VIDESH SANCHAR NIGAM LIMITED

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VSNL FOURTEENTH ANNUAL REPORT 1999-2000

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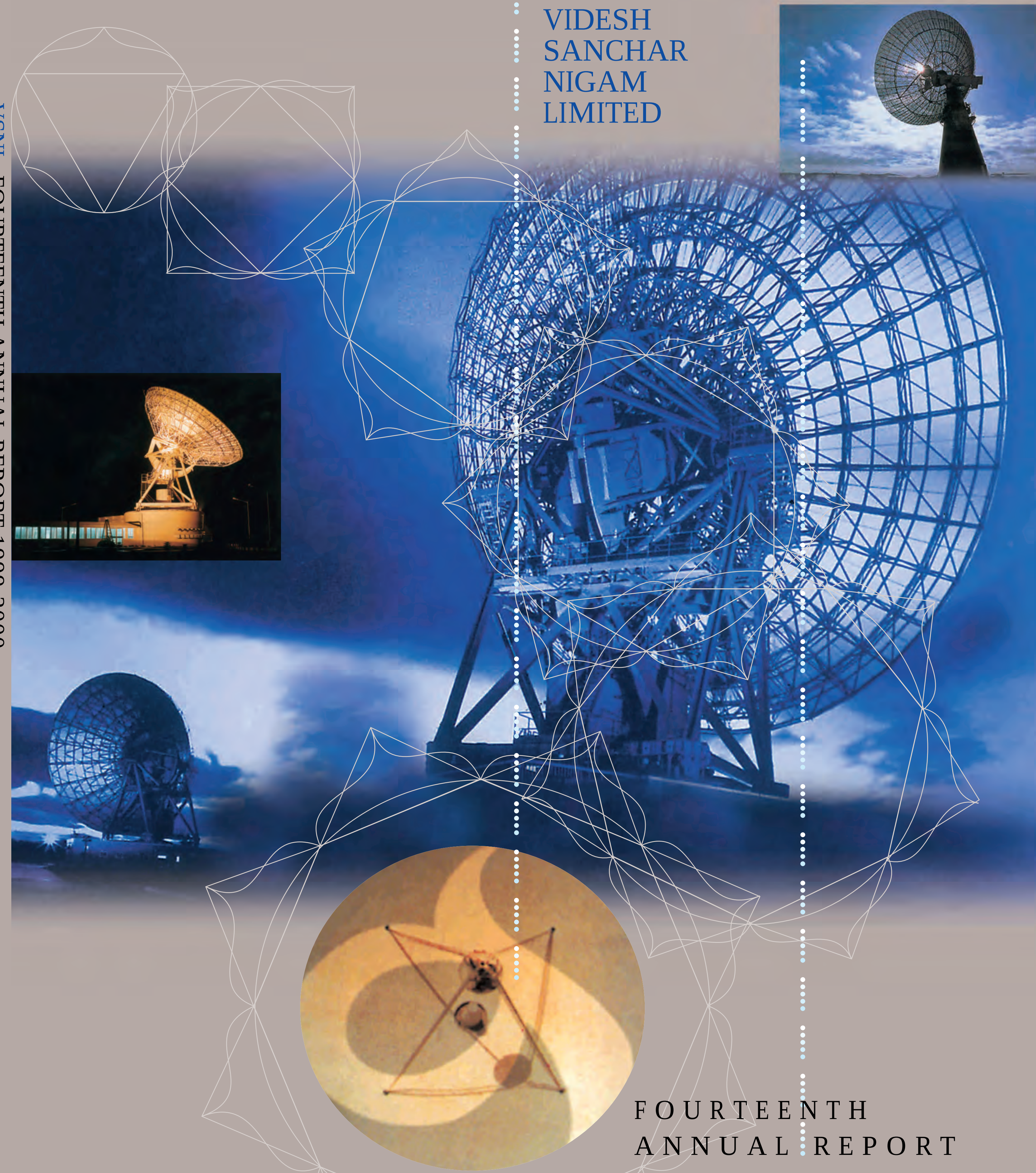

FOURTEENTH ANNUAL REPORT

1999-2000

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Change

Change

as an opportunity to

GROW

Mission Statement

"To create a global and seamless network of Information Super Highways, to connect people and computers cost effectively and efficiently; anytime, anywhere."

VSNL's vision is to bring the benefits of world-class communications technology to the largest number of people, creating a real and valuable improvement in the way we all live, work and interact with each other. We believe that by investing in state-of-the-art technology, we can continuously delight our customers with cost-effective and highly efficient services, provide an exciting and fulfilling environment for our workforce and satisfy our stakeholders by maximising returns on their investment in us.

Thriving on Change

Exciting new technologies. Television on computers, e-mail on television. Lower telephone charges. New players in domestic long distance telephony. An Internet explosion.

Its obvious that change is going to be a way of life in India's exciting telecom market. The cliche that change is the only constant has never been more true than it is here and now. The year 2000 is a crucial one for telecom reform in India, because this is the year in which many changes that have been debated over the past decade will actually get implemented. The government has already opened up domestic long distance telephony (DLD) and lowered telephone rates. It is expected to further liberalise the market and facilitate entry into new business areas.

Often, the shape of specific policies can also shape the fortunes of the industry’s players. Such rapid and complex change can be disorienting and challenging. At VSNL, though, we regard change as an opportunity to grow, to enter high-potential new areas, to capitalise on our existing strengths and thus, to thrive. As India’s leading telecom player with a long history of superior performance and expertise, VSNL is perfectly placed to do just this. We recognise that the key requirement for any telecom player today is to be fast and flexible, to remain alert to respond to fast-changing scenarios and be willing to adopt strategies that best capitalise on emerging opportunities.

At VSNL, we anticipate that far-reaching changes in many areas of our business will transform the company almost completely within a few years. For one thing, in a liberalised market, we will not be the sole provider of international telephony and Internet services. But we will certainly remain the leading provider within a competitive market. Next, rather than being largely an international telephony provider, we will be the preferred provider of a whole range of emerging information services including domestic long distance services, Internet services, 3G, wireless and mobile satellite services and broadcast services.

We recognise that we must match changes in the external market with changes in our approach and structure. Therefore we will clearly focus on innovative, world-class customer care and services for our growing base of retail and corporate customers. Finally, VSNL is adding new shareholders, as the government has divested some of its shares in the company. We will ensure that all our stakeholders continue to derive lasting value from VSNL, as we thrive on the opportunities that change brings.

Telecom Opportunities

India's telecom market defies the proverb that what goes up must come down. The only possible direction for the market to go is north, given the huge potential for increasing the number of telephone lines, the coverage of the population by telephones and the users of a variety of telephone services. In 1999, the National Telecom Policy (NTP) set out some objectives that demonstrate India's hunger for communications and its untapped market potential. The NTP aims to:

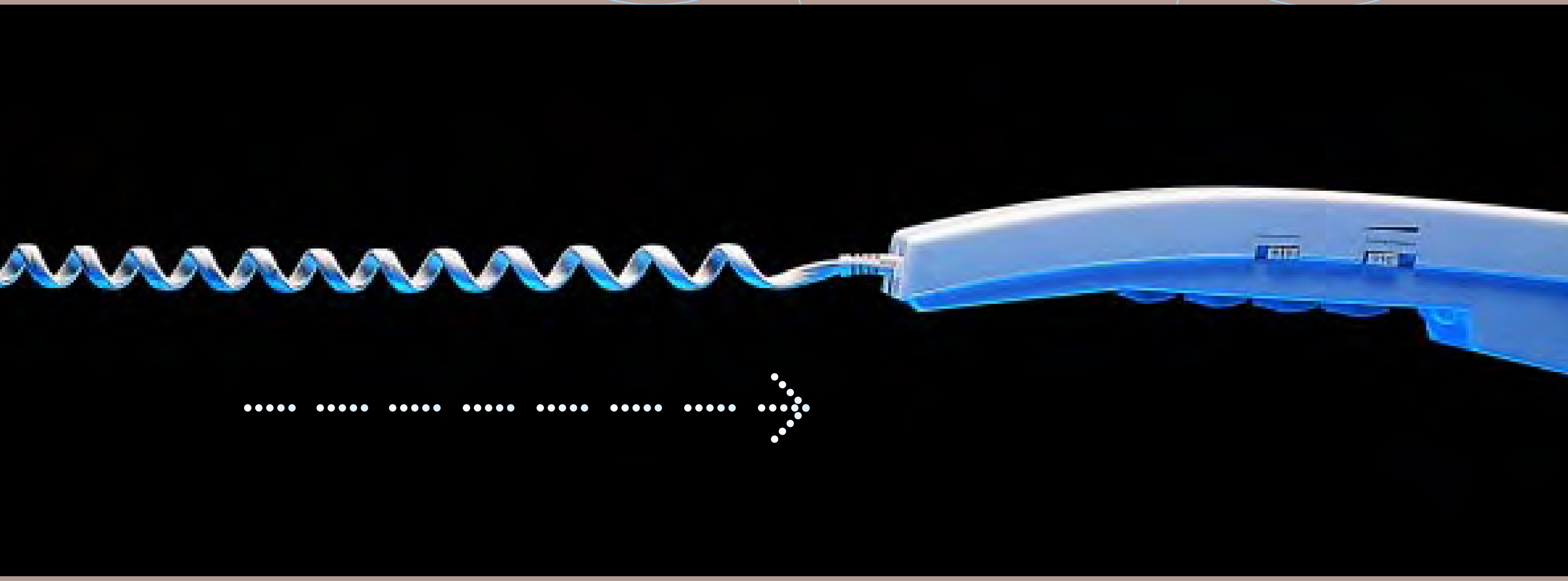
Make telephones available on demand by the year 2002 and achieve a teledensity (number of telephone lines per 100 inhabitants) of seven by the year 2005 and 15 by the year 2010, against two in 1999.

Cover all Indian villages with telecom services by the year 2002 and increase rural teledensity from the 1999 level of 0.4, to four by the year 2010.

Provide Internet access to all district head quarters by the year 2000 and provide high-speed data and multimedia capability to all towns with a population greater than 200,000 by the year 2002.

As that shows, India's telecom potential is both vast and exciting. As the telecom coverage increases, the use of various services including international and domestic long distance (DLD) services will soar. Already the only provider of international services, VSNL intends to remain the biggest and best provider and also enter the DLD market as a key player. Estimates made by the NTP project a dynamic growth level for DLD services and high potential for new entrants.

The NTP has projected* that DLD traffic will grow at 16.3% annually from the fiscal year 2001-02 onwards. It estimates DLD revenues from 40 cities in FY 2001-02 at Rs.61.61 billion, so that an operator with a 15% market share can expect revenues of Rs. 9.24 billion. This 40-city market is projected to grow to Rs. 96.89 billion in FY 2004-05, with a possible profitability in that year of 35% for new players. It also points out that large, national players will have an advantage. For example, according to its viability analysis, a nation-wide DLD operator can be profitable in the very first year of operations, unlike players with a smaller coverage. VSNL's financial strength and existing networks put it in a good position to become a national player quickly.



The human face behind those numbers will be a large population of very happy customers. Competition is expected to drive rates down and improve services, as has been the experience in every country that has opened up its telecom markets. In the US for example, deregulation grew the market and reduced rates, benefiting customers. The DLD market in the US went from US $ 46 billion in 1984 to US $ 78 billion in 1997, while the average charge per minute fell 50%.

VSNL will thrive in India's telecom market in both its existing and new businesses by providing state-of-the art networks and superior services at a competitive price.

state-of the art networks
and superior services

**NTP projections are provided only as illustrations of potential. VSNL may not agree with these projections partially or fully.*

Internet Explosion

Farmers in Maharashtra co-operatives go online to make sure they are getting a fair price for their products. Technology-shy grandmothers who hesitate to use video players confidently surf the Internet to send electronic greeting cards to their grandchildren abroad. Hundreds of workers from Gurgaon to Guntur transcribe medical records dictated by doctors in the US or process insurance claims from the UK. It's the biggest revolution the world has seen, and India is firmly in the middle of it. And VSNL is the behind-the-scenes presence that supports the country as it embraces new technologies and turns into a global information technology powerhouse. In the process, we touch thousands of lives everyday, as we serve both our individual and our corporate customers.

The penetration of the Internet and the use of Internet-related services have grown rapidly in the last few years. Yet, this is one market that consistently out-performs even optimistic projections. According to projections from the National Association of Software and Service Companies (NASSCOM)*, by December 2003, India will have 11 million Internet connections with 23 million users, against just over 1 million connections and 3.70 million users in June 2000.

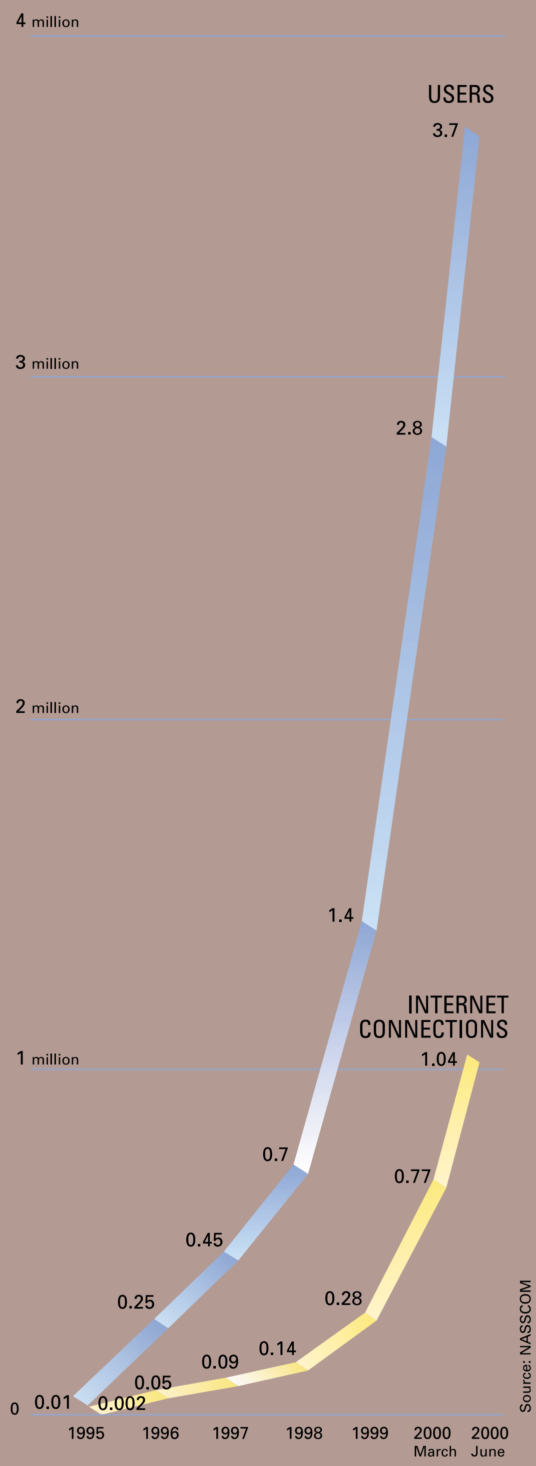
As India's biggest Internet Service Provider (ISP), VSNL will be at the forefront of this growth. Although your company has so far been restricted as an ISP to six cities, it has a market share of around 70% in these cities. The government is now giving VSNL an all-India ISP license, which will ensure that VSNL remains the first name not just in coverage but also in the quality of its services.

INDIA - GROWTH OF INTERNET (Projections)

Date	Internet Connections (in million)	Users (in million)
March 31, 2001	1.6	5
March 31, 2002	4	10
March 31, 2003	8	18
December 31, 2003	11	23

Source: NASSCOM

India: Growth of Internet



Corporate Customers

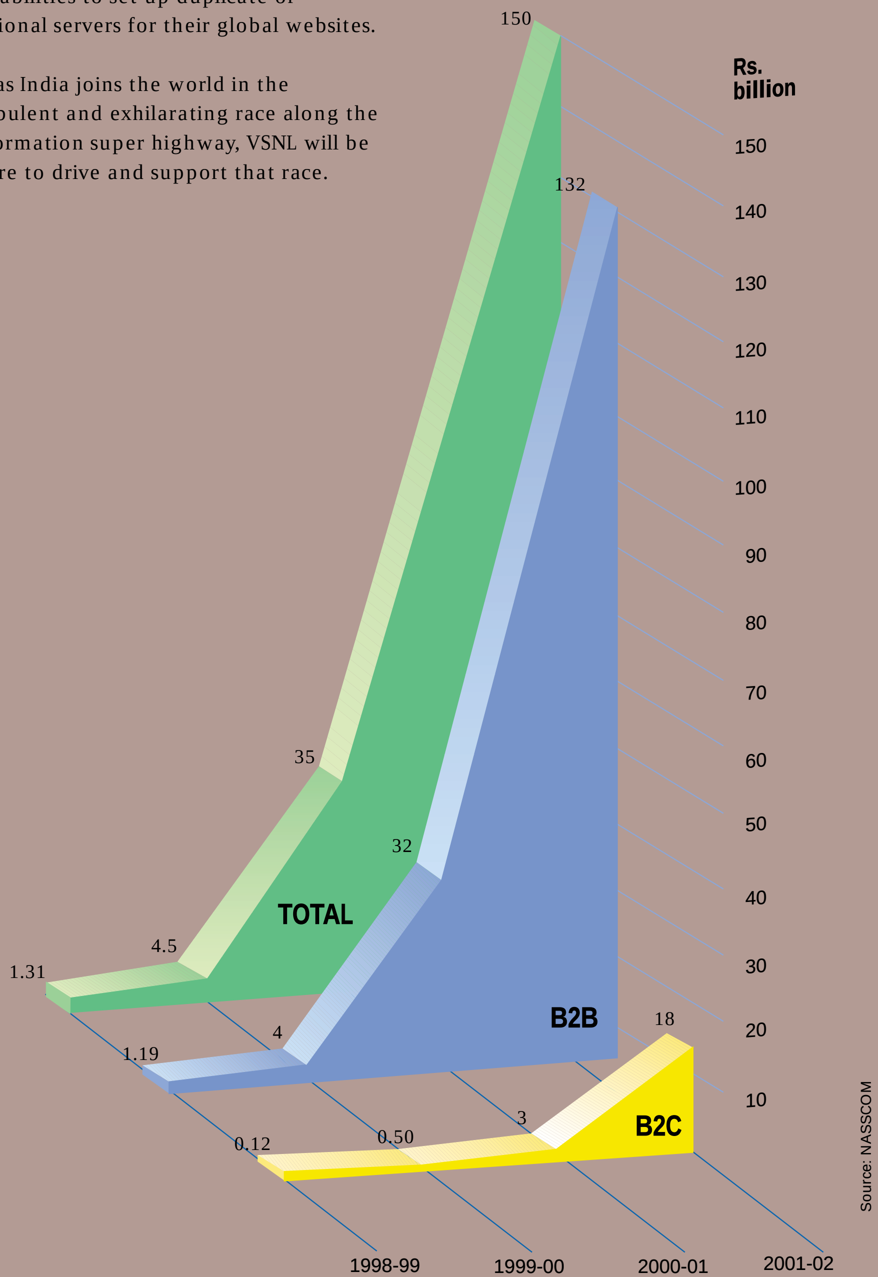
Satisfying individual subscribers is only one part of the story. VSNL also has a large base of corporate customers. One set of corporate customers uses the Internet as a tool for better communication and networking with their own offices, suppliers and customers, through the use of extranets, intranets and electronic data interchanges. This segment includes the crucial information technology sector, which counts on VSNL to provide reliable, efficient connectivity to support its growing business needs. For example, India is rapidly becoming an important provider of IT-enabled services or remote processing, in areas like call centres, medical transcription, legal databases, data processing or animation. Such services are made possible only because of VSNL's Internet and telecommunication links with offices overseas, making it possible for companies to work seamlessly together across continents and time zones.

Another set of customers consists of companies actually in the Internet business, with websites that depend on sales or advertising for revenues. These customers also require superior support, especially as e-commerce is set to grow rapidly. According to NASSCOM estimates, e-commerce transactions in India could jump from about Rs. 4.50 billion in 1999-2000 to Rs. 35 billion during 2000-01 and even Rs. 150 billion by 2001-02. India's active Internet population would spend 3.2% of its total regular household spending through Internet purchases by 2003. And while the Internet and e-commerce industry employs approximately 82,000 people today, by March 2003, that number could be over 300,000 people.

Within this explosion lie countless business opportunities in specific segments. Just one example: an estimated 91% of India's corporate web sites are located overseas, indicating the urgent need for secure and reliable hosting services in India. To meet that need, VSNL is building server farms to house thousands of servers, not just for Indian companies but also for overseas companies who are keen to use VSNL's capabilities to set up duplicate or regional servers for their global websites.

So as India joins the world in the turbulent and exhilarating race along the information super highway, VSNL will be there to drive and support that race.

India: Growth of E-Commerce



**NASSCOM projections are provided only as illustrations of potential. VSNL may not agree with these projections partially or fully.*

Infrastructure Growth

VSNL has already invested billions in a powerful combination of satellites, submarine cables and microwave systems to provide seamless, high-quality connectivity. To maintain its leadership, VSNL will continue to invest heavily in infrastructure and technology.

Highlights of our recent investments in world-class infrastructure:

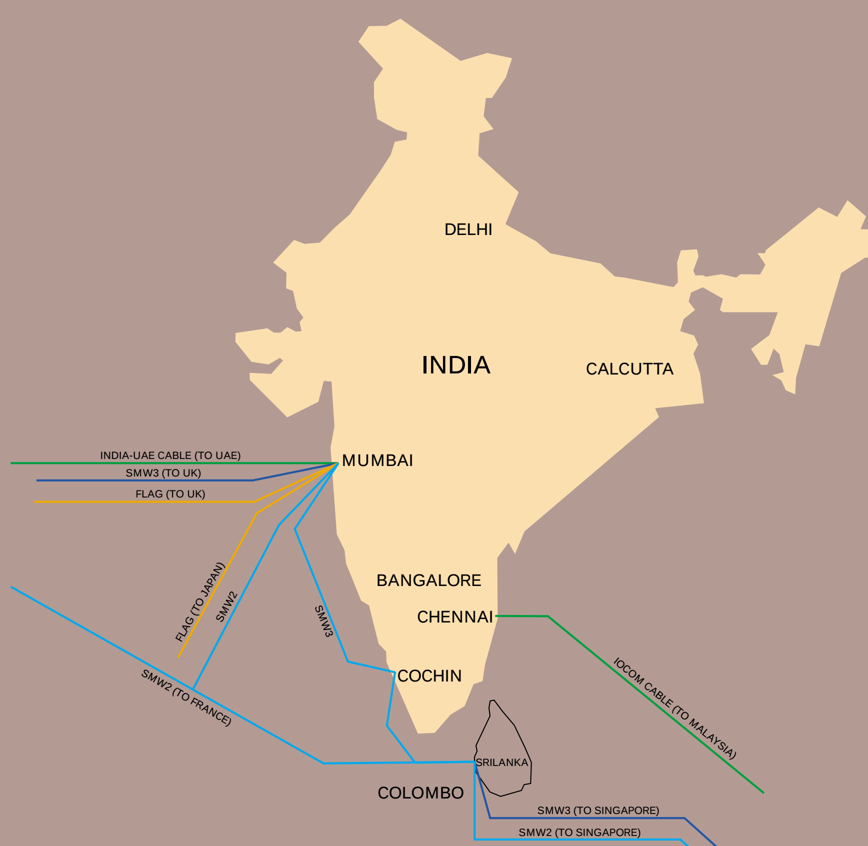
July 99: Commissioned a new Intelsat Standard A earth station of capacity 16 IDR 2 MB circuits and a TV carrier at Arvi, at an outlay of Rs.225 million.

August and September 99: Set up new VSAT IBS earth stations at Coimbatore and Trivandrum.

September 99: Built a new Videsh Sanchar Bhavan in Bangalore to provide the entire range of international telecommunication services, at an outlay of Rs. 37.7 million. Commissioned an Intelsat Standard B earth station in the complex.

December 99: Commissioned a Digital Microwave (2+1, STM-1) Link with a capacity of 3,780 channels, connecting the Mumbai gateway switch to Pune; and commissioned a main transmitting station at Arvi at an outlay of Rs.170 million.

March 2000: Commissioned the SEA-ME-WE 3 submarine optical fibre cable system at Mumbai and Kochi, connecting India with countries in South East Asia, Middle East and Europe. The cable provides additional capacity of 4,500 international circuits at an outlay of Rs.1.85 billion.



March 2000: Brought a new international gateway at Kanpur to full service operation.

January 2000: Commissioned a new Intelsat Standard B earth station at Hi-Tech city, Hyderabad for meeting corporate requirements and providing high quality value added services.

February 2000: Installed and commissioned Digital Channel Multiplication equipment at Jalandhar, Ernakulam, Gandhinagar, Kanpur, New Delhi and Mumbai, allowing a four fold increase of voice grade channels using compression techniques. The equipment caters to 27,000 circuits at an outlay of Rs. 499 million.

March 2000: Provisionally commissioned a Digital Microwave (2+1, STM-1) Link with a capacity of 5,760 channels, connecting the New Delhi gateway switch to the main transmitting station at Dehradun, at an outlay of Rs.285 million.

March 2000: Commissioned a new video uplinking standard B earth station at Dehradun providing up to eight digital TV carriers.

June 2000: Provided TV uplinking facilities at nine locations in the VSNL network to carry up to 508 mbps digital TV carriers.

June 2000: Commissioned a new rooftop Intelsat Standard F3 earth station at Videsh Sanchar Nigam Bhavan, Calcutta at an outlay of Rs.98.5 million.

July 2000: Commissioned a new Intelsat Standard F3 earth station at Tidel Park, Chennai to meet corporate requirements in the complex and provide high quality value added services.

August 2000: Commissioned a new Intelsat Standard F3 earth station at IDCO Towers, Bhuvaneshwar to provide international connectivity to customers and software companies in and around Bhuvaneshwar.

Chairman's Statement

S.K. Gupta
Chairman & Managing Director

Introduction

It gives me great pleasure to welcome you all to the 14th annual general meeting of your company. VSNL is privileged to be at the heart of a real revolution in Indian telecommunications. Liberalisation and new technology bring deep, sweeping changes that are reshaping the industry completely. Ultimately, it is the consumers of telephone and value added services such as the Internet who will benefit. Rather than merely reacting to change, our strategy is to anticipate change, welcome it, prepare for it proactively and take advantage of the new possibilities it throws up. Certainly, change represents both risks and challenges for VSNL. Yet, we believe that these are far outweighed by the opportunities that change offers: the chance to enter new, synergistic business areas, to grow this company at an exciting pace and maintain our leadership of the Indian telecom industry.

... our strategy is to anticipate change, welcome it, prepare for it proactively and take advantage of the new possibilities it throws up

Performance Review

In the past year, VSNL recorded a good growth in business, as the volume of international telephone traffic handled rose by 16.06%, from 1.9 billion paid minutes in 1998-99 to 2.2 billion paid minutes in 1999-2000. Specialised services remained a high-growth area, showing a rise in revenue of 24.35%. However, both tariffs and settlement rates - which determine cost for international telecom services between telecom providers from different countries - dropped quite sharply in the last year. For example, international telephone charges were reduced by between 15% and 23% and settlement rates have been reduced by between 11% and 14%.

Therefore, the growth in gross revenue did not rise as much as business volumes did. Total revenues rose in 1999-2000 from Rs.71.76 billion to Rs. 72.31 billion. The profit after tax fell from Rs. 13.25 billion to Rs. 8.40 billion because VSNL had to write down its investment in ICO Global Communication.

While lower tariffs and settlement rates do put pressure on margins, they are not an unwelcome development because lower prices will raise the volume of telephone traffic and also increase the number of calls made from India to other countries. The TRAI has announced that tariffs will be further reduced from October 2000. The positive implication is that long-distance calls in India are likely to follow the global pattern of becoming ever-cheaper. That is excellent news for consumers, both householders as well as businesses. Affordable calls will expand the market – they may well create sufficient demand in all rural areas, removing the need for subsidies or public sector provisions to ensure universal access.

VSNL is privileged to be at the heart of a real revolution in Indian telecommunications

> a presence in domestic long-distance services will mean that we will be able to get closer to our existing international telephone customers

Going forward, VSNL anticipates a number of fundamental changes, which will transform the company in many respects. These transitions, which have already begun, are in four main areas. Let me deal with them in some detail.

First of all, VSNL has so far been mainly a provider of international telephone services. We are transforming ourselves into the leading provider of a range of information infrastructure and support services. While basic international telephone services will continue to be a core business area, we expect substantial growth in our value added services such as leased lines, satellite mobile telecommunications, electronic data interchanges, managed data network services, video conferencing, television uplinking services, packet switched data transmission and e-mail services. Internet-related services will be a particularly crucial growth area.

No doubt, competition would be setting in severely, but as stated earlier, I do visualise that VSNL, due to its robust infrastructure and preparedness, would be able to effectively and successfully take on the changing market scenario. I do not see global telecom companies, who have yet to enter India, rushing into this new and uncertain market at an early stage. So the number of new entrants could be far fewer than is generally expected. This could be especially so as international financiers may no longer be very keen to fund long-distance start-ups in India, so that even global giants that are interested might find themselves short of timely, cheap finance.

The second plank of VSNL's transition is from a monopoly provider to a competitor in a more open market, as already mentioned. In fact, we have already proved that we can not only survive but also thrive in a competitive environment just as we did in a monopoly. The Internet service provider (ISP) business was opened to competition in November 1998 and since then the market has become extremely competitive. Seventy new ISPs were in operation while a total of 315 new private ISPs had received licenses as on March 31, 2000. Despite that, in the six cities where VSNL provides Internet dial-up access, our market share is around 70%. Our subscriber base for Internet access has grown from 4,151 in March 1996 to 366,432 in March 2000. VSNL also has the largest dedicated Internet network in India with connections to over 700 companies through Internet leased lines. We provide hosting services to the biggest names in the web content business. As the pioneers of Internet services in India, we are keenly awaiting an all-India ISP licence, which is long overdue. Currently we are restricted to only six cities. An all-India license will allow us to expand rapidly and offer services in cities like Hyderabad, Jaipur, Ahmedabad, Lucknow or Surat, where the potential base of both corporate and individual customers is large.

As that shows, liberalisation offers more possibilities than challenges for us. Another key opportunity is domestic long-distance services, which the government has announced will be opened up to competition. Your company has been assured a license in this business. We intend to be a large player in this area, which represents a backward integration for us. A presence in domestic long-distance services will mean that we will be able to get closer to our existing international telephone customers, by picking up their calls at the national gateway rather than only at the international gateway as at present. This market is also an exciting one because the potential for growth is large. The penetration of telephone lines in India is expected to increase from 2.6 lines per 100 inhabitants to 15 lines per 100 by the year 2010.

VSNL also intends to extend its expertise beyond India's borders, by entering telecom services abroad through joint ventures with domestic and foreign partners. For example, we have signed a memorandum of understanding with Mahanagar Telephone Nigam Ltd. (MTNL) to jointly seek opportunities in India and abroad. The two companies have already submitted one consortium bid for telecom opportunities in Nepal.

Customer Service and Marketing

The third area of change is in our approach to customer service and marketing. In the international telephony business, VSNL has not had a direct interaction with customers. Value-added services and new business areas put us in direct contact with a big base of both retail and corporate customers. This shift, along with increased competition, calls for aggressive initiatives in both marketing and customer care. We fully recognise that we need to listen more carefully to customers and reach them in innovative new ways.

VSNL has already introduced a whole range of new services and facilities to improve customer service and satisfaction. These include online registration for Internet accounts, online credit card payments, reduced rates for Internet access, global access to accounts, a package to prevent unauthorised access to accounts and many other initiatives. These services compare with the best in the world and were all developed entirely in-house. VSNL has been the first ISP to offer most of these facilities, in keeping with our technological edge and market leadership.

During the coming year, VSNL will continue to pioneer new services and also implement a sophisticated software-driven customer relationship management system to manage and maximise relationships with retail customers. We are also considering spinning off some specialised services such as Internet access, e-mail, electronic data interchange and video conferencing into a separate company called VSNL Seamless Services Pvt. Ltd. (VSSL). This will allow us to target retail customers better.

VSNL has already introduced a whole range of new services and facilities to improve customer service and satisfaction

Adding New Stakeholders

The fourth change for VSNL is the move to a broader ownership base. VSNL is no longer wholly owned by the government. We have added new individual and institutional shareholders, while the government continues to hold 52.97% of the company's equity. We will continue to maintain the highest levels of transparency, accountability and information flows to this wider base of stakeholders.

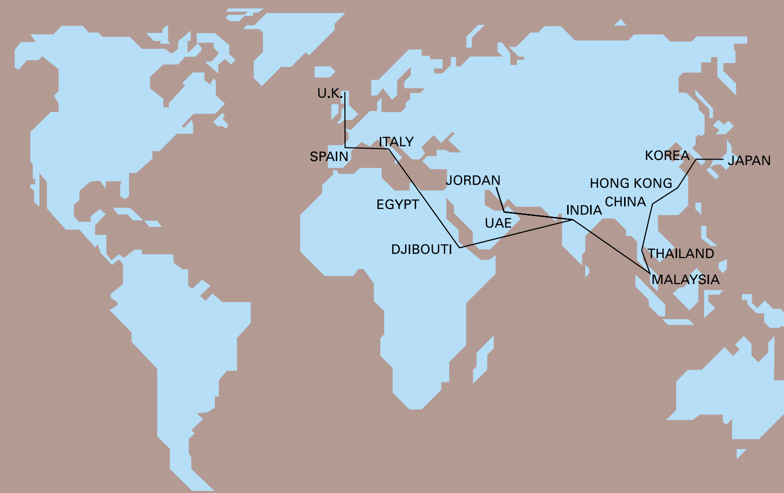
we will continue to maintain the highest levels of transparency, accountability and information flows to this wider base of stakeholders

Business Process Re-engineering

VSNL recognises that in order to be a strong player in a competitive market, we will have to carry out a major re-engineering of our business processes. We have already initiated this re-engineering through our online initiatives in Internet, leased lines and value added services. These initiatives will help your company to achieve major advantages in cost while delivering much higher levels of customer services and greater quality. Your company is also focusing heavily on information technology through investments in in-house office automation, data processing and SAP systems, which are being extended to all areas of operations of the company.

Investment Plans

Over the years, VSNL has built up a considerable headstart through an extensive, modern infrastructure. We plan to continue investing in infrastructure to support both basic telephony and value added services and to allow us to diversify into new areas including direct-to-home (DTH) television, multimedia services and voice services over the Internet if this is permitted. VSNL has made plans for a total expenditure of approximately Rs.50 billion (approximately Rs.5,000 crore) in the current five-year plan which ends in 2002. Briefly, these will include increasing the number of international circuits; increasing bandwidth to support data traffic; investing further in undersea fibre optic cables and satellite transmission capacity; creating high capacity cyber ports for hosting and connectivity services; and building a low-cost, fully-integrated digital network across the country with asynchronous transfer mode (ATM) switches, to allow better transmission of voice and broadband data traffic.



we plan to continue investing in infrastructure to support both basic telephony and value added services and to allow us to diversify into new areas

Listing on NYSE

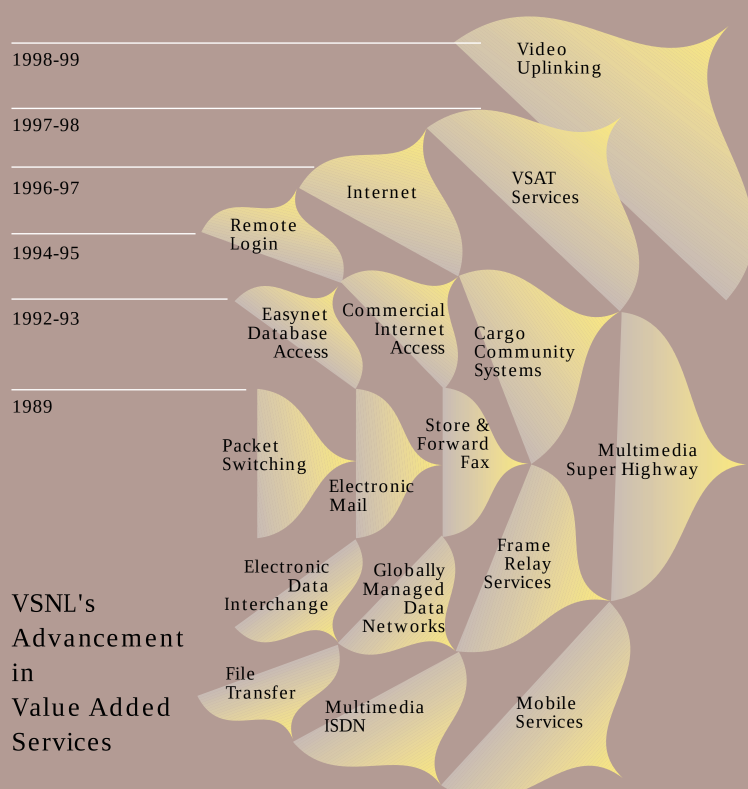
VSNL repeated history by becoming the first public sector unit to list on any stock exchange in the US. VSNL's ADR commenced trading on the New York Stock Exchange with effect from August 15, 2000. VSNL's listing on the US bourse is another landmark for your company.

VSNL was already the first ever PSU to complete the largest GDR programme, in 1997 with 37.80 million GDRs. In 1999, when many Indian companies stayed away from international capital markets, VSNL was able to issue a second tranche of 20 million GDRs overseas as divestment by the government.

Future Outlook

The Indian telecom industry is passing through one of the most rapid stages of deregulation. Consequently, a range of new opportunities will be available in the Indian market. Under the new telecom policy, over 125 million lines will be added by the year 2010. The number of Internet subscribers is expected to increase to over 8 million in the next three years. E-commerce revenues in the Indian market are expected to rise over one billion dollars in the same period. We expect a tremendous growth in the corporate networking and value added services market. I believe VSNL is uniquely and strategically placed to take advantage of all these new opportunities. We also believe that opening up of the market of long distance services, 3G, wireless and mobile satellite services and broadcast services will present extremely attractive opportunities in the next two to three years. VSNL with its resources in technology and infrastructure should be a major beneficiary of these developments.

> I believe VSNL is uniquely and strategically placed to take advantage of all these new opportunities



VSNL's Advancement in Value Added Services

VSNL's future growth will be built on its considerable strengths. These include an extensive infrastructure, a healthy lead over current and future competitors and a base of excellent, dedicated employees

Conclusion

In an increasingly market-driven world, the telecom industry is somewhat unique because like other infrastructure areas, it is a highly regulated one. Regulation and government supervision are entirely necessary and very welcome to ensure a healthy market and value to consumers. However, regulatory decisions on tariffs and competition will have a profound impact on the health and profitability of all industry players. It is therefore vital that the regulatory focus and policies are clear and consistent for all players. This is the only way that we can plan ahead effectively. For example, we expect that the revenue sharing agreement between VSNL and DoT will not be disturbed before it expires in the year 2002. A clear policy on whether the government plans to reduce its shareholding in VSNL below the current level of 52.97% would also be useful.

VSNL's future growth will be built on its considerable strengths. These include an extensive infrastructure, a healthy lead over current and future competitors and a base of excellent, dedicated employees. I want to personally thank every member of the VSNL team for their skills and their commitment not just to maintaining but to increasing VSNL's leadership in the Indian telecom industry. Both customer satisfaction and the company's growth are impossible without a motivated, well-rewarded staff. Last year, VSNL's employees also became true owners by taking shares in their company when the government offered 3,96,991 shares to employees in May 2000. VSNL now plans to implement a profit sharing plan to ensure that we retain and reward our talent.

Finally, I would like to thank the members of our board for their support and strategic perspectives. As directors, Subodh Bhargava, Ashok Wadhwa, N.R. Narayana Murthy, H.P. Wagle, B.R. Khurana and Mrs S.A. Tirmizi, besides our functional directors, have contributed both their time and their vision to VSNL, from which the company has benefited enormously.

S.K.Gupta

Chairman and Managing Director

Directors' Report

Dear Shareholders,

Your directors are pleased to present the annual report and audited accounts for the financial year ended March 31, 2000. The last year has been packed with opportunity, change and challenge for your company. Business growth was healthy and the volume of international telephone traffic transmitted over the VSNL network rose by 16.06%, from 1.9 billion paid minutes in 1998-99 to 2.2 billion paid minutes in 1999-2000. Specialised services continued to be a very fast-growing segment, showing a rise in revenue of 24.35%.

The government has recognised your company's performance and its potential by making it a full-fledged Navratna company, with improved autonomy and more delegation of powers. Your company has been acknowledged as one of India's best-run companies and an Asian force. In April 2000, we received a merit certificate for excellent achievements from the prime minister. Asiaweek, the region's leading weekly, has ranked VSNL 12th among India's top twenty companies and 616th among the top 1000 Asian companies. VSNL continues to be a zero-debt company, while net worth increased 13.91% in 1999-2000. Your company continues to be rated "EXCELLENT" for the seventh successive year among Memorandum of Understanding [MoU] signing PSEs.

For the telecom industry, the last year has been a time of increased regulatory attention and change. During the year under review, the rates on international telephone calls were reduced up to 23.2% based on the recommendations of the Telecom Regulatory Authority of India (TRAI). Settlement rates – which determine payments for international telecom services between telecom providers from different countries – also dropped by around 15% in the last year. Therefore, even with the robust growth in volumes, your company's total revenue registered a growth of 0.77% in 1999-2000, from Rs.71.76 billion to Rs. 72.31 billion. The profit before tax was Rs.19.43 billion showing strong operating performance by the company.

Operational performance and efficiency remained strong despite the fall in rates, as indicated by the rise in EBIDTA margins from 24.91% to 25.47%. The profit after tax was Rs. 8.40 billion against Rs. 13.25 billion in the previous year because, as we pointed out in last year's report, your company had to write down its investment in ICO Global Communications, as decreed by international authorities. The tax benefits from this write-down will accrue to your company during the current year.

your company has been acknowledged as one of India's best-run companies and an Asian force

TABLE 1

Financial results		(Rs. in million)	
Description	1999-2000	1998-99	% change
Traffic revenue (basic services)	62,822	62,641	0.29
Revenue from specialised services	6,117	4,919	24.35
Revenue from Intelsat and Inmarsat	737	755	(2.38)
Other income	2,629	3,441	(23.60)
Total revenue	72,305	71,756	0.77
EBITDA margins	25.47%	24.91%	–
Interest	11	0	–
Depreciation	934	800	16.75
Profit before tax	19,427	19,655	(1.16)
Tax	(6,375)	(5,894)	8.16
Extraordinary item : Write down			
of investments in ICO	(5,127)	–	–
Prior year's adjustment	478	(511)	193.54
Profit after tax	8,403	13,250	(36.58)
Earnings per share (Rs.)	88.44	139.47	(36.58)
Net worth	61,720	54,182	13.91
Dividend per share (Rs.) (including interim dividend of Rs. 6 per share)	8.00	8.00	0

Dividends and Bonus

In view of your company's strong financial position and the positive outlook for the future, your directors are pleased to recommend a total dividend at the same level as for the last year, that is @ Rs.8.00 per share (inclusive of the interim dividend of Rs.6/- per share already paid in May 2000) on equity shares of Rs. 10.00 each for the financial year ended March 31, 2000. The directors propose that profits be appropriated in the following manner:

TABLE 2

DESCRIPTION		Amount (Rs. in million)
Amount available for appropriation		
- surplus brought forward	99.68	
- Profit for the year	8,402.76	8,502.44
Less:		
- Dividend @ 80% on the paid-up capital of Rs.950 million	760.00	
- Tax on proposed dividend	104.50	
- Transfer to general reserve	7,500.00	8,364.50
Surplus carried to Balance Sheet		137.94

The directors are also pleased to recommend a 2:1 bonus that is, two shares for every share held on the record date. For this purpose, the board recommends an increase in VSNL's authorised share capital to Rs.3 billion, from the existing Rs. 1 billion.

Basic Services: Telephony

As India's only international telecom services provider, basic telephony remains the core of your company's business. VSNL offers telephone services to 237 international destinations. With the commissioning of a gateway at Kanpur on March 27, 2000, VSNL now operates eight international gateways in India. The number of telephone circuits increased from 17,922 in March 1999 to 19,722 in March 2000.

Regulators have been moving to reduce tariffs on international calls and your company recognises that lower prices will satisfy customers and increase volumes. This could also increase the number of calls made from India to the rest of the world. In the last year, as in the past, the number of calls coming into India outstripped the calls made out of the country. The incoming to outgoing call ratio rose from 3.44:1 in 1998-99 to 3.74:1 in 1999-2000. In keeping with global telecom trends, the TRAI lowered tariffs by up to 23.2% for international calls from May 1, 1999. A further announcement of new tariffs is expected in September 2000 and we expect that tariffs will fall further in the future. In the long-term, this will help drive up volumes. VSNL would increasingly become a high-volume, low-cost provider.

For the same reasons, the fall in 'accounting rates', which govern payments for international telecom services between telecom providers from two different countries, could also benefit your company. These rates, generally negotiated annually, have been falling in the past few years, partly driven by regulators. For example, in the United States, which is one of VSNL's biggest traffic partners, the Federal Communications Commission's latest benchmarks will cause the settlement rate between VSNL and US carriers to fall by over 50% by 2002. Recognising the trend towards more such reductions in the future, VSNL is moving towards a uniform settlement with all international carriers located in a region.

VSNL will bear an increasing share of the burden of lower accounting rates under its revenue sharing agreement with the Department of Telecommunications (DoT). VSNL and the DoT share payments made by foreign telecom administrations and private carriers to VSNL for delivering international calls to India that are then passed on to the DoT's domestic network. Under the agreement between the DoT and VSNL, which is effective up to March 31, 2002, VSNL will take a more major share of any increase or decrease in revenues from international carriers by 2002. We expect that in the future, VSNL's margins per telephone minute will decline, but profits will be protected by the increase in volumes.

VSNL offers telephone services to 237 international destinations

Value Added Services

Your company has been laying considerable emphasis on the development of Internet and value added services. VSNL had a revenue from value added services of Rs.6.12 billion in the year 1999-2000 against Rs.4.92 billion in the year 1998-99. This was despite steep reductions in tariffs for Internet and IPLCs effected during the year.

The revenue from leased channels of Rs.3.01 billion and from Internet of Rs.2.10 billion represent the growing importance of these services in comparison to the overall revenue distribution of VSNL. Against these, the net revenue from telephony, arising out of the carriage of 2.24 billion minutes of traffic at the net retention rate of Rs.9.62 per minute amounted to Rs.21.60 billion.

Strategic Responses to Change

India's telecom market is undergoing rapid and complex changes in market structure, customer needs, regulation and competition. Even as the telecom industry becomes more competitive and market driven, it will continue to be a highly regulated area. Since regulation determines crucial variables like tariffs or the shape and timing of competition, your company is anticipating and analysing future developments and responding with a mix of strategies.

Your company is transforming itself from an international telephone service provider into an integrated information support services provider. VSNL is actively preparing for an open market to face emerging competition, regardless of the exact timing when it sets in. VSNL is investing in infrastructure and extending its coverage, as discussed a little later. Your company is confident that it will remain the dominant provider of international telecom services in India because of both its experience and infrastructure. Basic telephony will remain a crucial part of your company's business, especially since the growth potential for telecom services in India is significant: the penetration of telephone lines is expected to increase from 2.6 lines per 100 inhabitants to 15 lines per 100 by the year 2010.

Worldwide, value added services – largely data services – are growing at a much faster rate than voice telephony services. We anticipate that these services will contribute significantly to your company's future growth and profitability. In the fiscal year 1999-2000, basic telephony accounted for as much as 91.2% of VSNL's total traffic revenues.

TABLE 3

Particulars	Revenue (Rs. In Million)	Percentage
Telephone	62870	91.20
Telex & Telegraph	294	00.42
Leased Channels	3019	04.38
Internet	2095	03.04
Others	661	00.96
Total Traffic Revenue	68939	100.00

However, the share of telephony in net revenues is lower at around 60%, which shows that specialised and value added services are already an important part of VSNL's business. For example, VSNL arranges dedicated international leased lines for customers who need reliable 24-hour communications from a fixed point in India to a fixed point overseas. The total number of such leased lines grew from 161 in March 1995 to 659 in March 2000. Your company also provides services in the areas of Inmarsat satellite mobile telecommunications, electronic data interchanges, managed data network services, video conferencing, television relay services, packet switched data transmission and e-mail services.

Perhaps the biggest opportunity for your company lies in the hyper-growth area of Internet-related services. VSNL is confident that it will remain the leading provider in this business. VSNL provides Internet dial-up access in six cities, with a market share of around 70% in these cities. The Internet service provider (ISP) business has become highly competitive, with the licensing of about 315 new private ISPs since November 1998, of which approximately 70 are in operation. Despite that, your company's subscriber base for Internet access grew from 4,151 in March 1996 to 366,432 in March 2000 (213,045 in March 1999) and over 440,000 by June 2000. Your company also has the largest dedicated Internet network in India with connections to over 700 companies through Internet leased lines and about 105 DoT nodes. VSNL provides the key hosting services for a number of corporate and financial sites in India. Your company is keenly awaiting an all-India ISP license, which will allow it to expand its customer base even further.

VSNL's Internet backbone is based on highly advanced network management systems and Internet exchange switches. It has been consistently rated as one of the best performing backbones in Asia and the Far East by the Andover News Line Network, an independent rating agency. To stay ahead of demand, your company expanded its Internet bandwidth from 82 Mbps in March 1999 to over 167 Mbps in March 2000 and is set to expand to almost 1 Gbps by December 2000. While ISPs have been permitted to set up their own gateways, we believe that a significant number of them will continue to choose VSNL's gateway services because of the cost and quality advantages that our network offers.

perhaps the biggest opportunity for your company lies in the hyper-growth area of Internet-related services

Preparing for Growth

Your company has already invested billions of rupees in a powerful combination of satellites, submarine cables and microwave systems to provide seamless, high-quality connectivity. To ensure this, VSNL has a web of international alliances. Your company receives satellite capacity from two international satellite systems, Intelsat and Inmarsat, discussed below. VSNL's other strategic investments and alliances include the IOCOM cable (Chennai-Penang); the Gulf Cable (Mumbai-Fujairah); the Southeast Asia-Middle East-Western Europe 2 (SEA-ME-WE 2) optical fibre cable connecting 13 countries; and the SEA-ME-WE 3 cable system that lands in 33 countries. VSNL has also bought circuits in the Fibre Optic Link Around the Globe (FLAG) cable system which links Asia and Europe and is an investor in the South Africa and the Far East (SAFE) project, a broadband, high-capacity fibre optic system to connect Southeast Asia to Africa and the Mediterranean. All of that adds up to a formidable strategic leadership position.

your company seeks to leverage its experience and expertise by entering other telecom services in India and abroad

To maintain and increase that leadership, your company will continue to invest in infrastructure to support both basic telephony and value added services. To this end, VSNL expects to spend approximately Rs.50 billion in the five-year period up to March 2002. To improve the capacity and quality of international telecom services, your company will increase the number of international circuits. Your company plans to commission a wholly-owned, low-cost, fully-integrated digital network across the country which will include installing asynchronous transfer mode (ATM) switches, which enable more efficient transmission of voice and broadband data traffic. This project will also allow VSNL to diversify into high-growth areas including Internet, direct-to-home (DTH) television and multimedia services. VSNL is also preparing to offer voice services over the Internet, if and when this is permitted. Since specialised and value added services involve the transmission of data rather than only voice traffic, VSNL is expanding and upgrading its infrastructure to provide bandwidth for these services. VSNL will continue to acquire interests in undersea fibre optic cables and satellite transmission capacity.

To serve the exploding need for corporate Internet-related services, your company is also creating high capacity cyber ports to provide quality hosting and connectivity services to India's growing dotcom economy. VSNL's telehousing and managed hosting services already cater to Indian and international companies seeking reliable, low-cost servers in the region to host their websites. To gain an increasing share of such business, VSNL is commissioning a server farm at Vashi near Mumbai with 100,000 square feet of space as well as facilities in seven other locations, to house and host hundreds of servers.

Your company seeks to leverage its experience and expertise by entering other telecom services in India and abroad, primarily through joint ventures with domestic and foreign partners. Since the Indian government has decided to open national long distance services to competition, VSNL intends to become a key player in this market. Your company is also examining opportunities in basic and cellular telephony in India and abroad. VSNL is participating in a number of joint ventures and other initiatives to explore international opportunities. For example, VSNL, Mahanagar Telephone Nigam Ltd. (MTNL) and Telecommunications Consultants India Ltd., have submitted one consortium bid for telecom opportunities in Nepal, along with a Nepali company. Your company's other strategic joint ventures are as follows:

ISRO

VSNL signed a memorandum of understanding (MoU) with ANTRIX, the commercial arm of the Indian Space Research Organisation (ISRO) on May 26, 2000 for the acquisition of satellite capacity in the Indian Ocean region. This MoU marks the second milestone of close co-operation between VSNL and ISRO for satellite operations in the Indian Ocean region.

ICO Global Communications Mobile Satellite Services

ICO filed a voluntary bankruptcy protection in the US court in Delaware on August 27, 1999. Under a restructuring plan approved by the US Court of Bankruptcy, the equity stake of existing investors in the restructured company stands substantially reduced. VSNL's investment has been written down to approximately 1% and your company has provided for a write down of the ICO investment to the tune of Rs.5.13 billion as a non-recurring, extraordinary expense. The new ICO proposes to offer a family of services that are the satellite equivalent of third generation wireless services, including wireless Internet and other packet data services. VSNL will renegotiate its business agreements with the new ICO and seeks to continue a strategic business relationship with it.

Telstra Vishesh Communications Limited [TVCL]

This is a joint venture company formed by VSNL, IL&FS, and Telstra, with investment equity in the ratio of 40:20:40. The company has invested in a hybrid VSAT project and diversified into consultancy and facility management services and turnkey VSAT projects for large organisations.

Intelsat

VSNL is the second largest investor entity in the International Telecommunications Satellite Organisation (Intelsat), a consortium that owns and operates satellite communications systems. As of March 31, 2000, VSNL had an investment of 5.23% in Intelsat. VSNL's chairman and managing director is a governor on the Intelsat board for India and Israel.

In October 1999, the Intelsat Assembly of Parties (AP-24), decided to restructure Intelsat to operate as a privatised company, adopting various core restructuring principles and strategic preconditions to the privatisation, which is slated for April 1, 2001. In November 2000, the Assembly of Parties is expected to make a final decision regarding the form and timing of privatisation and the transfer of the organisation's assets to the private successor company. Intelsat signatories and investing entities will receive shares in the newly formed company in proportion to their holding in Intelsat.

New Skies Satellite N.V.

As reported last year, Intelsat formed a new spin-off company called New Skies Satellites-N.V. incorporated in the Netherlands in April 1998. It handles multi-regional video distribution, direct-to-home and interactive multimedia services. Six of Intelsat's satellites were transferred to New Skies by November 30, 1998. VSNL holds 344,215 shares (face value one Dutch guilder), which is 3.44% of the outstanding capital of NSS.

Inmarsat

The International Maritime Satellite Organisation (Inmarsat) was an Inter-Governmental Organisation (IGO) with membership from 88 countries, providing satellite mobile communication services on air, land, and at sea. Inmarsat was converted into a National Law Company (UK), on April 15, 1999. A small component, namely, International Mobile Satellite Organisation (Inmarsat) has been maintained to foresee the GMDSS implementation by the new National Law Companies under one holding company, namely, Inmarsat Ventures Limited (earlier Inmarsat Holdings Limited).

The Department of Telecommunications (DoT) approved VSNL's participation in the private company, and VSNL's investment in the current structure remains the same at 2.02%. Privatisation aims to allow Inmarsat to remain competitive in the fast-changing global mobile communication sector and attract investment for future projects. Mr. Vinoo Goyal, director (development), VSNL, has been elected to the board of Inmarsat for the second successive year.

Iridium India Telecom Limited

Iridium LLC, as a result of its bankruptcy under US laws, has stopped its worldwide operations. The Indian gateway for Iridium services was set up by Iridium India Telecom Limited (IITL) at your company's premises at Dighi, Pune. Your company had acquired equipment worth Rs. 500 million in the said gateway. As a result of Iridium LLC's bankruptcy, IITL has stopped its operational activities from April 1, 2000 resulting in discontinuance of the use of the gateway equipment. A technical committee has been formed within VSNL to determine possible future uses for the said equipment.

Concentrating on Customers

A key shift for your company is the increased direct interaction with large numbers of retail and corporate customers. Leadership in basic telephony calls primarily for the latest technology and efficient networks. However, your company recognises that value added services such as Internet-related businesses call for a sharper focus on marketing and customer care. Your company is strengthening its leadership in the Internet market with a number of unique initiatives to improve customer service and satisfaction, both in the past year and the current one:

From June 1, 2000, your company became the first and only Internet service provider (ISP) to automate its registration, renewal and customer handling services. Customers can now register or renew their accounts online by visiting the VSNL website "http://www.vsnl.com". Their starter kits will be couriered to them within 24 hours, or they may choose to collect them at VSNL's offices or through agents. No other ISP offers this facility.

On June 1, 2000, VSNL launched India's first major initiative in secured electronic transmissions based on credit cards. It launched a credit card gateway in co-operation with Easy NetCom Pvt. Ltd. and Equi Fax Venture Infotech Payment Services (EVI), which is the agency authorised to verify VISA and Master Card credit cards online. VSNL customers renewing their accounts online using credit cards will be connected to EVI's secure server so that their credit cards can be verified online. Their accounts will be renewed within one hour of online authorisation. In the month since this service was launched, VSNL has already handled Rs. 10 million worth of transactions and will now extend the service to the online registration of new accounts.

VSNL is the first ISP to commission a Wireless Application Protocol (WAP) gateway. Customers with WAP-enabled cellular phones can access their VSNL accounts through their phones, to check their e-mail or obtain information like share prices or railway reservations. VSNL is already the only ISP to offer access to its accounts from anywhere in the world, complete with free dial-up numbers.

From June 1, 2000, VSNL launched its 'Crackblock' service, which is a unique security feature unmatched – even worldwide – in protecting customers against fraudulent use of their accounts. It restricts account access to specified telephone numbers chosen by customers. The Crackblock facility is particularly suited for new applications such as e-banking, share trading and online access to key official websites. It operates fully online and customers can change access details as often as they wish.

Your company continued to reduce Internet account rates to benefit customers and increase its customer base. Under the monsoon package offered between June 1 and July 31, 2000, your company slashed its rates for VSNL Internet accounts by 50%, for both TCP/IP dial-up and ISDN accounts and for new as well as renewal accounts. Customers can access the Internet free between 11.00 P.M. and 8.00 A.M. on all working days and all day on Sundays, for the duration of the account, which is three years. This offer attracted over 100,000 new customers.

Your company recognises that Internet access will become increasingly cheaper, while service providers will earn revenues through advertising and e-commerce. To enable and increase these revenue streams, it is important to ensure a rich content experience for subscribers. Enabling e-commerce will also be a powerful revenue driver in the future. Your company therefore signed an MoU with Indiainfo.com Pvt. Ltd. for establishing a single integrated co-branded portal. The definitive agreements, however, remain to be signed.

During the coming year, VSNL will migrate to a customer relationship management platform to analyse, manage and maximise relationships with retail customers. Your company is upgrading its own systems and processes for better efficiency, as well as adding internal infrastructure. VSNL has already implemented financial modules of the Enterprise Resource Planning system SAP (R/3). We will now implement other modules including materials management, project management and human resources. A new office building was added at Calcutta during the year.

Your company may also consider spinning off some of its specialised services such as Internet access, e-mail, electronic data interchange and video conferencing into a separate company called VSNL Seamless Services Pvt. Ltd. (VSSL) to better focus on retail customers.

a key shift for your company is the increased direct interaction with large numbers of retail and corporate customers

VSNL is the first ISP to commission a Wireless Application Protocol (WAP) gateway

Divestment by the Government in Domestic Markets

The government of India divested 396,991 shares by way of offer of shares to employees of VSNL @Rs.294/- per share in May 1999. The government had also disinvested 1,000,000 shares in domestic markets during September 1999 @ Rs.750 per share. The offer closed on September 24, 1999 and was oversubscribed more than seven times. The share capital in the hands of the government at present is 50,320,480 shares (52.97%).

Capital Market Developments

Your company made history by becoming the first public sector unit to list on any stock exchange in the US. VSNL's ADRs commenced trading on New York Stock Exchange with effect from August 15, 2000. The listing of VSNL on the US bourse is an important landmark for your company.

VSNL was already the first ever PSU to complete the largest issue of Global Depository Receipts (GDRs) programme, in 1997 with 37.80 million GDRs. In 1999, when many Indian companies stayed away from international capital markets, VSNL was able to successfully complete the issue of a second tranche of 20 million GDRs overseas by way of divestments by the government.

The Securities and Exchange Board of India (SEBI) mandated the trading of VSNL shares only in dematerialised form with effect from January 4, 1999. Over 98% of the divested shares that are available in the market are presently held in electronic form. This makes your company one of India's largest electronically-held listed companies. The market capitalisation of your company increased to Rs.1,793 billion on March 31, 2000 as compared to Rs.627 billion as on March 31, 1999, based on quotations on Indian stock exchanges.

Year 2000 Risks and Issues

The year 2000 transition was smooth for your company. Your directors believe that this is a result of the preparatory work done for the transition as well as changes made in systems. The company provided a Y2K control room where very few calls were received seeking clarifications. These were handled immediately. The financial impact of the transition was insignificant. Your directors are happy to report that the transition was completed smoothly and going forward, see no material financial impact arising from year 2000 issues.

Fixed Deposits

Your company has not accepted any fixed deposits and therefore no amount of principal or interest was outstanding as of the balance sheet date.

Human Resources

Your company recognises that its employees are its most valuable asset. Despite the keen competition for people resources, your company has been able to attract and retain some of the country's top talent by offering challenging job opportunities and career growth. The software and systems for all the unique initiatives described above have been developed entirely in-house, demonstrating the calibre of your company's team.

On March 31, 2000, your company employed 3,014 people against 2,975 employees on March 31, 1999. Of these, 1,126 (1,058 last year) were executives and 1,888 (1,917 last year) were non-executives. There were 381 women employees (120 executives and 261 non-executives) in the company on March 31, 2000 against 373 (110 executives and 263 non-executives) on March 31, 1999.

Training remains a key tool for developing employees. During 1999-2000, 18 training programs were organised at VSNL's training institute at Pune, benefiting 402 participants including 18 foreigners. Besides, 79 employees benefited from different training programs conducted in India. During 1999-2000, 17 employees were sent abroad for training and 61 employees (48 in India and 13 abroad) have been trained in operations and finance under the CCCA Bilateral Training Programmes.

Reservation Policy

Your company continues to follow the government policy regarding the employment of scheduled castes, scheduled tribes and other backward classes (OBCs). As on March 31, 2000, the company employed 673 scheduled caste employees (against 650 last year), 191 from scheduled tribes (186 last year) and 165 from OBCs (156 last year).

Industrial Relations

As in past years, industrial relations continued to be cordial and there were no strikes or lock-outs during the year. Your company already has a well-designed, progressive, promotion policy. Your management is now in dialogue with the Federation of Employees' Unions for more liberal career growth opportunities for its members, to help retain employees in a competitive environment. The management has retained the consulting firm M/s Arthur Andersen to review the present cadre structure and human resource systems.

Presidential directives were issued for the pay revision of executives due from January 1, 1997. The VSNL board has recommended a compensation package with some enhancements for its executives and has forwarded this to the ministry for its consent. Negotiations with the Federation of Employees Unions are expected to commence shortly to finalise the pay scales of non-executive employees.

Official Language Implementation

Your company follows the government's guidelines on the official language policy. Various manuals, formats and brochures have been translated into Hindi and employees have been provided with the Windows-based bilingual software 'WINKY' to increase the use of Hindi. An incentive scheme was introduced to encourage employees to use Hindi in their official working and training programmes and workshops to improve Hindi knowledge were organised. To celebrate the 50th anniversary of the national language, your company organised 'Hindi Days' and 'Hindi Fortnights' in all centres and branches.

Statutory Information and Disclosures

There was no employee who was in receipt of remuneration which was in excess of limits set under the provisions of Section 217 (2A) of the Companies Act, 1956, and read with the Companies (Particulars of the Employees) Amendment Rules 1988, during the year. There are no particulars to be disclosed pertaining to the year under review in respect of R&D, technology absorption and so on as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988. For the purpose of Form 'C' under the said Rules, foreign exchange earnings were equivalent to Rs. 48,171 million and foreign exchange outgo was equivalent to Rs. 15,867 million.

your company recognises that its employees are its most valuable asset

The Board Of Directors

The board of VSNL has been re-constituted to make it a full-fledged Navratna company. The board includes five whole-time directors including the chairman and managing director (CMD); two representatives from the Department of Telecommunications and four renowned personalities from industry nominated by the government.

Mr. Shailendra Kumar Gupta, CMD, heads your company and the board of directors. Mr. Gupta took over the reins of VSNL on September 7, 1999 as its CMD after more than three decades of service with the Department of Telecommunications.

Mr. Rajneesh Gupta, director (network), Mr. Vinoo Goyal, director (development) and Mr. R.S.P Sinha, director (finance) were appointed as whole-time directors in the Schedule 'B' scale. These directors joined your company on November 23, 1998, December 9, 1998 and January 14, 1999 respectively.

Mr. Amitabh Kumar, director (operations) has been employed at VSNL in various capacities since its inception. Mr. Amitabh Kumar was appointed on the board as director (operations) initially on September 4, 1995 in the Schedule 'C' scale and was placed in the Schedule 'B' scale on May 7, 1999.

Mr. Subodh Bhargava, Mr. Ashok Wadhwa, Padmashri N.R. Narayana Murthy and Mr. H.P. Wagle were appointed as directors on the board with effect from December 15, 1998.

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the company, Mr. B.R. Khurana, Mrs. S.A. Tirmizi and Mr. Rajneesh Gupta will retire by rotation at this annual general meeting.

Acknowledgements

The directors take this opportunity to express their appreciation and thanks for the hard work, diligence and fidelity of every employee. The directors also note that the awareness campaign for good customer service, innovation, efficiency, and reliability has continued to receive support, co-operation and commitment from employees at all levels.

The directors appreciate the support of various ministries and departments of the Government of India, the Department of Telecommunications, Department of Telecom Services and Mahanagar Telephone Nigam Limited.

Finally, the directors are grateful to the company's stakeholders and partners including its customers, shareholders, bankers, solicitors, suppliers and foreign telecom administrations for their support.

On behalf of the Board of Directors

S.K. Gupta
Chairman and Managing Director

Dated: August 25, 2000

Registered Office
Videsh Sanchar Bhavan
Mahatma Gandhi Road
Mumbai - 400 001.

Note on disputed tax liability

The Income tax authorities had disallowed the license fee of Rs. 2866 million paid by the Company to DOT as a deductible expenditure for the year ended March 31, 1995. Similar claims for the subsequent years were also disallowed. The Company lodged an appeal with the Commissioner of Income Tax (Appeals), Mumbai which was decided against the Company. Therefeore, the Company appealed to the Income-Tax Appellate Tribunal (ITAT), Mumbai with respect to the assessment for the financial year ended March 31, 1995. The ITAT vide its order dated September 14, 2000 decided the matter in Company's favour and has held that the amount paid by the Company to DOT as License Fee is an allowable expenditure u/s. 37(1) of the Income Tax Act. Consequent to this order, the Company is entitled to get the refund to the extent adjusted, from the Income Tax Department with respect to the year ended March 31, 1995. In addition the Company can request the income tax authorities to apply resjudiceta and allow license fee as deductible expenditure for subsequent years also.

Financial Performance

VSNL has been a consistently profitable and efficient performer, turning in an impressive business and financial performance year after year. As the accompanying table shows, VSNL has steadily improved its performance on key parameters every year. Profitability indicators such as operating margins and cash profit margins have improved each year for the past five years, indicating not just a strong operational performance but also a high degree of efficiency. The net profit margin has shown a similar improvement except in the year 1999-2000, which was due to the one-time write down of the company's investment in ICO Global Communications, as decreed by international authorities. Without this adjustment, the net profit margin would have been a healthy 17.39%. Besides, your company will receive the tax benefits from this write-down in the current financial year.

Another indicator of efficiency is that total expenditure has declined in relation to total income, indicating a healthy control over expenses and better productivity. This focus on profitability, efficiency and protecting and improving margins will be a valuable advantage in the likely future scenario of falling tariffs accompanied by increased volumes. Apart from these advantages, VSNL also has the financial strength and capacity required to sustain its future growth and investments in existing and new strategic business areas. VSNL's strength is indicated by the consistent growth in net worth over the last half-decade. Additionally, VSNL has a very low debt-equity ratio and is a company with almost zero debt. In fact, VSNL generates large free cash flows every year. Thus, VSNL is comfortably placed for its expansion plans and also has considerable head-room for any further resource raising that may be necessary to fund future growth.

On stock-related parameters too, VSNL's performance has been healthy. The book value of the share has increased consistently over the past five years. Independent analysts have repeatedly pointed out that the company's stock is undervalued relative to its strength and potential as well as in comparison to other telecom stocks globally. While the share price depends entirely on investor sentiment and market movements, VSNL will always live up to the promise of its potential with strong performances.

...a consistently profitable and efficient performer, turning in an impressive business and financial performance year after year

Ratios

PROFITABILITY RATIOS	1995-96	1996-97	1997-98	1998-99	1999-2000
Operating profit margin (OPM)	18.49	18.34	21.95	26.20	27.58
Gross profit margin (GPM)	17.25	17.21	23.23	28.50	28.16
Cash profit margin	10.55	10.72	16.07	19.58	20.01
Net profit margin	9.16	9.55	15.04	18.47	11.62
Overheads/total income	1.48	1.65	2.91	1.73	2.13
Return on Average Capital Employed	35.80	24.93	29.42	31.80	16.00
Pre interest profit as % of ACE	59.42	43.89	45.44	49.12	38.78
ROANW	36.20	23.50	27.04	27.60	14.49
Total expenditure/Total income	84.14	84.36	78.26	73.32	72.47

Figures are in %

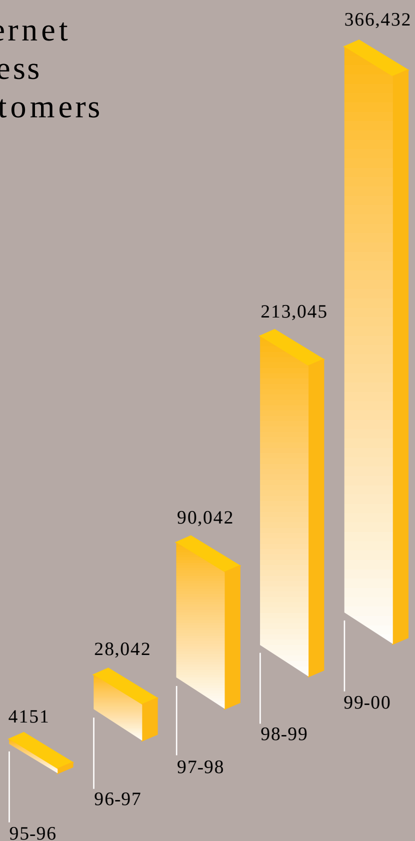
BUSINESS CHARACTERISTICS					
Debt Equity ratio	0.08	0.08	0.04	0.0005	0.0007
Tax rate (%)	40.18	37.98	30.17	29.99	32.82
Revenue to Capital Ratio*	3.13	1.64	1.48	1.32	1.17
Income/debtors ratio	3.36	3.45	3.83	3.57	2.84
Income/Avg assets ratio	4.77	4.61	4.67	4.36	3.57
Net WC/as part of TCE %	35.00	64.00	66.00	68.00	68.00
Current ratio	1.26	1.90	2.07	2.10	2.12
Quick ratio	1.25	1.90	2.07	2.10	2.12
Cash and equivalents/total assets %	16.84	45.21	57.97	45.20	45.45
Depreciation/gross block %	5.28	4.67	4.30	4.51	4.09

* Capital = Total of Sources of Funds

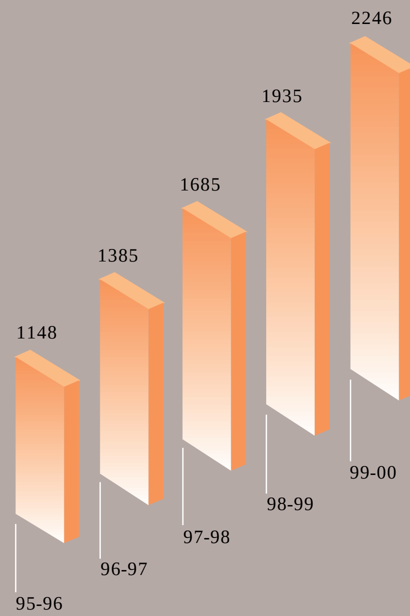
GROWTH (% over preceding year)					
Growth in turnover	19.37	16.16	21.81	11.49	0.77
Growth in Forex earnings (Gross)	36.27	17.61	18.39	17.78	1.68
Growth in PBIDT (excl other income)	50.17	13.92	41.81	43.68	4.30
Growth in PAT (before ICO Write Off)	37.04	23.24	91.78	36.89	2.12
Growth in PAT (after Rs. 5,127,595,697/-ICO W/o)					(36.58)
Growth in cash profit	34.00	21.00	84.00	36.00	3.00

PER SHARE DATA					
Earnings (Rs.)	51.20	54.76	101.88	139.47	88.45
Dividend %	45.00	35.00	40.00	80.00	80.00
Book value (Rs.)	164.72	323.10	440.03	570.59	649.92
P/E (as of Year end)	23.44	18.17	8.25	5.02	21.34

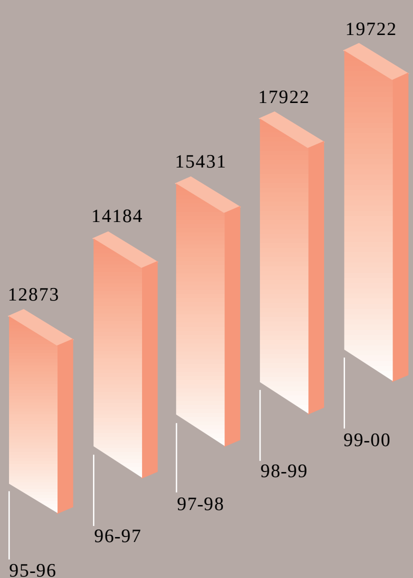
Internet access customers



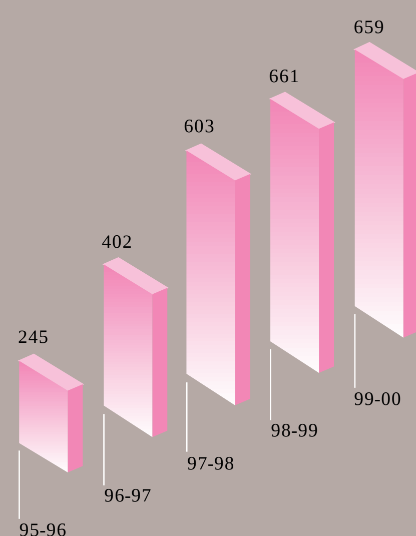
Telephone paid minutes (in million)



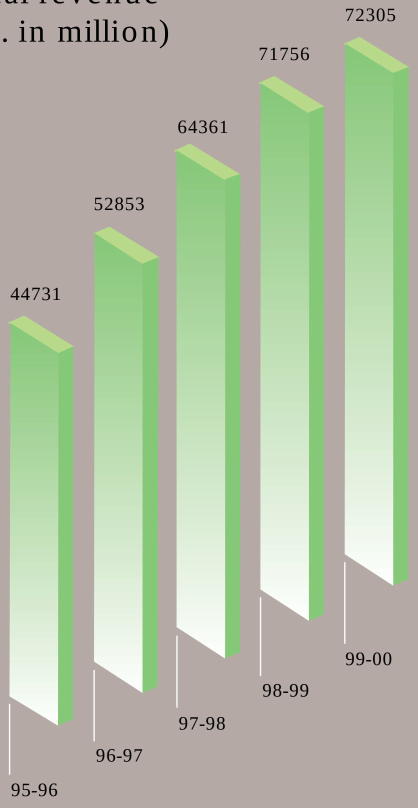
Telephone circuits



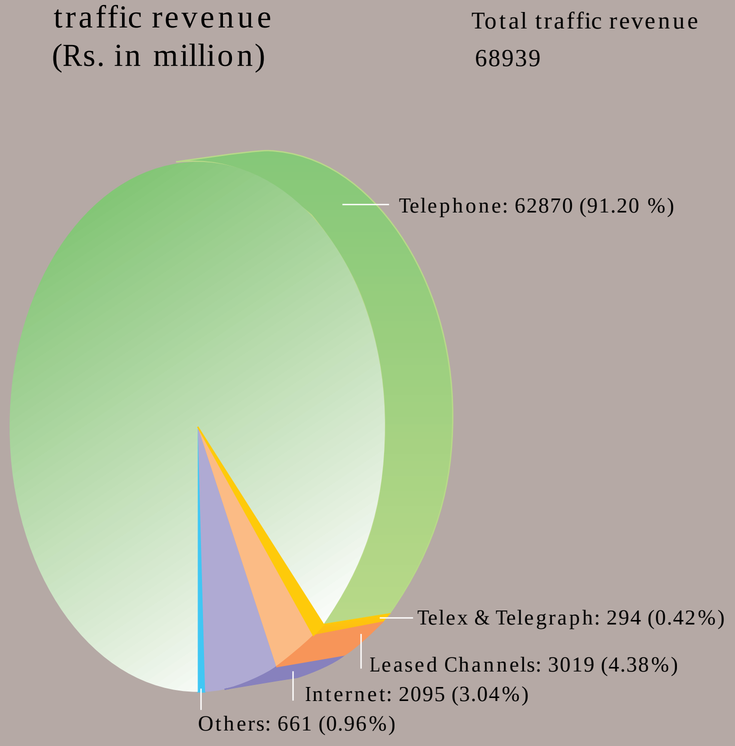
High-speed data circuits



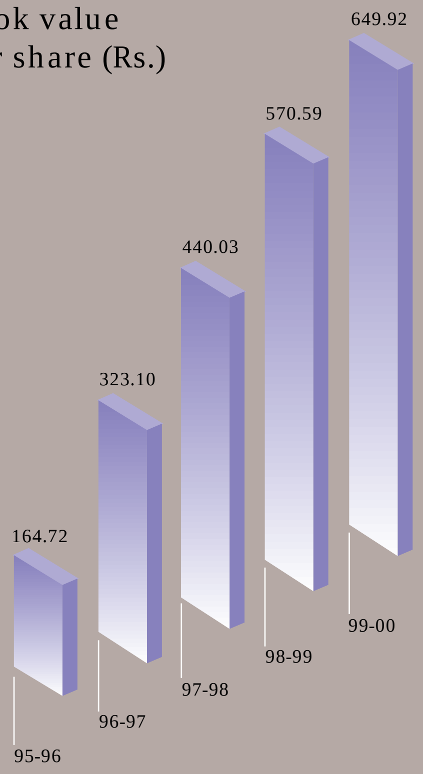
Total revenue (Rs. in million)



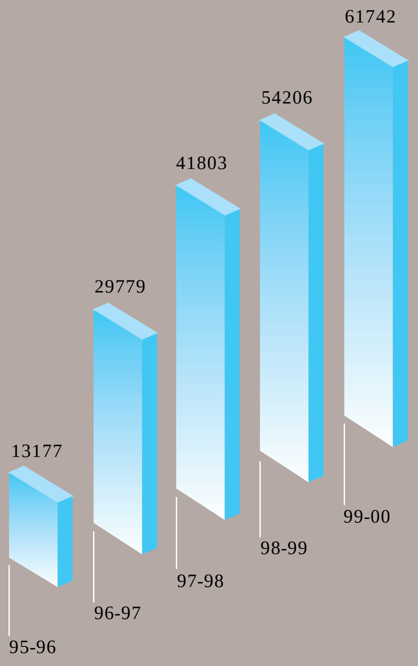
Break-up of traffic revenue (Rs. in million)



Book value per share (Rs.)



Net worth (Rs. in million)



Five Years at a Glance

DESCRIPTION	1995-96	1996-97	1997-98	1998-99	1999-2000	% change over previous year
1 International Telecommunications Traffic						
1.1 (a) Telephone Paid Minutes (million)	1147.56	1384.9	1684.51	1935.01	2245.83	16.06
(b) Transit Telephone Paid Minutes (million)	6.70	5.24	7.95	9.05	4.27	(52.82)
1.2 Telex paid minutes (million)	20.40	17.35	14.02	11.06	9.89	(10.58)
1.3 Telegraph words (million)	21.14	18.95	16.32	14.63	8.75	(40.19)
1.4 Photo Telegraph in Sq. cms. (million)	0.34	NIL	NIL	NIL	NIL	
1.5 Television Traffic (in minutes)	116683	143050	185930	92530	135500	46.44
1.6 Bureaufax (pages)	80356	55700	48250	40000	22000	(45.00)
1.7 Data transmission (GPSS)						
Minutes (in 000)	7725	7982	8920	7929	7116	(10.25)
Segments (million)	560.86	521	613	469	267	(43.07)
1.8 Inmarsat Traffic						
Telephone (,000 mts)	2597.28	3307	2660	1961	1953	(0.41)
Telex (,000 mts)	982.52	878	807	272	97	(64.34)
1.9 Internet Access Customers (Commissioned on August 15th, 1995)	4,151	28,042	90,042	213045	366432	72.00
2 Growth of International Circuits						
2.1 Telephone Circuits	12873	14184	15431	17922	19722	10.04
2.2 Telex Circuits	1128	1081	1012	787	682	(13.34)
2.3 Telegraph Circuits	38	35	35	34	25	(26.47)
2.4 Leased Telegraph Circuits	102	87	68	48	38	(20.83)
2.5 Leased Voice/Data Circuits (including IBS Circuits)	54	44	35	25	23	(8.00)
2.6 Leased High Speed Data Circuits	245	402	603	661	659	(0.30)
2.7 Satellite Circuits	8573	9220	9266	10609	11409	7.54
2.8 Cable Circuits	4300	4964	6165	7313	8313	13.67
3 International Automatic Services						
3.1 ISD Telephone Service to countries	236	236	236	236	237	0.42
3.2 IXSD Telex Service to countries	238	238	237	237	237	0.00
3.3 Bureaufax Service to countries	31	32	32	32	32	0.00

Shareholder Information

1	Date of book closure	:	16.09.2000 to 30.09.2000 (both days inclusive)
2	Date and venue of the AGM	:	September 26, 2000 at 11.00 a.m. At Birla Matushri Sabhagar 19, Sir Vithaldas Thackersey Marg Mumbai - 400 020.
3	Dividend payment	:	After October 25, 2000 but within the statutory time limit.
4	Financial Calendar Fiscal year ending Annual General Meeting	: :	March 31, 2000 September 26, 2000
5	Financial reporting for - First quarter ending June 30, 2000 Second quarter ending Sept 30, 2000 Third quarter ending Dec 31, 2000 Fourth quarter ending March 31, 2001	 : : : :	 July 27, 2000 October 2000 January 2001 April 2001
6	Listing on Stock Exchange in India	:	The Company's shares are listed on the Stock Exchanges at Mumbai, Calcutta, Chennai, Delhi and National Stock Exchange (NSE) in India.
7	Listing Fees	:	Annual listing fees as due to each of the above Stock Exchange for 1999-2000 and 2000-2001 have been paid.
8	Listing on Stock Exchange outside India	:	Global Depository Receipts (GDRs) issued by the Company in the International Market have been listed on the London Stock Exchange. The Company has now listed its scrip on New York Stock Exchange (NYSE) by converting its GDRs into ADRs. The trading on NYSE commenced from August 15, 2000. GDR holders are given time of sixty days for converting their GDRs into ADRs or eventually GDR holders will have to surrender their holding in exchange of underlying shares. Bank of New York continues to be depository for ADRs.
9	Reuters code	:	VSNL.BO (BSE) BSE Code : 483 VSNL.NS (NSE) NYSE Code: VSL VSNLq.L (LSE)

10 Stock market data relating to shares listed in India :

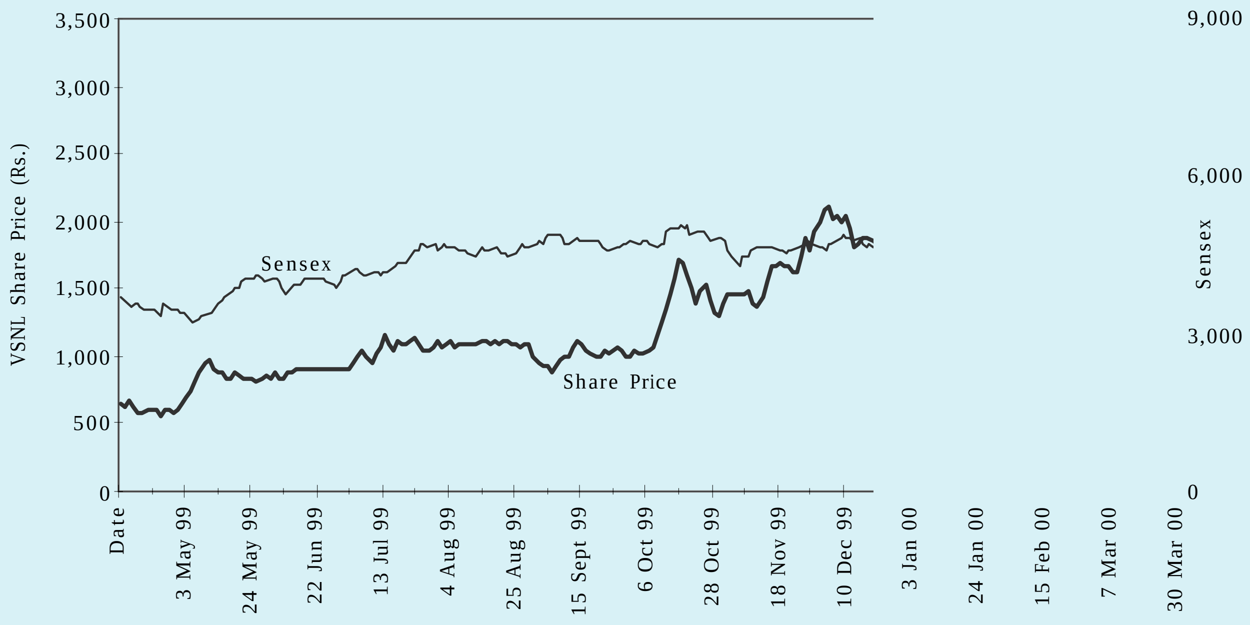
Monthly high and low quotations and volume of shares traded at BSE & NSE for 1999-2000 are :

	BSE Share Price (Closing)			NSE Share Price (Closing)			BSE SENSEX (Closing)	
Date	High	Low	Volume	High	Low	Volume	High	Low
Apr-99	661.50	565.00	42186	696.60	556.00	53847	3,686.29	3,245.27
May-99	976.75	645.80	157716	1,042.20	710.00	285240	4,123.58	3,378.40
Jun-99	915.00	830.05	262999	910.00	835.00	108427	4,254.86	3,901.73
Jul-99	1,149.90	900.00	47873	1,130.00	906.00	524764	4,728.78	4,144.52
Aug-99	1,124.00	1,055.00	188307	1,132.40	1,018.65	21924	4,905.89	4,487.87
Sep-99	1,105.00	890.00	8888	1,088.00	898.80	48062	4,832.56	4,571.09
Oct-99	1,705.55	1,005.00	112558	1,727.05	1,024.10	384109	5,075.39	4,444.56
Nov-99	1,871.65	1,290.00	532408	1,890.65	1,296.10	277093	4,740.68	4,270.74
Dec-99	2,110.00	1,775.70	565736	2,087.90	1,756.55	771455	5,005.82	4,614.96
Jan-00	2,100.00	1,618.00	650374	2,093.30	1,621.40	575938	5,518.39	5,205.29
Feb-00	3,071.90	1,905.00	632330	3,152.15	1,904.60	1024037	5,933.56	5,215.54
Mar-00	2,582.95	1,840.00	722034	2,594.20	1,852.50	724276	5,642.12	5,001.28
	Total		3923409			4799172		

Percentage of volume traded on BSE & NSE to shares available in Indian market 56.46%**

** Out of the total 95 million outstanding shares, the number of shares available in Indian markets have been considered to be 15447746 only which has been arrived at after deducting 50320480 shares held by Government of India, 28834783 shares issued as underlying shares for GDRs and 396991 shares held as non-tradable shares till May 12, 2002 by employees.

11 Performance of VSNL Share Price on BSE in comparison to BSE Sensex.



12 Registrar and Transfer Agents : MCS Software Solutions Limited

Jukaso House, Opp. Sakinaka Telephone Exchange, Andheri (E),

Mumbai - 400 072.

Tel : (22) 856 1138-42.

Fax : (22) 851 1229.

Email : mcsin@giasbm01.vsnl.net.in

Website : http://www.mafconsult.com

13 Share Transfer System :

Share transfers in physical form can be lodged with MCS Software Solutions Limited at the above mentioned address. The transfers are normally processed within 30 days from the date of receipt if the documents are complete in all respects. A Committee of Share Transfers is empowered to approve transfers.

14 Distribution of Shareholding :

		Number of shareholders
Number of ordinary shares held	31.03.2000	31.03.99
1 to 100	46372	134
101 to 500	2228	30
501 to 1000	115	5
1001 to 10000	70	8
Over 10000	215	8
Total	49000	185

15 Categories of Shareholders :

Category	Number of Shareholders		Voting Strength		Number of Shares held	
	31.03.00	31.03.99	31.03.00	31.03.99	31.03.00	31.03.99
Central Government including nominees of President of India	9	9	52.97	54.439	50320480	51717471
Indian public financial institutes & mutual funds	42	27	6.55	7.852	6215824	7460133
Indian nationalised bank	14	1	0.35	0.0003	332783	233
Foreign Financial institutes	98	64	8.05	7.209	7649392	6849363
Foreign companies (shares held by Bank of New York as depository for GDRs)	1	1	30.35	30.421	28834783	28900000
Non resident individuals	87	7	0.01	0.002	6549	2100
Other Indian bodies corporates	410	35	0.20	0.026	191930	25186
Others (including 3,96,991 shares held by employees)	48399	313	1.39	0.043	1322202	41024
In transit demat shares			0.13		126057	4490
			100.00	100.00	95000000	95000000

16 Dematerialisation of shares and liquidity : 98.5% of the company's share capital available in market is dematerialised as on 31.03.2000. The company's shares are regularly traded on the Stock Exchange Mumbai and the National Stock Exchange, as is seen from the Table containing market information.

17 Outstanding GDRs/ADRs, conversion date and likely impact on equity : 57669566 GDRs/ADRS (each representing one half ordinary share of the company). In respect of these GDRs/ADRs the option to convert into shares is alive.

18 Registered Office :

Videsh Sanchar Nigam Limited
Videsh Sanchar Bhawan
M. G. Road, Mumbai - 400 001.
Tel : +91 22 262 4020/261 9632
Fax : +91 22 262 4027
Email : help@vsnl.com
Website : www.vsnl.com

19 Compliance Officer :

Mr. R.N. Aditya
Assistant Company Secretary
Videsh Sanchar Nigam Limited
Videsh Sanchar Bhawan
M. G. Road, Mumbai - 400 001.
Tel : +91 22 262 4020/261 9632
Fax : +91 22 266 7954
Email : rnaditya@vsnl.com

Corporate Governance philosophy and practice

As a company substantially owned by the government, your company has always held itself to high standards of accountability, auditing, disclosure and reporting. As VSNL adds new private and international shareholders, these standards continue to define your company's corporate governance philosophy of transparency and accountability, built on strong systems and procedures. To this end, your company is also installing new systems including an integrated financial accounting and budgeting system and has increased the number and quality of its financial and accounting personnel. VSNL has implemented the financial information and controlling modules of the Enterprise Resource Planning system SAP(R/3), which will allow flexible compiling and reporting.

VSNL's operations and accounts are audited on four levels: an internal audit; a statutory audit by Indian accounting firms under Indian accounting requirements; a government audit by the Comptroller and Auditor General of India; and an audit by international accounting firms under the International Accounting Standards. Your company's audits are then reconciled under US GAAP. A chief vigilance officer deputed from the government of India, with a rank equivalent to the members of the company's board, oversees the company's policies and procedures on ethical and responsible corporate behaviour. Your company communicates regularly with its shareholders through presentations and meetings with analysts and investors. The Securities and Exchange Control Board of India (SEBI) has introduced a corporate governance code to be implemented by March 31, 2001. Your company has voluntarily complied with most of its requirements a year early.

Audit Committee

Audit Committee was first constituted on December 15, 1998. Subsequently, it was reconstituted to fall in line with the requirements of clause 49 of the listing agreement on April 29, 2000. The committee now has five members including two whole time directors and three non-official part-time directors. The committee is chaired by Mr. Ashok Wadhwa, who has a financial and accounting background. The audit committee meets at least thrice a year. The committee's broad scope is as follows:

i) To oversee the company's financial reporting and disclosure processes to ensure that the financial statement is correct, sufficient and credible.

ii) To review and discuss the company's financial and risk management policies including internal control systems and any irregularities thrown up in audits.

iii) To interact with external and internal auditors, to recommend the appointment and removal of external auditors and fix audit fees.

iv) To review the annual financial statements with management before submission to the board, focusing on key areas such as changes in accounting policies and practices; major accounting entries based on exercise of judgement by management; material transactions with promoters, the management, their subsidiaries or relatives that may have potential conflict with the company's interests.

v) To examine the reasons for any substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.

Executive Committee of Directors

An Executive Committee of Directors (ECD) has been constituted by the Board with effect from March 10, 2000 as follows:

a) The ECD comprises of the CMD (in the chair) and the whole-time Directors as its members, with the Company Secretary as its Convenor.

b) The ECD functions In addition the other Committees constituted by the Board from time to time.

c) The ECD considers routine items which otherwise are placed before the Board and also some approval items which do not fall in the category of policy, planning and performance reporting.

d) In addition to routine noting items, ECD also considers shares and shareholder related approval items and take required decisions on behalf of the Board.

e) The ECD is free to reserve any item placed before it for the consideration of and decision by the Board.

f) ECD presently does not have any financial powers.

Management Committee

VSNL's management committee is presided over by the company's chairman and managing director and consists of four whole-time directors and the company secretary. The committee aims to smoothen day-to day management decision-making. It discusses inter-departmental concerns and issues. Other Senior officials and departments heads of VSNL are also invited at the periodical meetings.

Topical Sub-committees of the Board

The board constitutes need-based sub-committees to make decisions on topical issues on its behalf. These have included sub-committees on Global Depository Receipts (GDRs), share transfer, domestic disinvestment, American Depository Receipt (ADRs), marketing, carrier relations, tariffs etc.

Task Force

The Board has constituted a task force consisting of four whole-time directors with the company secretary as its convenor to make recommendations to the board on issues including matters which need not be submitted to the board; the structure and delegation of powers for autonomy in operational decision making; the formation of different board committees such as the purchase committee, market committee or compensation committee; and any government rule that is likely to hinder the company's smooth functioning.

Investor Grievance Committee

Following a decision of the board at its meeting held on April 29, 2000, an investor grievance committee was constituted to meet ordinarily once in two months. The committee will look into redressing of shareholder and investor complaints like transfer of shares, non-receipt of balance sheet or non-receipt of declared dividends.

सत्यमेव जयते

Post and Telecommunications Audit Office Mumbai

Administrative Building, Telecom Complex
'C' Wing, 4th Floor, Juhu Danda,
Santacruz (West)
Mumbai-54

No. Report/VSNL A/cs/1999-2000/81

Dated : 28 August 2000

To,

The Chairman and Managing Director,
Videsh Sanchar Nigam Limited
Mumbai

Subject : Comments of Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 2000

Sir,

I am to forward herewith the comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, on the Accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 2000 along with 'Review of Accounts'.

The Comptroller and Auditor General of India has decided that 'Review of Accounts' by the Comptroller and Auditor General of India as enclosed may please be published as an annexure to the Director's Report. If this arrangement is not acceptable to the Company, the Review will have to be treated as the Comptroller and Auditor General's comments under Section 619(4) of the Companies Act, 1956 and it will be an addition to the comments sent herewith.

Kindly acknowledge receipt.

Yours faithfully,

(SANJAY KUMAR JHA)
DEPUTY DIRECTOR

Comments of Comptroller & Auditor General of India

under Section 619(4) of Companies Act, 1956 on the accounts of Videsh Sanchar Nigam Limited, Mumbai for the year ended 31st March 2000.

A. Balance Sheet

1. II . Application of Funds
Current Assets Loans and Advances
Other current assets (Schedule 9) Rs.16.07 crore

This is understated by Rs.2.20 crore due to noninclusion of the amount receivable from MTNL towards
(a) Service tax Rs.0.48 crore and
(b) Internet telephone access line charges Rs. 1.72 crore which was paid in excess during 1998.

This has resulted in overstatement of prior period adjustment (expenses) by Rs.2.20 crore and understatement of profit after tax by same amount.

2. Current Liabilities and Provisions (Sch. 11)
Current Liabilities
Sundry Creditors
Others - Rs. 184.08 crore.

This is understated by Rs.4.54 crore due to non-inclusion of

a) Rs.3.46 crore being the operation and maintenance charges payable to Telecom Malaysia for Indian Ocean Commonwealth (IOCOM) under sea cable system for the period from January 1997 to June 1998. This may further increase on receipt of bills for subsequent period and

b) Rs.1.08 crore being the annual maintenance service charges payable to a firm towards Gateway Digital Systems for the period from October 1999 to March 2000

This has resulted in understatement of Repairs and maintenance charges of Plant and machinery by Rs.1.08 crore and prior year adjustments (expenses) Rs.3.46 crore and profit after tax by Rs.4.54 crore.

B. General

3. Significant Accounting Policies and Notes to the Accounts. (Schedule 22)
B. Notes forming part of the Accounts.
Item-18 (d)

The Company in their Income tax returns for the financial years 1997-98, 1998-99 and in the advance tax paid for 1999-2000 have claimed licence fee and benefit under Section 80 IA for Rs 182.76 crore, Rs 216.54 crore and Rs 273.90 crore, respectively, as deductible expenditure. Similar claims for earlier years were disallowed but are under consideration of Income Tax Appellate Tribunal (ITAT). This position has not been disclosed in the Note.

4. A reference is invited to the comment of the C&AG of India on the accounts for the year ended 31st March 1999 indicating that an amount of Rs 23.70 crore payable to DoT as Interest for non settlement of the traffic dues (Rs.19.65 crore) and super group rental charges (Rs.4.05 crore) relating to the year 1998-99 in terms of Memorandum of Understanding (MoU) executed between DoT and VSNL was not accounted for leading to overstatement of profit by Rs.23.70 crore. No provision has been made even this year for this liability.

The impact of the above comments on the company's accounts is the reduction in the profit after Tax by Rs. 2.34 crore.

(Sanjay Kumar Jha)
Deputy Director
P&T Audit Office
Mumbai

Review of accounts of Videsh Sanchar Nigam Limited
for the year ended 31st March 2000
by the Comptroller and Auditor General of India

Note: Review of Accounts has been prepared without taking into account comments under section 619 (4) of the Companies Act,* 1956 *and qualifications contained in the Statutory Auditor's Report.

1. Financial Position

The table below summarises the financial position of the Company under broad headings for the last three year

(Rs. in crore)

Liabilities	1997-98	1998-99	1999-00
a) Paid up capital	95.00	95.00	95.00
i) Government	61.72	51.72	50.32
ii) Others	33.28	43.28	44.68
b) Reserves & Surplus			
i) Free Reserves & Surplus	2634.38	3874.97	4628.80
ii) Share Premium Account	1448.18	1448.18	1448.18
iii) Capital Reserves	2.75	2.41	2.24
c) Borrowings			
i) From Govt. of India	-	-	-
ii) From Financial Institutions	-	-	-
iii) Foreign Currency Loans	-	-	-
iv) Cash Credit	156.23	2.55	4.57
v) Others	-	-	-
vi) Interest accrued & due	-	-	-
d) i) Current liabilities & Provisions	2375.77	3404.45	3623.36
ii) Provisions for Gratuity	1.57	0.88	1.61
Total	6713.88	8828.44	9803.76

Assets	1997-98	1998-99	1999-00
e) Gross block	1521.57	1769.78	2282.03
f) less : Depreciation	463.15	542.00	637.78
g) Net block	1058.42	1227.78	1644.25
h) Capital works in-progress	166.03	317.01	88.75
i) Investments	598.57	805.56	379.94
j) Current Assets, Loans and Advances	4890.86	6478.09	7690.82
TOTAL	6713.88	8828.44	9803.76
k) Working Capital [j-d(i)-c(vi)]	2515.09	3073.64	4067.46
l) Capital Employed (g+k)	3573.51	4301.42	5711.71
m) Net Worth [a+b(i) +b(ii)]	4177.56	5418.15	6171.98
n) Net Worth per Rupee of paid up capital (in Rs)	43.97	57.03	64.97

2. Working Results

The working results of the Company for the last three years are given below:

	1997-98	1998-99	1999-00
i) Traffic Revenue (Sales)	6074.98	6756.02	6893.91
ii) Less : Excise Duty	-	-	-
iii) Net Sales	6074.98	6756.02	6893.91
iv) Other or Misc. Income	361.15	419.55	336.60
v) Profit/Loss before tax and prior period adjts.	1428.41	1965.50	1942.73
vi) (a) Prior period adjustments [Dr (+) Cr(-)]	(-) 29.49	(-)51.15	47.84
(b) Extraordinary item - loss of ICO investment.			(-) 512.76
vii) Profit/Loss before tax	1398.92	1914.35	1477.81
viii) Tax provision	431.01	589.40	637.53
ix) Profit after tax	967.91	1324.95	840.28
x) (a) Proposed Dividend	38.00	76.00	76.00
(b) Tax on Dividend	3.80	8.36	10.45

3. Ratio Analysis

Some important financial ratios on the financial health and working of the Company at the end of last three years are as under :

	1997-98	1998-99	1999-00
a Liquidity Ratio			
Current Ratio (Current assets to Current Liabilities and Provision and interest accrued & due but excluding provisions for Gratuity) [j/(d)(i)+c(vi)]	2.06	1.90	2.12
b. Debt Equity Ratio			
Long Term debt to Equity [c(i) to v but excluding short term loans)/o]	0:1	0:1	0:1
c. Profitability Ratios			
a) Profit before tax to			(In percentages)
i) Capital Employed	39.97	45.69	34.01
ii) Net worth	34.19	36.28	31.48
iii) Sales	23.51	29.09	28.18
The ratio of Profit Before Tax to capital employed, to networth and to sales shown a decreasing trend during the year under report.			
b) Profit after tax to Equity	1018.85	1394.68	884.50
c) Earnings per share (in Rupees)	101.89	139.47	88.45

There was steep fall in the above two items during the year under report due to writing off of an investment of Rs. 512.76 crore in ICO Global Communications (Holdings) Ltd. which filed voluntary petition for reorganisation under US bankruptcy court.

4. Working Capital

The working capital (current assets less current liabilities) increased from Rs. 2515.09 crore in 1997-98 to Rs. 3073.64 crore in 1998-99 and to Rs. 4067.46 crore in 1999-00. The increase in working capital during these years was mainly due to inflow of Euro Issue Funds. Traffic revenue, as a percentage to working capital which stood at 242 in 1997-98 but decreased to 220 in 1998-99 and to 169 in 1999-2000.

Though the working capital has increased substantially due to influx of Euro funds, the Traffic Revenue as a percentage to working capital was recorded a steep fall.

5. Sources and Utilisation of Funds

Funds amounting to Rs. 1363.39 crore from internal and external sources were generated and utilised during the year 1999-00 as under:

Sources of Funds :			
a)	Funds generated from Operations		
	Profit after Tax	840.28	
	Depreciation	95.47	
	Others written back		
			935.75
B)	Increase in Bank loan		2.02
c)	Decrease in Investment		425.62
	Total		1363.39
Utilisation of Funds :			
a)	Net addition to Fixed Assets and Capital work-in-progress		283.86
b)	Dividend paid		84.36
c)	Increase in working capital		995.17
	Total		1363.39

6. Sundry Debtors

Sundry debtors vis-a-vis traffic revenue in the last three years are given below :

As on	Sundry debts (all considered good)	Traffic Revenue	Percentage Sundry Debtors to traffic Revenue.
31-3-1998	1714.79	6074.98	28.23
31-3-1999	2613.66	6756.02	38.69
31-3-2000	2542.63	6893.92	36.88
	1997-98	1998-99	1999-00
Sundry Debtors in terms of month's sales	3.38	4.64	4.43

The Management should make all efforts to realise outstanding dues quickly.

The Sundry Debtors as on 31st March 2000 were outstanding for the periods indicated below

Debts outstanding	Foreign	Domestic	Total
I) up to one year	2330.15	26.30	2356.45
ii) More than one year but less than 2 years	134.14	10.52	144.66
iii) 2 years or more but less than 3 years	31.23	10.70	41.93
iv) For 3 years or more	76.57	14.60	91.17
TOTAL	2572.09	62.12	2634.21

Note : Last year's figures recasted wherever necessary.

(Sanjay Kumar Jha)
Deputy Director
P&T Audit Office
Mumbai

Reply to the Comments of Comptroller

and Auditor General of India under Section 619(4) of Companies Act, 1956 on the Accounts of Videsh Sanchar Nigam Limited, Mumbai for the year ended 31st March 2000

A. Balance Sheet

1. II . Application of Funds
Current Assets Loans and
Advances Other current assets
(Schedule 9) Rs.16.07 crore

This is understated by Rs.2.20 crore due to noninclusion of the amount receivable from MTNL towards (a) Service tax Rs.0.48 crore and (b) Internet telephone access line charges Rs. 1.72 crore which was paid in excess during 1998.

This has resulted in overstatement of prior period adjustment (expenses) by Rs.2.20 crore and understatement of profit after tax by same amount.

Reply : The amount receivable was not recognised pending certain clarifications. However, necessary rectification will be carried out in the accounts for the financial year 2000-01.

2. Current Liabilities and
Provisions (Sch. 11)
Current Liabilities
Sundry Creditors
Others - Rs. 184.08 crore.

This is understated by Rs.4.54 crore due to non-inclusion of

a) Rs.3.46 crore being the operation and maintenance charges payable to Telecom Malaysia for Indian Ocean Commonwealth (IOCOM) under sea cable system for the period from January 1997 to June 1998. This may further increase on receipt of bills for subsequent period and

b) Rs.1.08 crore being the annual maintenance service charges payable to a firm towards Gateway Digital Systems for the period from October 1999 to March 2000

This has resulted in understatement of Repairs and maintenance charges of Plant and machinery by Rs.1.08 crore and prior year adjustments (expenses) Rs.3.46 crore and profit after tax by Rs.4.54 crore.

Reply : (a) The operation and maintenance responsibilities in respect of IOCOM cable are discharged by VSNL and Telecom Malaysia. While VSNL is responsible for maintenance of Madras cable station, Telecom Malaysia is responsible for maintaining Kuala Muda cable station. VSNL has received claims from Telecom Malaysia upto June 1998 only and considering the amounts, receivable by VSNL towards maintenance of Madras cable station, the final liability may be lower than the above amount. However, the matter is being pursued with Telecom Malaysia for early settlement.

(b) Necessary rectification will be carried out in the accounts for the financial year 2000-01.

B. General

3. Significant Accounting Policies and Notes to the Accounts. (Schedule 22)
B. Notes forming part of the Accounts.
Item-18 (d)

The Company in their Income tax returns for the financial years 1997-98, 1998-99 and in the advance tax paid for 1999-2000 have claimed licence fee and benefit under Section 80 IA for Rs 182.76 crore, Rs 216.54 crore and Rs 273.90 crore, respectively, as deductible expenditure. Similar claims for earlier years were disallowed but are under consideration of Income Tax Appellate Tribunal (ITAT). This position has not been disclosed in the Note.

Reply : The company has disclosed contingent liability in respect of the demands raised by the Income tax authorities. The company has been advised by independent tax experts that it has a reasonable basis for a favourable decision in respect of its claims.

4. A reference is invited to the comment of the C&AG of India on the accounts for the year ended 31st March 1999 indicating that an amount of Rs 23.70 crore payable to DoT as Interest for non settlement of the traffic dues (Rs.19.65 crore) and super group rental charges (Rs.4.05 crore) relating to the year 1998-99 in terms of Memorandum of Understanding (MoU) executed between DoT and VSNL was not accounted for leading to overstatement of profit by Rs.23.70 crore. No provision has been made even this year for this liability.

Reply : There was no provision for payment of interest in the MoUs executed prior to the year 1998-99 or in the subsequent years. The matter has been taken up with DoT and DoT has constituted a committee for resolving various issues including this. Hence, VSNL is confident that it will not be liable to pay any interest to DoT.

Auditor's Report

To the Members of
Videsh Sanchar Nigam Limited

We have audited the attached Balance Sheet of VIDESH SANCHAR NIGAM LIMITED as at March 31, 2000 and also the Profit and Loss Account of the Company for the year ended on that date, annexed thereto, in which are incorporated the accounts of the branches audited by the Branch Auditors and report that :

1. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

2. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received from branches not visited by us.

3. The reports of the Branch auditors on the Branches audited by them have been forwarded to us and have been considered by us in preparing this report.

4. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and returns.

5. In our opinion, the Balance Sheet and Profit and Loss Account comply with the accounting standards referred to in Sub-Section (3C) of Section 211 of the Companies Act,1956.

6. Attention is invited to note no. 5 of Schedule 22 regarding method of accounting interest on short term deposits with banks abroad and recording of foreign currency balances with banks abroad at original rate of exchange instead of closing rate of exchange for reasons explained in the note.

7. Attention is further invited to the following notes in Schedule 22:
   a) Note No. 2(a) and 2(b) regarding debit/credit adjustments in Government of India Current Account being subject to approval of the Government.

   b) Note No. 3(a) regarding advances to and recoveries from employees, inter branch adjustments and investments in communication satellites being subject to reconciliation/ adjustments, if any.

   c) Note No. 3(b) regarding balances in respect of sundry debtors and creditors being subject to confirmations/adjustments, if any.

SUBJECT TO THE FOREGOING stated in paragraph 7, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with other notes of Schedule 22, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view :-

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2000; and

b) in the case of the Profit and Loss Account of the profit of the Company for the year ended on that date.

As required by Manufacturing and other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as we considered appropriate and as per information and explanations given to us, during the course of audit, we report as under:

1. The company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets except in the case of head office where in the record of fixed assets are in the form of receipts register, on year to year basis and does not give complete particulars of the assets acquired from time to time and quantitative details thereof on a cumulative basis and the quantities of each class of assets held at any time are not readily ascertainable. Further in respect of assets taken over from Overseas Communications Service (OCS), the records are in the form of history sheets maintained by the erstwhile department. Physical verification of majority of the assets other than those taken over from OCS was conducted by the management during the year and as explained to us, no material discrepancies were noticed by the management on such verification.

2. None of the fixed assets has been revalued during the year.

3. Physical verification of stocks of stores and spare parts has been conducted by the management during the year. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures of physical verification of stock of stores and spare parts followed by the management are reasonable and adequate, in relation to the size of the Company and the nature of its business.

5. The discrepancies noticed on physical verification of stock of stores and spare parts as compared to the book records were not material.

6. On the basis of our examination of stock records, we are of the opinion that the valuation of stores and spare parts is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.

7. The company has not taken any loans from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this company within the meaning of Section 370(1-B) of the Companies Act, 1956.

8. The company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this Company within the meaning of Section 370(1-B) of the Companies Act, 1956.

9. Loans and Advances in the nature of loans have been given by the company to its employees and other parties who are generally repaying the principal amounts as stipulated together with interest, wherever applicable except that

   a) in respect of a loan of Rs. 25 lakhs given to VSNL Co-operative Credit Society Limited in an earlier year, there have been no stipulations as to repayment of principal amount;

   b) In the case of some of the employees who have left the company's services an amount of Rs. 3,64,155/- has not been recovered. Steps are being taken to recover the amount.

   Attention is invited to Note No. 3(a) of Schedule 22 regarding advances to and recoveries from employees being subject to reconciliation/ adjustments, if any.

10. In our opinion and according to the information and explanations given to us and on the basis of selective checks carried out during the course of audit, the internal control procedures for purchase of stores and components, plant and machinery, equipments and other assets and for the sale of services need to be strengthened so as to be adequate and commensurate with the size of the company and nature of its business.

11. There were no transactions of purchase of goods and materials and sale of goods, materials and services aggregating during the year to Rs. 50,000/- or more in respect of each party made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956.

12. As explained to us, the company has a regular procedure for determining unserviceable or damaged stores. The loss, if any, arising on the items so determined is accounted for in the year of sale of such stores.

13. The company has not accepted any deposits from the public during the year.

14. As explained to us, the operations of the company do not generate any by-product or significant realisable scrap.

15. The internal audit of the company carried out by firms of Chartered Accountants is commensurate with the size of the company and nature of its business .

16. The Central Government has not prescribed maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 for the year.

17. According to the records of the company, it has generally been regular in depositing provident fund dues with the appropriate authorities. The company has sought exemption from the provisions of the Employees' State Insurance Scheme which is awaited.

18. According to the information and explanations given to us, no undisputed amounts payable in respect of Income-tax, Wealth-tax, Sales-tax, Customs duty and Excise duty were outstanding as at 31st March 2000 for a period of more than six months from the date they became payable except for an amount of Rs. 6.75 lakhs in respect of Wealth-tax of earlier years.

19. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to Revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

20. The Company is not a Sick Industrial company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

    In respect of service activities of the company:

    a] There is a reasonable system of recording receipts and issues and consumption of stores commensurate with the size of the company and nature of its business.

    b] As informed to us and considering the nature of activities of the company, the question of allocation of materials and man-hours to relative jobs does not arise.

    c] In our opinion and according to information and explanations given to us there is a reasonable system of authorisation at proper levels with necessary controls on the issue of stores. Attention is invited to clause 10 above. There is no system of allocation of stores and labour to jobs as it does not arise.

For C.C. Chokshi & Co.
Chartered Accountants

R. Laxminarayan
Partner

For Kalyaniwalla & Mistry
Chartered Accountants

E. K. Irani
Partner

Place : Mumbai
Dated : 27-6-2000

Balance Sheet as at 31st March, 2000

Particulars	Schedule	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000
I SOURCES OF FUNDS:			
1. Shareholders' Funds:			
(a) Share Capital	1	950,000	950,000
(b) Reserves and Surplus	2	60,792,179	53,255,558
2. Loan Funds:			
Secured Loans	3	45,701	25,545
TOTAL		61,787,880	54,231,103
II APPLICATION OF FUNDS:			
1. Fixed Assets:	4		
(a) Gross Block		22,820,294	17,697,807
(b) Less: Depreciation		6,377,815	5,419,980
(c) Net Block		16,442,479	12,277,827
(d) Capital Work-in-Progress		887,574	3,170,067
(e) Investments in Communication Satellites		2,641,176	2,310,573
		19,971,229	17,758,467
2. Investments	5	1,158,190	5,744,950
3. Current Assets, Loans & Advances:			
(a) Inventories	6	31,616	21,644
(b) Sundry Debtors	7	25,426,297	26,136,573
(c) Cash And Bank Balances	8	28,081,207	24,510,042
(d) Other Current Assets	9	160,714	134,257
(e) Loans And Advances	10	23,208,339	13,978,425
TOTAL (A)		76,908,173	64,780,941
Less: Current Liabilities & Provisions:			
(a) Current Liabilities	11	18,119,238	22,319,393
(b) Provisions	12	18,130,474	11,733,862
TOTAL (B)		36,249,712	34,053,255
Net Current Assets (A-B)		40,658,461	30,727,686
TOTAL		61,787,880	54,231,103
Notes on Accounts	22		

As per our attached report of even date

For C.C. Chokshi & Co.
Chartered Accountants

R. Laxminarayan
Partner

For Kalyaniwalla & Mistry
Chartered Accountants

E.K. Irani
Partner

Mumbai
Dated: 27-6-2000

For and on behalf of Board of Directors
Videsh Sanchar Nigam Limited

S.K. Gupta
Chairman & Managing Director

R.S.P. Sinha
Director-Finance

Satish Ranade
Company Secretary

Mumbai
Dated: 27-6-2000

Profit and Loss Account for the year ended 31st March, 2000

Particulars	Schedule	Year Ended 31.03.2000 Rupees in '000	Year Ended 31.03.1999 Rupees in '000
INCOME:			
Traffic Revenue	13	68,939,126	67,560,203
Revenue from Intelsat/Inmarsat	14	736,840	754,461
Other Income	15	2,629,122	3,441,016
TOTAL (A)		72,305,088	71,755,680
EXPENDITURE:			
Staff Cost	16	977,589	789,949
Network Cost	17	49,735,588	49,511,427
Operating and other Expenses	18	653,176	547,343
Administrative Expenses	19	565,518	452,606
Interest	20	11,502	228
Depreciation		937,525	802,536
Less: Transferred from Capital Reserve		(3,063)	(3,438)
TOTAL (B)		52,877,835	52,100,651
Profit before Extraordinary Items, Prior Period Adjustments and Taxes (A-B)		19,427,253	19,655,029
Extraordinary Items: Investment In ICO Global Communications (Holdings) Ltd Written Off		(5,127,596)	-
Prior Year Adjustments	21	478,407	(511,500)
Provision for Taxation (Including Rs 300,000/- (1998-99 Rs.200,000) For Wealth Tax)		(6,375,300)	(5,894,026)
Profit After Tax		8,402,764	13,249,503
Surplus brought forward from previous year		99,682	93,779
Amount available for Appropriation		8,502,446	13,343,282
APPROPRIATIONS : Dividends:-			
a) Interim Dividend Declared on 27th March, 2000.		570,000	-
b) Proposed Final Dividend		190,000	760,000
Tax on Dividend		104,500	83,600
Transferred to General Reserve		7,500,000	12,400,000
Surplus carried to Balance Sheet		137,946	99,682
		8,502,446	13,343,282
Notes on Accounts	22		

As per our attached report of even date

For C.C. Chokshi & Co.
Chartered Accountants

R. Laxminarayan
Partner

For Kalyaniwalla & Mistry
Chartered Accountants

E.K. Irani
Partner

Mumbai
Dated: 27-6-2000

For and on behalf of Board of Directors
Videsh Sanchar Nigam Limited

S.K. Gupta
Chairman & Managing Director

R.S.P. Sinha
Director-Finance

Satish Ranade
Company Secretary

Mumbai
Dated: 27-6-2000

Schedules forming part of the Balance Sheet

	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000

Schedule - 1
Share Capital

Authorised 100,000,000 Equity Shares of Rs.10/- each	1,000,000	1,000,000
Issued, Subscribed and Paid Up 95,000,000 Equity Shares of Rs.10/- each fully paid up	950,000	950,000
Notes: A) Of the above:		
1) 60,000,000 shares are allotted as fully paid up pursuant to a contract without payment being received in cash		
2) 20,000,000 shares are allotted as fully paid up by way of bonus shares by capitalisation of General Reserve		
3) 15,000,000 shares are allotted as fully paid up by way of Euro issue represented by Global Depository Receipts (GDR).		
TOTAL	950,000	950,000

Schedule - 2
Reserves And Surplus

1. Capital Reserve:		
Balance as per Last Balance Sheet	24,067	27,505
Additions during the year	1,420	-
	25,487	27,505
Less : Transferred to Profit and Loss Account	(3,063)	(3,438)
	22,424	24,067
2. Share Premium Account	14,481,809	14,481,809
3. General Reserve		
Balance as per last Balance Sheet	38,650,000	26,250,000
Add : Transferred from Profit and Loss Account	7,500,000	12,400,000
	46,150,000	38,650,000
4. Surplus In Profit And Loss Account	137,946	99,682
TOTAL	60,792,179	53,255,558

Schedule - 3
Secured Loans

Loans and Advances from Banks		
Cash Credit Accounts	45,701	25,545
(Secured by way of Hypothecation of Book Debts)		
TOTAL	45,701	25,545

Schedule - 4
Fixed Assets

(Rs. in '000)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	COST AS ON 1ST APRIL 1999	ADDITIONS DURING THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	COST AS ON 31ST MARCH 2000	ACCUMULATED AS ON 1ST APRIL 1999	FOR THE YEAR	DEDUCTIONS/ ADJUSTMENTS DURING THE YEAR	ACCUMULATED AS ON 31ST MARCH 2000	AS ON 31/3/2000	AS ON 31/3/99
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
LAND	128,353	13,815	18	142,150	1,786	431	-	2,217	139,933	126,567
BUILDINGS	1,189,311	599,520	9,306	1,779,525	97,159	29,206	861	125,504	1,654,021	1,092,152
PLANT & MACHINERY	15,896,332	4,230,507	11,275	20,115,564	5,129,349	871,381	6,070	5,994,660	14,120,904	10,766,983
FURNITURE FIXTURE	99,822,	64,076	1,273	162,625	36,077	13,370	1,272	48,175	114,450	63,745
OFFICE EQUIPMENTS	117,918	59,516	1,826	175,608	34,333	7,551	1,766	40,118	135,490	83,585
COMPUTERS	252,389	178,669	-	431,058	114,361	45,482	76	159,767	271,291	138,028
MOTOR VEHICLES	13,682	1,185	1,103	13,764	6,915	880	421	7,374	6,390	6,767
TOTAL	17,697,807	5,147,288	24,801	22,820,294	5,419,980	968,301	10,466	6,377,815	16,442,479	12,277,827
PREVIOUS YEAR	15,215,687	2,588,555	106,435	17,697,807	4,631,535	819,622	31,177	5,419,980	12,277,827	-
CAPITAL WORK IN PROGRESS									887,574	3,170,067

INVESTMENT IN COMMUNICATION SATELLITES (AT VALUATION BASED ON SHARE OF NET ASSETS)			
INTERNATIONAL TELECOMMUNICATION SATELLITE ORGANISATION		2,641,176	1,858,481
INTERNATIONAL MARITIME SATELLITE ORGANISATION		-	452,092
	TOTAL	2,641,176	2,310,573

Notes :

1 Land includes Rs.13,365 for Leasehold Land.
2 Land includes Rs. 1,069 for Leasehold Land for which conveyance is not registered and the Land has not been transferred in the name of the Company.
3 Lease deed for Leasehold Land at Srinagar is not traceable.
4 Freehold Land includes Rs. 12,079 against which agreement has not been executed.
5 Building includes Rs. 7,937 being cost of flats in Co-operative Societies under formation.
6 Building includes Rs. 327,576 for flats at Mumbai, Rs. 10,774 for flats at Jallandhar against which agreements has not been registered.
7 Building includes Rs.42,506 for Office Premises at Delhi given on Lease.
8 Building includes Rs. 63,760 i. r. o. Office Premises at Delhi, based on the provisional statement of accounts received from Telecommunication Consultants India Limited.
9 Additions to Plant & Machinery include Rs. 186,088 on account of increase in liabilities consequent to fluctuations in exchange rate.
10 Plant & Machinery includes Rs.7,738 for Optic Fibre Cable installed by DoT between Lokmanya Videsh Sanchar Bhavan and Videsh Sanchar Bhavan, Mumbai taken on estimated basis as final bills from DoT and MTNL have not been received.
11 Plant & Machinery includes Rs. 14,834 for Assets given on Lease.
12 Plant & Machinery includes asset retired from active use but held for disposal at expected realisable value of Rs. 4,912.
13 Depreciation for the year includes Rs. 3,063 being depreciation on gifted assets.
14 Capital Work-in-Progress includes :
   (i) Rs. 312,633 on account of Building.(PY : Rs.224,950)
   (ii) Rs. 226,770 on account of Plant & Machinery.(PY : Rs.2,510,834)
   (iii) Rs. 348,171 on account of Advance against Capital Expenditure.(PY Rs.434,283)

	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000

Schedule - 5
Investments
(Non-Trade, Unquoted)

Long Term: At Cost		
(A) ICO Global Communications (Holdings) Limited, 13,500,000 ordinary shares of US $ 0.01 each at a premium of US $ 99.99 per share fully paid up	5,179,390	5,179,390
Less : Investments written off during the year (see Note No. 8 of Schedule 22)	(5,127,596)	-
	51,794	5,179,390
(B) Telstra Vishesh Communications Limited 9,200,000 Equity Shares of Rs.10/- each fully paid up	92,000	92,000
(C) New Skies Satellites N.V. 344,215 (1998-99 - 301,215) Shares of Common Stock of Dutch Guilder 1 each fully paid up	562,304	473,560
(D) Inmarsat (Holdings) Limited 202,219 (1998-99 - Nil) ordinary shares of £ 1 each fully paid up	452,092	-
(E) VSNL Seamless Services Private Limited 20 (1998-99- Nil) Equity Shares of Rs.10/- each fully paid up (Face Value of Rs. 200)	-	-
TOTAL	1,158,190	5,744,950

Schedule - 6
Inventories

Stores & Spares At Cost	32,516	21,644
Less: Provision for expected loss on obsolete stock	(900)	-
TOTAL	31,616	21,644

Schedule - 7
Sundry Debtors (Unsecured)

Debts outstanding for a Period Exceeding Six Months		
Considered Good	6,125,298	11,420,430
Considered Doubtful	915,775	814,051
	7,041,073	12,234,481
Less: Provision for Doubtful Debts	(915,775)	(814,051)
	6,125,298	11,420,430
Other Debts Considered Good	19,300,999	14,716,143
TOTAL	25,426,297	26,136,573

	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000

Schedule - 8
Cash and Bank Balances

Cash on Hand	615	1,843
Remittance in Transit	2,088	11,013
Balances with Scheduled Banks		
In Current Accounts *	19,447,659	15,138,540
In Deposit Accounts **	8,630,845	7,204,046
	28,078,504	22,342,586
Balance with Non-Scheduled Banks		
In Deposit Accounts ***		
1. DEUTSCHE BANK, Singapore (Maximum balance during the year Rs.1,077,300,000/-, 1998-99: Rs. 1,077,300,000/-)	-	1,077,300
2. ABN AMRO, Singapore (Maximum balance during the year Rs.1,089,494,300/-,1998-99: Rs.1,089,494,300/-)	-	1,077,300
	-	2,154,600
* Includes an amount of Rs. 176,789/- (1998-99 : Rs. 746,398/-) , ** an amount of Rs.7,234,970,011/- (1998-99 : Rs. 6,381,707,121/-), *** an amount of Rs. Nil (1998-99 : Rs. 2,154,600,000/-); representing unutilised monies raised by way of Euro Equity Issue		
GRAND TOTAL	28,081,207	24,510,042

Schedule - 9
Other Current Assets

Interest Receivable	159,581	100,979
Rent Receivable	486	32,243
Other Receivables	647	1,035
TOTAL	160,714	134,257

Schedule - 10
Loans And Advances (Unsecured - Considered Good)

Loans to VSNL Co-operative Society Ltd.	2,500	2,500
Advances recoverable in cash or in kind or for value to be received	571,485	595,295
Advance payment of tax	22,634,354	13,380,630
TOTAL	23,208,339	13,978,425

Schedule - 11
Current Liabilities

	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000
Traffic Creditors	13,489,289	17,834,537
Sundry Creditors :-		
A) Dues to Small Scale Industries *	757	-
B) Others	1,840,766	2,071,786
Income Received in Advance	1,468,639	1,300,414
Government of India Current Account	18,339	40,432
Other Liabilities	1,301,448	1,072,224
TOTAL	18,119,238	22,319,393

** Represents amount due to M/S. Enertech Electronics for more than 30 days and in excess of Rs.1 Lakh.*

Schedule - 12
Provisions

	As at 31.03.2000 Rupees in '000	As at 31.03.1999 Rupees in '000
Provision for Taxation	17,161,927	10,786,627
Provision for Leave Encashment	84,367	57,962
Provision for Pension	3,532	36,919
Provision for Gratuity	16,148	8,754
Provision for Interim Dividend	570,000	-
Provision for Proposed Final Dividend	190,000	760,000
Provision for Tax on Dividend	104,500	83,600
TOTAL	18,130,474	11,733,862

Schedules forming part of the Profit & Loss Account

	Year Ended 31.03.2000 Rupees in '000	Year Ended 31.03.1999 Rupees in '000
Schedule - 13		
Traffic Revenue		
Telephone	62,870,080	62,489,823
Telex	257,157	348,384
Telegraph	36,566	50,350
Leased Channel	3,018,516	2,465,210
Television	72,407	77,830
Gateway Packet Switching System	46,174	68,534
Gateway Electronic Mail Service	140,379	177,031
Global Network Service	89,019	59,396
Gateway Internet Access System	2,094,650	1,732,665
Other Traffic Revenue	655,705	337,981
Variance in Estimates (Net)	(341,527)	(247,001)
TOTAL	68,939,126	67,560,203
Schedule - 14		
Revenue From Intelsat/Inmarsat		
Intelsat	736,840	507,525
Inmarsat	-	246,936
TOTAL	736,840	754,461
Schedule - 15		
Other Income		
Income from Units of UTI-Gross (TDS Rs.nil,1998-99: Rs.156,800/-)	-	792
Interest on Bank Deposits - Gross (TDS Rs.96,081,546/-,1998-99: Rs.39,061,928/-)	1,112,889	832,534
Interest on other Deposits and Advances - Gross (TDS Rs.492,288/- , 1998-99: Rs.nil)	7,352	6,096
Profit on sale of Fixed Assets (Net)	85,750	700
Miscellaneous Income	92,507	92,200
Rent	19,501	17,727
Provision for Doubtful Debts Written Back	-	42
Other Provisions Written Back (Net)	173,405	29,622
Profit on Exchange Fluctuation (Net)	1,137,718	2,461,303
TOTAL	2,629,122	3,441,016
Schedule - 16		
Staff Cost		
Salaries & Bonus	641,873	517,312
Contribution to Provident and other funds	105,405	88,651
Staff welfare expenses	230,311	183,986
TOTAL	977,589	789,949

	Year Ended 31.03.2000 Rupees in '000	Year Ended 31.03.1999 Rupees in '000

Schedule - 17
Network Cost

Rent of Satellite Channels	2,206,946	1,666,644
Rent of Landlines	543,099	913,464
Administration Lease Charges	66,700	65,817
Licence Fee to Deptt. of Telecommunications	4,702,500	4,162,375
Charges for use of Transmission Facilities:		
Telephone	41,023,380	41,681,615
Telex	201,064	258,776
Telegraph	43,409	60,635
Gateway Packet Switching System	32,304	50,651
Easynet	-	172
Television	5,294	12,906
Internet	673,045	580,299
Leased Channel	22,299	4,590
Others	215,548	53,483
TOTAL	49,735,588	49,511,427

Schedule - 18
Operating And Other Expenses

Consumption of Stores	18,261	18,110
Light & Power	233,551	174,612
Repairs and Maintenance:		
Buildings	33,373	27,104
Plant & Machinery	343,969	307,648
Others	24,022	19,869
TOTAL	653,176	547,343

Schedule - 19
Administrative Expenses

Ren	18,316	14,721
Rates & Taxes	30,414	26,691
Travelling Expenses	42,251	69,390
Postage	5,527	6,684
Telephone and Telex	34,335	47,598
Printing and Stationery	18,271	18,718
Books and Periodicals	7,867	12,672
Vehicle Expenses	9,206	7,891
Hospitality	1,655	941
Security Expenses	26,322	19,194
Computer Expenses	7,462	17,834
Conveyance	2,493	2,381
Training Expenses	5,248	5,732
Recruitment Expenses	2,655	2,538
Legal and Professional Fees	21,686	30,028
Advertising And Publicity	112,773	101,556
Bad Debts	46,129	3,988
Provision for Doubtful Debts	101,725	21,383
Remuneration to Auditors:		
Audit Fees	768	664
Tax Audit Fees	135	83
Reimbursement of Expenses	47	70
Commonwealth Telecom Council Contribution	6,734	5,604
Water Charges	9,697	7,141
Insurance	11,746	13,561
Donations	10,965	891
Miscellaneous Expenses	31,091	14,652
TOTAL	565,518	452,606

	Year Ended 31.03.2000 Rupees in '000	Year Ended 31.03.1999 Rupees in '000

Schedule - 20
Interest

On Cash Credit	61	-
Others	11,441	228
TOTAL	11,502	228

Schedule - 21
Prior Year Adjustment

Income:		
Traffic Revenue	931,986	(631,718)
Miscellaneous Income	509	4,946
Exchange Fluctuation	(495)	(785)
Expenses:		
Provision of Depreciation for Earlier Years (Net)	(27,291)	(15,296)
Charges for use of Transmission Facilities	(405,397)	212,117
Salaries, Bonus and Staff Welfare	10	18,692
Administration & Other Expenses	(5,472)	(777)
Repairs and Maintenance	(46,725)	(98,679)
Travelling Expenses	26,497	-
Interest	4,785	-
TOTAL	478,407	(511,500)

Note : Figures In Brackets Are Debits

Schedule - 22

Significant Accounting Policies and Notes to the Accounts:

A. Significant Accounting Policies:

I. Accounting Concepts :

i) Accounting policies not specifically referred to otherwise are consistent with generally accepted accounting principles.

ii) Financial statements are based on historical cost.

iii) Mercantile System of Accounting is followed and Income and Expenditure are accounted for on accrual basis.

iv) Liquidated damages earned by the company on account of delay in execution of contracts and supply of materials and services by the contractors and suppliers including contracts for capital assets have been taken as revenue income in Profit and Loss Account.

v) Income and Expenditure up to Rs.0.10 million in each case pertaining to prior years are accounted as current year's income and expenditure.

vi) Prepaid expenses below Rs.0.01 million in each case are accounted as current year's expenditure.

vii) Liabilities for expenses other than statutory liabilities are provided for only if the amounts exceed Rs.0.10 million in each case.

II. Fixed Assets :

i) From time to time, the Company acquires Indefeasible Rights of User for international telecommunication circuits in Submarine Cables. These rights extend over specific time periods. On the other hand, the Company may also grant such rights on circuits owned by it. The amounts paid or received according to the terms of these transactions are recorded as additions/deductions to Fixed Assets.

ii) The Company, as successor to the Overseas Communications Service (OCS) of the Department of Telecommunications (DOT) continues to be the Indian Signatory to the International Telecommunications Satellite Organisation (INTELSAT). Periodically, Signatory's ownership share in this Organisation is adjusted to conform to the respective percentage of total use of the system or any other percentage elected within the terms of the agreement. Net Capital Contributions (that is, after adjusting the amortisations) are billed by this Organisation to the Signatories from time to time in proportion to the respective ownership share. The totals of such net capital contributions are disclosed as Investments in Communication Satellites under Fixed Assets.

iii) Fixed Assets acquired by the Company are capitalised at cost inclusive of freight, duties, taxes and all incidental expenses related thereto together with the cost of spares if supplied with the assets.

iv) Fixed Assets received as gifts from other Foreign Telecom Administrations are capitalised on the basis of Notional cost (cost adopted by Customs Authorities for custom duty purpose) Freight, Insurance and Custom duty.

v) In case of borrowed funds and liabilities in foreign currencies for the acquisition of fixed assets, the exchange differences are adjusted to the cost of fixed assets.

III. Depreciation On Fixed Assets :

i) In respect of assets taken over from Overseas Communications Service, depreciation has been provided on Straight Line Method at the rates adopted in the previous years in terms of Circular No.1/86 dated 21.5.1986 issued by the Department of Company Affairs. The same is continued to be provided on the original cost to the Overseas Communications Service instead of takeover cost to the Company.

ii) On the assets purchased/acquired during the period from 1st April, 1986 to 31st March, 1994, depreciation has been provided on written down value method at the rates specified from time to time in Schedule XIV of the Companies Act, 1956.

iii) On assets purchased/acquired after 31st March, 1994 depreciation has been provided on Straight Line Method at the rates prescribed in Schedule XIV of the Companies Act, 1956.

iv) On Plant and Machinery which has been considered to be Continuous process plant, depreciation has been provided at the applicable rate as per Schedule XIV of the Companies Act, 1956.

v) Depreciation on additions to assets or on sale/disposal of assets is calculated pro-rata from the month of such addition or upto the month of such sale/disposal as the case may be.

vi) Leasehold Lands have been amortised over the period of leases.

vii) Depreciation on Indefeasible Rights of User for International Telecommunication Circuits in Submarine Cables has been provided on the basis of balance life as intimated by the sellers.

viii) Depreciation on notional cost of gifted assets is recouped by annual transfer out of the Capital Reserve.

ix) Assets costing upto Rs.5,000/- each is fully depreciated in the year of purchase.

x) The gain or loss arising due to exchange rate fluctuation arising on repayment/restatement of foreign currency liabilities incurred for acquiring fixed assets is adjusted to the cost of the assets and depreciation is charged prospectively over the residual life of such assets.

IV. Investments :

Long Term Investments are valued at cost. Provision for diminution in the value of investments is made to recognise a decline, other than temporary.

V. Inventories :

Items of Stores and Spares are valued at weighted average rates after making adjustments for variations that come to notice during physical verification of stock.

VI. Revenue Recognition :

i) Traffic Revenues :
Major revenue is on account of recovery from Foreign Telecommunication Administrations on account of incoming traffic and recovery from Department of Telecommunications on account of delivering calls on foreign network. Estimates are included wherever information is awaited.

ii) Revenue From Intelsat :
The Revenues of INTELSAT Organisation are utilised to meet the operating expenses and amortisation costs and any surplus then remaining is distributed to the Signatories as Compensation for use of Capital, based on the respective Ownership share of the Signatories in the Organisation from time to time. Such amounts received by the Company as the Indian Signatory from INTELSAT towards Compensation
for use of Capital are accounted as Revenue.

iii) Revenue In Respect Of Insurance Other Claims, Interest Etc.
Revenue in respect of insurance and other claims, interest, etc., is recognised only when it is reasonably certain that the ultimate collection will be made.

VII. Cost Of Operations :

The major component of cost of operations is the transmission cost. The transmission cost includes cost of delivering a call on domestic network, which is payable to Department of Telecommunications and cost of delivering a call on foreign network payable to Foreign Telecommunication Administrations. Estimates are included wherever information is awaited.

VIII. Research And Development Expenditure :

Revenue expenses on Research & Development are charged to the Profit and Loss Account in the year in which these are incurred. Capital expenditure is taken as addition to the fixed assets.

IX. Retirement Benefits :

i) Leave Encashment benefit is charged to Profit & Loss Account on the basis of actuarial valuation.

ii) Provision for contribution to the Employees' Gratuity Trust Fund is based on actuarial valuation after taking into account the funds available with the Gratuity Trust.

iii) Contribution to Employees' Provident Fund, Benevolent Fund and Provision for Pension are charged to Profit & Loss Account.

X. Foreign Currency Transactions :

i) Foreign currency transactions are normally recorded at the exchange rates prevailing on the first working day of the month in which the transaction falls. In the case of traffic revenue and the charges for use of transmission facilities, foreign currency transactions are recorded at the exchange rate prevailing on the last day of the prior month.

ii) Monetary items denominated in foreign currencies at the year end other than those referred to in (iii) below are translated into Rupees at the rates of exchange prevailing at the year end.

iii) Gains and losses on foreign exchange transactions are taken to Profit & Loss Account except that :

(a) In respect of fixed assets, gains and losses on transactions of long term liabilities incurred to acquire fixed assets are adjusted to the cost of such assets.

(b) In respect of parties, the receivables from whom are considered doubtful and for which provision has been made, exchange loss has been charged to Profit & Loss Account and exchange gain has been ignored.

XI. Contingent Liabilities :

Contingent Liabilities are not provided for and are disclosed by way of notes.

XII. Provision For Doubtful Debts :

Provision for Doubtful Debts is made on the following basis:

(a) In respect of outstandings from domestic parties, 50% of the amount outstanding for more than one year but less than three years and 100% of the amount outstanding for more than three years is considered doubtful.

(b) In respect of outstandings from foreign parties with whom the Company has ceased direct telecommunication links, 100% of the amount outstanding is considered as doubtful.

(c) In respect of outstandings not covered under items (a) and (b) above, the amounts considered as doubtful by management.

B. Notes Forming Part Of The Accounts :

1. The Company was incorporated on 19.3.1986. Government of India vide its Order No. G 25015/6/86-OC dated 27.3.1986 transferred all the assets and liabilities of the Overseas Communications Service (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31.3.1986 to the Company with effect from 1.4.1986. A regular Transfer Deed transferring all the Assets and Liabilities from the Ministry of Communications, Government of India to the Company remains to be executed.

2(a) The Company during the year 1989-90 had adjusted the balances of Working Capital Loan and Term Loan together with accrued interest thereon aggregating to Rs. 541.67 million against the debit balance of Government of India Current Account as on 1.4.1989 amounting to Rs. 144.76 million and balance against Traffic Revenue dues from Department of Telecommunications. The company vide its letter No. HQ/02-01/90-FA/88 dated 16th May, 1990 and letter No. HQ/02-01/91 FA dated 13th February, 1991 had intimated the Ministry for confirming the said adjustments, which is awaited.

(b) Government of India Current Account stands debited/credited with the following adjustments:

i) Payments on account of Death-cum-Retirement Gratuity, Provisional Pension, Commuted value of Pension, final settlement of General Provident Fund, etc. in respect of erstwhile Overseas Communications Service employees.

ii) Receipts and payments pertaining to the period prior to 1.4.1986 to the extent income/expenses are not fully provided for upto 31.3.1986.

iii) Leave encashment paid for those employees who opted for pensionary benefits from 2.1.1990.

The aforesaid adjustments are subject to approval of Government of India.

3 (a) The following balances are subject to reconciliation/adjustments, if any :

i) Rs.3.49 million (1998-99 : Rs.1.45 million) relating to various advances to staff and shown under Loans & Advances.

ii) Rs. 0.08 million (1998-99 : Rs.0.08 million) relating to various deductions from salaries and included in Current Liabilities.

iii) Branch Adjustments: The Branch accounts in the Head Office ledgers for the current year are reconciled with branch books. However, old balances could not be reconciled and the difference of Rs. 0.39 million (1998-99 : Rs.0.39 million) has been transferred to Branch Adjustment Account and shown as Other Receivable under Other Current Assets (Schedule 9).

iv) Investments in communication satellite pertaining to INTELSAT amounting to Rs.2,641.18 million (1998-99: Rs.1,858.48 millions).

b) Balances in respect of Sundry Debtors and Sundry Creditors are subject to confirmations/adjustments, if any.

c) Advances include Customs Duty of Rs. 2.11 million (1998-99: Rs.4.12 million) paid as per the demand of the customs authority. The demands have been disputed by the Company and are pending in appeal proceedings and hence the said amount has been included under the heading Advances recoverable in cash or in kind or for value to be received.

4. In respect of assets taken over from Overseas Communications Service, depreciation has been provided on Straight Line Method at the rates adopted in the previous years in terms of Circular No. 1/86 dated 21.5.1986 issued by the Department of Company Affairs. The same is continued to be provided on the original cost to the Overseas Communications Services instead of takeover cost to the Company. The extent of over charged depreciation due to adoption of this basis is not ascertainable.

5. The company issued Global Depository Receipts (GDRs) aggregating to US $ 417.90 million in March/April 1997. In terms of the approval of the Government of India the GDR proceeds are to be utilised for capital expenditure to the extent of not less than 75% thereof. The company intends to utilise 100% of GDR proceeds for capital expenditure and building strategic assets and making investments in Telecommunication projects. With the approval of Reserve Bank of India the unutilised portion of GDR proceeds amounting to US $ 201.48 million (1998-99: US $ 234.83 million) have been kept in banks abroad in short term deposits. During the year the company earned an amount of Rs 563 million (approx.) (1998-99: Rs. 548 million) by way of interest on such deposits which has been considered as income earned during the period of construction and has been deducted from Fixed Assets/Capital Work in Progress/Investments in Telecommunication projects as the case may be. In view of the fact that the company made GDR issue specifically for the purpose of capital projects and the expenditure is intended to be made in foreign currency out of the earmarked funds as above, balance in foreign currency as of 31.3.2000 amounting to US $ 201.48 million (1998-99: US $ 234.83 million) equivalent to Rs. 7,235.00 million (1998-99: Rs. 8,547.32 million) are being considered as not in the nature of monetary items and hence have been carried in books at the original rate of exchange prevailing on the date of transaction and have not been restated at the rate of exchange prevailing on 31.3.2000.

6. The Company is a signatory to the International Telecommunications Satellite Organisation (INTELSAT). During the previous year INTELSAT, as part of its restructuring exercise incorporated a Company viz. New Skies Satellites N.V. (NSS) as a corporation with limited liability under the laws of Netherlands and transferred certain assets and liabilities to NSS. In return, NSS had issued 10,000,000 shares of common stock of Dutch Guilder 1 each to INTELSAT out of which INTELSAT had distributed 9,000,000 shares in the year 1998-99 to its investment shareholders at net book value. INTELSAT had further distributed the remaining 1,000,000 shares during the year 1999-2000. Consequently, the Company acquired further 43,000 (Previous Year: 301,215) shares of the face value of Dutch guilder 1 each in NSS, taking its share holding to 344,215 shares, proportionate to its ownership share in INTELSAT at the book value of US $ 3,064,515 (Previous Year: US $21,466,916) and the equivalent amount of Rs. 88,744,058/- (Previous Year: Rs.473,560,166/-) representing the cost of the above shares calculated on the basis of the average cost of the ownership share in INTELSAT has been transferred from Investments in Communications Satellites under Fixed Assets (Schedule-4) to Investments (Schedule-5). The investment has been approved by Government of India and the approval of Reserve Bank of India is awaited. The shares are held in Trust under Dutch Law and steps are being taken to get the shares transferred in the Company's name.

7. The Company is a signatory to International Maritime Satellite Organisation (INMARSAT). During the year INMARSAT as part of its restructuring exercise has transformed itself into a Company viz. INMARSAT Holdings Ltd. (IHL); a Company, with limited liability under the Laws of England and transferred the assets & liabilities to IHL in return for issuing ordinary shares to the former signatories of the Organisation in settlement of their Investment shares. Consequently, the Company has acquired 202,219 shares of the face value of £ 1 each fully paid in IHL proportionate to its ownership share in INMARSAT and the amount of Rs. 452,092,311/- representing cost of the ownership share in INMARSAT has been transferred from Investment in Communication Satellites under Fixed Assets (Schedule-4) to Investments (Schedule-5). The Investment has been approved by the Government of India and the Reserve Bank of India.

8. The Company held 13.5 million ordinary shares of US $100 each (including premium of US $ 99.99) in ICO Global Communications (Holdings) Limited (ICO) at a cost of Rs. 5,179.39 million. ICO filed a voluntary petition for reorganisation under chapter 11 of United States bankruptcy code and emerged from Chapter 11 protection on 16th May 2000. As a part of restructuring plan, there has been a substantial reduction in equity stake of existing Investors in the restructured ICO known as New ICO. Consequently, Investment in ICO of Rs. 5,127.60 million representing 99% has been written off to Profit & Loss Account and the balance amount of Rs. 51.79 million representing 1% of the Investment is subject to adjustments, if any on receipt of information regarding the number, face value etc relating to the shares in New ICO, which is awaited.

9. As at 31.3.2000, there were inward traffic remittances amounting to Rs.10.61 million (1998-99: Rs.8.85 million) pertaining to earlier years remaining unadjusted against individual debtors. In the absence of full details, the amounts so received are adjusted against Sundry Debtors on a global basis.

10. Hitherto, the company has been recognising the revenue from Gateway Internet Access Service (TCP-IP/ISDN/SHELL) on proportionate basis over a period of a year from the date of connectivity. During the current financial year the internet revenue has been recognised on the basis of the used hours. This change has the effect of increasing the Profit for the year Before Tax by Rs.98.24 million.

11. An amount of Rs. 232,389,331/- (Previous year : Rs.155,639,610/-) has been provided for during the year on account of pay arrears to employees. Provision for non-executive staff has been provided on an estimated basis which is subject to necessary approvals.

12. Managerial Remuneration under Section 198 of the Companies Act, 1956 :

Remuneration paid to the Chairman and Managing Director, Acting Chairman and Managing Director and whole time Directors is as follows:

	1999-2000 (Rs. in '000)	1998-1999 (Rs. in '000)
i) Salaries	2,085	540
ii) Contribution to Provident and other Funds	274	57
iii) Monetary value of perquisites	488	95
TOTAL	2,847	692

13. Value of Imports on C.I.F. basis :

	1999-2000 (Rs. in '000)	1998-1999 (Rs. in '000)
i) Stores & Spares	22,486	37,199
ii) Capital Goods	578,210	773,849

14. Expenditure in Foreign Currency on accrual basis on account of :

	1999-2000 (Rs. in '000)	1998-1999 (Rs. in '000)
i) Charges for use of Transmission Facilities (Gross)	13,399,315	14,715,888
ii) Space Segment Utilisation charges	2,206,946	1,666,644
iii) Administrative Lease Charges	66,700	65,817
iv) Others	22,873	36,157
v) Repairs & Maintenance	169,469	174,882
vi) Advertisement	1,062	1,964
vii) Legal & Professional Fees	282	7,432
TOTAL	15,866,647	16,668,784

15. Earnings in Foreign Exchange on accrual basis in respect of :

	1999-2000 (Rs. in '000)	1998-1999 (Rs. in '000)
i. Traffic Revenue (Gross)	45,635,393	45,098,690
ii. Revenue from Intelsat/Inmarsat	736,839	754,461
iii. Interest Income	1,676,239	1,457,115
iv. Miscellaneous Income	122,807	65,960
TOTAL	48,171,178	47,376,226

16. Value of imported and indigenous stores & spares Consumed including for Repairs & Maintenance Rs. 589,954/- (1998-99: Rs.1,499,243/-)

	1999-2000 (Rs. in '000)		1998-1999 (Rs. in '000)	
	Value	%	Value	%
Imported	7,401	39%	20,027	57.42
Indigenous	11,620	61%	14,852	42.58
TOTAL	19,021	100%	34,879	100.00

17. Estimated amount of contracts remaining to be executed on Capital Account and not provided for Rs.3,366.43 million (1998-99: Rs.2,247.99 million).

18. Contingent Liabilities not provided for :

	1999-2000 (Rs. in '000)	1998-1999 (Rs. in '000)
a) Letters of Credit	97,549	39,436
b) Guarantee and Counter Guarantee Outstanding	95,466	111,543
c) Claims against the Company not acknowledged as Debts :		
i) Customs Duty	0	1,124
ii) Others (Motor Accident Case)	198	157
iii) Liquidated Damages	28,032	35,025
iv) Disputed demands of Sales Tax (Company has furnished bank guarantee for like amount)	343	343
v) Disputed claims of custom duty against which sum of Rs. 11,373,029/- has been paid under protest.	Nil	56,865
vi) Repairs & Maintenance charges of DoT links of which Rs. 6 million has been deducted by DOT, Chennai unilaterally against their claim of Rs. 5 million	77,669	143,777
vii) Rent of Poddar Court	Not ascertainable	
viii) Stamp duty payable on purchase of property	Not ascertainable	
ix) Disputed demands of customs duty against which the company has paid an advance of Rs.51,120,827/- under protest.	Not ascertainable	
x) Ground rent	2,828	6,843
xi) Disputed capital cost towards ND-DDN link and associated delayed payment charges with DOT	196,558	0
xii) Disputed amount of ncome tax relating to non-recovery of tax at source against which the company has paid Rs.10 crores under protest.	187,264	0

d) For the Assessment years 1994-95, 1995-96, 1996-97 and 1997-98, Income Tax Authorities have raised demands of Rs. 5,043.93 million, Rs. 2,393.62 million, Rs. 2,688.69 million and Rs. 3,682.86 million respectively including interest of Rs. 2,517.25 million, Rs 1,250.59 million, Rs. 1,033.76 million and Rs. 1,365.94 million respectively. Tax refunds amounting to Rs. 1,196.02 million, Rs. 230.27 million and Rs. 1,007.83 million, otherwise refundable to the company in respect of Assessment Years 1996-97, 1997-98 and 1999-2000 respectively have been adjusted against the demands for the Assessment Years 1995-96 (Rs. 1,426.29 million) and 1996-97 (Rs.1007.83 million). In addition, the company has paid an advance of Rs.1,240.00 million and Rs. 1,900.00 million under protest against the demand for Assessment Years 1996-97 and 1994-95 respectively. The Company is advised that the demands are not likely to be sustained and hence no provision is considered necessary in the accounts by the company for the above demands.

19. Previous year's figures have been regrouped and reclassified wherever necessary.

20. Balance Sheet Abstract and Company's General Business Profile in terms of Part IV of Schedule VI to the Companies Act, 1956.

I Registration Details

Registration No.	39266	State Code	11 (REFER CODE LIST)
Balance Sheet Date	31 (Date)	03 (Month)	2000 (Year)

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

Public Issue (GDR Issue)	Rights Issue
NIL	NIL
Bonus Issue	Private Placement
NIL	NIL

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

Total Liabilities	Total Assets
98037592	98037592

Sources of Funds

Paid-up Capital	Reserves & Surplus
950000	60792179
Secured Loans	Unsecured Loans
45701	NIL

Application of Funds

Net Fixed Assets	Investments
19971229	1158190
Net Current Assets	Misc. Expenditure
40658461	NIL
Accumulated Losses	
NIL	

IV Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
72305088	58005431
✓ Profit/Loss before Tax	✓ Profit/Loss after Tax
+ - 19427253	+ - 8402764

(Please tick appropriate box + for Profit, - for Loss)

Earning per Share in Rs.	Dividend rate %
88.45	80

V Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	
Product Description	INTERNATIONAL TELECOM MUNICATIONS SERVICES
Item Code No. (ITC Code)	
Product Description	
Item Code No. (ITC Code)	
Product Description	

* Note : For ITC code of products please refer to the publication Indian Trade Classification based on harmonized commodity description and coding system by Ministry of Commerce, Directorate General of Commercial Intelligence & Statistics, Calcutta - 700 001

Annexure I

Code List 1 : State Codes

State Code	State Name	State Code	State Name
01	Andhra Pradesh	02	Assam
03	Bihar	04	Gujarat
05	Haryana	06	Himachal Pradesh
07	Jammu & Kashmir	08	Karnataka
09	Kerala	10	Madhya Pradesh
11	Maharashtra	12	Manipur
13	Meghalaya	14	Nagaland
15	Orissa	16	Punjab
17	Rajasthan	18	Tamil Nadu
20	Uttar Pradesh	21	West Bengal
22	Sikkim	23	Arunachal Pradesh
24	Goa	52	Andaman Islands
53	Chandigarh	54	Dadra Islands
55	Delhi	56	Daman & Diu
57	Lakshwadeep	58	Mizoram
59	Pondicherry		

Signatures to Schedule 1 To 22

As per our attached report of even date

For C.C. Chokshi & Co.
Chartered Accountants

R. Laxminarayan
Partner

For Kalyaniwalla & Mistry
Chartered Accountants

E.K. Irani
Partner

Mumbai
Dated: 27-6-2000

For and on behalf of Board of Directors
Videsh Sanchar Nigam Limited

S.K. Gupta
Chairman & Managing Director

R.S.P. Sinha
Director-Finance

Satish Ranade
Company Secretary

Mumbai
Dated: 27-6-2000

Cash Flow Statement for the year ended 31st March, 2000

	1999-2000 (Rupees in '000)	1998-1999 (Rupees in '000)
A. Cash Flow from Operating Activities		
Net profit before Tax & Extraordinary Items	19,427,253	19,655,029
Less : Adjustments for :		
Income from Investments	-	(792)
Interest on Bank Deposits	(1,112,889)	(832,534)
Interest on other Deposits	(7,352)	(6,096)
Profit/Loss on Sale of Fixed Assets/ Stores	(85,750)	(700)
Provision for Doubtful Debts written back	-	(42)
Provisions written back	(173,405)	(29,622)
Add : Non Cash operative Expenses		
Depreciation (Less Gifted Assets)	934,462	799,098
Depreciation adjustments for prior years	30,776	17,085
Provision for obsolete stores	900	
Provision for Loss on disposal of Assets	3,632	
Unrealised foreign exchange difference	130,273	77,613
Bad debts written off	46,129	3,988
Provision for doubtful debts	101,725	21,383
Interest Paid	11,502	228
Operating Profit Before Working Capital Changes	19,307,256	19,704,638
Adjustments for :		
Trade Receivables	562,422	(2,984,853)
Other current assets	(26,457)	72,008
Inventories	(14,505)	(11,154)
Loans and advances	23,811	(243)
Current Liabilities and Provisions	(4,026,338)	(2,039,322)
Cash Generated for operations	15,826,189	14,741,074
Interest Paid	(11,502)	(228)
Direct Taxes Paid	(9,253,724)	(7,571,873)
Cash flow before extraordinary items	6,560,963	7,168,972
Prior period adjustments and extraordinary items		
Prior period adjustments	478,407	(511,500)
Extraordinary Items	(5,127,596)	
Net Cash from Operating Activities Total (A)	1,911,774	6,657,473

	1999-2000 (Rupees in '000)	1998-1999 (Rupees in '000)
B. Cash Flow from Investing activities		
Purchase of fixed Assets	(5,145,868)	(2,588,555)
Capital work In progress	2,282,493	(1,509,726)
Sale of fixed assets/stores	100,085	75,959
Investments in satellite communication	(330,603)	(60,369)
Purchase of Investment	4,586,760	(2,009,408)
Interest/dividend received	1,120,241	839,422
Net cash used in Investing activities		
Total (B)	2,613,108	(5,252,677)
C. Cash flow from financing Activities		
Repayment of secured Loans	20,156	(1,536,766)
Dividend Paid	(843,600)	(418,000)
Net Cash used in Financing Activities		
Total (C)	(823,444)	(1,954,766)
Unrealised foreign Exchange Difference (D)	(130,273)	(77,613)
Net Increase in Cash and Cash Equivalents (A+B+C+D)	3,571,165	(627,583)
Cash & Cash equivalents : Opening balance	24,510,042	25,137,625
Cash & Cash equivalents : Closing balance	28,081,207	24,510,042
Net Increase in Cash and Cash Equivalents	3,571,165	(627,583)

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS
VIDESH SANCHAR NIGAM LIMITED

Mumbai	S.K. GUPTA	R.S.P. SINHA	SATISH RANADE
Dated: 27-6-2000	Chairman & Managing Director	Director-Finance	Company Secretary

AUDITORS' CERTIFICATE

We have examined the attached Cash Flow Statement of Videsh Sanchar Nigam Limited for the year ended 31st March, 2000. The statement has been prepared by the Company in accordance with the requirements of clause 32 of listing agreement with Mumbai Stock Exchange and is based on and is in agreement with the corresponding Profit and Loss Account and Balance Sheet of the Company covered by our report of even date to the members of the Company.

As per our attached report of even date.

	For C.C. CHOKSHI & CO. Chartered Accountants	For KALYANIWALLA & MISTRY Chartered Accountants
Place : Mumbai	R. LAXMINARAYAN	E. K. IRANI
Dated : 27-6-2000	Partner	Partner

Addendum 1 to Directors' Report

Statutory Auditors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 1999-2000 are attached as Annexure 1 and the same form part of the Directors' Report.

On behalf of the Board of Directors

Regd. Office : Mumbai
Dated : August 25, 2000.

S. K. Gupta
Chairman & Managing Director

Annexure 1 to the Directors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 1999-2000.

7 (a) Note No. 2(a) and 2(b) regarding debit and credit adjustments in Government of India Current Account being subject to approval of the Government.

Ans.: 2(a): VSNL was incorporated under the Companies Act, 1956 on 19.03.1986 vide Government of India's order dated 27.03.1986. VSNL took over the business of erstwhile Overseas Communication Services (OCS), a Government of India department and all the assets and liabilities of OCS as appearing in the Balance Sheet as on 31.03.1986 were transferred to VSNL. Based on this Balance Sheet, the Government of India sanctioned Term Loan and Working Capital Loan to the Company. In the financial year 1989-90, the balance on the working capital loan and term loan along with the accrued interest was adjusted against the debit balance of Government of India Current Account and traffic revenue dues from the Department of Telecommunications. The confirmation from the Government of these adjustments has not yet been received inspite of several reminders. The matter has again been taken up with the Government of India recently.

2(b): After conversion of OCS into VSNL, in order to avoid inconvenience to the employees (particularly the retired), the Company has been making payments (on behalf of Government of India) of terminal benefits and also settling traffic imbalances with foreign administrations relating to OCS period. The Government of India account in the books of VSNL is being operated for debiting and crediting these transactions/entries, confirmation is still awaited from the Government of India for these adjustments. The matter is being pursued with the Government of India.

7 (b) Note No. 3(a) regarding advances to and recoveries from employees, inter branch adjustments and investments in communications satellites being subject to reconciliation/ adjustments, if any.

Ans.: (i) Due to employees' transfers from one location to another, staff advances and various recoveries from salaries this account remains unreconciled. The balance as at the close of the year 1999-2000 is Rs 3.49 million as compared to Rs. 1.45 million at the close of the previous year. This account is under reconciliation which has led to change in closing balance.

(ii) In inter branch accounts, transactions pertaining to the current year are fully reconciled. However, the unreconciled amount pertaining to earlier years have been freezed at a particular date and the same is being carried forward.

(iii) OCS/ VSNL has been contributing towards capital of Intelsat as a signatory to Intelsat for the last 35 years. Due to non-availability of complete information for all these years the Investment in Communication Satellites remains unreconciled.

7 (c) Note No. 3(b) regarding balances in respect of sundry debtors and creditors being subject to confirmations/adjustments, if any.

Ans.: Monthly accounts rendered/ received by the company are accepted by the counterpart as per the norms under CCITT. Therefore, the management is of the view that separate confirmation of the balances may not be required. However, the Company is in the process of obtaining confirmations for major outstandings.

Report of Independent Accountants

To the Members of
VIDESH SANCHAR NIGAM LIMITED:

We have audited the accompanying balance sheets of the VIDESH SANCHAR NIGAM LIMITED ('the Company') as of March 31, 2000, 1999 and 1998, and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VIDESH SANCHAR NIGAM LIMITED as of March 31, 2000, 1999 and 1998 and the results of its operations and its cash flows for the years then ended, in conformity with International Accounting Standards ('IAS').

As explained in Note 2.5 and Note 5 to the financial statements the company has given retroactive effect to the change in accounting for jointly controlled assets and, cash deposits with original maturities over 90 days and restricted cash deposits, and accordingly restated its balance sheets as of March 31, 1999 and 1998 and the related statements of income, changes in equity and cash flows. These changes do not have a material effect on previously reported income and earnings per share of the respective years.

Accounting practices used by the Company in preparing the accompanying financial statements conform with IAS but do not conform with accounting principles generally accepted in the United States ('US GAAP'). A description of these differences and a reconciliation of net income and shareholders' equity to US GAAP is set forth in Note 25.

Mumbai, India
October 11, 2000

Arthur Andersen & Associates

Balance Sheets

March 31, 2000, 1999 and 1998

	Note	2000	2000	1999 (Restated)	1998 (Restated)
		Millions of US Dollars		Millions of Indian Rupees	
Assets	2.1				
Non-current assets					
Property, plant and equipment at cost, net of accumulated depreciation	3	446	19,457	14,994	13,388
Capital work-in-progress		54	2,330	4,390	2,256
Long-term investments	4	23	1,016	529	3,673
Taxes on income	18(a)	127	5,560	2,666	1,196
Total non-current assets		650	28,363	22,579	20,513
Current assets					
Short-term investments	5	201	8,778	9,272	9,329
Other investments	6	-	-	-	55
Inventories		-	31	22	10
Trade and other receivables	7	588	25,651	20,827	17,306
Prepaid expenses		3	140	200	133
Taxes on income, net		7	298	314	105
Cash and cash equivalents	8	478	20,846	16,658	16,936
Total current assets		1,277	55,744	47,293	43,874
Total Assets		1,927	84,107	69,872	64,387
Shareholders' Equity and Liabilities					
Capital and reserves					
Share capital	9	65	2,850	2,850	2,850
Reserves		1,358	59,260	48,085	40,035
		1,423	62,110	50,935	42,885
Non-current liabilities					
Deferred taxes	16	26	1,155	1,374	970
Retirement benefit obligations		4	152	105	89
Total non-current liabilities		30	1,307	1,479	1,059
Current liabilities					
Trade payables	10	310	13,535	12,205	13,958
Accrued expenses and other liabilities	11	144	6,290	4,409	6,067
Accrual for proposed dividend (including dividend tax)		20	865	844	418
Total current liabilities		474	20,690	17,458	20,443
Total Shareholders' Equity and Liabilities		1,927	84,107	69,872	64,387

The accompanying notes are an integral part of these balance sheets.

Income Statements

for the years ended March 31, 2000, 1999 and 1998

	Note	2000	2000	1999 (Restated)	1998 (Restated)
		Millions of US Dollars	Millions of Indian Rupees		
Revenues	2.1 12	1,595	69,641	67,181	61,114
Income from satellite consortium		23	1,003	1,417	608
		1,618	70,644	68,598	61,722
Operating costs					
Network and transmission costs	13	(1,045)	(45,621)	(45,139)	(43,940)
Other operating costs	14	(88)	(3,850)	(1,633)	(1,912)
Depreciation and amortisation	3	(58)	(2,534)	(2,679)	(1,664)
License fee/Government levy		(108)	(4,712)	(4,157)	(3,750)
Operating profit		319	13,927	14,990	10,456
Non-operating income	15	59	2,556	4,072	4,098
Interest income		38	1,683	1,386	1,279
Interest cost		-	(7)	(1)	(12)
Provision for diminution in the value of investment	4	(1)	(54)	(5,416)	-
Share of loss of associate undertaking		-	-	(30)	(26)
Profit before tax		415	18,105	15,001	15,795
Income-tax expense, net	16	(141)	(6,156)	(6,298)	(4,426)
Dividend tax		(3)	(105)	(84)	(38)
Net profit for the year, available for appropriation		271	11,844	8,619	11,331
Proposed dividend	25	(17)	(760)	(760)	(380)
Transfer to reserves		(254)	(11,084)	(7,859)	(10,951)
Earnings per share	17	1	41.56	30.24	39.76

The accompanying notes are an integral part of these income statements.

Statements of Cash Flows

for the years ended March 31, 2000, 1999 and 1998

	2000	2000	1999 (Restated)	1998 (Restated)
	Millions of US Dollars	Millions of Indian Rupees		
Cash flows from operating activities				
Net profit after taxation	271	11,844	8,619	11,331
Adjustments for:				
Depreciation and amortisation	58	2,534	2,679	1,664
Share of loss of associate undertaking	-	-	30	26
Provision for diminution in the value of investment	1	54	5,416	-
Provision for estimated fall in the value of assets	8	356	-	-
Income received on investments	(17)	(737)	(758)	(575)
(Profit)/loss on sale of fixed assets/stores	(2)	(81)	-	-
Interest income	(38)	(1,683)	(1,386)	(1,279)
Provisions, net	(1)	(25)	26	233
Provision for taxation (including dividend tax)	144	6,261	6,382	4,464
Interest cost	-	7	1	12
Unrealised exchange differences	(22)	(1,009)	(1,637)	(3,011)
Operating profit before working capital changes	402	17,521	19,372	12,865
(Increase)/decrease in inventories	-	(10)	(12)	2
(Increase)/decrease in trade and other receivables	(111)	(4,842)	(3,521)	(2,000)
(Increase)/decrease in prepaid expenditure	1	60	(67)	(15)
Increase/(decrease) in trade payables, accrued expenses and other liabilities	70	3,009	(1,875)	4,310
Increase/(decrease) in retirement benefit obligations	1	47	16	30
Cash generated from operations	363	15,785	13,913	15,192
Interest cost	-	(7)	(1)	(12)
Income-taxes paid (including dividend tax)	(214)	(9,337)	(7,610)	(4,451)
Net cash from operating activities	149	6,441	6,302	10,729
Cash flows from investing activities				
Purchase of property, plant and equipment	(63)	(2,738)	(4,074)	(3,267)
Expenditure on capital work-in-progress	(59)	(2,579)	(2,134)	(951)
Purchase of long-term investments	(2)	(89)	(2,217)	(608)
(Increase)/Decrease in short-term investments	11	494	57	(396)
Sale of fixed assets	2	100	-	-
Income from investments	17	737	758	575
Interest income	38	1,683	1,386	1,279
Net cash used by investing activities	(56)	(2,392)	(6,224)	(3,368)
Cash flows from financing activities				
Proceeds from issue of Global Depository Receipts (GDR)	-	-	-	2,767
Dividends paid	(17)	(760)	(380)	(280)
Net cash provided by financing activities	(17)	(760)	(380)	2,48
Net increase/(decrease) in cash and cash equivalents	76	3,289	(302)	9,848

Statements of Cash Flows

for the years ended March 31, 2000, 1999 and 1998

	2000	2000	1999 (Restated)	1998 (Restated)
	Millions of US Dollars	Millions of Indian Rupees		
Cash and cash equivalents, beginning of year				
Cash on hand and bank balances	382	16,658	16,936	5,661
Bank overdraft	(1)	(26)	(1,562)	(2,503)
	381	16,632	15,374	3,158
Unrealised foreign exchange gain on cash and cash equivalents	20	879	1,560	2,368
Other movements	76	3,289	(302)	9,848
Cash and cash equivalents, end of year	477	20,800	16,632	15,374
Cash on hand and bank balances	478	20,846	16,658	16,936
Bank overdraft	(1)	(46)	(26)	(1,562)
	477	20,800	16,632	15,374

The accompanying notes are an integral part of this statement.

Statement of Changes in Equity

for the years ended march 31, 2000, 1999 and 1998

	Share capital	Share premium	Revaluation reserve	Accumulated profit	Foreign exchange gain on jointly controlled assets	Total
	Millions of Indian rupees					
Balance at March 31, 1997	2,766	11,742	32	14,013	425	28,978
Transfer between reserves	-	-	(4)	4	-	-
Net profit for the year	-	-	-	11,331	-	11,331
Proposed dividend	-	-	-	(380)	-	(380)
Foreign exchange gain on investment in jointly controlled assets	-	-	-	-	189	189
Issue of share capital	84	2,739	-	(56)	-	2,767
Balance at March 31, 1998	2,850	14,481	28	24,912	614	42,885
Transfer between reserves	-	-	(3)	3	-	-
Net profit for the year	-	-	-	8,619	-	8,619
Foreign exchange gain on investments in jointly controlled assets	-	-	-	-	191	191
Proposed dividend	-	-	-	(760)	-	(760)
Balance at March 31, 1999	2,850	14,481	25	32,774	805	50,935
Transfer between reserves			(3)	3	-	-
Net profit for the year	-	-	11,844	-	11,844	-
Foreign exchange gain on investments in jointly controlled assets	-	-	-	-	91	91
Proposed dividends	-	-	-	(760)	-	(760)
Balance at March 31, 2000	2,850	14,481	22	43,861	896	62,110
Millions of US Dollars	65	332	-	1,005	21	1,423

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

As of and for the years ended March 31, 2000, 1999 and 1998

(All amounts in millions of Indian rupees, unless otherwise stated)

1. Background

1.1 About the Company

Videsh Sanchar Nigam Limited ('VSNL' or 'the Company') is incorporated in India as a limited liability company under the Indian Companies Act, 1956 having its registered office at Videsh Sanchar Bhavan, M.G. Road, Mumbai 400 001, India. The Government of India currently holds approximately 52.97 per cent of the Company's equity share capital. The Company is the exclusive provider of international telecommunications services in India, directly and indirectly linking the domestic Indian telecommunications network to 237 territories worldwide. VSNL operates from its corporate office at Mumbai and through its branches at Mumbai, Pune, Arvi, Gandhinagar, New Delhi, Dehradun, Jalandhar, Kanpur, Calcutta, Chennai, Bangalore, Ernakulam and Hyderabad.

The Company's monopoly status was to be reviewed in 2004, however, it has been widely reported in the Indian press that the Cabinet Committee on Economic Affairs ('CCEA'), Government of India, will allow entities other than the Company, to provide international telephony services to and from India with effect from April 1, 2002, ending the Company's monopoly two years ahead of schedule. It has also been reported in the Indian press that the Government of India is in the process of finalising a scheme to compensate the Company for the same. The Company has, however, not received any official communication from the CCEA for the above.

VSNL offers basic and specialised services. The basic services include telephony, telex and telegraph. The specialised services include gateway packet data transmission, electronic data interchange, electronic mail, internet, International Maritime Satellite ('Inmarsat') mobile services, leased channels, transmission of signals for international television broadcasts and video conferencing.

1.2 Revenue Sharing Arrangement

The Company operates its business pursuant to a license from DoT. The license is periodically renewed by the DoT subject to certain conditions and is currently valid up to March 31, 2004. Under the current arrangements, although the Company provides international gateway access out of and into India, all calls must either initiate or terminate on or pass through the DoT's network. The Company derives substantially all its revenue from payments from foreign telecommunication administrations and private carriers for the delivery of international calls to India and from payments from DoT for the delivery of international calls abroad. Consequently, the Company and DoT share revenues received by each entity from international calls pursuant to a revenue sharing arrangement between them. The arrangement is effective from April 1, 1997 and is valid till March 31, 2002.

Under the revenue sharing arrangement, the Company pays to DoT, a charge per minute equal to the weighted average incoming settlement rate, minus Rs 10.00 on all incoming international calls and DoT pays to the Company a charge per minute equal to the weighted average outgoing settlement rate plus Rs 10.00 on all outgoing international calls. The weighted average incoming settlement rate and weighted average outgoing settlement rate for any financial year is the average of the various settlement rates in effect as of the beginning of the financial year between the Company and the foreign administrations and carriers (converted to Indian rupees at the exchange rate prevailing as of the beginning of the financial year), weighted to reflect the volume of total incoming traffic and the outgoing traffic respectively, of the immediately preceding financial year. The above arrangement is intended to result in an average gross profit to VSNL of approximately Rs 10.00 per call minute for each of the financial years ended March 31, 1998 and March 31, 1999. This is based on the assumption that applicable settlement rates, exchange rates and the composition of the incoming and outgoing traffic from and to particular destinations remain constant during the year. Any fluctuation in these constants, either to the benefit or detriment of VSNL, is borne by VSNL.

With effect from April 1, 1999, the revenue sharing arrangement provides any increase or decrease in the combined international traffic revenue per call minute of the Company and DoT (net of payments by the Company to foreign administrations and carriers and by the Company and DoT to each other in respect of incoming and outgoing calls) for each fiscal year, compared to the fiscal year ended March 31, 1997, will be shared between the Company and DoT according to the following percentages:

Year ended March 31	Company's share of increase/ decrease	DoT's share of increase/ decrease/
2000	15%	85%
2001	20%	80%
2002	25%	75%

In computing the international traffic revenue of DoT for purposes of calculating the combined international traffic revenue per call minute of the Company and DoT, the tariff charged by DoT to subscribers for outgoing international calls is assumed to remain constant at Rs 62.35 per minute, which was the weighted average tariff rate for the year ended March 31, 1997. It is therefore intended that the Company's average gross profit per call minute under the current revenue sharing arrangement will not be affected directly by any decrease or increase in the actual tariffs charged by DoT from its subscribers for outgoing international calls.

The current revenue sharing arrangement is subject to review in the event that the exchange rate fluctuates more than 10 per cent from the rate at the beginning of the year or the Company's actual average gross earnings per call minute is less than Rs 9.00 or more than Rs 11.00 in any financial year covered by the arrangement primarily to correct the imbalance, if any.

For the years ended March 31, 2000, 1999 and 1998 the gross profit per call minute was Rs 9.43, Rs 10.63 and Rs 10.08, respectively.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

These financial statements are prepared under the historical cost convention on the accrual basis of accounting in accordance with the accounting and reporting requirements of International Accounting Standards ('IAS') issued by the International Accounting Standards Committee. The fair value of financial assets and liabilities approximates to their carrying value unless otherwise stated. The significant accounting policies adopted by VSNL, in respect of these financial statements are set out below.

These financial statements are stated in millions of Indian rupees ('Rs'). For the convenience of readers, the financial statements for the year ended March 31, 2000 have been translated into millions of United States Dollars ('US $') using the noon buying rate as specified by the Federal Reserve Bank of New York as at March 31, 2000, which was US $ 1 = Rs 43.65. The convenience translation should not be construed as a representation that the Rs amounts or the US $ amounts referred to in these financial statements have been, could have been, or could in the future be, converted into US $ or Rs, as the case may be, at this or at any other rate of exchange, or at all.

2.2 Accounting records

The accounting records of VSNL are maintained in accordance with Indian law and their statutory financial statements are prepared in accordance with the accounting requirements of Indian law and Indian generally accepted accounting practices ('Indian GAAP').

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reported periods. While the individual estimates are subject to a degree of uncertainty and, accordingly, the actual results could differ from these estimates, their overall effect on the financial statements is not considered as material. The principal areas subject to these uncertainties are provisions for trade and other receivables and estimated useful lives of fixed assets.

2.3 Associate undertakings

Associate undertakings are companies in which the Company has a participating interest (usually between 20 and 50 per cent) which is held for long-term and over whose operating and financial policies it exercises a significant influence. The income statements include the Company's share of profits less losses of associate undertakings. The balance sheets include interests in associate undertakings at the value of the Company's share of the net assets of those undertakings.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. All costs relating to the acquisition and installation of property, plant and equipment are capitalised.

Depreciation is charged on property, plant and equipment on a straight-line basis from the time they are available for use, so as to make an economic allocation of the cost at which the assets are acquired less their estimated residual values, over their remaining estimated economic lives. Depreciation on freehold land is not provided. The estimated useful lives of various assets are shown below:

	Years
Earth stations	12
Cables 10 - 25	
Exchanges	12
Other network equipment	8
Buildings	61
Furniture, fittings and vehicles	6 - 20

Land acquired on lease is amortised over the period of the lease.

The Company evaluates the carrying value of its property and equipment whenever events or circumstances indicate the carrying value of assets may exceed their recoverable amounts. An impairment loss is recognized when the estimated future cash flows (undiscounted and without interest) expected to result from the use of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on fair value of the asset computed using discounted cash flows if the asset is expected to be held and used. Measurement of an impairment loss for an asset held for sale would be based on fair market value less estimated costs to sell.

2.5 Jointly controlled assets

Jointly controlled assets include amounts paid to Intelsat for the use of satellite. These are included with the property, plant and equipment. The depreciation charge for these assets is repaid back to the Company and is shown as a separate line item in the income statement. Until March 31, 1999, such investments were reflected as Fixed Assets Investments, accordingly, the prior year amounts of Rs 2,311 and Rs 2,250 as of March 31, 1999 and 1998 representing investments in Intelsat and Immarsat have been reclassified as Jointly controlled assets under fixed assets using the proportionate consolidation method.

In accordance with IAS 21, the Company has accounted for the jointly controlled assets as a foreign operation and has therefore retranslated the assets at closing rate at the balance sheet date. Exchange differences arising on the retranslation of the assets have been shown as a separate component of shareholders equity. This change has been retrospectively carried out in the financial statements resulting in an increase of fixed assets of Rs 91, Rs 191, Rs 189 and Rs 425 as on March 31, 2000, 1999, 1998 and for the years ended March 31, 1997 and the shareholders equity by an equal amount.

Income from the Company's investments in Intelsat, which represents the surplus earned by Intelsat during the year, is accrued on the basis of the trading statements received and is included as part of non-operating income. The charges paid for the use of the satellites to Intelsat is included in other transmission cost reflected under Network and transmission costs in the income statement.

2.6 Long-term investments

Long-term investments comprise investments in telecommunications satellite corporations and are valued at cost. The Company provides for diminution in value of investments, other than temporary in nature, in the financial statements.

2.7 Trade and other receivables

Trade and other receivables are stated at their expected realisable values, net of provisions for bad and doubtful amounts. Amounts payable to, and receivable from, the same administration and the DoT are shown on a net basis, where a legal right of set-off exists. These payables and receivables are intended to be settled on a net basis.

2.8 Operating leases

Costs in respect of operating leases are charged to the income statements on a straight-line basis over the lease term.

2.9 Foreign currency transactions
Foreign currency transactions are recorded at the exchange rate applicable at the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated into Rs at the exchange rate prevailing at the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting the Company's monetary items at rates different from those at which they were initially recorded in the year, or reported in previous financial statements, are recognised in the income statement in the period in which they arise.

2.10 Revenue recognition
Revenues for long distance telephone services are recognized at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased circuits are recognised based upon contracted fee schedules. Revenues from internet services are recognised based on the usage by the subscribers. The majority of revenues are derived from payments by the DoT for completing outgoing calls made from India and from payments by foreign administrations for incoming calls that originate outside India.

As discussed in note 1.2, the Company must pay a proportion of the amounts received from the DoT to transit and destination foreign administrations. Similarly, a proportion of the payments from the foreign administrations is paid to DoT for completing calls within India. The revenues and costs are stated on a gross basis in these financial statements.

2.11 Research and development
All expenditure incurred on research and development costs by the Company is charged to the income statement. Amounts incurred on purchase of capital equipment for research and development are capitalised.

2.12 Income-taxes
The taxation expense charged to earnings includes both current taxation and deferred tax, where appropriate. Temporary differences are identified and provision is made using the balance sheet liability method for all such differences. Deferred tax benefits are recognised on assets to the extent that it is probable that taxable profits will be available against which the asset can be utilised.

2.13 Retirement benefits
The Company has various schemes of retirement benefits such as pension and provident fund, recognised by the income-tax authorities. These funds are administered through trustees and the Company's contributions are charged to revenue each year. Provision for leave encashment is based on an actuarial valuation done every year as at March 31.

2.14 Segmental reporting
The Company carries on business as the sole provider of international telecommunications services in India.

3. Property, Plant and Equipment

	Land	Buildings	Plant & machinery	Motor vehicles	Furniture & fixtures	Jointly controlled assets	Total
	Millions of Indian rupees						
March 31, 1997	124	757	7,635	3	176	2,043	10,738
Cost							
April 1, 1997	125	814	11,128	9	276	4,560	16,912
Additions	4	146	2,627	2	106	1,429	4,314
Disposals	-	(1)	(25)	-	-	-	(26)
March 31, 1998	129	959	13,730	11	382	5,989	21,200
Accumulated depreciation							
April 1, 1997	1	57	3,493	6	100	2,517	6,174
Charge for the year	-	17	1,001	1	37	608	1,664
Disposals	-	-	(27)	-	1	-	(26)
March 31, 1998	1	74	4,467	7	138	3,125	7,812
Net book value							
March 31, 1998 (Restated)	128	885	9,263	4	244	2,864	13,388
Cost							
April 1, 1998	129	959	13,730	11	382	5,989	21,200
Additions	-	231	2,296	3	89	1,669	4,288
Disposals	-	(1)	(31)	-	(1)	-	(33)
March 31, 1999	129	1,189	15,995	14	470	7,658	25,455
Accumulated depreciation							
April 1, 1998	1	74	4,467	7	138	3,125	7,812
Charge for the year	1	22	1,190	1	48	1,417	2,679
Disposals	-	1	(29)	(1)	(1)	-	(30)
March 31, 1999	2	97	5,628	7	185	4,542	10,461
Net book value							
March 31, 1999 (Restated)	127	1,092	10,367	7	285	3,116	14,994
Cost							
April 1, 1999	129	1,189	15,995	14	470	7,658	25,455
Additions	14	600	4,674	1	303	1,876	7,468
Disposals	-	(9)	(11)	(1)	(3)	(873)	(897)
March 31, 2000	143	1,780	20,658	14	770	8,661	32,026
Accumulated depreciation							
April 1, 1999	2	97	5,628	7	185	4,542	10,461
Charge for the year	-	25	1,441	1	64	1,003	2,534
Disposals	-	-	(5)	-	-	(421)	(426)
March 31, 2000	2	122	7,064	8	249	5,124	12,569
Net book value							
March 31, 2000	141	1,658	13,594	6	521	3,537	19,457
Millions of US Dollars	3	38	312	-	12	81	446

(a) The cost of property, plant and equipment as on March 31, 2000 includes Rs 496 comprising of plant and machinery invested in Iridium LLC. The written down value of these assets as on March 31, 2000 was Rs 451. Since these assets are not cash generating assets and are currently not being used by the Company, a provision for impairment has been made to the extent of Rs 356 to reflect their estimated realisable value. This is based on a technical evaluation done by the Company.

(b) Included above are the following significant amounts:

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Fully depreciated assets still in use (cost)	21	923	626	514

(c) The Company acquires indefeasible rights of use for international telecommunication circuits in submarine cables. These rights extend over significant time periods. As these rights are not independently assignable by the Company, the amounts paid are recorded as additions to property, plant and equipment.

(d) The additions to the jointly controlled assets include foreign exchange gain of Rs 91, Rs 191 and Rs 189 for the year ended March 31, 2000, 1999 and 1998. This change has been reflected in the accounting policy on jointly controlled assets.

(e) The investment in Inmarsat was converted to equity with effect from April 15, 1999.

4. Long-Term Investments

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Quoted				
ICO Global Communications (Holdings) Limited 1,500,000 shares of US $ 0.01 each at a premium of US $ 99.99 per share, fully paid-up as at March 31, 2000 1,500,000 shares of US $ 0.01 each at a premium of US $ 99.99 per share, fully paid-up as at March 31, 1999 1,032,555 shares of US $ 0.01 each at a premium of US $ 99.99 per share, fully paid-up and 467,445 shares of US $ 0.01 each at a premium of US $ 99.99 per share, US $ 0.01 paid up as at March 31, 1998	125	5,471	5,471	3,667
12,000,000 shares of US $ 0.01 each fully paid-up, received as bonus shares during the year ended March 31, 1999				
Less: Provision for diminution in value of investments	(125)	(5,470)	(5,416)	-
	-	1	55	3,667

	2000 Millions of US Dollars	2000	1999 M illions of Indian Rupees	1998
Unquoted				
New Skies Satellites NV 344,215 ordinary shares of Dutch Guilders 1 each, fully paid up at cost as at March 31, 2000 301,215 shares of common stock of Dutch Guilder 1 each, fully paid-up as at March 31, 1999	13	563	474	-
Inmarsat (Holdings) Ltd. 202,219 Ordinary Shares of 1 Pound each, fully paid up Inmarsat (Holdings) Ltd. as at March 31, 2000	10	452	-	-
Sub-total	23	1015	474	-

Investments in Associate (note 23)				
Telstra Vishesh Communications Limited ('TVCL')				
9,200,000 equity shares of Rs 10 each, fully paid-up	2	92	92	68
Less: Share of losses of associated company	(2)	(92)	(92)	(62)
Total unquoted	23	1,015	474	6
	23	1,016	529	3,673

(a)There are no significant differences between fair values and carrying values of investments other than those disclosed.

(b)ICO Global Communications (Holdings) Limited ('ICO'), a company registered in Bermuda, was incorporated in January 1995 to provide global mobile personal communication services. ICO was listed on NASDAQ in July 1998. VSNL has invested a sum of Rs 5,471 (US $ 150 millions) in ICO.

ICO filed a voluntary petition for reorganisation under Chapter 11 of the United States Bankruptcy Code on August 27, 1999 in the United States Bankruptcy Court ('the Court') in the district of Delaware, as the additional financial resources required to complete the system and begin commercial operations could not be raised as per schedule.

On May 3, 2000, the Court confirmed the plans of reorganisation of ICO, which became effective from May 17, 2000. Based on the plans the holders of the existing common shares of ICO will receive share of common stock comprising approximately 1 per cent of the common equity capitalisation of New ICO Global Communications (Holdings) Limited ('New ICO') and warrants to purchase such common stock. In addition, the plans provide for ICO to be liquidated under the Bermuda law, and the common shares of ICO will eventually be cancelled. Though the shares of ICO may remain outstanding until the liquidation is complete, the existing shareholders of ICO no longer have any value other than the value of the shares and warrants being received under the reorganisation plans.

In lieu of the scheme, subsequent to March 31, 2000, VSNL has been allotted 130,053 shares representing 0.65 per cent of total equity of New ICO. In addition, VSNL has been allotted 975,398 warrants exercisable by May 15, 2006, representing conversion to two equity shares in New ICO at the payment of US$ 90 per warrant.

The Company has, accordingly, applied the provision for diminution in value of investments and written-off these investments to their current face value.

5. Short-Term Investments

Short-term investments include time deposits held with banks with maturity period exceeding 90 days and other time deposits the use of which is restricted to the import of capital equipment. Prior period amounts of Rs 9,272 and Rs 9,329 pertaining to restricted cash balances and deposits with greater than 90 days of maturity, as of March 31, 1999 and March 31, 1998, have been reclassified from cash and cash equivalents to short-term investments.

	2000	2000	1999 (Restated)	1998 (Restated)
	Millions of US Dollars	Millions of Indian Rupees		
Restricted cash balances	153	6,658	6,954	9,329
Time deposits with maturity exceeding 90 days	48	2,120	2,318	-
	201	8,778	9,272	9,329

6. Other Investments

	2000	2000	1999	1998
Units of mutual funds Nil (1998-99: nil, 1997-98: 396,000) units of Unit Scheme 1964 of Unit Trust of India (UTI) of Rs 10 each, fully paid-up (Repurchase value: 1997-98: Rs 5.86)	-	-	-	5
Nil (1998-99: nil, 1997-98: 5,000,000) units of UTI's Money Market Mutual Fund of Rs 10 each, fully paid-up (Repurchase value: 1997-98: Rs 54.77)	-	-	-	50
	-	-	-	55

7. Trade and Other Receivables

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Trade accounts and notes receivables				
- Amount due from foreign administrators	563	24,564	19,728	16,253
- Domestic trade debtors	12	527	602	418
Interest receivable on bank deposits	3	134	75	145
Duties recoverable	-	2	4	62
Other sundry deposits	1	49	58	48
Other receivables	9	375	360	380
	588	25,651	20,827	17,306

Trade accounts and notes, receivables are net of provision for doubtful debts of Rs. 917, Rs. 839 and Rs. 1052 for the years ended March 31, 2000, 1999 and 1998 respectively.

8. Cash and Cash Equivalents

	2000 Millions of US Dollars	2000	1999 (Restated) Millions of Indian Rupees	1998 (Restated)
Cash in hand	-	1	13	1
Bank balances				
Current accounts	446	19,449	15,138	13,825
Time deposits	32	1,396	1,507	3,110
	478	20,846	16,658	16,936

Time deposits are interest bearing deposits for periods ranging from 15 days to 90 days. Interest rates on such time deposits during the year ended March 31, 2000, ranged from approximately 4.94 per cent to 6.44 per cent on foreign currency deposits and 6.5 per cent to 11 per cent on Indian rupee deposits.

9. Share Capital

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Authorised 100,000,000 equity shares of Rs 10/- each	23	1,000	1,000	1,000
Issued, subscribed and paid up 285,000,000 equity shares of Rs 10/- each, fully paid-up as at March 31, 2000, 1999 and 1998	65	2,850	2,850	2,850

The shareholders of the Company have approved a stock dividends of equity shares in the ratio of two equity shares for every one equity share held, which was proposed by the Board of Directors on August 25, 2000. Accordingly, the stockholders equity account reflects the equity capitalisation of the Company after giving retroactive effect for the stock dividends for the prior years.

The Board has also proposed an increase in authorised share capital of the Company from 100 million equity shares of Rs 10 each aggregating to Rs 1,000 to 300 million equity shares of Rs 10 each amounting Rs 3,000 to give effect to the same. However, we have not made any adjustments to give effect for the same.

10. Trade Payables

	2000	2000	1999	1998
	Millions of US Dollars		Millions of Indian Rupees	
Accounts and notes payable-trade				
- Amounts due to foreign administrators	26	1,151	1,352	1,043
- Amounts due to the DoT for traffic settlement, net	284	12,384	10,853	12,915
	310	13,535	12,205	13,958

11. Accrued Expenses and Other Liabilities

	2000	2000	1999	1998
	Millions of US Dollars		Millions of Indian Rupees	
Bank overdraft	1	46	26	1,562
Income received in advance	37	1,605	1,301	1,031
Other payables and accrued expenses	106	4,639	3,082	3,474
	144	6,290	4,409	6,067

Bank overdraft of Rs 46, Rs 26 and Rs 1,562 as at March 31, 2000, 1999 and 1998 respectively represents book overdraft.

12. Revenues

	2000	2000	1999	1998
	Millions of US Dollars		Millions of Indian Rupees	
Incoming telephone	1,035	45,161	43,834	38,304
Incoming telex	3	128	186	273
Receipts from DoT for outgoing traffic				
- Telephone	421	18,375	18,243	19,514
- Telex	4	175	173	197
Leased circuits	68	2,986	2,499	1,936
Telegraph, television and others	64	2,816	2,246	890
	1,595	69,641	67,181	61,114

13. Network and Transmission Costs

	2000	2000	1999	1998
	Millions of US Dollars		Millions of Indian Rupees	
Payment for traffic costs to:				
- DoT	670	29,254	27,682	26,940
- Foreign administrators	307	13,374	14,762	14,704
Rent of land lines	13	579	915	849
Other transmission facilities	55	2,414	1,780	1,447
	1,045	45,621	45,139	43,940

14. Other Operating Costs

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Staff costs				
- Salaries and wages	47	2,031	680	675
- Pension costs	-	-	15	11
- Social security contribution	3	152	77	56
Energy costs	5	235	175	123
Advertising	3	113	102	76
Repairs, maintenance, marketing and other costs	30	1,319	584	971
	88	3,850	1,633	1,912

(a) The Company being a Public Sector Undertaking, the matters with respect to the pay revisions are decided by the Department of Public Enterprises, Government of India, ('DPE'). The last revision of pay scales was made effective from January 1, 1992 for a period of five years. For the next pay revision of January 1, 1997 to be effective for a period of 10 years, the Government had set up a high level committee under the Chairmanship of Justice S Mohan ('Mohan committee') to recommend revision of pay and allowances for the executive cadre.

For the three years ended March 31, 1999, the Company had provided upto 40 per cent of the basic pay, amounting to Rs 398 for employees in both the executive and non-executive cadres, towards the wage revision for the respective years.

The Mohan committee submitted its report on June 25, 1999, recommending an average increase in basic salary to the extent of 50 per cent (resulting in an approximate increase of 75 per cent in total salary payments) to the executive cadre. During the year ended March 31, 2000, the Company has made a provision of Rs 252, representing Rs 172 for the 40 per cent increase in basic pay, for all employees and Rs 80 as the incremental pay for the executive cadre for the period January 1, 1997 to March 31, 2000, based on the recommendations of the Mohan committee.

On July 27, 2000, Board of Directors of the Company approved a further increase in pay scales of approximately 10 per cent for the executive cadre, from the levels recommended by the Mohan committee. These recommendations are in the process of being ratified by the Ministry of Communications, Government of India. The Board of Directors having been vested with the authority to determine the quantum of revision for the non-executive cadre have determined an average increase of approximately 45 per cent from the earlier levels.

Accordingly, the Company has estimated and recorded a further provision of Rs 256 million in the current year to give effect to the recommendations made by the Board of Directors, for both the executive and nonexecutive cadres. This comprises Rs 125 for the period from January 1, 1997 to March 31, 1999 and Rs 131 for the year ended March 31, 2000. The amount is higher during the year due to the cascading effect of the salary increases in the earlier years.

(b) On the recommendations of the Central Government, the Company believes that a payout of performance linked bonus to its existing employees for services rendered since January 1, 1997 is likely. The maximum payout could be 5 per cent of Company's annual profit after tax. The Company, has accrued Rs 909 in the current year representing Rs 617 of the bonus for the period from January 1, 1997 to March 31, 1999 and Rs 292 for the current year ended March 31, 2000.

(c) The Company has defined contribution plans for post retirement benefits to all employees in form of pension, leave encashment and provident fund. In case of pension, the entire contribution to the fund is made by the employees. However, if the corpus of the fund is not sufficient to meet the liability based on an actuarial valuation, the Company is liable to contribute for the differential amount. With respect to leave encashment, the Company is the sole contributor based on actuarial valuation of the liability. Both the employee and the Company contribute towards the Provident Fund benefits. All these plans are administered through separate funds managed by independent trusts.

15. Non-operating Income

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Foreign exchange gains, net	33	1,449	3,168	3,523
Income from Intelsat	17	737	507	426
Income from Inmarsat	-	-	250	76
Profit on sale of fixed assets	2	86	10	-
Miscellaneous income	7	284	137	73
	59	2,556	4,072	4,098

16. Income-Tax Expense

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Current income-tax expense comprises:				
Current tax expense	146	6,375	5,894	4,379
Deferred tax income relating to the origination and reversal of temporary differences	(8)	(356)	404	47
Deferred tax expense resulting from an increase in tax rates	3	137	-	-
	141	6,156	6,298	4,426

The tax rates applicable to the Company have increased during the year to 38.5 per cent as against 35 per cent in the prior year on account of surcharge levied of 10 per cent. The effect of this change on the current year deferred tax expense is Rs 137.

The following is a reconciliation of the tax expense at the statutory tax rate under the Indian Income-tax Act, 1961 and the Company's effective tax rate:

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Accounting profit	415	18,105	15,001	15,795
Tax at the statutory tax rate of 38.5 per cent (1999 - 35 per cent and 1998 - 35 per cent)	160	6,971	5,250	5,528
Profit attributable to the set-up of new industry	(20)	(899)	(708)	(687)
Exchange gain on GDR deposits treated as capital receipt for income-tax purposes	(2)	(94)	(248)	(401)
Provision for diminution in the value of investment	-	21	1,896	-
Others	-	20	108	(14)
	138	6,019	6,298	4,426
Deferred tax expense resulting from an increase in tax rates	3	137	-	-
Income-tax expense, net	141	6,156	6,298	4,426

The tax-reporting year in India is from April 1 to March 31 each year. The significant components and classification of deferred tax liability are as follows:

	2000	2000	1999	1998
	Millions of US Dollars	Millions of Indian Rupees		
Total temporary differences	69	2,999	3,924	2,769
Accelerated depreciation for tax purposes	49	2,148	1,704	1,437
Provision for doubtful receivables	(9)	(393)	(285)	(366)
Traffic adjustments	(2)	(89)	-	(89)
Provision for employee pay revision/bonus	(11)	(477)	19	19
Others	(1)	(34)	(64)	(31)
Deferred tax liability	26	1,155	1,374	970

17. Earnings per Share

The calculation of basic earnings per share of Rs 41.56 at March 31, 2000, Rs 30.24 at March 31, 1999 and Rs 39.76 at March 31, 1998 is based on profit on ordinary activities after taxation and the weighted average number of shares in issue during the year ended March 31, 2000 and March 31, 1999 of 285 million and 284.94 million during the year ended March 31, 1998.

18. Contingencies

(a) Income-tax Matters

The Revenue Authorities have taken the position that the Company is not entitled to a tax deduction it claimed in the year ended March 31, 1995 for license fees paid to DoT. The Revenue authorities claim that the Company owes approximately Rs 1,140, Rs 1,300, Rs 1,600 and Rs 1,800 in respect of taxes due in connection with the license fees for the years ended March 31, 1994, 1995, 1996 and 1997 respectively. Tax refunds otherwise due to the Company for subsequent years, amounting to approximately Rs 2,460 have been applied by the Revenue authorities to a portion of this disputed claim. In addition, the Company has paid the Revenue authorities Rs 3,100 with respect to this claim. The outstanding amount of the claim continues to accrue interest at a rate of 1.5 per cent per month.

The Company disputes this claim and lodged an appeal with the Commissioner of Income tax (Appeals) - I, Mumbai. The Company subsequently appealed to the Income-tax Appellate Tribunal, Mumbai ('the Tribunal') as the Commissioner of Income tax (Appeals) - I, Mumbai denied the Company's claim with respect to the year ended March 31, 1995, while the appeals in respect of other years are still pending with CIT (A) - I. The ITAT, Mumbai issued an order on September 14, 2000 in the Company's favour and has held that the amount paid by the Company to DOT as License Fee is an allowable expenditure u/s. 37(1) of the Income tax Act. Consequent to this order, the Company is entitled to get the refund to the extent adjusted, from the Revenue Authorities with respect to the year ended March 31, 1995. In addition the Company can request CIT (A) - I to expedite the orders for the other years as the CIT (A) - I is bound to apply *resjudiceta* and allow licence fee as a deductible expenditure consequent to which the Company can claim refunds to the extent the amount paid/ adjusted by the department.

However, the Revenue Authorities may contest the order of the Income tax Appellate Tribunal before the Hon'ble High Court within a period of 120 days from the date of the tribunal order. If the Company loses the appeal, the Revenue Authorities may make similar claims for subsequent years, resulting in an aggregate potential liability of approximately Rs 17,000 (including interest, but excluding penalties, if any) thereon as of March 31, 2000 and additional amounts for periods thereafter. The Company has obtained expert advice that it has a strong case to contend and it would succeed at higher authorities. Accordingly, the Company has made no provision for any potential liability in the books of account.

In addition, the Revenue authorities have also taken the position that the Company is not entitled to a tax benefit claimed by it for the year ended March 31, 1996 and 1997 with respect to a portion of its profits which the Company claims were generated by an enterprise engaged in infrastructure development. The Revenue authorities claim that the Company owes approximately Rs 105 and Rs 294 in respect of taxes due in connection with such profits for the years ended March 31, 1996 and 1997 respectively. The Company disputes this claim and has lodged an appeal with the Commissioner of Income tax (Appeals) - I, Mumbai. The outstanding amount of the claim continues to accrue interest at a rate of 1.5 per cent per month. If the Company loses its case, the tax authorities may make similar claims for subsequent years, resulting in an aggregate potential liability of approximately Rs 4,100 (including interest, but excluding penalties) thereon as of March 31, 2000 and additional amounts for periods thereafter. The Company has obtained expert advice that, while there is uncertainty of the outcome of the judicial/appellate proceedings, the Company has sound and legally sustainable grounds of appeal against the contentions of the assessing officer. Accordingly, the Company has made no provision for any potential liability in the books of account.

Further, the Revenue Authorities have taken the position that the Company has not offered for tax certain reimbursements it received from DoT during the year ended March 31, 1994. The Revenue Authorities claim that the Company owes approximately Rs 1,300 in respect of taxes due in connection with such reimbursements for the year ended March 31, 1994. The Company disputes this claim and had lodged an appeal with the Commissioner of Income Tax (Appeals) - I, Mumbai. The outstanding amount of the claim continues to accrue interest at the rate of 1.5 per cent per month. If the Company loses its case, the Company's aggregate potential liability would be approximately Rs 2,600 (including interest, but excluding penalties) thereon as of March 31, 2000. The Company has obtained expert advice that, while there is uncertainty of the outcome of the judicial/appellate proceedings, the Company has sound and legally sustainable grounds of appeal against the contentions of the assessing officer. Accordingly, the Company has made no provision for any potential liability in the books of account.

As the tax contingencies are not expected to be resolved within the operating cycle of the Company (12 to 18 months), the amounts paid/adjusted from refunds against demands raised by the Revenue Authorities aggregating to Rs 5,560 as at March 31, 2000 are reflected as non-current assets. Accordingly, the prior year amounts of Rs 2,666 and Rs 1,196 pertaining to taxes recoverable, on account of contingencies discussed above, for the years ended March 31, 1999 and 1998 have also been reclassified and reflected as non-current assets.

(b) Year 2000 problem (Unaudited)

The Year 2000 risk is associated with the sensitivity of computer-based equipment and applications to the change of date at the turn of the century. Computer based applications are crucial to VSNL operations. If any defective equipment and applications are not rectified or replaced, they could fail or create erroneous results.

The Company has noted no discrepancies with respect to its computer, network equipment, billing system and other computer based equipment subsequent to Year 2000. However, the Company is still continuing to assess and monitor the risk that could arise with respect to the Year 2000 problem.

As of March 31, 2000, the Company has incurred Rs 120 towards Year 2000 compliance program. All these cost incurred by the Company have been expensed off in the income statement of the respective years.

19. Capital Commitments

The capital commitments represent expenditure, principally relating to the construction of new buildings, submarine cables and expansion of transmission equipment which had been committed under contractual arrangements and unpaid amounts on investments, with the majority of payments due within one period. The amount of these commitments totalled Rs 3,366 at March 31, 2000, Rs 2,248 at March 31, 1999, and Rs 3,277 at March 31, 1998.

20. Research and Development Activities

The income statements include research and development expenses of Rs NIL, Rs 87 and Rs 72 for the years ended March 31, 2000, 1999 and 1998 respectively.

21. Employee Retirement Benefits

21.1 Employees provident fund

The amount contributed to the employees provident fund plan amounted to Rs 38, Rs 36 and Rs 30 for the years ended March 31, 2000, 1999 and 1998.

21.2 Leave encashment benefits

Leave encashment benefit comprises of encashment of leave balances accrued by employees. These balances are encashable during the tenure of employment or on the employee leaving the Company or on retirement.

The amounts recognised in the balance sheets are as follows:

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Balance, beginning of year	1	58	47	37
Contributions during the year (net of deletions)	1	48	11	10
Balance, end of year	2	106	58	47

The principal actuarial assumptions at the dates of the balance sheets are as follows:

	2000	1999	1998
Discount rate at March 31 (percentage)	10	10	10
Retirement age (years)	60	60	60
Maximum accumulation of leave balance (number of days)	240	240	240

21.3 Pension

	2000 Millions of US Dollars	2000	1999 Millions of Indian Rupees	1998
Pension liability	-	16	38	26

21.4 Average number of employees

	2000	1999	1998
Average number of employees for the year	2,995	2,918	2,867

22. Related Party Transactions

VSNL is a Government company as defined under the Indian Companies Act, 1956 and is also listed on the major stock exchanges in India. As at March 31, 2000, the Government owned approximately 52.97 per cent of the issued share capital of the Company, with the balance owned by private investors and financial institutions. As per IAS 24 on 'Related Party Disclosures', no detailed disclosure of transactions is required in the financial statements of state-controlled enterprises, of transactions with other state-controlled enterprises.

23. Holdings in Associate Companies

The investments in associates include investments in Telstra Vishesh Communications Limited only. The following table indicates the extent of holding. These investments are accounted for using the equity method of accounting.

Description of the Company	Ownership Interest/ Voting power	Carrying Amount	Equity in Investment	Difference
		(a)	(b)	(c)
V-SAT service provider	40%	-	92	(92)

24. New Accounting Pronouncements under IAS

IAS 10

IAS 10 deals with contingencies and events occurring after the balance sheet date. The standard replaces those parts of IAS 10 - Contingencies and Events Occurring After the Balance Sheet Date, that have not already been superseded by IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. This International Accounting Standard was approved by the IASC Board in March 1999 and became effective for annual financial statements covering periods beginning on or after 1 January 2000. The Company will adopt the revised standard for the financial statements for the year ending March 31, 2001 and is presently in the process of quantifying the effect of this revision.

IAS 16

IAS 16 deals with accounting for property, plant and equipment. In April and July 1998, various paragraphs of IAS 16 were revised to be consistent with IAS 22 - Business Combinations, IAS 36 - Impairment of Assets, and IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The revised Standard IAS 16 became operative for annual financial statements covering periods beginning on or after July 1, 1999. The Company will adopt the revised standard for the financial statements for the year ending March 31, 2001 and is presently in the process of quantifying the effect of this revision.

IAS 22

IAS 22 deals with accounting for business combination. In July 1998, various paragraphs of IAS 22 (revised 1993) were revised to be consistent with IAS 36, Impairment of Assets, IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and IAS 38, Intangible Assets, and the treatment of negative goodwill was also revised. The revised Standard (IAS 22 (revised 1998)) becomes operative for annual financial statements covering periods beginning on or after July 1, 1999.

In 1999, paragraph 97 was amended to replace references to IAS 10, Contingencies and Events Occurring After the Balance Sheet Date, by references to IAS 10 (revised 1999), Events After the Balance Sheet Date. In addition, paragraphs 30 and 31(c) were amended to be consistent with IAS 10 (revised 1999). The amended text becomes effective when IAS 10 (1999) becomes effective - i.e., for annual financial statements covering periods beginning on or after January 1, 2000.

The Company has not made any acquisition till date and accordingly, the standard is not currently applicable to the Company.

IAS 36

This International Accounting Standard was approved by the IASC Board in April 1998 and becomes effective for financial statements covering periods beginning on or after July 1, 1999. The Standard prescribes the accounting and disclosure for impairment of all assets.

The Company has disclosed its current policy for impairment of assets in note 2.4 of these financial statements. The Company has not quantified the impact of adoption of this standard.

IAS 37

This International Accounting Standard was approved by the IASC Board in July 1998 and became effective for financial statements covering periods beginning on or after July 1, 1999. IAS 37 prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except those mentioned in Para 1 of the standard. The Company will adopt the revised standard for the financial statements for the year ending March 31, 2001 and is presently in the process of quantifying the effect of this revision.

IAS 38

This International Accounting Standard was approved by the IASC Board in July 1998 and became effective for financial statements covering periods beginning on or after July 1, 1999.

This standard supersedes IAS 4 - Depreciation Accounting, with respect to the amortisation (depreciation) of intangible assets; and IAS 9 - Research and Development Costs. IAS 38 prescribes the accounting and disclosure for intangible assets that are not specifically dealt with in other International Accounting Standards. The Company does not have any intangible assets in its Balance Sheet except research and development cost for which the accounting policy has been disclosed in note 2.11 of these financial statements.

IAS 39

In March 1999, the International Accounting Standard Committee issued IAS 39. IAS 39 establishes standards for recognising, measuring and disclosing information about an enterprise's financial assets and financial liabilities, including accounting for hedging transactions. Under this Standard, all financial assets and financial liabilities should be recognised on the balance sheet, including all derivatives. They should initially be measured at cost, which is the fair value of the consideration given or received to acquire the financial asset or liability (plus certain hedging gains and losses).

IAS 39 is operative for financial statements covering financial years beginning on or after January 1, 2001. The standard is not currently applicable to the Company and the Company intends to adopt the standard when the same becomes applicable, which will be for the financial year ending March 31, 2002.

IAS 40

IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. The Standard is effective for annual financial statements covering periods beginning on or after January 1, 2001.

The Standard replaces previous requirements in IAS 25, Accounting for Investments. The Company does not have any investment property, which generate rentals or which are held for capital appreciation.

25. Differences between IAS and US GAAP and other Required Disclosures

25.1 Reconciliations

The following is a summary of the material adjustments to shareholders' equity and net income that would have been required if US Generally Accepted Accounting Principles ('US GAAP') had been applied instead of IAS for the years ended March 31, 2000, 1999 and 1998.

	Note	2000	2000	1999	1998
		Millions of US Dollars	Millions of Indian Rupees		
Shareholders' equity as per IAS		1,423	62,110	50,935	42,885
US GAAP adjustment:					
Dividend accrued (including dividend tax)	25.2.1	20	865	844	418
Shareholders' equity as per US GAAP		1,443	62,975	51,779	43,303

	Note				
Net Income as per IAS		271	11,844	8,619	11,331
US GAAP adjustment:					
Dividend tax accrued during the year	25.2.1	2	105	84	38
Dividend tax paid during the year		(2)	(84)	(38)	(28)
Net Income as per US GAAP		271	11,865	8,665	11,341
Earnings per share		1	41.63	30.40	39.80

25.2 Significant differences

25.2.1 Proposed dividend and related dividend tax

Under Indian GAAP and IAS, dividends on equity shares and the related dividend tax are recorded as liabilities at the point of their proposal by the Board of Directors.

Under US GAAP, dividends and the related dividend taxes are recorded upon approval by shareholders' at the general shareholders' meeting.

25.2.2 Accounting for jointly controlled assets

Under IAS, the jointly controlled assets are recorded on a proportionate consolidation basis. However, under US GAAP such investments would be recorded using the equity method of accounting. This difference would be only be a classification difference, resulting in no difference in the shareholders equity and the net income under IAS and US GAAP.

The long-term investments under US GAAP would increase by Rs 3,537, Rs 3,116 and Rs 2,864 as on March 31, 2000, 1999 and 1998 respectively and the property, plant and equipment under US GAAP would reduce by the same amount for the respective years.

25.3 Additional disclosure requirements

25.3.1 Property, plant and equipment

The following advances have been made for purchase commitments relating to property, plant and equipment:

	2000	2000	1999	1998
	Millions of US Dollars	Millions of Indian Rupees		
Advances for purchases	8	348	434	35

25.3.2 Shareholders' equity

The following is the history of the dividends declared by the Company:

	2000	2000	1999	1998
	Millions of US Dollars	Millions of Indian Rupees		
Dividend declared	17	760	760	380
Dividend per share (Rs)	-	8	8	4

There were no treasury shares outstanding as at March 31, 2000.

25.3.3 Employee benefits

Employee benefits consist of provident fund, pension and superannuation benefits. These employee benefits are structured through funds, which are administered by independent trusts. The contribution of the Company to these funds is either fixed (defined contribution) or determined through periodic actuarial valuation. These contributions are charged to the income statements. Leave encashment is charged to the income statements based on year-end actuarial valuation.

25.3.4 Contingencies

None of the contingencies disclosed in note 18(a) are considered probable under SFAS 5 of US GAAP that requires an accrual.

25.3.5 Fair value of Taxes on income

Under SFAS 107, the Company is required to disclose the fair value of the non current portion of taxes on income, however it is not practicable for the Company to do so, since the period of time within which this asset could be realised cannot be currently estimated. The period of realisation of this asset is dependant upon resolution of tax contingencies discussed above in note 18(a) to the financial statements.

25.3.6 Segment information

Revenues from major customers are:

Customer Name	2000 Millions of US Dollars	2000 Millions of Indian Rupees	1999	1998
DoT	425	18,550	18,416	19,711
USA-MCI	254	11,071	7,749	8,877
USA-ATT	118	5,157	7,572	4,705
UAE	151	6,589	6,921	5,609
UK-BTI	98	4,276	4,501	1,463

All the revenues earned by the Company are from its operations in India.

25.3.7 New US GAAP Accounting pronouncements

SAB 101

On December 3, 1999, the United States Securities and Exchange Commission (SEC) staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition" to provide guidance on recognition, presentation and disclosures of revenue and certain related costs in financial statements. Subsequent to the issuance of SAB 101 the SEC issued SAB No. 101A and SAB 101B which delayed the required adoption date for SAB No. 101. SAB 101B allows companies to report a change in accounting principle to adopt SAB 101 no later than their fourth fiscal quarter of their fiscal year beginning after December 15, 1999. The Company believes that its current revenue recognition policies comply with SAB 101.

SFAS 133

In June 1998, the Financial Accounting Standards Board issued SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. It also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No 133, as amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" is effective for fiscal years beginning after June 15, 2000 and cannot be applied retroactively. The Company does not currently have any derivative instruments nor does it engage in any hedging activities, therefore Company does not expect the impact of this new statement on the Company's balance sheets or results of operations to be material.

S.K. Gupta

Chairman and Managing Director

Shri S.K. Gupta took over as the Chairman and Managing Director of Videsh Sanchar Nigam Limited on September 7, 1999. He had been the Chief General Manager of the Gujarat Telecom Circle at Ahmedabad since October 1997.

Shri Gupta belongs to the 1964 batch of the Indian Telecom Service and has held various responsible positions in the Department of Telecom in the fields of planning, installation, operation, maintenance and training. His important postings have included those as Principal General Manager, MTNL New Delhi; General Manager Telephones, Jaipur; District Manager Telephones, Allahabad; and Director at the Advanced Level Telecommunication Training Centre, Ghaziabad.

Shri Gupta graduated in Electrical Engineering from the University of Roorkee, where he was a Gold Medallist. He was trained at Japan in C-400 cross bar systems and at the University of Essex, U.K., in Computer Software Engineering. He also participated in a seminar on “Deregulating/Privatising the Telecom Sector and building strategic alliances” at Washington, U.S.A.

Shri Gupta received a national award in 1989 for excellent telecommunication arrangements during Mahakumbh at Allahabad. He has represented VSNL in various international fora like Intelsat, advocating VSNL’s causes actively and successfully. He went on deputation to the United Nations through ITU for an assignment in the field of Electronic Exchange Systems to Malawi-Africa.

Rajneesh Gupta

Director (Network)

Shri Rajneesh Gupta, an Indian Engineering Service Officer of the 1970 batch, was born at Moradabad in 1948. Shri Gupta took over as Director (Network), on the Board of VSNL, on November 23, 1998, a post which was created for the first time at VSNL. Prior to that, Shri Gupta was a General Manager with Mahanagar Telephone Nigam Limited, at its corporate office. There he was in charge of planning and procuring high-tech items for the telephone giant. Before that, he was responsible for operations, maintenance and planning of MTNL’s South Delhi II telecommunication facilities, as Area General Manager (South Delhi-II).

Shri Gupta has held several key posts in the Ministry of HRD, Department of Education, Government of India. He was the Chief General Manager (task force), DoT, Guwahati responsible for planning and carrying out the development of telecommunication infrastructure in the seven north eastern states. Shri Gupta was deputed by the Government of India to Muscat (Government of Oman) for a period of five years (1975-80).

Vinoo Goyal

Director (Development)

Shri Vinoo Goyal started his career as a 1972 batch Indian Telecom Services (Group ‘A’) Officer. Since then, he has gathered more than 26 years of varied experience in the field of national/international telecommunications, covering a full spectrum of services and disciplines.

Shri Goyal took over as Director (Development), VSNL on December 9, 1998 and is based at Delhi. Before that, he was the Group General Manager and Group Head of the Satellite and Telecom Consultancy Division at Telecom Consultants India Ltd. (TCIL), New Delhi. There he was engaged in offering consultancy services to national and international clients on all kinds of telecom services/networks including systems using satellite, terrestrial and optical fibre cable media. He completed a number of prestigious consultancy assignments for a wide variety of clients both in India and abroad.

Shri Vinoo Goyal is an M. Tech from the Indian Institute of Technology, New Delhi. He has held many important posts in the INSAT (Indian National Satellite) programme of the Ministry of Communications, Government of India and contributed significantly to planning, implementation and network operations relating to satellite based services.

Shri Goyal was also Director (Maintenance Radio), Telecom Commission, Ministry of Communication. During his tenure of almost four years as Director (MR), he was in-charge of total ship to shore communications from/to India including implementation of all recommendations related to GMDSS. Shri Goyal has worked as a consultant to the ITU, APT and Regional African Satellite Communication System (RASCOM). He is also a director on the board of Telstra V-Comm, a joint venture between VSNL, Telstra of Australia and IL&FS; Inmarsat Holding plc., U.K. and Inmarsat Ltd., U.K. engaged in providing Global Mobile Satellite Communication services and meeting the obligations of GMDSS. He has travelled widely around the world and has represented India in various technical/bilateral forums.

R.S.P. Sinha

Director (Finance)

Shri R.S.P. Sinha, is a B.Sc. in Electrical Engineering. He also holds degrees in Business Management, Banking and Law and is a member of the Institute of Cost & Work Accounts (ICWA).

Born on September 21, 1951, Shri Sinha worked as DGM (Finance) at Tehri Hydro Development Corporation (1990-94). He also headed the transmission wing of the company at Meerut, before moving to New Delhi as Head, Corporate Finance. He then took over as the Director Finance at Hindustan Organic Chemicals Limited, Rasayani (1994-1999). Shri Sinha took over as Director (Finance), VSNL on January 14, 1999.

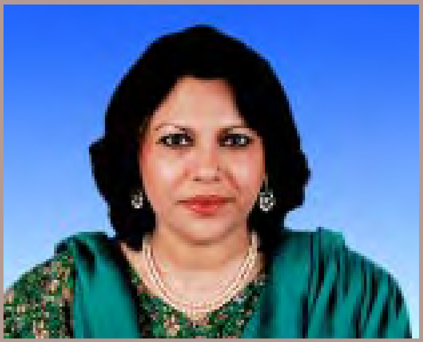
Amitabh Kumar

Director (Operations)

Born on September 27, 1953, Shri Amitabh Kumar, a gold medallist BITS (Pilani) alumnus, joined the Overseas Communications Service in 1975 - topping the electronics engineering services examination. Since then, he served in various capacities in OCS and VSNL for over two decades, before becoming the acting Chairman and Managing Director, VSNL, in July 1998. His responsibilities at VSNL include Director (Operations), Chief General Manager (Planning), General Manager (R&D), and Director (Switching).

Under Shri Kumar's stewardship, VSNL has had numerous successes. They include the expansion of VSNL's network to 15,000 circuits; setting up new satellite earth stations and fibre optic systems; gateway digital switches; a massive expansion plan (US $1.03 billion) during the 9th Five Year Plan; planning and implementing of e-mail, gateway internet access services, globally managed data services; office automation and internet system, SEA-ME-WE-3 and FLAG undersea cable fibre optic systems, and a host of others. VSNL's Internet services have grown to cover more than 400,000 customers. Shri Kumar has also successfully planned and executed VSNL's GDR Issue (US $185 million), in February 1999. This was the only successful GDR from India during the previous 15-month period.

Shri Kumar has published a host of articles on digital services in leading telecommunications magazines. A much sought-after speaker on the subject of international telecommunications both in India and abroad, Shri Kumar has also presented various thought-provoking papers in international fora.



Smt. S.A. Tirmizi

Director

Smt. S.A. Tirmizi, presently the Senior Deputy Director Deneral (IA&P) in the Department of Telecommuni-cations, is an MBA with a specialisation in finance.

Smt. Tirmizi has been actively involved and associated as a task force member in VSNL's resource mobilization programme to finance its programmes and projects through EURO/GDR issues. As a director on the board of VSNL, Smt. Tirmizi has been involved in formulating policies, strategies and operational planning as well as VSNL's restructuring and diversification programmes.

Smt. Tirmizi first worked as a Chief Accounts Officer/Internal Finance Adviser to the General Manager, Telecom Projects, Northern Zone for three years before going on to join the Government of India. She was deputed to the Ministry of Steel and Mines from 1982-84. She then joined the Department of Posts as Director of Postal Accounts. In 1987, she joined as Director in the Department of Telecom factory from where she went to Ministry of Home Affairs as Director (Finance - UT) where she worked from 1988-1993.

Smt. Tirmizi also lectures on various aspects of financial management in the government at various institutes such as ALTTC, ISTM, NIFM, Postal Staff College among others. She is also on the panel of experts of ITU and IMF.

B.R. Khurana

Director

Shri Baldev Raj Khurana is the Senior Deputy Director General (ML) in the Telecom Commission. He holds an Electrical Engineering degree (Hons) specialising in Telecom Transmission Technology Development and Human Resources Development.

Since May 1997, his key responsibilities with the Department of Telecommunications have included policy planning and implementation of domestic long distance networks including village public telephones. On behalf of the administrative ministry, he oversees the functioning of DoT's service PSUs, namely VSNL, MTNL, and TCIL. He has been actively involved in planning and introducing new technologies and services including Internet services in the DoT network. Shri Khurana has been nominated by the government on the board of VSNL. He is a nodal officer in the administrative ministry for MTNL, VSNL and TCIL. He has been the convenor of the inter-ministerial group on government disinvestment in MTNL, VSNL and has actively participated in the MTNL GDR-I, VSNL-GDR-II and VSNL retail issues.

Subodh Bhargava

Director

Born in Agra in 1942, Shri Subodh Bhargava holds a degree in Mechanical Engineering from the University of Roorkee. He started his career with Balmer Lawrie & Co., Calcutta before joining the Eicher Group of Companies in Delhi in 1975. On March 31, 2000, he retired as the group Chairman and Chief Executive and is currently an advisor to the group.

He is the past president of the Confederation of Indian Industry (CII) and the Association of Indian Automobile Manufacturers'; and the vice president of the Tractor Manufacturers Association. Over several years, he was therefore a key spokesperson for Indian industry, contributing to and influencing government policy while simultaneously working with industry to evolve new responses to the changing environment.

He is a member of the Insurance Tariff Advisory Committee, the Economic Development Board of the government of Rajasthan and the board of governors of the Centre for Policy Research. He is the Chairman of the National Accredition Board for Certifying Bodies (NABCB) under the aegis of the Quality Council of India (QCI).

Shri Bhargava has been closely associated with technical and management education in India. He was the Chairman of the Board of Apprenticeship Training and member of the Board of Governors of the University of Roorkee. He is currently on the Board of Indian Institute of Management, Indore; the Indian Institute of Foreign Trade, New Delhi and the Entrepreneurship Development Institute of India, Ahmedabad. He is on the Boards of Governors of other institutions for Graduate Engineering and bachelors and masters degree programmes in Business Management. Presently, he is also a member of the senior panel of the All India Council for Technical Education (AICTE) set up for a comprehensive evaluation of research in engineering and technology; and on the committee set up by the Ministry of Human Resource Department, Government of India for Policy Perspectives for Management Education in India.

Ashok Wadhwa

Director

Shri Ashok Wadhwa is an expert on establishing a business presence for transnationals in India. A law graduate of Bombay University, a chartered accountant, and a qualified company secretary, Shri Wadhwa is the Managing Partner of Ratan S. Mama & Co., and Managing Director of Ambit Corporate Finance Pte. Ltd., Until July 1997, he was the managing partner of Arthur Andersen, Mumbai and had been with the company since 1983, when he was conscripted as Arthur Andersen's first professional employee.

Shri Wadhwa is a member of the taxation committees of both the Associated Chambers of Commerce and Industry and the Bombay Chamber of Commerce. A member of the executive committee of the Bombay Management Association, Shri Wadhwa is also a member of the executive committee, Western Region of the European Economic Community.

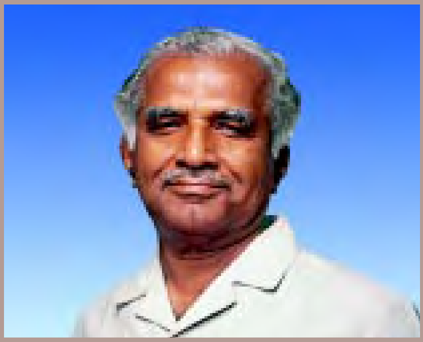
N.R. Narayana Murthy

Director

Shri Narayana Murthy was born on August 20, 1946 in Karnataka, India. He obtained a Bachelor of Electrical Engineering (B.E.) degree from the University of Mysore in 1967 and a Master of Technology (M.Tech.) degree from the Indian Institute of Technology (IIT), Kanpur in 1969. He has worked at the Indian Institute of Management (IIM) - Ahmedabad, SESA - Paris, the Systems Research Institute - Pune and Patni Computer Systems Pvt. Ltd. (PCS) - Mumbai.

He founded Infosys in 1981 along with six software professionals and has been its chairman and chief executive officer since. He was also the managing director of Infosys until February 1999. Today, Infosys is acknowledged as a highly respected and innovative company. In March 1999, it became the first India registered company to be listed on an American stock exchange (NASDAQ: INFY).

Shri Murthy designed and implemented the country's first BASIC interpreter and first time-sharing operating system. He is a member of the National Information Technology Task Force of India, and the prime minister's Council on Trade and Industry. He is on the governing councils of several government of India institutions, besides being a director on the boards of the ICICI Limited and the India Growth Fund Inc. Shri Murthy has been featured in the *Asiaweek Power 50* (June 2000) - a list of Asia's most powerful people; named by *Business Week* as one of 1999's top entrepreneurs, and as one of the 'The Stars of Asia' in 1998, 1999, & 2000; chosen as the *Business India's* "Businessman of the Year 1999" and as the Asia recipient of the 1999 Emerging Markets CEO of the Year Award, given by *Emerging Markets* and ING Barings. He has been awarded the JRD Tata Corporate Leadership Award for 1996-97; the Rastrabhushan award from the FIE Foundation for the year 1997; the Madras Management Association Business Leadership Award in 1998; and the Distinguished Alumni Award for 1998 by IIT, Kanpur.



H.P. Wagle

Director

A Bachelor of Engineering and Telecommunications, University of Poona, Shri Hari Prabhakar Wagle is also Fellow, IETE, India.

Born on September 26, 1935, Shri Wagle first taught Radio Engineering at the College of Engineering, Poona. He joined P&T in May 1958. Between 1960-70, he was Scientific & Technical Officer/Assistant Director, Telecom Research Centre (Radio Engineering/ Microwave Group), New Delhi.

Since then Shri Wagle has held several key posts: from Director (Microwave Projects), Director (Inspections), DGM(Network Management), DDG (Long- Distance Maintenance), Telecom.

He has also been CGM at Gujarat Telecommunication, Ahmedabad and Director on Board MS/GCEL, Baroda.

Shri Wagle has also been Member Services, Telecom Commission, New Delhi, and Director General, Telecommuncation.

He was Chairman, Telecom Commission and Secretary, Deparment of Telecommunications, Government of India before superannuation.

Corporate Details

Board of Directors

CHAIRMAN & MANAGING DIRECTOR
S.K. Gupta

DIRECTOR (NETWORK)
Rajneesh Gupta

DIRECTOR (DEVELOPMENT)
Vinoo Goyal

DIRECTOR (FINANCE)
R.S.P. Sinha

DIRECTOR (OPERATIONS)
Amitabh Kumar

DIRECTOR
Smt. S.A. Tirmizi

DIRECTOR
B.R. Khurana

DIRECTOR
Subodh Bhargava

DIRECTOR
Ashok Wadhwa

DIRECTOR
N.R. Narayana Murthy

DIRECTOR
H.P. Wagle

COMPANY SECRETARY
Satish Ranade

REGISTERED OFFICE

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Infofax	:	+91 (22) 4320220
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E-mail	:	help@vsnl.com
Website	:	<http://www.vsnl.com>
		<http://internet.vsnl.net.in>

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Kalyaniwala & Mistry
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Southern Region
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36, Krishnaswamy Avenue,
102 Mylapore, Chennai - 600 004.

Northern Region
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4696, Brij Bhawan, 21A, Ansari Road,
Daryaganj, New Delhi 110 002

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'Mulla House'
51, Mahatma Gandhi Road
Mumbai - 400 001.

Little & Company
Central Bank Building
Mahatma Gandhi Road
Mumbai - 400 001.

BANKERS

Indian Overseas Bank, Mumbai
Bank of Baroda, Mumbai
Canara Bank, Mumbai
State Bank of India, Mumbai
HDFC Bank, Mumbai

REGISTRARS & TRANSFER AGENTS

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Andheri (East),
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