

**TAMILNADU
TELECOMMUNICATIONS
LIMITED**

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Annual Report
2005-2006

TABLE OF CONTENTS

	Page No.
Notice to Shareholders	2
Directors' Report	3
Review of Accounts	7
Corporate Governance Report	10
Auditor's Report	13
Balance Sheet	16
Profit & Loss Account	17
Schedules forming part of the Accounts	18
Cash Flow Statement	31
Information under Part IV of Schedule VI of the Companies Act, 1956	32

REGISTRAR & SHARE TRANSFER AGENTS

Cameo Corporate Services Limited

"Subramanian Building"
No.1, Club House Road
Chennai - 600 002
Tel : 2846 0390

- Note :
1. No Gifts / Coupons will be distributed at the meeting.
 2. Please bring your copy of the enclosed Annual Report to the meeting

Board of Directors	<div>Shri M. Sengupta</div> <div>Shri G. D. Gaiha</div> <div>Shri Chandra Shekhar A.K.</div> <div>Shri S.K. Verma</div> <div>Shri T. Willington</div> <div>Shri S. Susai</div> <div>Shri M.K. Jain (Nominee of Department of Telecom)</div> <div>Managing Director</div>
Registered Office:	<div>No. 16, 1st Floor, Aziz Mulk 3rd Sreet,</div> <div>Thousand Lights, Chennai - 600 006.</div>
FACTORY	<div><u>Optical Fibre Cable</u></div> <div>E18B-E24, CMDA Industrial Complex</div> <div>Maraimalai Nagar - 603 209. Tamilnadu</div> <div>website : www.ttlofc.com</div>
BANKERS	<div>State Bank of India</div> <div>Andhra Bank</div> <div>Punjab National Bank</div>
AUDITORS	<div>M/s. ESSVEEYAR, Chartered Accountants</div> <div>3, I Floor, Soundaram, 23/10, Devanathan Street,</div> <div>R.A. Puram, Chennai - 600 028</div>
Promoters	<div>Telecommunications Consultants India Ltd.,</div> <div>TCIL Bhavan, Grater Kailash - 1, New Delhi - 110 048</div> <div>Tamilnadu Industrial Development Corpn Ltd.,</div> <div>19-A, Rukmani Lakshmipathy Road, Egmore, Chennai - 600 008</div>

NOTICE

NOTICE is hereby given that the Eighteenth Annual General Meeting of the Members of Tamilnadu Telecommunications Limited is scheduled to be held at 15.00 hrs on Saturday, 30th September 2006 at Naradha Gana Sabha, No. 314, Mini Hall, T.T.K. Road, Chennai - 600 018 to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March 2006, the Profit and Loss Account for the financial year ended on that date and the Directors' and Auditor's Report.
2. To appoint a Director in place of Shri Chandra Shekhar A.K, Director, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri S. Susai, Director, who retires by rotation and being eligible, offers himself for re-appointment.

By order of the Board
for TAMILNADU TELECOMMUNICATIONS LTD.,

Chennai
 17th August, 2006

M. Sengupta
 Managing Director

NOTES:

1. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the company. The proxy, in order to be effective, must be deposited / lodged at the Registered Office of the Company not less than 48 hours before the meeting. A form of proxy is given at the end of the Annual Report.*
2. *The Register of Members and the Share Transfer Books of the Company will remain closed from 25th September 2006 to 30th September 2006 (both days inclusive) in connection with the Annual General Meeting.*
3. *Members are requested to produce the enclosed attendance slip duly filled and signed as per the specimen signature recorded with the company for admission to the meeting hall.*
4. *Shareholders seeking any information with regard to accounts are requested to write to the company atleast two days before the date of the meeting so as to enable the Management to keep the information ready.*
5. *The shareholders may note that the dividend for the financial year ended 31st March 2000 and all dividends declared thereafter, which remain unpaid or unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund established under Section 205C of the Companies Act, 1956. Shareholders*

who have not encashed the divided warrant(s) so far for the financial year ended 31st March 2000 and 31st March 2001 are requested to make their claim to the Registered Office of the Company. It may also be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund, as above, no claim shall lie in respect thereof.

5. *Members are requested to kindly bring their copy of the Annual Report to the Meeting.*

Additional Information

Brief profile of the Directors who retire by rotation and are eligible for re-appointment:

1. Shri Chandra Shekhar A.K, Aged 58 years has been on the Board of the Company since July 1995. He is a Finance Executive having rich experience in PSUs in Cement, Textiles, Electronics and Telecom Industries. He had also been a Member of Indian Economic Service, Govt of India.

Details of Directorship / Committee Membership in other companies.

Name of the Companies	Nature of Interest
Telecommunications Consultants India Ltd	Director (Finance)
TCIL Bellsouth Ltd	Director
Bharti Hexacom Ltd	Director
Intelligent Communication Systems India Ltd	Director

2. Shri S. Susai, Aged 56 years has been in the Board of the Company since November 1991. He is an Associate Member of Institute of Company Secretaries of India having rich experience in secretarial and administration. He has held various high positions in Government Services.

Details of Directorship / Committee Membership in other companies.

Name of the Companies	Nature of Interest
Titan Industries Ltd	Director
Sree Maruthi Marine Industries Ltd	Director
Nova Roofongs & Pipes Ltd	Director
Arakkonam Castings & Forgings Ltd	Director
Tanflora Infrastructure Park Ltd	Director
Tamilnadu Petro products Ltd	Director
Jayamkondam Lignite Power Corporation Ltd	Director

REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS

To

The Members

Your Directors present the Eighteenth Annual Report, together with the Audited Accounts of the Company for the year ended 31st March 2006.

Financial Results

	(Rs. in lakhs)	
	2005-06	2004-2005
Net Sales	3657.99	2726.96
Other Income	13.71	38.12
Total Income	3671.70	2765.08
Total Expenditures	2694.71	2525.96
Finance Charges	512.85	509.01
Gross Profit / (Loss) after interest		
before Depreciation & Tax	464.14	(269.89)
Depreciation	249.44	275.57
Provision for Taxation/Deferred Tax	(32.15)	14.26
Net Profit / (Loss)	246.85	(559.72)

The Company registered significant improvement in its performance during the year under review after three consecutive years of loss. The Net profit after Tax is Rs.246.85 lakhs against loss of Rs. 559.72 lakhs incurred during the previous year.

Review of operations

During the year under review, the company's sales and other income was Rs.3671.70 lakhs. Almost the entire turnover of the year is achieved from the Optical Fibre Unit in view of the Jelly Filled Telecom Cable Unit's operations having been suspended since 1.12.2003. Gross sales during the year increased to 215344 Fibre KMs (Rs.4228.07 Lakhs) from 166849 Fibre KMs (Rs.3136.48 lakhs) reflecting a growth of over 29% and 35% in quantitative and value terms respectively over the previous year, despite excess capacity in the industry and intense competition. Your company had to survive in this price war by implementing various cost-cutting and value engineering measures in the manufacturing operations.

Your company successfully launched the manufacturing of Ribbon type OFC and exported the same to Kuwait Telecom during the year.

Reduction in operating expenses could be achieved because of curtailment of overheads and all round optimization in costs by exercising strict control/regular review mechanism.

Of the petitions filed by two Trade Unions of employees at the PIJF Unit at Arakkonam against the suspension of operations before the Madras High Court, the one filed by the majority union has been withdrawn. The High Court lifted the embargo on sale of PIJF Unit assets. Voluntary Retirement Scheme notified by Company had evoked positive response. So far 100 Employees out of the total 128 employees have opted for the said scheme.

Based on the ordinary resolution passed by the shareholders in February 2006 through postal ballot for disposal of the company's JFTC Unit, the company disposed off part of the Plant and Machinery to the highest bidders during the first quarter of 2006-07 for consideration totaling Rs. 1.87 crores. The sale of Land and Buildings and remaining Plant and Machinery through tenders is in advanced stage and sale orders to highest bidders have been issued for consideration totaling Rs. 7.95 crores.

In accordance with the requirement of Section 15 of the Sick Industrial Company (Special Provisions) Act, 1985, the company has made a reference in October 2004 to the Board for Industrial and Financial Reconstruction (BIFR) of the fact that the accumulated loss of the company at the end of the financial year 2003-2004 had exceeded the entire net worth of the company. BIFR has declared the company as industrially sick.

Market Scenario and Outlook

The company expects that OF telecom cables sector to increase in volumes in the back-drop of the increased plan of BSNL for deployment of high fibre count OFC for inter-exchange links and long-haul projects is likely to provide the much needed fillip for Ribbon type Optical Fibre Cables. This may reinforce and add to the competitive strength of the company which is one of the few players equipped to manufacture Ribbon type of OFC in India.

The demand outlook for the optical fibre cables was much encouraging during the year under review due to Government's Broadband Policy. The industry also expects the advent of Conditional Access System (CAS) and broadband applications to spur the growth of optical fibre cable networks in the coming years.

During the year under review your company has been able to export Optical Fibre Ribbon Cables on favorable terms through the Company's promoters, i.e., TCIL for their projects abroad. The optic fibre industry at home is also poised for a period of

significant growth and the demand is expected to match the current availability in the months to come. This favorable trend is expected to continue at least over the next few years with prices also moving up. The company continues to take all initiatives to retain the competitive edge and be in a position to meet the requirements of the market. The medium/long-term prospects will augur well for the company. The company continues to emphasize on cost cutting through enhanced productivity, reduction in logistics and other costs. The company has effected substantial reduction in manpower and will continue its efforts to further prune all its fixed costs including administrative and discretionary overheads.

Risk & Concern

Risks still persist regarding the demand for optical fibre cables being dependent largely on BSNL as the single largest consumer of optical fibre cable in India. Leasing of excess bandwidth by long distance operators and use of "ADSL modems" as a means to its broad-band connectivity may temporarily slow down demand for OFC in access network and Fibre-to-the-Home applications. The competition within OFC business is becoming fierce due to emerging new technologies and frequent new product introductions in Optical fibre products which command competitive prices and preference in the market.

Corporate Debt Restructuring (CDR) Scheme

As the members are aware, the company has implemented CDR with effect from July 2004. The Company cleared the upfront CDR dues by the end of March 2006 and the loan obtained from Tamilnadu Industrial Investment Corporation Limited through the swap loans sanctioned by TCIL and Punjab National Bank.

Directors

In accordance with Section 256 of the Companies Act, 1956, read with Articles 79 & 80 of the Articles of Association of the company, Shri Chandra Shekhar A.K and Shri S. Susai, Directors, will retire from the Directorship of the company by rotation and being eligible, offers themselves for re-appointment.

Directors' Responsibility Statement

As required under Section 217 (2AA) of the Companies Act, 1956, the Directors of the Company hereby state and confirm that -

- a) In the preparation of the annual accounts, the applicable accounting standards had been followed.
- b) They have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2006, and of the profit of the Company for the year ended on that date.
- c) They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- d) They have prepared the annual accounts on a going concern basis.

Corporate Governance

A report on Corporate Governance with the Auditors' Certificate on compliance with conditions of the Corporate Governance has been attached to form part of the Annual Report.

Energy, Technology and Foreign Exchange

Particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217 (1) (e) of the Companies Act, 1956 are enclosed as part of the Report.

Personnel

None of the employees drew remuneration of Rs.24,00,000/- or more per annum / Rs.2,00,000/- or more per month during the year. This information is furnished as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

Human Resources

Your company is glad to announce that the industrial relations continue to be very cordial. TTL has designed and implemented a large number of initiatives to build and improve knowledge

base and competencies of employees at all levels. TTL has been encouraging its employees to come out with innovative suggestions, which will pave way for significant cost savings as well as overall development of the company.

Quality Management Systems

Your Directors are happy to report that as a commitment in meeting global quality standards, your company continues to have IS/ISO 9001:2000 quality management systems certification from Bureau of Indian Standards (Accredited by Raad Voor Accreditatie, Netherlands)

Internal Control System

TTL has adequate internal control procedures in respect of all its operations. It has laid down internal control procedures to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and transactions are authorized, recorded and reported correctly.

Auditors

In terms of Section 619(2) of the Companies Act, 1956, the Comptroller and Auditor General of India (CAG) had re-appointed M/s Essveeyar, Chartered Accountants as the Auditors of the Company for the year 2005-06 at a remuneration of Rs.30,000/- besides reimbursement of traveling and out-of-pocket expenses at actuals, subject to the other terms and conditions as specified by the CAG.

Auditors' Report

Clarification on Auditors observation at Para 4 (vi) of the Auditor's report is given below:

Attention is drawn to the following Notes on Accounts:

- (a) Note No.2 with regard to preparation of accounts on going concern basis despite erosion of the network.

The company made a remarkable turnaround performance during the year despite the fact the accumulated losses in the previous years had eroded the network of the company. This positive trend in performance would continue to pave the way for wiping out the past years accumulated losses through the operational and economic performance of the on-going OFC unit. The methods include restructuring the

operations, cost control, corporate debt restructuring and other measures which has resulted in significant improvement.

In view of the foregoing, the accounts have been prepared on going concern basis.

- (b) Note No.4 with regard to realisability of Long Outstanding dues from one of the debtors being dependant on the decision of the Court in the appeal filed by the said debtor against the arbitration award.

No provision is made for certain long pending debtors in view of the arbitration proceeding completed against the Purchaser for which the Award is received in favour of the Company but has since been challenged by the Purchaser in the court.

Comments of the Comptroller and Auditor General

Comments of the Comptroller and Auditor General under Section 619 (4) of the Companies Act, 1956 for the year ended 31st March 2006 along with the financial review of the accounts of the company are enclosed as part of the Report.

Acknowledgments

The Directors wish to place on record their sincere appreciation for the encouragement, assistance, support and co-operation given by Government of India, Government of Tamil Nadu, Promoters and the Company's Bankers. The Directors appreciate your whole hearted efforts in making turnaround performance during the year and solicit your continued support and co-operation. Your directors acknowledge the continued trust and confidence you have reposed in this company. They also wish to place on record their appreciation for the hard work put in by the employees at all levels.

For and on behalf of the Board
M. Sengupta
Managing Director

17th August 2006
Chennai

S. Susai
Director

TAMILNADU TELECOMMUNICATIONS LIMITED**ANNEXURE TO THE DIRECTORS' REPORT**

Disclosure of particulars as per Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

- a) Measures taken for Energy Conservation:
Power factor maintained between 0.99 and 1 thereby reduced the losses and obtained the incentive from TNEB to the tune of Rs. 1.10 lakhs
Annual production has been increased by 54 % when compared with the previous year. Efforts have been made in reducing the power cost from Rs 800/- per route Km to Rs 662/- per route Km and similarly consumption of energy from 144 units per route Km to 116 units per route Km (Including TNEB and DG supply).

B. TECHNOLOGY ABSORTION

Efforts made in technology absorption are given in prescribed FORM - B as annexed

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- a) Activities relating to exports: Initiatives are taken to increase exports, developments of new exports markets for products and services and export plans.
Continuous efforts are being made to procure export orders through TCIL as well as directly. A major thrust is being given to tap the export market.
- b) Total Foreign Exchange Used and Earned :

(Rs. in lakhs)

	2005-06	2004-05
Used	334.52	352.52
Earned	17.88	24.09

FORM A

(Form for disclosure of particulars with respect to conservation of energy)

The particulars in respect of conservation of energy in the prescribed form are not applicable to the company and hence it is not being furnished.

FORM B

(Form for disclosure of particulars with respect to technology absorption)

A. Research and Development (R&D)

- Specific Areas in which the company carried out R&D activities.
 - Developed suitable machinery for extruding diametrically opposite (180° and 120°) coloured stripes on Aerial and other export cables.
 - Developed testing facilities for Aerial Cables.
 - Development of 144F Ribbon Cable with in-house facilities.
 - Development of tooling for manufacturing Figure-8 export cables
- Benefits derived as a result of the above R&D
 - Expansion of product range to the high-count fiber Ribbon cables, Aerial Cables.
 - Capacity utilization by manufacturing high count fiber cables.
 - Larger market reach into export as well as indigenous market to help in getting more cable orders.
- Future Plan
Modification of S-Z Stranding Line for higher capacity utilization in order to get advantage of capacity addition at LT Line
 - Production of ADSS cables for longer span for rural/urban area.
 - Getting type approval for 24F ADSS cable.
 - Production of Composite Hybrid Overhead cable for Myanmar Project.
- Expenditure on R&D
 - Expenditure towards the above R&D is Rs. 10000/- only.

B. Technology absorption, adaptation and innovation

- Increased the capacity for Loose Tube manufacturing stage by installing a new line with Ribbon Strander. This will facilitate to manufacture the High Fiber Count Ribbon cables up to 576F also. This has brought savings to the company to the extent of Rs. 3 crore.
- Installed a 50 mm extruder along with existing Sheathing Line for using as piggyback extruder used for manufacture of Aerial and other export Cables.

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF TAMILNADU TELECOMMUNICATIONS LIMITED, CHENNAI FOR THE YEAR ENDED MARCH 31, 2006

I have to state that the Comptroller and Auditor General of India has no comments upon or supplement to the Auditors' Report under Section 619(4) of the Companies Act, 1956 on the accounts of Tamilnadu Telecommunications Limited, Chennai for the year ended 31st March 2006.

Chennai : 1.09.2006

(S. MURUGIAH)
Accountant General

Review of Accounts of Tamilnadu Telecommunications Limited for the year ended 31st March, 2006 by the Comptroller and Auditor General of India

1 FINANCIAL POSITION

The table below summarises the financial position of the company under broad headings for the last three years upto 31.03.2006

(Rupees in Lakh)

Liabilities	2003-04	2004-05	2005-06
a) Paid up Capital (including advances for shares)	2266.01	2266.01	2266.01
b) Reserves & Surplus	112.20	110.13	108.06
c) Borrowings			
i) Short term & Long Term	1400.96	3271.96	2853.88
ii) Cash Credit	2611.65	585.91	593.55
d) Deferred Tax Liability	264.83	279.09	244.43
e) Trade dues and other liabilities (including provisions)	1144.80	1892.18	2217.80
Total	7800.45	8405.28	8283.73
Assets			
a) Gross Block	7267.79	7289.88	7289.75
b) Less: Depreciation	4358.00	4609.64	4858.12
c) Net Block	2909.79	2680.24	2431.63
d) Capital Work-in-Progress	21.68	-	-
e) Other Assets / Investments	-	-	-
f) Current Assets, Loans and Advances	1680.62	1867.62	2216.73
g) Intangible Assets:			
i) Misc. expenditure not written off	25.96	135.30	160.10
ii) Accumulated Loss	3162.40	3722.12	3475.27
Total	7800.45	8405.28	8283.73
Capital Employed	3467.29	2655.68	2430.56
Net Worth	(810.15)	(1481.28)	(1261.30)

Note:

- 1) Capital Employed represents Net Fixed Assets PLUS Working Capital
- 2) Net worth represents Paid up Capital PLUS Reserves LESS Intangible Assets

2 CAPITAL STRUCTURE

a) Debt - Equity Ratio

The Debt - Equity ratio for the company was 0.18:1 in 2003-04, 1.09:1 in 2004-05 and 1.26:1 in 2005-06.

- b) The Amount of loans from Government of Tamilnadu outstanding as on 31st March 2006 was nil.

3 RESERVES AND SURPLUS

Reserves and Surplus accumulated upto 31.3.2006 amounted to Rs.108.06 Lakh as against Rs.110.13 Lakh as on 31.3.2005 and Rs.112.20 Lakh as on 31.3.2004

The Reserves and Surplus (Rs. 108.06 Lakh), amounted to 1.30 per cent of the total liabilities in 2005-06 as against 1.31 per cent in 2004-05 and 1.44 per cent in 2003-04 ; and 4.77 per cent of the equity capital (Rs. 2266.01 Lakhs) in 2005-06 as against 4.86 per cent in 2004-05 and 4.95 per cent in 2003-04

TAMILNADU TELECOMMUNICATIONS LIMITED**4 LIQUIDITY AND SOLVENCY**

- a) The percentage of current assets to total net assets increased from 21.56% in 2003-04 to 22.22% in 2004-05 and to 26.76% in 2005-06.
- b) The percentage of current assets to current liabilities (including provisions) varied from 146.80% in 2003-04 to 98.70% in 2004-05 and to 99.95% in 2005-06.
- c) The percentage of quick assets (Sundry debtors, advances, Cash and Bank balances) to current liabilities declined from 102.58% in 2003-04 to 76.69% in 2004-05 and to 67.58% in 2005-06.

5 WORKING CAPITAL

The working capital (Current assets, Loans and advances LESS trade dues and current liabilities) of the Company at the close of 31.03.2004 amounted to Rs. 535.82 Lakh and represented 2.59 months' value of production in 2003-04. The trade dues and Current liabilities exceeded current Assets, Loans and Advances at the close of the two years ending 31.03.2006 by Rs. 24.56 lakhs and Rs. 1.07 lakh respectively.

6 SOURCES AND USE OF FUNDS

Funds amounting to Rs. 463.12 Lakh from internal sources (Depreciation, Provision etc.,) and Rs.0.13 lakh from external sources were utilised during 2005-06 as follows:

(Rupees in lakhs)

a) Repayment of Loans	410.44
b) Increase in Miscellaneous Expenditure	24.80
c) Increase in Net Current Assets	28.01
Total	463.25

7 WORKING RESULTS

The Working Results of the Company for the three years upto 31st March 2006 are tabulated below:

(Rupees in lakhs)

	2003-04	2004-05	2005-06
a) Profit (+)/Loss (-) as per accounts	(-)1347.44	(-)488.83	177.01
Add/Ded. Investment Allowance Reserve	-	-	-
Add/Ded. Adjustment for prior period	(-)124.18	(-)56.63	37.69
b) Profit (+)/Loss (-) for the year	(-)1471.62	(-)545.46	214.70
c) Profit (+)/Loss (-) before Tax and Investment Allowance	(-)1471.62	(-)545.46	214.70
Tax Provision	13.63	14.26	(-)32.15
d) Profit (+)/Loss (-) after Tax and before Investment Allowance	(-)1457.99	(-)559.72	246.85

8 COST TRENDS

The table below indicates the percentage of cost of sales to sales during three years upto 2005-06

(Rupees in lakhs)

	2003-04	2004-05	2005-06
Sales	3066.67	3166.67	4250.71
LESS: Profit for the year	-	-	246.85
ADD: Loss for the year	1457.99	559.72	
Cost of Sales	4524.66	3726.39	4003.86
Percentage of Cost of Sales to Sales	147.54	117.68	94.19