



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 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 includes 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 Sidings :

Pending commissioning, payments made to the railway authorities for construction of railway sidings 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 specifically 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 constructions, 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 CWIP 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 and spare parts at Central & Area Stores are valued at cost calculated on the basis of weighted average method. The year-end inventory of stores and 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.
- 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%.

Further, depreciation on certain Equipments / HEMM is charged over the technically estimated life at higher rates viz. 11.88%, 13.57% and 15.83% as applicable. 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. 5000/- are taken out from the Accounts after expiry of 2 years following the year in which these are fully depreciated.

8.0 IMPAIRMENT OF ASSETS

- 8.1 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.

- 8.2 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

- a) Defined contribution Plans :

The company makes contributions towards Provident Fund and Pension Fund to a defined contribution retirement benefit plan for qualifying employees. The Provident Fund and Pension fund are operated by the Coal Mines Provident Fund (CMPF) Authorities. As per rules of these schemes, the company is required to contribute a specified percentage of pay roll cost to the CMPF authorities to fund the benefits.

- b) Defined Benefit Plans :

The year-end liability on account of gratuity and leave encashment is provided on actuarial valuation basis by applying projected unit credit method. Further the company has created a Trust with respect to establishment of Funded Group Gratuity (cash accumulation) Scheme through Life Insurance Corporation of India. Contribution is made to the said fund based on actuarial valuation.

- c) Other employee Benefits :

Further year-end liability of certain other employee benefits viz. benefits on account of LTA/LTC; Life Cover Scheme, Group Personal Accident Insurance Scheme and Settlement Allowance are also valued on actuarial basis by applying projected unit credit method.

11.0 RECOGNITION OF INCOME ANDEXPENDITURE

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

12.0 BORROWING COST

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 recognized 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 :

15.1 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 the 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.

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

16.0 PRIOR PERIOD ADJUSTMENT

Income/ Expenditure items relating to prior period(s) which do not exceed Rs.5.00 lakhs in each case are treated as income/expenditure for the current year.

17.0 OVERBURDEN REMOVAL (OBR) EXPENSES :

In opencast mines with rated capacity of 1 million tones 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.)
Less than 1 mill CUM	+/- 5%	0.03
Between 1 and 5 Mill CUM	+/- 3%	0.20
More than 5 Mill CUM	+/- 2%	-



SCHEDULE – M

B. NOTES ON ACCOUNTS

1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) The financial statements of the subsidiaries used in the consolidation are drawn up to the same reporting date as that of the Parent Company, i.e. year ending 31st March.
- (b) The financial statements have been prepared under the historical cost convention and on the accrual basis of accounting. The accounts of the subsidiaries have been prepared in accordance with the Accounting Standard issued by the Institute of Chartered Accountants of India and on the basis of accounting principles generally accepted in India.

2 PRINCIPLES OF CONSOLIDATION

- 2.1 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 unrealised profits or losses in accordance with Accounting Standards – 21 “Consolidated Financial Statements” issued by the Institute of Chartered accountants of India.
- 2.2 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 individual financial statements, which fairly present the needed disclosure.

3 FIXED ASSETS

- 3.1 The assets and liabilities taken over from Coal Mines Labour Welfare Organisation and Coal Mines Rescue Organisation for which no quantitative details are available, have not been incorporated in the accounts pending determination of value thereof.
- 3.2 The transfer formalities from the Holding Company and other subsidiaries have not been completed and consequently some documents continue to be held in the name of the holding Company and other subsidiaries.
- 3.3 Land acquired under Coal Bearing Areas (Acquisition and Development) Act, 1957 and Land Acquisition Act, 1984 is accounted for on payment basis and the same is shown as Leasehold land.
- 3.4 Land includes certain land taken on possession by the company for which legal formalities in respect of title deeds are pending.

- 3.5 Land includes Rs.1121.25 lakhs paid to Compensatory Afforestation Fund, Orissa by Mahanadi Coalfields Limited, towards Net Present Value for diversion of 149.5 acres of Forest Land for Basundhara (West) during the year.
- 3.6 The net value of assets of Rs.817.02 lakh, details of which are not available, acquired by Eastern Coalfields Ltd., on nationalization of coal mines under Coal Mines Nationalization Act, 1973 have been taken into accounts and fully provided for.
- 3.7 The assets taken over on nationalisation by Bharat Coking Coal Limited amounting to Rs. 1145.81 lakhs being gross value of assets including land valuing Rs.88.30 lakhs (quantitative and value-wise details of which are not available) on which depreciation has been fully provided for in the Accounts except land.
- 3.8 Due to revised date of capitalisation of Madhuband Washery of Bharat Coking Coal Limited, i.e. 30-11-2000 instead of 31.03.1998 the revenue expenditure during the period of 01.04.1998 to 30.11.2000 earlier charged to revenue Rs.2593.09 lakhs (Rs.7382.42-Rs.4789.33) & additional provision of interest as per RCE of Rs.4789.33 lakhs has been capitalised resulting in net increase in profit by Rs.889.57 lakhs.
- 3.9 41959.32 Ha of land at Central Coalfields Ltd has been acquired under CBA (A&D) Act, 1957. Out of this, approximately 13644.32 Ha. is tenancy land and rest is forest and GMK land. Out of 13644.32 Ha. of tenancy land compensation has been assessed for 6578.32 Ha. for an amount of Rs.3253.00 lacs. Out of this an amount of Rs.2908.00 lakhs has been paid and the balance is being paid by holding regular payment camp in different projects.
- 3.10 In respect of Chandrapur area of Western Coalfields Limited, till date the ownership of land valued at Rs. 2324.66 lakhs has not been vested with the Area, the amount paid is kept in advance account and shown in Capital Commitments. The amount will be transferred to Land Account as soon as the approval is received from Ministry of Environment and Forest, Govt. of India.
- 3.11 DFD Plant and CBE Plant at Western Coalfields Limited continue to remain inoperative during the year. CBE Plant stands closed since 28.04.03 and DFD Plant since 1994. Leasehold Land of DFD Plant is being amortised over the lease period of 30 years. Plant & Machinery of CBE Plant excepting hospital equipments has been disposed of by auction through MSTC. All the other assets of both these plants are carried in the books at a residual value of 5% of their cost.
- 3.12 Discarded/Surveyed off assets lying in Stores of Western Coalfields Ltd. amounting to Rs.1251.32 lakhs (Rs. 1429.65 lakhs) valued at residual 5% have not been physically verified. The provision has come down to Rs.115.19 lakhs (Rs.300.40 lakhs) after adjustment on identification.
- 3.13 In terms of lease agreements dated 14 th day of October 2005 executed with M/s

Imperial Fastners Pvt Ltd , Central Coalfields Limited has granted the latter a right to occupy and use the captive power plant at Kathara together with superstructure. The lease agreement provides for a lease of 20 years from the effective date of commencement of the lease i.e. 3rd day of February 2006. The lease rental payable by M\s Imperial Fasteners Pvt. Ltd is accounted for as per the agreement. The cost of gross carrying amount at the beginning of the year is Rs.5428.73 lakhs and the accumulated depreciation as at the end of the year is Rs.4048.62 lakhs. Depreciation for the year is Rs.286.47 lakhs. The future minimum lease payment in the aggregate during the period of lease is Rs.7305.34 lakhs. Out of which not later than 1 year is Rs.393.67 lakhs. There is no provision relating to contingent lease rent.

- 3.14 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 31.03.95 have been let to the Indian Institute of Coal Management, a registered society under Societies Registration Act, under cancellable operating lease agreement. Addition to these assets from letting out to 31-03-2008 are Rs.364.19 lakhs on value of plant & machinery and Rs.362.81 lakhs on value of building and other assets. The cumulative provision for depreciation upto 31.03.2008 stood at Rs.1021.65 lakhs (including depreciation charged for the current year of Rs.72.11 lakhs). The net WDV of the leased assets as per book as on 31-03-2008 is Rs.1683.66 lakhs.

The yearly lease rent of Rs.153.00 lakhs has been recovered.

- 3.15 As per lease agreement dated 31st March 1993 executed with Dishergarh Power Supply Company Ltd., Eastern Coalfields Limited. Leased out 2X10MW Chinakuri Thermal Power station including land, building, plant & machinery etc. The lease agreement is for 20 years from the commencement of lease w.e.f. 01-04-1991. The gross value of Power Plant, Building and other assets is Rs. 4024.00 lakhs (Rs.4024.00 lakhs); Rs.1019.64 lakhs (Rs.1019.64 lakhs) and Rs.772.61 lakhs (Rs.772.61 lakhs) respectively. The cumulative depreciation upto 31.03.08 against the abovementioned assets is Rs. 3700.47 Lakhs (Rs. 3488.00 lakhs); Rs.544.35 Lakhs (Rs.513.10lakhs) and Rs. 584.67 Lakhs (Rs.556.62 lakhs) respectively.

The lease rental for the year Rs.350 lakhs (Rs.350 lakhs) has been received.

- 3.16 In terms of license agreement dated 19th day of March 2001 executed with M/s Appollo Hospital Enterprise Ltd. Chennai, South Eastern Coalfields 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 Rs.3132.21 lakhs (Rs.3132.21 lakhs) against which cumulative depreciation is Rs. 494.84 lakhs (Rs. 438.83 lakhs). The license agreement provides for a lease period of 30 years from the effective date of commencement of lease i.e. November 2001. The future minimum lease payments in the aggregate during the period of lease are Rs.3585.42 lakhs (Rs. 3741.31 lakhs)

The lease rental payable is accounted for as per agreement. During the year Rs.249.00 Lakhs (Rs. 165.18 lakhs) has been accounted for against the said lease rent.

4. CAPITAL-WORK-IN-PROGRESS

- 4.1 Provision has been made on Plant & Machinery which have not been put to use for more than three years and on incomplete civil jobs lying for more than four years at the rates of depreciation which would have been otherwise applicable to such items.
- 4.2 “Prospecting & Boring” and also Development shown under Capital-Work-in-Progress mostly relates to jobs awaiting completion.
- 4.3 During the year, the Geological Reports (GRs) pertaining to coal blocks of Warora (W) in Majri area, Sial-Ghogri and Mandala (N) in Pench Area and Lohara west in Chandrapur Area of Western Coalfields Limited were sold by CMPDIL, a sister subsidiary as GRs of captive blocks, as per directives from the Ministry of Coal, to private parties for a total sale value of Rs.2115.93 lakhs and passed on the credit to the company. Against the same the expenses incurred by the company over the years was Rs.287.29 lakhs, yielding a profit to the company of Rs.1828.64 lakhs.

5. DEVELOPMENT EXPENDITURE

- 5.1 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 Limited has been shown in the accounts after deduction of Rs. 925.19 lakhs (Rs.119.71 lakhs) being sale of coal from development mines and Rs.32.33 lakhs (Rs. 5.85 lakhs) being closing stock of coal at development mines.

6. INVENTORY

- 6.1 Coal of 471361 MT mixed with soil, treated as non-vendable at Eastern Coalfields Ltd. and has been taken as NIL value.
- 6.2 Inventories do not include 0.91 lakhs tones of slurry stock flown out of Washery premises and lying on land not belonging to Bharat Coking Coal Limited (Dugda Washery 0.54 lakh tones and Barora Washery 0.37 lakh tones).
- 6.3 The apparent net shortage/surplus of coal & coke etc. found on physical verification beyond +/-5% compared to book stock are disclosed hereunder :

Product	Quantity (lakhs tonne)	Value (Rs. In Lakhs)
Coal (Shortage)	20.38756	7112.97
Hard Coke (shortage)	0.00021	0.08
Coal (Excess)	0.21	184.38

- 6.4 A provision of Rs.210.00 lakhs was made in the accounts of 2006-07 pending investigation of shortage/difference in the closing stock of raw coal as on 31.03.07 in between the Kathara colliery and Kathara washery under Central Coalfields Limited. The said provision has been retained as on 31.03.2008 as considered necessary.

7.0 SUNDRY DEBTORS

- 7.1 At Western Coalfields Limited, Ministry of Power, Government of India, had advised Madhya Pradesh Power Generation Corporation Ltd. to securitise outstanding principal and interest upto 30-09-2001 of Rs.17194.00 lakhs and Rs. 2199.00 lakhs respectively. MPGCL has securitised Rs.12391 lacs in 2003 leaving Rs.7002 lacs as un-securitised.
- 7.2 Western Coalfields Ltd. has charged @5% of basic value of coal sales with effect from 30-09-2005 on credit sales and with effect from 19-12-2005 on e-auction sales on the basis of gazette notification dated 30-09-2005 by Government of Madhya Pradesh in respect of “Madhya Pradesh Gramin Avasanrachana Tatha Sadak Vikas Adhiniyam, 2005”.

However, some consumers as well as Western Coalfields Limited moved the Hon’ble High Court of Madhya Pradesh, Jabalpur, which was dismissed by Jabalpur High Court in favour of MP Government. The company has filed a writ before the Hon’ble Supreme Court and the matter is still sub judice. The total amount due as per bills raised is Rs.10838.21 lakhs.

SAIL has not made payment of this tax, totalling Rs.1079.00 lakhs to the company. For other consumers the company has received upto 31-03-2008 an amount of Rs.10620.00 lakhs on this account and shown under Advances and Deposits from customers. An amount of Rs. 9730.00 lakhs is deposited in fixed deposit as on 31.03.2008. The interest on such deposits is treated as liability.

- 7.3 Sundry debtors balances are subject to confirmation by the parties.

8.0 LOANS AND ADVANCES

- 8.1 Other Receivables include Rs.374.34 lakhs (Rs.278.05 lakhs) being the amount reimbursable from Prime Minister’s National Relief Fund towards construction cost of schools in cyclone-affected areas of Orissa under Mahanadi Coalfields Limited.
- 8.2 Out of Rs.492.16 lakhs deposited with SEC Railway by Mahandai Coalfields Limited for railway overbridge, Rs.246.08 lakhs has been adjusted in the year 2005-06 and Rs.78.92 lakhs has been adjusted during the financial year as asset not belonging to the company. The balance of Rs. 167.16 lakhs (Rs. 167.16 lakhs) is to be adjusted on completion of job / receipt of CCDA subsidy.
- 8.3 Western Coalfields Limited 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 23-12-97 for construction of the bridge and a loan of Rs.113.00 lakhs, carrying a simple 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.122.00 lakhs has not been released as Western Coalfields Limited wants to establish a time bound schedule for repayment of the loan and interest thereon. Necessary provision for bad and doubtful debts for Rs. 193.91 lakhs (including accumulated interest of Rs.80.91 lakhs which includes current year interest of Rs. 10.17 lakhs) is made.

- 8.4 Advance for Capital includes Rs. 589.87 lakhs amount paid to WBHIDCO towards allotment of 14.536 acres of land at Newtown, Rajarhat, Kolkata. Pending finalisation of conveyance deed the same has been shown as advance.
- 8.5 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 Limited and its subsidiaries, in view of critically weak financial position of Eastern Coalfields Limited, now under BIFR, shall initially be borne by Coal India Limited 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 Limited 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 31-03-08 stood at Rs. 4446.24 lakhs including current year addition of Rs.1158.26 lakhs. However, as an abundant precaution it has been fully provided.

Further, considering the expiry of five years from the date of incurring and accounting of such expenses an amount of Rs. 950.86 lacs (Rs.360.06 lakhs), for which full provision exists on the date has been written off.

- 8.6 Notices were served on Western Coalfields Limited during the year on HQ, Umrer & Nagpur Areas raising demands of income tax on perks for the period 2004-05 to 2006-07. The company filed appeals before the CIT (Appeals), Nagpur who insisted on payment of the demand with interest in order to admit the appeals. Accordingly, the company has paid the demand of Rs. 338.84 lakhs during the year (P.Y. Rs.33.00 lakhs) on account of HQ, Umrer & Nagpur Areas. The same has been booked under Advances Recoverable from Employees. A total of 75 appeals are pending before ITAT covering the different areas in Maharashtra. The total demand of Rs.1721.31 lakhs is shown in contingent liability. However, the income tax on perks a/c rental accommodation to employees for the year 2007-08 amounting to Rs. 940.09 lakhs has been borne by the

company as per directives from CIL.

- 8.7 CIL has entered into a Memorandum of Understanding (vide approval from its Board in 237th meeting held on 24th November, 2007) regarding formation of Special Purpose Vehicle (SPV) through joint venture involving CIL/SAIL/RINL/NTPC & NDMC for acquisition of coal properties abroad. The formation of the SPV had been approved by Govt of India vide its approval dated 8th November 2007.

As per agreement, CIL would invest Rs.1000 crores in the SPV. The registration of company for the purpose of SPV is at an advanced stage, and till 31.03.2008 CIL has paid a sum of Rs.50.00 lakhs towards its share for initial expenses (pre-incorporation). Pending the finalisation of formation of the company for the SPV, the initial contribution in the SPV has been shown as investment in SPV in the Loans and Advance Schedule.

- 8.8 Loans and Advance includes Rs.342.99 lakhs (Rs.142.99 lakhs) paid by Mahanadi Coalfields Limited to GRIDCO/OPTCL for construction of 220KV overhead line and 3/20 MVA 220 KVA sub-station at Garjanbahal.
- 8.9 Advance payment for Sales tax of Rs.2591.57 lakhs (Rs. 2736.76 lakhs) by Northern Coalfields Limited includes Sales Tax and Entry Tax paid under protest of Rs.2116.53 lakhs (Rs.1525.33 lakhs), which pertains to the cases under appeal.

9.0 CASH AND BANK BALANCE

- 9.1 At Mahanadi Coalfields Limited it includes Rs.96.60 lakhs (unclaimed OREEP Tax) received from Hon'ble Supreme Court of India towards corpus fund of trust. The trust is yet to be formed. Further, Rs. 95.53 lakhs (Rs.89.08 lakhs) balance with scheduled bank in Deposit Account which is under lien to Hon'ble District Court of Sundergarh.

10. CURRENT LIABILITIES

- 10.1 The liability on account of cess includes principal of Rs.840.27 lakhs (net of payments) and interest of Rs. 947.11 (net of payments) against receipt from Government of Orissa in the year 2005-06 by Mahanadi Coalfields Limited as per directive of Hon'ble Supreme Court judgement dated 31-07-2001. The company has provided interest of Rs.100.84 lakhs (Rs.100.83 lakhs) calculated at the rate of 12% for the unpaid principal amount of cess liability as the money is refundable to the customers. The total liability becomes Rs.2042.04 lakhs (Rs.1941.20 lakhs) as at 31-03-2008. The company has not identified the customers / parties to whom the refund is to be made. Finalisation of modalities for refunding the same to the customers/ parties is yet to be done.
- 10.2 The Current Liabilities and Provision includes Rs.800.30 lakhs on account of provision taken towards stowing and stabilization of unstable workings of Deulbera colliery under Mahanadi Coalfields Limited. This provision is in addition to the current year

expenditure (other than expenditure on Salaries & Wages) of Rs.144.11 lakhs against comprehensive scheme of Rs.944.41 lakh (excluding Salaries & Wages). As the stabilization of unstable workings of Deulbera colliery through sand stowing is being carried out by existing departmental manpower, Salaries and Wages for Rs.1643.53 lakhs being part of the scheme has not been provided for.

- 10.3 As Eastern Coalfields Limited is in the process of making payment of cess on the annual value of coal bearing land based on average production of preceding two years valuing at a rate prevailing on 31-03-2007 and realization made from customers on the value of despatches of coal there remains a balance accumulating to Rs. 86227.44 lakhs (Rs. 87750.34 lakhs), which has been shown in Cess Equalisation Account under Current Liabilities and Provision. There is an additional demand of Rs. 26003 lakhs arising out of the assessment made upto 2001-02 which has been shown as Contingent Liability.
- 10.4 An amount of Rs.278.64 lakhs received by Eastern Coalfields Limited on allotment of Bajora (North) Coal Block to Damodar Valley Corporation by the Ministry of Coal, Govt of India has been shown in Deposit Account under Current Liabilities.
- 10.5 Bazaar fees collected by Bharat Coking Coal Limited on sale of coal/coke as per Gazettee Notification no.34 at 18th January 2006 but the same has not been deposited to the appropriate authority as the matter is subjudice at Jharkahnd High Court.
- 10.6 Interest receivable / payable is not accounted for as revised agreement in respect of price of rejects and power tariff with DLF is not yet finalized at Bharat Coking Coal Ltd. The matter is also pending before an arbitrator. However, interest due to delay in payment to DLF has been provisionally determined as Rs. 623.07 lakhs upto financial year 2007-08.
- 10.7 By virtue of enactment of Cess and other Taxes on Minerals (Validation) Act, 1992 , Central Coalfields Limited has 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 “Claims Receivable – Cess”.
- 10.8 Provisional claims preferred by CDFI, France for technical assistance and other services for Khottadih Project at Eastern Coalfields Ltd. amounting to Rs.524.00 lakhs (Rs. 524 lakhs) has not been accounted for as the company has a counter claim of Rs.18124.00 lakhs (Rs.18124.00 lakhs).
- 10.9 Singrauli Municipal Authority has claimed license and composite fees for construction of building of Rs. 986.62 lakhs (Rs.986.62 lakhs) to Northern Coalfields Limited and the same is not provided for in the accounts. However, Rs.600.00 lakhs has been deposited under protest.
- 10.10 From Northern Coalfields Ltd, Government of Madhya Pradeash has claimed Land Revenue Premium for an amount of Rs. 6213.04 lakhs (6213.04 lakhs) against which

an amount of Rs. 300.00 lakhs has been deposited under protest.

- 10.11 SSADA cess on sale of coal has not been collected from a few parties by Northern Coalfields Limited after the stay obtained by the respective parties from Hon'ble High Court, Allahabad. The amount not collected on this account amounts to Rs. 339.26 lakhs (Rs. 285.51 lakhs) upto 31.03.2008.
- 10.12 Pending decision of Hon'ble Supreme Court of India Rs. 452.07 lakhs (Rs.472.33 lakhs) being interest on delayed payments on account of enhancement of rate of royalty on coal, collected from customers in the earlier years continued to appear in account 'Advance & deposits from Customers' under the head 'Current Liabilities & provisions' of Western Coalfields Limited.
- 10.13 Central excise department had been issuing show cause notice over the years with regard to CWS, Tadali under Western Coalfields Limited, considering the workshop as under Factories Act instead of Mines Act where eligibility exists for exemption. In this regard an appeal pending before the Hon'ble Supreme Court of India (CA no 8403-04/2003) has been decided in favour of the company. The balance refund of Rs.53.47 lakhs is pending clearance of CESTAT though necessary COD permission has been obtained and the appeals before CESTAT revived during the year.
- 10.14 By virtue of enactment of Cess and Other Taxes on mineral Validation Act,1992, Western Coalfields Limited raised supplementary bills on customers upto 04.04.91. An amount of Rs.295.66 lakhs (Rs.295.66 lakhs) has been shown as liability for cess on royalty under the head 'Current Liabilities & Provisions'. In view of the judgement of Hon'ble High Court, Patna, Ranchi, Bench in writ petition no. CWJC/1280 of 1990-92, cess is not payable. However, a special leave petition is pending in Supreme Court against it.
- 10.15 The Government of Madhya Pradesh had passed 'Madhay Pradesh Gramin Avsanrachna Tatha Sadak Vikash Adhinyam 2005' which provided for charging of Gramin Tax @5% on annual value of acquired coal bearing land / mineral land from financial year 2005-06 onwards. This tax has been duly collected from coal customers. Some of the consumers had moved the Madhya Pradesh High Court at Jabalpur and as per the hon'ble High Court of Jabalpur's interim order dated 15.02.2006, the company was directed not to deposit this tax to state government but to keep it in the Fixed Deposit. Pending final decision of the court, the company has not deposited this 5% Gramin tax but kept them in FDs at HQ. The amount so billed under this head till 31.03.2008, Rs.10838.21 lakhs has been credited to 'Surface Rent Payable- State Government' excepting Pench which has booked this amount in 'Other Deductions'.
- 10.16 In Madhya Pradesh areas, an amount of Rs.292.37 lakhs collected by Western Coalfields Limited from coal consumers towards sales/entry tax on Gramin Tax has not been deposited due to dispute regarding the Gramin Tax.
- 10.17 Kanhan area under Western Coalfields Limited, has levied during the year Transit Fees

payable to forest department on SAIL on sale of washed coal. SAIL has not paid this amount on the grounds that the same is not leviable on sale of washed coal. This amount has not been deposited with the appropriate authority by the company. The disputed amount not remitted till 31.03.2008 is Rs.155.63 lakhs (Rs. 132.32 lakhs).

- 10.18 Rs. 603.94 lakhs (Rs.537.32 lakhs for Lingaraj Area and Rs. 66.62 lakhs for Talcher Area) towards Orissa Entry Tax which were disputed and not paid as the same have been disputed by the customers.

11.0 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 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 rate variation thereon have been shown in the accounts.

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 transactions 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 currency transactions. Net result of the said swap transactions will be recovered from/paid to subsidiary companies upon completion of repayment of foreign currency loans.

- 11.2 The overall Marked to Market position of the existing hedge transactions (net of the positive values) as on 31.03.2008 stood at Rs.2089.00 lakhs (negative). However, the negative Marked to Market valuation of outstanding position involving six individual Foreign Exchange transactions as on 31.03.2008 before netting up with transactions having positive values stood at Rs.2330 lakhs (Rs.473.00 lakhs).

Further, the Accounting Standard – 30 on Financial Instruments : Recognition and Measurement issued by Institute of Chartered Accountants of India (ICAI) has been issued with recommendatory implementation from 01-04-2009 and mandatory from 01-04-2011. However, following the announcement of ICAI on accounting for derivatives the value of negative marked to market position of foreign exchange transactions amounting to Rs. 2330.00 lakhs have been provided in the year's Accounts.

- 11.3 Though the amount is not material, the effect of foreign currency fluctuation in case of loans from World Bank has been adjusted in the cost of Fixed Assets and necessary adjustment is made to depreciation prospectively for the remaining useful life of the assets.

12 PROFIT & LOSS ACCOUNT

- 12.1 An amount of Rs. 5658.14 lakhs (Rs.8588.74 lakhs) for grade slippage has been adjusted against current year's sales of Eastern Coalfields Limited after and issuing credit notes to parties during the year.
- 12.2 Total claim of Rs. 4766.83 lakhs was lodged with the Director of Electricity, Govt. of West Bengal, in support of relief/concession required for revival of ECL according to BIFR's sanctioned scheme vide its letter no. 40/PA/PR.Secy./IRPE dated 30.08.2005. During the year Rs.1516.55 lakhs has been received and recovery of the balance amount of Rs.3250.28 lakhs are in process.
- 12.3 Service Tax on Cargo Handling due from 16.08.2002 amounting to Rs.1061.12 lakhs has been provided for in the current year by Eastern Coalfields Limited.
- 12.4 An amount of Rs.227.44 lakhs being the excess value between the exploration cost and the amount received from CMPDIL on account of transfer of Tara Block of Salanpur Area to M/s. Bengal Emta Limited, a joint venture of West Bengal Power Development Corporation and EMTA Group, has been credited to current year and shown under Other Income schedule by Eastern Coalfields Limited.
- 12.5 Due to revision of life of Bharatpur Project of Mahanadi Coalfields Limited, there is an increase in the amortization of the land and development expenses by Rs.36.13 lakhs in comparison to the last year, resulting in decrease in profit to that extent.
- 12.6 Net Present Value amounting to Rs. 39725.82 lakhs paid/adjusted/provided in respect of renewal of Forest Land Lease/Diversion of Forest Land of Underground and Opencast Mines of South Eastern Coalfields Limited, in pursuance of the direction of the Hon'ble Supreme Court has been capitalised during the year and depreciation has been provided for with retrospective effect i.e. from 1st May 2003 (the due date of renewal of lease). The depreciation provided for the period upto 31st March 2007 amounting to Rs. 10937.33 lakhs and for the period 2007-08 amounting to Rs.2796.79 lakhs has been charged to Profit & Loss Account.
- 12.7 During the year, CIL Board approved the waiver of accrued interest of Rs.49290.15 lakhs on loans to BCCL from CIL. Accordingly, necessary adjustments for such waiver of past accrued interest has been made in the Consolidated Accounts by way of adjustment against brought forward profit of earlier years.
- 12.8 Following the recent JBCCI decision to pay interim relief for NCWA-VIII to all Wage Board employee a provision @15% of Basic plus DA as on 30.06.2006 for the entire period from 01.07.2006 (the date from which NCWA-VIII is applicable) to 31.03.2008 has been made in the years' account along with related employee contributions. The total

provision made on this account is Rs. 156120.66 lakhs.

- 12.9 Further, provision has also been made in the accounts to cover the likely expenditure on account of merger of Industrial Dearness Allowance equal to 50% of existing basic(w.e.f. 01-01-07) for executives and for payment of ad-hoc advance to executives against likely increase in their pending pay revision. The total provision made on this account is Rs. 19491.39 lakhs. These, however, have not been considered for valuation of actuarial liabilities of employees benefits.
- 12.10 The liabilities for Gratuity, Earned Leaves/Half Pay Leaves Encashment as on 31.03.2008 are accounted for on actuarial basis. Further, the amounts falling due within the year on actual basis are paid / provided for on actual basis.
- 12.11 Further year-end liability of certain other employee benefits viz. benefits on account of LTA/LTC, Life Cover Scheme, Group Personal Accident Insurance Scheme and Settlement Allowance have also been valued on actuarial basis from the current year. The transitional provision in this respect for the past service cost have been recognised in the financial statements against the opening balance of surplus. The current cost based on such actuarial valuation as at 31.03.2008 has been adjusted in the income statement of the current year.

Further, due to such valuation from the 2007-08 financial year, the opening balance of profit brought forward from previous year has been reduced by Rs. 68776.09 lakhs (transitional provision).

Liability for some employee benefits viz., VRS for non-executives, Ex-gratia in lieu of employment on death in harness for employees, Ex-gratia payment to employees on death due to mines accident, Retirement Medical Benefits, etc have not been valued on actuarial basis.

Out of total liability of Rs. 587176.56 lakhs as on 31.03.2008 under the above three heads, Coal India Limited and its subsidiaries have invested Rs.125296.06 lakhs in LIC funds.

Summary of actuarial assumptions are as under :-

Formula Used	Projected Unit Credit Method
Interest Rate	8.5%
Inflation Rate	5.0%
Mortality Rate	LICI 1994/96
Attrition Rate	1%

13 INVESTMENT IN EASTERN COALFIELDS LIMITED AND BHARAT COKING COAL LIMITED

- 13.1 Investment of the Company, in share capital of Bharat Coking Coal Limited and Eastern Coalfields Limited which are long term in nature amounted to Rs. 211800.00 lakhs and Rs.221845.00 lakhs respectively as on 31-03-2008. Eastern Coalfields Ltd and Bharat

Coking Coal Limited have become sick and are referred to BIFR under Sick Industrial Companies (Special Provisions) Act,1985. Plans for restructuring / revival of Eastern Coalfields Limited and Bharat Coking Coal Limited are in an advanced stage. Scheme recommending restructuring/revival of Eastern Coalfields Limited has been formulated by Operating Agency and is under consideration of BIFR. In case of Bharat Coking Coal Limited, the plan for restructuring/revival has been formulated and has been reviewed by an external agency.

The same has since been approved by the CIL Board and is under consideration of the competent authority. Once the revival schemes are finalised and implemented the financial position of these Companies will substantially improve which will turn them into viable Companies. Further, BCCL is earning profits and its net worth is improving. ECL also earned profit in 2006-07. In view of the above the decline in the 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.

14. GENERAL

14.1 The applicability of the Micro, Small and Medium Enterprises Development Act,2006 (MSMEDA, 2006) to the Company for the purpose of disclosure and other requirements are being examined, pending which, the disclosure required under MSMEDA,2006 has not been made.

14.2 Shifting & Rehabilitation Fund (Schedule – C) shown in Balance Sheet represents the fund set-up for “Implementation of action plan for Shifting & Rehabilitation dealing with Fire and stabilization on unstable areas of Eastern Coalfields Limited & Bharat Coking Coal Ltd”. The above fund is invested in Fixed Deposit and any interest income arising thereon (net of TDS) is also transferred to the said fund.

14.3 Bharat Coking Coal Limited has received SSRC and R&D Grant upto 31.03.2008 for Rs. 9004.36 and Rs. 175.00 lakhs respectively and total expenditure incurred against these are as follows:-

	(Rs. In Lakhs)	
	<u>SSRC Scheme</u>	<u>R & D</u>
Capital	2784.32	50.21
Revenue	872.34	38.88

14.4 Further provision for impairment loss recognized in an earlier period (2005-06) on Aircraft, has been reversed during the year, on the basis of indication of better economic performance of the asset which increased the value in use. The resultant reversal of impairment loss recognized in Profit & Loss Account are as under:-

Nature of Assets	Events/ Circumstances	Impairment Loss Reversal Amount (Rs. In Lakhs)	Basis of Recoverable Amount	Time of Assessment of Impairment
Aircraft	Better economic performance	199.91	Value in use	31.03.2008

15 EFFECT OF CHANGES IN ACCOUNTING POLICY

- 15.1 Due to change in charging depreciation on certain Equipments / HEMM at higher rates than that specified in Schedule XIV of the Companies Act, 1956, the profit for the year is reduced by Rs.11800.58 lakhs.
- 15.2 Due to change in accounting of Prior Period Expenses, a sum of Rs.748.97 lakhs (as far as could be ascertained), has been charged to natural head of accounts instead of through Prior Period Adjustment Account.
- 15.3 Due to deletion of word “excepting insurance items” in case of provisioning against stores and spares the profit for the year is reduced by Rs.28.11 lakhs.
- 15.4 In case of Mahanadi Coalfields Limited, due to change in the method of valuation of closing stock of coal, the profit has reduced by Rs. 814.84 lakhs.

Due to change in the method to determine the cost of inventories on full absorption cost basis (applying normal capacity) the profit for the year 2007-08 of Central Coalfields Limited has undergone a change to the extent of of Rs. 3335.98 lakhs by corresponding decrease of the inventories.

16 DISCONTINUING OPERATION

16.1 CBE Plant, Bhandra – Western Coalfields Limited:

The plant used to manufacture Nitro-Glycerine based permitted explosives used in the underground mines of the company. 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 Ordinance Factories of India, the joint venture partner of the plant, the plant was closed on and from 28-04-03.

The company had given its approval for disposal of the plant and the company in its 197th Board meeting held on 19-04-2006 had approved the disposal of plant & machinery by tendering /e-auction and accordingly the plant & machineries along with related stores & spares have been disposed of during the year by auction through MSTC. The net block of assets pending disposal is Rs.11.84 lakhs. The liability towards overheads after closure of the Plant till 31-03-2008 for maintenance and upkeep of the Plant is Rs.39.57 lakhs.

The revenue expenses incurred during the current year is Rs. 2.69 (Rs.5.06 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.0.23 lakhs (Rs. 0.66 lakhs).

DFD Plant , Hinganghat, Western Coalfields Limited:

- 16.2 The plant used to manufacture Coal Briquettes from raw coal for domestic fuel purposes. Consequent upon non-viability of the plant as per the decision of the Board, the plant was closed in 1994.

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.2.67 lakhs and the liability towards Municipal Taxes is Rs.1.93 lakhs. The company has applied for the waiver of taxes to the authority. The revenue expenses incurred during the year is Rs. 1.10 lakhs (Rs.0.51 lakhs). Since, the Plant is inoperative for the past 10 years and the final disposal of the plant is yet to be done, there is no question of profit/loss. There is no cash outflow attributable to operating, investing and financing of discontinuance.

17. FINANCIAL REPORTING OF INTEREST IN JOINT VENTURE

- 17.1 As per directives from the Ministry of Coal, the company has entered into a Joint Venture Agreement (JVA) on 30.06.2007 with Neyveli Lignite Corporation Limited and Hindalco Industries, with the main objective to carry out coal mining activity jointly at Talabira II and III coal blocks as a single mine for deployment of optimum technology and conservation of coal. The expenditure incurred in this regard is booked under the head Prospecting and Boring in the books of IB Valley Area.
- 17.2 Further as per the directives from the Ministry of Coal, the company has entered into another Joint Venture Agreement on 12.11.07 with JSW Steel Ltd, JSW Energy Ltd, Jindal Stainless Ltd and Shyam DRI Power Ltd for coal mining activity jointly at Utkal-A and Gopalprasad (West). The expenditure in these projects so far incurred by the company has been booked under the head Prospecting & Boring in the books of Hingula Area. Pending identification of the expenditure in detail, these have not been transferred to the respective Joint Venture Companies.

18. CONTINGENT LIABILITIES / CAPITAL COMMITMENTS

- 18.1 The amount remaining to be executed on capital account not provided for is Rs. 162506.97 Lakhs (Rs.97379.98 lakhs)
- 18.2 Claims against the company not acknowledged as debt are Rs. 518481.64 Lakhs (Rs.680372.91 lakhs).

- 18.3 As on 31.03.2008 outstanding letters of credit amounted to Rs. 4245.45 Lakhs (Rs. 1874.62 lakhs)
- 18.4 The company had 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 31.03.2008 stood at Rs.76397.18 lakhs and Rs.74686.10 lakhs respectively. Further, the company has also given guarantee for loans obtained by subsidiaries the outstanding balance of which as on 31.03.2008 stood at Rs. 13726.27 Lakhs (Rs.15269.88 lakhs).
- 18.5 South Eastern Coalfields Limited has deposited Rs.35000.00 lakhs against a revised demand of Rs. 39725.82 lakhs by Forest Department of Chattisgarh on account of Net Present Value for renewal of forest land lease. The balance amount of Rs. 28847.00 lakhs for underground mines is payable subject to order of the court.
- Demand from Forest Department against penal compensatory afforestation is received for Rs.1514.00 lakhs against the estimation of Rs.4702.00 lakhs. Further, a claim of Rs. 385.00 lakhs for interest on NPV has been received. Both the claims are represented to the appropriate authority or affidavit has been filed.
- 18.6 In pursuance of notification no. nil dt 31-03-2005 & subsequent no. F/19/60/04/XII-2 dt 05.08.2005 of Government of Madhya Pradesh, MPRI & RD tax @5% of basic coal price of reliable grade w.e.f. 30-09-2005 is levied on coal sold to customer by Northern Coalfields Ltd. The Company had filed a writ petition in Jabalpur High court against the claim of Rs. 48209.06 lakhs (previous year Rs. 24398.84 lakhs) and the same has not been booked in the accounts.
- 18.7 As on 31.03.2008 Outstanding Deferred Payment Guarantee issued by Banks amounted to Rs.1860.71 Lakhs (Rs.2951.48 lakhs)

(Dr H Sarkar)
CGM(F) and
Company Secretary

(A Kundu)
Chief General Manager (F)

(S. Bhattacharya)
Director (Finance)

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

Dated 29.07.2008
Place : Kolkata

(S. Das)
Partner
Membership No.051391
The 29th July 2008

