coal fields Limited on the Nationalization of Coal Mines under Coal Mines Nationalization Act, 1973 have been taken into accounts and fully provided for.
- 2.3. The assets and liabilities taken over from Mines Labour Welfare Organization and Coal Mines Rescue Organization for which no quantitative details are available and have not been incorporated in the accounts pending determination of value thereof.
- 2.4. Western Coalfields Limited took over various assets from the Coal Mines Labour welfare Organization (since repealed) situated at various locations and Coal Mines Rescue Station at Pench, in the years 1984 and 1986 respectively, consequent to decision by Govt. of India. Pending finalization of purchase consideration of these assets by the Central Government, the same were treated as assets in the respective years and no corresponding liability was accounted for. Accounting adjustment would be made on final determination.

- 2.5. Consequent upon the grant of award by the arbitrator, the Board of Directors of the Company in its 106th. Meeting held on 14-02-2005 has approved the settlement of claims of M/S Hyundai Heavy Industries Limited on account of construction of CHP Phase – 1 at Dudhichua Project under Northern Coalfields Limited. As a result of this settlement, the sum of Rs. 214.83 lakhs, being claims receivable from M/S Hyundai Heavy Industries Limited have been adjusted against the relevant fixed assets. Further, the value of fixed assets has been reduced by Rs. 58.61 Lakhs being the liability no longer required to be paid. Hence, the net increase in the value of the asset to the tune of Rs. 156.22 lakhs arising out of the settlement has been effected in this account alongwith depreciation thereon.
- 2.6. (i) Out of 94593 acres of notified land at Central Coalfields Ltd. compensation for 28031.28 acres of land have been paid and necessary adjustments have been carried out in the accounts. Accounting of balance of land is not considered necessary as the cost of Notified land is capitalized on physical/ constructive possession basis and completion of assessment by the competent authority.
- (ii) In case of Western Coalfields Ltd. land, acquired under Land Acquisition Act, CBA (A&D) Act, 1957, and on private negotiations, amounting to Rs. 10,319.42 lakhs (previous year Rs. 8.736.79 lakhs) are included in Fixed Assets, on the basis of payment / compensation made as per approval of Competent authorities pending final settlement.
- (iii) Land acquired by Northern Coalfields Ltd. under Coal Bearing Area (A&D) Act, 1957 has been shown as Land- Leasehold.
- 2.7. Discarded / surveyed off assets lying in Stores of Western Coalfields Ltd. amounting to Rs. 985.12 lakhs (previous year Rs. 869.16 lakhs) valued at residual 5% have not been physically verified. A provision has been made to the extent of Rs. 182.62 lakhs for discrepancies on P & M verification.
- 2.8. Fixed Assets comprising of Plant & Machinery of Rs. 218.99 lakhs related to building and other assets of Rs. 1625.37 lakhs, both at book value (WDV) as on 31-03-1995 have been let out to Indian Institute of Coal Management, a registered society under Societies Registration Act, under cancelable operating lease agreement. Addition to these assets from letting out to 31-03-2005 is Rs. 359.39 lakhs on value of plant & machinery and Rs. 304.43 lakhs on value of building and other assets. The cumulative provision for depreciation upto 31-03-2005 stood at Rs. 871.84 lakhs. The net W.D.V of the leased assets as per book as on 31-03-2005 is Rs. 1770.43 lakhs. The yearly lease rent of Rs. 153.00 lakhs has been recovered
- 2.9. As per lease agreement dated 31st. March, 1993 executed with Dishergarh Power Supply Company Ltd., Eastern Coalfields Ltd. leased out the 2X10 MW Chinakuri Thermal Power Station including land, building plant & machinery etc. The lease agreement is for 20 years from the commencement of the lease w.e.f., 01-04-1991. The gross value of Power Plant; Building and Other Assets is Rs. 4608.97 lakhs; Rs. 1074.54 lakhs and Rs. 25.34 lakhs respectively. The cumulative depreciation upto 31-03-2005 against the abovementioned assets is Rs. 3438.17 lakhs; Rs.366.66 lakhs and Rs. 10.92 lakhs respectively.
- The lease rental for the year Rs. 350 lakhs has been received.

- 2.10. In terms of license agreement dated 19th. Day of March, 2001 executed with M/s Apollo Hospital Enterprise Ltd. Chennai, South Eastern Coal fields Ltd. has granted a right to occupy and use the fully constructed main hospital Building measuring 2,97,099.74 Sq.ft. and the residential quarters measuring 55,333 Sq. ft. with super structures on the land such as sub station building, sewerage treatment plant and pump house. The cost of the gross assets is 3132.21 lakhs against which cumulative depreciation is Rs. 326.83 lakhs. The license agreement provides for a lease period of 30 years from the effective date of commencement of the lease i.e. November, 2001.

The lease rental for the year is Rs.84.58 lakh is accounted for as per agreement.

3. **Capital Work – In – Progress**

- 3.1 “A” type Miner Quarters at Bhimkanali Township under Bharat Coking Coal Ltd. amounting to Rs. 184.05 lakhs are in the process of completion. Since the jobs are in incomplete stage for a long period, a provision for Rs. 25.83 lakhs has been made in the accounts as per rate of depreciation applicable to civil jobs.
- 3.2 For machinery/assets which could not be put to use at Central Coalfields Ltd. for more than three years from the date of purchase/acquisition, provision equivalent to depreciation w.e.f. the fourth year from the date of purchase/acquisition has been made for Rs. 554.69 lakhs (previous year Rs. 473.88 lakhs) during the year. Total provision upto 31-03-2005 amounting to Rs. 2202.85 lakhs after adjustment of Rs. 49.13 lakhs (previous year NIL) being transferred to fixed assets is considered adequate.
- 3.3 Provision has been made during the year for Rs. 346.47 lakhs (previous year Rs. 100.94 lakhs) towards written down value of Water Treatment Plant of Rajrappa under Central Coalfields Ltd. amounting to Rs. 10.62 lakhs and cost of IWSP, Kuju for Rs. 335.85 lakhs. Total provision amounting to Rs. 1370.76 lakhs as on 31-03-2005 is considered adequate.
- 3.4 An amount of Rs. 1338.38 lakhs received by Western Coalfields Ltd. from M/s central India Coal Co., B. S. Ispat Ltd., Central Collieries Co., Kamataka Power Corporation and Baidyanath Ayurved in the current and prior years towards prospecting and boring of prospective mines has been booked to Profit & Loss Account and reduced from the Capital W. I. P. a/c Majri Area. This has resulted in an addition to profit to the tune of Rs. 456.78 lakhs. However, an amount of Rs. 12.84 lakhs received from M/s B. L. A. Industries Ltd. towards prospecting & boring of prospective mines are continued to be shown as “Deposit from Customer’ pending settlement.
- 3.5 In Rajur Mine of Wani North Area under Western Coalfields Ltd. a Tele Monitoring System costing Rs. 111.72 lakhs has been tested with a result of 30% failure. This amount has been shown under Capital stores in Transit pending inspection and acceptance.

4. **Development Expenditure**

Expenditure relating to projects yet to be sanctioned or construction yet to be taken up has been carried forward under “Prospecting & Boring under construction”. Development expenditure of South Eastern Coalfields Ltd. has been shown in the accounts after deduction of Rs. 800.05 lakhs (previous year Rs. 80.97 lakhs), being sale of coal from development mines and Rs. 68.53 lakhs (previous year Rs. 11.96 lakhs) being closing stock of coal stock at development mines.

5. **Investment in Subsidiaries**

Investment of the Company which are long term in nature in share capital of Bharat Coking Coal Ltd. and Eastern Coal fields Ltd. as on 31-03-2005 amounted to Rs. 211800 lakhs and Rs. 221845 lakhs respectively. Eastern Coalfields Ltd. and Bharat Coking Coal Ltd. have become sick and are referred to BIFR under Sick Industrial Companies Act, 1985. Plans for restructuring/revival of for the subsidiaries are in advance stage. Scheme recommending restructuring of Eastern Coalfields Ltd. has been formulated by Operating Agency and is under consideration of BIFR. In case of Bharat Coking Coal Ltd. the restructuring/revival proposal is under formulation. Once the revival schemes are finalized and implemented the financial position of these Companies will substantially improve which will turn them into viable Companies. In view of the above the decline in value of investments, if any, is temporary in nature, and hence, are valued at cost. On the same analogy i.e. these subsidiaries on the above stated grounds will turn into viable companies; no provision on the loans outstanding from these subsidiaries are considered.

6. **Inventory**

6.1 Quantitative discrepancies as noticed on physical verification between Bin cards and Store ledger including the difference between Kardex and Mechanized Priced Stores Ledger for which equivalent provision of Rs. 899.50 lakhs is being carried in the books of accounts.

6.2 At Eastern Coalfields Ltd. the variance above +/- 5% found on physical verification of stock (measured stock) of coal as compared to book stock as follows and the same is accounted for as per accounting policy:

	Quantity (In M. T.)	Value (Rs.in Lakhs)
Shortages	0.35	536.25
Excess	<u>0.04</u>	<u>68.02</u>
Net Shortages	<u>0.31</u>	<u>468.23</u>

6.3 Coal of 472231 M.T. mixed with soil, treated as non- vendible at Eastern Coalfields Ltd. and has been taken as NIL value.

6.4 In Karo O/C Project under Central Coalfields Ltd. the excess of 38555 tones of coal valued at Rs. 111.86 lakhs (previous year shortage of 40703 tones valued at Rs. 94.69 lakh) which is beyond 5% over the book stock has been adjusted in the accounts.

7. **Sundry Debtors**

7.1 At Eastern Coalfields Ltd. an amount of Rs. 6712.54 lakhs reconciled and settled and credit note issued to the parties during the year against provision held has been adjusted against Sales and Debtors as well as corresponding written back/ written off of provision in Profit & Loss Account. A further provision of Rs. 5855.65 lakhs has been made during the year on fair estimated basis.

7.2 At Central Coalfields Ltd. a provision of Rs. 9290.77 lakhs (previous year Rs. 4587.51 lakhs) has been made in the accounts during the year against disputed dues on the basis of fair estimate and the total provision as on 31-03-2005 (after utilizing against Bad Debt written off for Rs. 375.54 lakhs and withdrawal of excess provision no longer required Rs. 943.23 lakhs during the year) is Rs. 29909.00 lakhs.

- 7.3 Western Coalfields Ltd. has withdrawn the provision of Rs. 22285 lakhs in respect of MPSEB as per minutes of meeting dated 04-11-2004 between WCL and MPSEB, and for other SEBs the amount withdrawn is Rs. 770 lakhs. Apart from this Rs. 14376 lakhs has been written off as bad debt in respect of MPSEB in view of above minutes of meeting. Also an amount of Rs. 2450 lakhs has been written back on account of quality allowance in view of above minutes of meeting with MPSEB.
- 7.4 Chhatisgarh State Electricity Board and MPSEB (erstwhile MPEB) of Western Coalfields Ltd. have not acknowledged the liability for an amount of apportioned to them by Ministry of Power amounting to Rs. 23893 lakhs. Consequently, bonds against Rs. 23893 lakhs have not been issued. In view of this the provision of doubtful debts for Rs. 23893 lakhs has continued in the accounts.
- 7.5 The Board of Directors of the Northern Coalfields Ltd. in its 107th. Meeting held on 19-04-2005 has approved the settlement of disputes by issuing credit notes on account of quality of coal supplied to Obra TPS of UPRVUNL from Dhudhichua, Jayant, Bina and Jhingurda Project during the year 2003 – 04 and 2004 – 05 for Rs. 1076.47 lakhs and Rs. 2406.58 lakhs respectively. Accordingly, the credit notes have been issued and adjusted in the accounts. Further, the Board in the same meeting has approved the settlement of claim of Obra TPS for the receipt of stone from Jhingurda and Bina during 2001 – 02 to 2004 – 05 (upto November'04) to the extent of Rs. 36.38 lakhs and the claim of the company on the said customer for outstanding dues of unweighed supply from Jayant Project during the period from October'02 to November'02 to the extent of Rs. 5.38 lakhs. The effect of the same has been given in the accounts.
- 7.6 No adjustments in the accounts of Northern Coalfields Ltd. has been made in respect of moisture claim of NTPC upto 31-03-2005 pending settlement of dispute as to acceptance of methodology of computation of actual moisture quantity. A provision of Rs. 814.71 lakhs against disputed moisture claims held as on 31-03-2005 is considered adequate.
- 7.7 Sundry Debtors balances are subject to confirmation by the parties.

8. **Loans & Advances**

- 8.1 Certain credit/debit balances in current assets/liabilities under some head of account have been netted pending linking of the same.
- 8.2 (i) Un-reconciled net debit balance of Sales Tax of Rs. 2179.92 lakhs (previous year Rs. 2426.50 lakhs) of Eastern Coalfields Ltd. is shown under the head "Loans and Advances".
- (ii) It includes Rs. 3128.61 lakhs paid by Bharat Coking Coal Ltd. towards advance Sales Tax and stayal amount against cases under appeal.
- 8.3 Western Coalfields Ltd. had approached MSRDC to construct a bridge over Wardha River near Nakoda in Wani Area to reduce the lead for coal transportation between the mines of Wani Area and railway siding at Wani. An agreement was entered into with MSRDC on 23-12-1997 for construction of the bridge and a loan of Rs. 1134 lakhs, carrying interest @ 9% was given to MSRDC in 1997 – 98. The loan is to be repaid by MSRDC after repayment of its other loans. The bridge is currently being used to transport coal across Wardha river.

The balance loan of Rs. 138.64 lakhs has not been released as Western Coal fields Ltd. wants to establish a time bound repayment schedule of the loan and interest thereon. The interest accrued upto 31-03-2005 amounting to Rs. 50.40 lakhs has been accounted for in this respect.

- 8.4 The expenditure incurred for carrying out exploratory drilling in blocks under Eastern Coalfields Ltd. command area by CMPDIL as per the approved Annual Action Plan of Coal India Ltd. and its subsidiaries, in view of critically weak financial position of Eastern Coalfields Ltd., now under BIFR, shall initially be born by Coal India Ltd. and accounted for suitably in Holding Company's books for recovery thereof only when mining activities in that block is projectised and implemented. Such expenses on exploratory drilling in blocks under command area of Eastern Coalfields Ltd. is to be funded by Holding Company and awaiting adjustments shall continue to reflect in Holding Company's book for 5 years since they were incurred and accounted for thereafter if remains unresolved / unadjusted for want of projectisation of mining activities, such unadjusted amounts shall be written off in the books of Holding Company. The total amount on this account as on 31-03-2005 stood at Rs. 3127.37 lakhs including current year addition of Rs. 1140.95 lakhs. However, as an abundant precaution it has been fully provided.
- 8.5 Other Receivables includes Rs. 278.05 lakhs (net of amount received Rs. 86.29 lakhs) being the amount reimbursable from Prime minister's National Relief fund towards construction cost of schools in cyclone affected areas of Orissa at Mahanadi Coalfields Ltd.

9. **Other Current Assets**

Other Current Assets include Rs. 688 lakhs (previous year Rs. 688 lakhs) being the amount claimed by Mahanadi Coalfields Ltd. from the Government of Orissa towards refund of Cess paid under protest to the Government subsequent to 4th. April, 1991 in consonance with the judgement dated 31-07-2001 by the Hon'ble Supreme Court of India.

10. **Secured Loans**

Pending finalization of formalities for transfer of assets and liabilities of erstwhile CMAL and its divisions, now Coal India Ltd. the Bank Borrowings of Coal India Ltd. has been secured by creating charge against stock of Coal, stock of Stores and Spare parts and book debts and other assets of CIL and its subsidiary companies.

Out of total cash credit limit of Rs. 700 Crores, sub-limit of Rs. 60 Crores has been allocated to the subsidiaries for which Coal India Ltd. Is contingently liable to the extent the facility actually utilized by subsidiaries.

11. **Foreign Currency Loan**

- 11.1 The foreign currency loans drawn from IBRD and JBIC banks on account of Coal Sector Rehabilitation Project to be implemented in various subsidiaries has been shown under the head Unsecured Loan.

In terms of the agreement with IBRD and JBIC banks Coal India Ltd. has entered into back to back loan agreements with its participating subsidiaries and loans including effect of exchange rates variation thereon have been shown in the accounts.

- 11.2 Borrowing and other costs (including exchange difference) in respect of foreign currency loans obtained for subsidiaries have been recovered from the respective subsidiary companies. The company has entered into swap transaction against a portion of above stated borrowing and interest thereon. Gains/Losses arising out of swap transactions (except gain/loss on principal only swap which are being recovered from the respective Subsidiary Companies) are being carried as Reserve for Foreign Exchange Transactions. Net result of the said swap transactions will recover / paid to subsidiary companies upon completion of repayment of foreign currency loans.

Un crystallized loss of 3404 lakhs due to negative marked to market value of these swap transactions at year end has been shown as contingent liability which will be accounted for at the time of materialization thereof.

12. Current liabilities And Provisions

- 12.1 An amount of Rs. 227 lakhs received by Eastern Coalfields Ltd. on account of value of Assets and liabilities of tara Block of Salanpur Area handed over to M/s Bengal Emta Limited, has been shown as in deposit account, pending final ascertainment of value of transferred assets and liabilities.
- 12.2 Provisional claims preferred by CdFI, France for technical assistance and other services for Khottadih Project amounting to Rs. 524 lakhs has not been accounted for as the Eastern Coalfields Ltd. has a counter claim amounting to Rs. 18124 lakhs against them.
- 12.3 Advance and deposit from customers includes collection under suspense by Eastern Coalfields Ltd. (A/c Cess) for Rs. 75031.34 lakhs (previous year Rs. 62167.28 lakhs) for which party-wise details are not ascertained.
- 12.4 The claim of Interest on delayed payment of Royalty made by District Mining Officer to Bharat Coking Coal Ltd. for the period from 1985 – 86 to 2003 – 04 amounting to Rs. 810 lakhs has not been provided in the accounts as the matter is being pursued with appropriate authority.
- 12.5 Claim for damaged wagons amounting to Rs 94.55 lakhs for Sudumdih Washery under Bharat Coking Coal Ltd. by Railways for the years pertaining to 1992 to 1996 have been contested, hence not accounted for.
- 12.6 The claim of interest for Rs. 72.37 lakhs lodged by Regional Commissioner, P. F. to HSL – PF Trust has been contested by Bharat Coking Coal Ltd., hence not accounted for.
- 12.7 Interest receivable / payable is not accounted for as revised agreement in respect of price of Rejects and Power tariff with D. L. F. is not yet finalized at Bharat Coking Coalfields Ltd. The matter is also pending before an arbitrator.
- 12.8 By virtue of enactment of Cess and Other Taxes on Minerals (Validation) Act, 1992, Central Coalfields Ltd. and Western Coalfields Ltd. in 1992-1993 have raised supplementary bills on customers upto 4th. April, 1991 for Rs. 10328.70 lakhs on account of cess and sales tax thereon. The said amount is reflected in “Current Liabilities and Provisions” with corresponding debit in “Claims Receivable – Cess”, adjusting Sundry Debtors.

- 12.9 Singrauli Municipal Authority has claimed license and composite fees for construction of building of Rs. 967.27 lakhs to Northern Coalfields Ltd. against which Rs. 600 lakhs has been deposited under protest. The balance claim of Rs. 367.27 lakhs has been shown as Contingent Liability.
- 12.10 In pursuance of MP Government Forest department's notification no. F-5/9/10-3/2001 dt. 28-05-2001, transit fee @ Rs. 7.00 per tonne of coal is levied on coal sold to customer. The claim to the extent of Rs. 572.26 lakhs on this account has not been accounted for by Northern Coalfields Ltd. pending acceptance of the same by the customer.
- 12.11 MP Cess and MAD Cess which were declared ultra-vires by the MP High Court in earlier years have been, revalidated upto 04-04-1991 as per the Cess and Other taxes on Mineral (validation) Ordinance, 1992 issued by the Government of India MP Government has agreed for net claim of MAD Cess. Balance claim of MAD cess after adjusting MP Cess amounting to Rs. 421.78 lakhs including sales tax thereon on customers have not been accounted for by Northern Coalfields Ltd. pending formal acceptance of the same by them.
- 12.12 Income tax assessment of Northern Coalfields Ltd. u/s 143 (3) have been completed upto assessment year 2002 – 2003 corresponding to the financial year 2001 – 2002 and intimation order u/s 143 (1) for the assessment year 2003 – 2004 (financial year 2002 – 2003) has been made. The total disputed demands (net) of Rs. 315905.77 lakhs in respect of assessment years 1995 - 96 to 2002 – 03 have been raised which are contested in appeals before CIT (A)/ITAT. As against this, a provision of Rs. 509.55 lakhs stands in the accounts and the balance amount of Rs. 315396.22 lakhs has been shown as contingent liability. The total amount paid under protest and refund of tax adjusted against the said disputed demands stand at Rs. 15128.27 lakhs. During the year the CIT (A) in his orders has granted major relieves for the assessment year 1995 – 96 to 1998 – 99, 2000 – 01 and 2001 – 02. However, the effect of CIT (A) orders have not yet given by the Assessing Officer.
- 12.13 M/s Uttar Pradesh Rajkiya Vidyut Utpadan Nigam Ltd. has claimed incentives to Northern Coalfields Ltd. under Securitization Scheme upto 31-03-2005 amounting to Rs. 2062.28 lakhs. Coal India Ltd. requested clarification from Ministry of Coal, Government of India on the issue Deputy Secretary (Finance), Department of coal, Govt. of India has in tern opined vide letter no. 20011/6/99-1F/VOI.XIV dt. 17-02-2004 that M/s UPRVUNL is not entitled for incentives due to non fulfillment of certain conditions of securitization Scheme and has referred the matter to the Ministry of Power for confirmation. In view of this, the claim of UPRVUNL for incentives has not been provided for in the accounts and has been shown as contingent liability.

13. **General**

- 13.1 Rs.589.87 lakhs paid to WBHIDCO towards allotment of 15 acres of land at Newtown, Rajarhat, Kolkata. Pending finalization of conveyance deed and in absence of actual physical possession of the above land the same has been shown as advance.
- 13.2 Loan amounting to Rs.10350 lakhs has been obtained for the purpose of payment of Voluntary Retirement Scheme expenditure by Subsidiary Companies, out of which Rs. 8635 lakhs has been sent to Subsidiaries on the basis of their utilization. Repayment terms of which are yet to be finalized.

14. **Profit & Loss Account**

An amount of Rs. 344.53 lakhs recovered by Mahanadi Coalfields Ltd. From Orissa Mining Corporation Ltd. is taken as profit on sale of asset under the head "Other Income" pending identification/ adjustment of corresponding development expenses on account of exploration cost.

15. **Effect Due to Change in Accounting Policy**

15.1 During the year while valuing closing stock of Coal, OBR Adjustment and Work-in-Progress in CWS – Tadali under Western Coalfields Ltd., the following refinement has been effected:

<u>Old Method</u>	<u>New Method</u>
No provision for actuarial valuation of Gratuity and leave Encashment made at Area level and hence not considered for Coal stock valuation	Provision for actuarial valuation of Gratuity and Leave Encashment made at Area level and hence considered for Coal stock valuation.

The above changes resulted in an increase in valuation of Coal by Rs. 227.80 lakhs; OBR Adjustment by Rs. 358.82 lakhs; and WIP in CWS- Tadali by Rs. 12.60 lakhs, thereby increasing the profit by Rs. 599.22 lakhs.

16. **Compliance with Mandatory Accounting Standards**

16.1 Consequent to mandatory provision of Accounting Standard – 24 issued by the Institute of Chartered Accountants of India relating to Discontinuing Operations, the following disclosures are made:

i) CBE Plant, Bhandara – Western Coalfields Ltd.:

The plant used to manufacture Nitro-Glycerine based Permitted Explosives used in the underground mines of the Company till its closure on 28-04-2003. Consequent upon decision of the Government of India to discontinue/ban production of NG-based explosives in the country and its adoption by the Board of Ordnance Factories of India, the Jt. Venture partner of the Plant, the Plant was closed on and from 28-04-2003.

The disposal of the plant is under process and the exact date of completion of discontinuance is not determinable as of now. The net block of assets pending disposal is Rs. 39.75 lakhs. The liability towards overheads after closure of the Plant till 31-03-2005 for maintenance and upkeep of the Plant is Rs.19.24 lakhs.

The revenue expenses incurred during the current year is Rs. 19.76 lakhs. Since the Plant works on no profit-no loss basis, all expenses are passed on to the Areas. Hence, there is no question of profit/loss. There is a net cash outflow attributable to operating, investing and financing of discontinuance to the tune of Rs. 82.00 only.

ii) DFD Plant, Hinganghat – Western Coalfields Ltd.:

The Plant used to manufacture Coal Briquettes from raw coal for domestic fuel purposes till its closure in 1994.

The disposal of the Plant is under process and the exact date of completion of discontinuance is not determine as of now. The net block of assets pending disposal is Rs. 0.34 lakh and the liability towards Municipal Taxes is Rs. 0.48 lakh.

The revenue expenses incurred during the current year is Rs. 0.51 lakh. Since the Plant is inoperative for past ten years and the final disposal of the Plant is yet to be done, there is no question of profit/loss. There is a cash outflow attributable to operating, investing and financing of discontinuance to the tune of Rs. 0.48 lakh.

- 16.2 In compliance with the Accounting Standard – 28 issued by the Institute of Chartered Accountants of India on Impairment of Assets, the Company has, giving due consideration to the indications of evidence of obsolescence or physical damage of an asset or in case of units which are in continuous cash loss, made an assessment of the impairment loss. Such loss pertaining to prior period has been adjusted against the opening Profit & Loss account Debit balance and those incurred in current year has been charged to Profit & Loss Account.

The principles adopted for testing the impairment are as under in case of major blocks of assets of the Company:

- i) In case of land, since there is an upward trend in valuation, impairment loss may not arise unless the situation specifically demands.
- ii) In the case of Buildings, unless it has been damaged for which necessary provision is required to be made, impairment loss may not arise.
- iii) Since there is no downward trend in price of Machinery as per RBI index, prima facie there is no impairment unless it is obsolete or damaged prematurely.
- iv) In the case of Prospecting & Boring and development expenditure, if the exploration succeeds, the mine is developed, else, such expenses are written off. Hence, in case of mines incurring cash losses over a period of five years (2000-01 to 2004-05), the impairment test is applied and in such cases the written down value of the Prospecting & Boring and Development expenditure against those mines have been treated as impaired.

In the mines located at N.E.C. there is no obligation towards backfilling etc. as the mines are very old and there is no Environmental Management Plan. In view of this, no provision is considered in the accounts as no liability is envisaged in this regard.

- 16.3 In compliance of provision of Accounting Standard – 29 issued by The Institute of Chartered Accountants of India in respect Provisions, Contingent Liabilities and Contingent Assets the expenses on mine closure is required to be provided. The expenditure for reclamation of land for Open Cast Mine used for mining purposes and for other corrective EMP activities as per EMP/EIA Plan, pending review of technical assessment, provision equivalent to Re. 1/- per tonne of coal production from 1994-95 to 2004-05.

17. The Cash Flow Statement (Indirect Method) for the year ended March 31, 2005.

18. Contingent liabilities / Capital Commitments

- 18.1 The amount remaining to be executed on capital account not provided for is Rs.52720.84 Lakhs (Rs.49906.31 Lakhs).
- 18.2 Claims against the Company not acknowledged as debts are Rs.884720.89 Lakhs (Rs.652672.48 Lakhs).
- 18.3 As on 31.03.2005 outstanding letters of credit amounted to Rs.2327.37 Lakhs (Rs.1569.69 Lakhs).
- 18.4 Negative Marked to Market valuation of outstanding position involving foreign currency transactions as on 31.03.2005 stood at Rs.3404.00 Lakhs(Rs.5169.00 Lakhs).
- 18.5 The Company has given counter-guarantee to Government of India for loans obtained from JBIC & IBRD Banks and on lent to its Subsidiaries. The outstanding balance of which as on 31.03.2005 stood at Rs.99614.02 Lakhs and Rs.98333.60 Lakhs respectively. Further, the Company has given guarantee for loans obtained by subsidiaries the outstanding balance of which as on 31.03.2005 stood at Rs.16172.72 Lakhs(Rs.22011.45 Lakhs).
- 18.6 As on 31.03.2005 outstanding Deferred payment guarantee issued by Banks amounted to Rs.18799.14 Lakhs (Rs.20025.06 Lakhs).

Sd/-

Sd/-

Sd/-

Dr. H. Sarkar
Company Secretary

P. Bhattacharya
Chief General Manager(F)

S. Bhattacharya
Director(F)

As per our report annexed
For Mitra Kundu & Basu
Chartered Accountants

(S. Das)
Partner

Dated: The 14th day of March, 2007
Place: Kolkata.

**Auditor's report on the Consolidated Financial Statements
of Coal India Limited for the year ended 31st March, 2005.**

1. We have examined the attached consolidated Balance Sheet of Coal India Limited as at 31st. March, 2005, and also the consolidated Profit & Loss Account and the consolidated Cash Flow Statement for the year ended on that date annexed thereto.

These consolidated financial statements are the responsibility of the management of Coal India Limited and have been prepared by the management on the basis of separate financial statements and other financial information regarding component. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting frame work and are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis of our opinion.
3. We did not audit the financial statements of the following subsidiaries. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of these subsidiaries, is based solely on the reports of other auditors. The total value of the assets, including Capital Work In Progress and Expenditure During Construction as at 31st. March, 2005 and the total revenue for the year then ended, in respect of these subsidiaries are as under:

(Rs. In Lakhs)

<u>Subsidiary</u>	<u>Assets</u>	<u>Revenue</u>
Eastern Coal fields Ltd.	294590.03	336740.51
Bharat Coking Coal Ltd.	218901.60	324693.70
Central Coalfields Ltd.	412063.57	485964.98
Western Coal fields Ltd.	444782.16	438087.72
South Eastern Coal fields Ltd.	687670.05	595092.79
Northern Coal fields Ltd.	636822.76	465314.30
Mahanadi Coal fields Ltd.	507131.95	338813.21
C. M. P. D. I. Ltd.	23787.04	15194.77

4. We report that the consolidated financial statements have been prepared by the management of Coal India Limited in accordance with the requirements of Accounting standard – 21 “ Consolidated Financial Statements” issued by the Institute of Chartered Accountants of India.
5. *No provision has been made for investments in two subsidiaries of the Company, M/s Bharat Coking Coal Limited (Rs. 527104.10 lakhs) and M/s Eastern Coalfields Limited (Rs. 443949.43 lakhs), aggregating to Rs. 971053.53 lakhs which have been declared as sick companies and referred to BIFR under the Sick Industrial Companies Act, 1985.*
5. Based on our audit and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements read with the Notes in Schedule – M and subject to our observation referred in item no. 5 above, give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the consolidated balance sheet, of the state of affairs of Coal India Limited as at 31st. March, 2005;
 - (b) in the case of the consolidated profit & loss account, of the profit for the year ended on that date; and
 - (c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

Kolkata
The 14th day of March, 2007

For Mitra Kundu & Basu
Chartered Accountants

Sd/-
(S. Das)
Partner