



## SIXTEENTH ANNUAL REPORT 2001-02

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Annual General Meeting on Tuesday, 20th August, 2002 at Birla Matushri Sabhagar at 11.00 a.m.  
As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting.  
Shareholders are requested to kindly bring their copies to the meeting.

# VIDESH SANCHAR NIGAM LIMITED

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## CORPORATE DETAILS

### BOARD OF DIRECTORS

(As on 1st July, 2002)

Mr. R. N. Tata (Chairman)

Mr. S. K. Gupta (Managing Director)

Mr. N. Srinath (Director Operations)

Mr. Rakesh Kumar

Mr. Y. S. Bhawe

Mr. Subodh Bhargava

Mr. Suresh Krishna

Mr. Ishaat Hussain

Mr. Kishor A. Chaukar

Mr. Satish Ranade

ED (Legal) & Company Secretary

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### REGISTERED OFFICE

Videsh Sanchar Bhavan, Mahatma Gandhi Road,  
Mumbai – 400 001.

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### CORPORATE OFFICE

Lokmanya Videsh Sanchar Bhawan (LVSB)  
Kashinath Dhuru Marg, Prabhadevi, Mumbai – 400 028.

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### BANKERS

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

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### LEGAL ADVISORS

Messrs Little & Company  
Messrs Mulla & Mulla and Craigie Blunt & Caroe

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### JOINT STATUTORY AUDITORS

Messrs Khandelwal Jain & Co., Chartered Accountants  
Messrs Bhuchar & Chandak, Chartered Accountants

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### BRANCH AUDITORS

**Eastern Region** - M/s. G.K. Mitra & Co., Chartered Accountants  
**Southern Region** - M/s. R. Subramanian & Co., Chartered Accountants  
**Northern Region** - M/s. Vinod Kumar & Associates, Chartered Accountants

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### REGISTRARS & TRANSFER AGENTS

M/s Sharepro Services  
Satam Estate, 3rd Floor,  
Above Bank of Baroda, Chakala  
Andheri (East), Mumbai - 400 099.

## DIRECTORS' REPORT

Dear Shareholders,

The directors are pleased to present the annual report and audited accounts for the financial year ended March 31, 2002.

### FINANCIAL PERFORMANCE

During the past year, volumes in major business areas showed a healthy growth. International long-distance (ILD) telephony showed a volume growth of 16.06%. Volumes in different value-added services also grew at various rates, including a 10.99% increase in the Internet subscriber base. These volume increases owed in some measure to the substantial rate reductions by VSNL in some value added services during the year, and the large tariff reductions made in the previous year. At the

same time, settlement rates, which determine payments for ILD services between telecom providers of different countries, fell by around 30% during the year. Therefore, even as volumes grew, total revenue fell by 10.72%, from Rs.79.66 billion in 2000-01 to Rs.71.11 billion. The profit after tax also declined from Rs.17.78 billion to Rs.14.07 billion. (However, revenue for the previous year 2000-01 included one-time gains of Rs. 0.28 billion due to exchange fluctuations on the proceeds of a global depository receipt issue, which were brought back into India during that year.) VSNL, however, was able to reduce its network costs by 10.4% from Rs.50.23 billion in 2000-01 to Rs.45 billion in 2001-02. VSNL has thus been able to retain its financial strength, with substantial cash reserves to fund further growth.

TABLE 1

Audited financial results for the year 2001-2002		(Rs. in Million)	
Description	2001-2002	2000-2001*	% Change
Traffic revenue (basic services)	57,526	64,307	(10.54)
Revenue from specialised services	7,555	7,508	0.62
Revenue from Intelsat and Inmarsat	—	1,160	
Other income	6,037	6,684	(9.68)
<b>Total Revenue</b>	<b>71,118</b>	<b>79,659</b>	<b>(10.72)</b>
EBITDA margins	24.97%	26.27%	—
Interest	227	1	—
Depreciation	1,304	1,162	12.22
<b>Profit before tax</b>	<b>20,755</b>	<b>24,695</b>	<b>(15.95)</b>
Tax	6,671	7,887	(15.42)
Extraordinary item: write down of investments in ICO Global Communications	—	52	
Prior years adjustment	10	(1,032)	
<b>Profit after tax</b>	<b>14,074</b>	<b>17,788</b>	<b>(20.88)</b>
Earnings per share (Rs.)	49.38	62.42	(20.88)
Net worth	48345	63805	(24.23)
Dividend per share (Rs.)	87.50	50.00	75

\* Previous year's figures have been regrouped wherever necessary.

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## Dividend

The directors are pleased to recommend a final dividend at the rate of Rs.12.50 per share on every share of Rs.10 for the financial year ended March 31, 2002. This is in addition to the special interim dividend of Rs.75 per share paid during the year. The directors propose that profits be appropriated in the following manner:

**TABLE 2**

Figures in Rs. million

DESCRIPTION	Amount
Amount available for appropriation	
- balance carried forward	443.86
- Profit for the year	1,407.42
- Transfer from general reserve for special interim dividend	21,375.00
	35,893.07
Less:	
- Normal dividend @ 125%(on the paid up capital of Rs.2,850).	3,562.00
- Special interim dividend @ 750% (on the paid-up capital of Rs.2,850 )	21,375.00
- Tax on special interim dividend	2180.25
- Transfer to general reserve	4,000.00
Surplus carried to balance sheet.	4,775.32

## CHANGE OF CONTROL

VSNL ceased to be a government Company on February 13, 2002 when the Government of India("Gol"), which owned 52.97% of VSNL's equity, divested a 25% stake to the Tata Group as a strategic partner along with the right to manage the Company. This stake was bought at a price of Rs.202 per share amounting to Rs.14.39 billion by Panatone Finvest Limited, an investment holding company which is owned by various Tata Group companies. VSNL employees also subscribed to 1.85% of VSNL's equity, out of a total of 1.97% offered to them by the Gol. Through a subsequent Open Offer, Panatone bought a further 20% of VSNL's equity, also at Rs.202 per share, amounting to Rs.11 billion. The Tata Group is now the Company's biggest shareholder, while the Gol is VSNL's second-largest shareholder with a 26.12% stake.

## STRATEGIC DIRECTION

The association with the Tata Group offers VSNL significant benefits. The Company now intends to leverage its synergy with other Tata Group telecom companies to jointly offer world-class, end-to-end telecom services to customers. VSNL is currently India's foremost provider of ILD services, Internet related services and other value-added services, and plans to launch national long distance (NLD) services shortly.

These strengths complement those of the Tata Group. As one of India's earliest private sector entrants into telecom services, the Tata Group has a substantial national presence in basic and cellular services as well as in the Internet business, through various companies. In a highly competitive telecom environment, the intergrated offerings from VSNL and the Tata Group provide them with a distinct added advantage across the entire telecom value chain through the optimum use of infrastructure, investments and expertise.

For voice services, VSNL currently has no direct access to end customers and is entirely dependent on cellular and basic access providers to route their international traffic through VSNL. Some of these companies are soon going to be VSNL's direct or indirect competitors. In the fast-changing and competitive scenario resulting from the opening up of the ILD sector from April 1, 2002 and given the existing near total control of acces to subscribers by VSNL's two customers, BSNL and MTNL, it is imperative for VSNL to acquire an end-customer base of its own. In fact, a year ago, VSNL had applied for licences in several basic telecom circles. These were not, however, granted by the Gol.

In view of the above, in May 2002, the VSNL Board considered and approved an investment of up to Rs.12 billion in Tata Teleservices Ltd. (TTSL) over the next four years. TTSL has neither an NLD nor an ILD licence and is therefore not in conflict with VSNL's business interests. TTSL already holds basic licences for Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat and Delhi, will soon have an equity interest in Maharashtra (including Mumbai) and is assessing Kerala, Punjab and Haryana. VSNL's investment in TTSL is therefore expected to give the Company access to subscribers in major markets for telecom services across India that already yield over 65% of the country's telecom revenues.

## Business Restructuring

Following the acquisition of a strategic stake in VSNL by the Tata Group, a joint team from VSNL and the Tata Group is restructuring parts of the business of VSNL so as to maximise competitiveness in the new market environment, as well as to take advantage of synergies with other Tata Group companies. Accordingly, VSNL is:

- substantially increasing its emphasis on sales and marketing by creating dedicated teams of trained people to proactively address the corporate and retail markets;
- significantly strengthening its customer services functions by creating dedicated call centres and back office infrastructure to support both corporate and retail customers;
- restructuring some of its technical and service capabilities at both headquarters and in the regions so as to provide an improved focus, greater role clarity and overall better performance; and
- Upgrading its information technology (IT) systems to adequately support its initiatives in other areas through emphasis on systems for customer relationship management (CRM), billing systems for all services, and integrated network management systems.

## INTERNATIONAL LONG DISTANCE (ILD) TELEPHONY

ILD services remain VSNL's largest business line, accounting for 88.61% of total traffic revenue in 2001-02. As India's leading ILD services provider, VSNL offers telephone services to 237 international destinations and operates international gateways at eight locations in India. During the year VSNL's volume of ILD traffic rose by 16.06%, from 2.68 billion paid minutes to 3.12 billion paid minutes. It increased the number of telephone circuits from 20,495 to 22,708.

During 2000-01, the Telecom Regulatory Authority of India (TRAI) had lowered tariffs by up to 20% for international calls. Though tariffs remained unchanged during 2001-02, they were lowered again effective April 1, 2002 with a peak rate reduction of around 15%. Settlement rates have also reduced

considerably, showing an average annual decline of 20% for the past three years. During the past year, VSNL revised its agreements with major carriers at very competitive rates and expects this trend to continue during the current year.

Under the revenue sharing arrangement between VSNL and BSNL, effective up to March 31, 2002, the two companies shared payments for international calls that were passed on to each other's networks. A revised revenue sharing agreement with BSNL is presently under discussion which will reflect the reduced international settlement rates with international carriers. BSNL and will both need to proportionately reduce their share, which will facilitate lower, competitive international calling rates for the Indian customer. With the opening up of the ILD sector, other telecom operators besides BSNL are also now permitted to directly interconnect with ILD operators, and accordingly VSNL is in discussion with MTNL on an appropriate interconnection agreement. VSNL has also entered into interconnection agreements with other new domestic operators.

It is expected that increased competition will lead to even lower tariffs and settlement rates in the future. These rate declines will mean lower margins per telephone minute but are very likely to result in increased volumes and a larger number of both incoming and outgoing calls to and from India.

## Termination of Monopoly and Compensation

The GoI allowed private players into the ILD business from April 1, 2002, terminating VSNL's monopoly two years ahead of schedule. The GoI decided to compensate VSNL for this early termination with a package of benefits. In May 2001, as requisitioned by the GoI, VSNL held an extraordinary general meeting at which VSNL's shareholders approved the following package offered by the GoI to VSNL:

- A licence to operate NLD services.
- Reimbursement by the GoI of all NLD license, entry and revenue sharing fees (net of taxes) that VSNL may have to pay for five years with effect from April 2001.
- An exemption from the NLD license performance bank guarantee of Rs.4 billion. However, subsequently, VSNL was required to

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provide this guarantee, since the GoI took the position that the exemption applied only as long as VSNL remained a PSU.

- A category 'A' Internet Service Provider (ISP) licence, allowing VSNL to provide nationwide Internet access.

In the new competitive environment, VSNL is well placed to remain India's foremost ILD services provider, for a number of reasons. First, VSNL is the only Company with extensive expertise in the ILD business in India, with more than 130 years of experience dating back to its first telegraph services, stable and tested operations, and over 1,100 qualified and trained engineers. Second, over the last 16 years, VSNL has invested heavily in state-of-the-art technology and infrastructure, and its assets of Rs.197.32 billion as of March 31, 2002 represent a significant lead over new entrants. Third, VSNL's existing bulk volumes, multiple international gateways, and ready access to substantial submarine cable and satellite bandwidth, make it the most reliable provider of ILD services to the telephone networks at competitive prices. Fourth, VSNL benefits from long-standing relationships with almost every major international carrier. Finally, the GoI has assured VSNL that MTNL and BSNL will route their ILD calls through VSNL, as the "most favoured customer," for two years after the transfer of management control, at the market rate.

As the ILD market leader, VSNL now intends to introduce new products and services such as prepaid calling cards and toll-free services, and further build VSNL's brand through a retail marketing program, while continuing to renegotiate contracts with international carriers to ensure competitive rates. Given lower tariffs, improving telecom penetration and increased globalisation in India, ILD telephony will remain an important and fast growing business area for VSNL.

## VALUE ADDED SERVICES

VSNL is India's leading player in a range of value-added services, which accounted for 11.60% of traffic revenues in 2001-02 against 9.73% in the previous year. These include 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, e-mail services and

dedicated international leased lines. Internet services are a promising focus area, as discussed a little later. VSNL's revenue from value-added services increased slightly to Rs.7.56 billion in the year 2001-2002 against Rs.7.51 billion in the previous year, despite a 40% reduction in tariffs during the year for International Private Leased Circuits (IPLC) and Internet Leased Lines (ILL).

Value-added services, especially data services, are a fast-growing segment worldwide and offer excellent growth potential. VSNL intends to strengthen its position in this market by offering a range of improved and new products and services, including virtual private networks and other networking services, co-location and other managed services based on Internet data centres, application support services and the like.

## Internet-related Services

The Internet Service Provider (ISP) business is a highly competitive one. The industry is already facing consolidation with many ISPs surrendering their licences. Nevertheless, VSNL continues to be one of the most successful players in the Internet services market, with a large and growing base of both retail and corporate customers. VSNL's subscriber base for Internet access grew from 5,28,535 in March 2001 to 5,86,638 in March 2002. As part-compensation for the early termination of VSNL's ILD monopoly, the GoI granted VSNL an all-India ISP license. As a result, VSNL now offers Internet access to 22 cities and plans to extend this to more cities shortly.

VSNL has a particular focus on the corporate segment. The Company has launched three new services for corporate customers: virtual private networks, VMAIL and an enterprise communication system called ALICE, besides providing Internet leased lines to 1,512 customers as of March 31, 2002. Meanwhile, numerous Indian and international companies use VSNL's managed hosting services to host their websites. VSNL intends to move up the value chain in this business by providing security back-up and database management services. VSNL has already commissioned a 20,000 square feet Internet server farm at Vashi near Mumbai and is putting up facilities in several other locations, to house and host customer servers. Although the GoI has allowed private ISPs to set up their own gateways, over 90 of them continue to choose VSNL's

gateway services because of the advantages of cost, quality and reliability that VSNL's network offers.

VSNL expects to benefit from the growing corporate and retail demand for Internet services, from consolidation among other ISPs and from the expected demand for value-added services including web hosting, virtual private networks, video conferencing and numerous broadband applications.

### **TV Up-linking and Direct-to-Home**

Since October 1998, VSNL has provided cost-effective TV up-linking facilities to a number of regional and smaller channels. On July 25, 2000, the GoI allowed all satellite channels to up-link from India, which will help VSNL to expand its customer base. VSNL intends to aggressively market its existing products in video services and to develop new products. For example, VSNL plans to use video over fibre to offer complete solutions to Indian TV channels wanting to tap the US market. VSNL can carry their signals to the USA and provide additional services such as subscriber management and billing systems.

In November 2000, the Indian government permitted direct-to-home (DTH) TV service in Ku band in India, allowing satellite distribution of channels directly to subscribers. After studying the opportunity carefully, VSNL has decided not to enter the business at this time because it is believed that initial equipment and market-building costs will be very high, since this is a nascent market. However, VSNL has the capability to enter this business quickly, if deemed appropriate in the future.

### **NEW BUSINESS INITIATIVES**

The de-regulation of the Indian telecom market offers new opportunities for VSNL to diversify into related areas and broaden its range of offerings. Accordingly, VSNL is entering the high-potential NLD and Internet telephony businesses to leverage its existing infrastructure and expertise and maintain its leadership in the Indian telecom market.

#### **National Long Distance (NLD)**

For VSNL, the NLD business is an exciting growth opportunity and a logical backward integration with

its ILD business. It will reduce VSNL's dependence on other NLD operators for domestic connectivity and allow it to retain a greater share of revenue from international calls. As partial compensation for the early termination of VSNL's monopoly in ILD services, the GoI has agreed to give VSNL an NLD licence with some concessions, as already discussed.

VSNL's new association with the Tata Group offers synergies with Tata Group companies, including access to their existing captive subscriber bases, the opportunity to share their ready infrastructure including backbone, space and power, and the opportunity to optimise capital and operating expenditure. The Company has therefore revised its NLD plans suitably to take advantage of these benefits. VSNL's revised NLD rollout plan targets the high-traffic routes of Delhi, Mumbai, Hyderabad, Chennai, Bangalore and Cochin. Currently, VSNL is acquiring ducts where available on commercially attractive terms, as well as building its own infrastructure on routes covered in the first year rollout plan. VSNL is also finalising equipment suppliers and negotiating interconnection agreements. Until the new switching equipment and new backbone/transmission equipment are in place, VSNL plans a limited initial launch of NLD services from selected cities shortly, using its available switching and transmission facilities.

#### **Internet Telephony**

From April 2002, the GoI has permitted Internet Service Providers to offer voice telephony over the Internet. VSNL intends to leverage its extensive infrastructure and ILD expertise to offer high quality Internet telephony as a complement to its ILD business. It is anticipated that the low tariffs in Internet telephony will encourage usage and result in an increase in international call volumes.

VSNL plans to deploy a fully owned Internet telephony infrastructure. It will target individual dialup Internet users with retail offerings and is considering strategic tie-ups with global players for this segment. Corporate offerings will provide value-added customised solutions for companies that operate across multiple locations.

VSNL has already tested various solutions in-house, drawn up plans for marketing and service/support, and expects to launch services in the first half of the financial year. VSNL plans to deploy the

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latest VOIP switches initially at Hyderabad and Bangalore. These are international gateway switches based on IP technology and will be connected with international carriers and global clearing houses on managed lines. Thus, VSNL will be able to take advantage of IP technology and provide toll-quality voice and value-added services at competitive tariffs.

## INTERNATIONAL INITIATIVES

VSNL, MTNL and Telecommunications Consultants India Ltd. (TCIL), have set up a joint venture named United Telecom Limited (UTL), along with Nepal Ventures Private Limited (NVPL). While NVPL holds 20% in the consortium, the other partners hold 26.66% each. UTL will offer wireless-in-local-loop (WLL) based basic services in Nepal and is currently setting up a modern WLL network for 150,000 subscribers in Nepal's top 10 cities. UTL can also operate national and international long distance telephone services.

VSNL also has several joint ventures with domestic and foreign partners. Please see annexure I to this directors' report for a discussion of these initiatives

## INVESTING IN INFRASTRUCTURE

Over the years, VSNL has invested in a combination of satellite bandwidth, submarine cables and microwave systems to provide seamless, high-quality connectivity, which now provides it a considerable competitive advantage. VSNL's infrastructure includes 12 gateway switches at eight locations nationwide, 47 earth stations, over three gigabits of operational international bandwidth, and over 2.5 gigabits of operational domestic bandwidth. VSNL is also a co-founder of six submarine cable systems terminating in India, and of satellite communication providers Intelsat and Inmarsat. The Company expects to spend approximately Rs.1 billion during the current financial year on additional infrastructure.

VSNL continues to invest in state-of-the-art infrastructure to support all its businesses and ensure a strong platform for on-going leadership. It is currently implementing a wholly owned, low-cost, fully integrated broadband Asynchronous Transfer Mode (ATM) network, to be commissioned by August 2002. This network will allow VSNL to offer guaranteed high quality, flexible, differentiated voice and data services to consumers; enable more

efficient transmission and switching of voice and data traffic; and help VSNL to consolidate various services into the backbone for optimal bandwidth utilisation thus reducing recurring expenditure.

VSNL is also expanding its bandwidth capability, particularly to support data services. The Company has commissioned earth stations at Hyderabad and Patna for direct international access; has commissioned the SAFE cable system at Cochin; and is upgrading the capacity of the SMW3 cable system to reduce per-unit bandwidth cost to improve sales.

## FIXED DEPOSITS

VSNL has not accepted nor does it hold any public deposits.

## HUMAN RESOURCES

VSNL has a base of trained, experienced and dedicated employees, which is a strategic asset. Despite the keen competition for human capital, VSNL has been able to attract and retain some of the top talent in the country by offering challenging job opportunities and career growth.

As on March 31, 2002, VSNL employed 2,880 people against 2,991 on March 31, 2001. Of these, 1,126 (1,177 last year) were executives and 1,754 (1,814 last year) were non-executives. There were 400 women employees (134 executives and 266 non-executives) in the Company on March 31, 2002 against 390 (133 executives and 257 non-executives) on March 31, 2001.

With the opening up of the Indian telecom sector, skills are likely to be in short supply and intense competition for skilled manpower is expected. To ensure retention of key skills and attraction of the best talent in the market, VSNL is reviewing all its HR practices and policies to make them more business and market driven.

## INDUSTRIAL RELATIONS

VSNL's privatisation has proceeded smoothly and VSNL's employees have welcomed the new management. As part of the privatisation, the Gol offered 1.97% of VSNL's equity capital to all employees; the employees subscribed to 1.85% of the Company's equity capital, and depending on his or her position in the organisation, each employee received between 1500 and 4500 shares.

There was no industrial unrest during the year. Numerous issues pertaining to job security, retirement benefits, etc. were settled through discussion between the employees' representative bodies, VSNL management, the Ministry of Communications & IT and the Ministry of Disinvestment. Other issues pertaining to perquisites and allowances of the employees were settled through negotiations and have been implemented.

During the privatisation process, the Tata Group had agreed to a one-year period in which no retrenchments would be made. The Group has, however, extended this period to two years beginning from February 13, 2002. The Group has also emphasised that the salaries, wages and perquisites of the employees on VSNL's rolls as of that date will not be altered to the detriment of the employees. Further, the Group has said that no adverse changes will be made in the retirement benefits available as of that date, both to eligible employees on VSNL's rolls and to retired employees enjoying these benefits.

#### **STATUTORY INFORMATION AND DISCLOSURES**

During the year, no employee was in receipt of remuneration in excess of the limits set under the provisions of Section 217 (2A) of the Companies Act, 1956, and read with Companies (Particulars of the Employees) Amendment Rules 1988. 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 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. 41,780 million and foreign exchange outgo was equivalent to Rs. 13,890 million.

#### **THE BOARD OF DIRECTORS**

Subsequent to VSNL's privatisation, a board meeting was held on February 13, 2002. All the whole-time directors submitted their resignations and the board was reconstituted. Mr. Ratan Tata was appointed chairman of the board and Mr. Srinath Narasimhan was appointed director (operations). Mr. S K Gupta, who has headed the Company since September 7, 1999 as chairman and managing director, continues as managing director under the new management.

Mr. Y.S. Bhave, joint secretary (FA), Ministry of Information Technology was appointed as Gol nominee director with effect from May 15, 2002. Mr. Rakesh Kumar continues as a Gol nominee director. Mr. Subodh Bhargava was appointed as independent director with effect from May 15, 2002 while Mr. Suresh Krishna was appointed as independent director with effect from May 24, 2002. Thereafter, Mr. Ishaat Hussain and Mr. K.A. Chaukar were appointed as additional directors with effect from July 1, 2002.

During the year, the following directors ceased to be on the board: Mr. Rajneesh Gupta, director (network), Mr. Vinoo Goyal, director (development), Mr. R.S.P Sinha, director (finance), Mr. Amitabh Kumar, director (operations), Mr. Ashok Wadhwa, Mr. H.P. Wagle, Mr. N R Narayana Murthy, Mr. C.V. Rajan, Mrs. Sadhana Dikshit and Mr. P.V. Vaidyanathan. The board placed on record its appreciation for the services rendered by the Company's directors.

None of the directors of the Company are disqualified from being appointed as directors as specified in Section 274 of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000.

#### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

In accordance with the listing agreement, the management discussion and analysis report is attached to the directors' report as annexure 1 and forms a part of this report.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating Management, confirm that -

- in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- they have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

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- they have taken proper and sufficient care, to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis.

## ACKNOWLEDGMENTS

The directors would like to express their thanks for the hard work and dedication of every employee. The directors appreciate the support of various ministries and departments of the GoI, the DoT, BSNL and MTNL.

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**

**Ratan N Tata**  
Chairman

Dated 17th July, 2002

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

## ANNEXURE 1 : ADDITIONAL MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY BACKGROUND AND PROSPECTS

Until the mid-1980s, India's telecommunications sector was a public sector monopoly controlled by the GoI through the Department of Posts and Telegraphs of the Ministry of Communications. In the mid-1980s, the GoI began reorganising the sector to bring in new technology and stimulate growth. Therefore, the Department of Posts and Telegraphs was divided into the Department of Telecommunications (DoT) and the Department of Posts.

As part of the reorganisation, VSNL was incorporated on March 19, 1986 as a wholly-owned GoI Company. On April 1, 1986 VSNL took over the control and management of all international telecommunication services from the Overseas Communications Service, a department of the Ministry of Communications. Mahanagar Telephone Nigam Limited (MTNL) was established at the same time to operate local telephone and telex services in Mumbai and Delhi, while the DoT remained responsible for providing telecommunication services through the rest of India. The DoT also assumed regulatory authority over VSNL, MTNL and other public sector enterprises and acted on the GoI's behalf as the sole shareholder of such entities.

The Telecom Commission was established in 1986 as an executive body under the Ministry of Communications to make and implement policy decisions. As part of the National Telecommunication Policy (NTP) 1999, the GoI separated and corporatised the services function of the DoT as Bharat Sanchar Nigam Limited (BSNL), leaving DoT with its regulatory role. In 1997, the Telecom Regulatory Authority (TRAI) was established to provide adequate safeguards to ensure fair competition and protection of consumer interests. Through various policy initiatives and successive NTPs in 1994 and 1999, the GoI reaffirmed its commitment to take India to international standards in telecommunications by 2010.

The Indian telecommunications industry has changed substantially over the last decade as all its segments have now been opened up to competition. India's telecom market is currently underserved and offers high growth potential. According to estimates, telecom subscriber numbers are expected to rise from 35 million in March 2001 to about 85 million in 2006, with a compounded annual growth rate of 40% in mobile users and 16% in fixed-line users. India's fixed-line teledensity is at a low 4%, and is projected to rise to 11.5% in 2010, against the NTP99 target of

15%. By 2006, telecom is expected to be a Rs.660 billion sector, contributing 5.4% to India's GDP.

### **BUSINESS RESTRUCTURING**

In light of the changed market environment resulting from the opening up of the ILD sector, it is imperative that the Company take certain actions in order to compete effectively and meet the increasingly diverse needs of its corporate and retail customers. Accordingly, VSNL is undertaking several initiatives outlined below.

#### **Sales and Marketing**

The Company has set up a three-tier architecture to address customer needs. The Company's sales force will directly handle large corporate accounts; small and medium enterprises (SME) will be serviced through channel partners; and retail customers will be served through a fast-moving consumer goods type of retail service channel. The necessary initial teams have been trained and put in place and the early customer feedback on this initiative has been positive. It is expected that this focus will help improve VSNL's coverage of customers and thereby contribute to an increase in sales numbers.

#### **Customer Service**

The Company addresses a wide spectrum of the voice and data needs of customers. The customer service organisation must be aligned to servicing such customers. The Company is, therefore, putting in place a formal customer service organisation. This consists of call centres to provide customers with access to VSNL, as well as back office technical service functions to resolve any issues that may arise in servicing a customer. This organisation is being supported with adequate information technology investments in the form of customer relationship management systems to enable superior service levels. It is expected that the first of these call centres will be operational shortly.

#### **Information Technology (IT)**

Given the strategic role that IT plays in any telecom business, it is necessary to continuously upgrade the IT infrastructure to be best in class. Accordingly, customer care and billing systems, mediation systems, enterprise resource planning and other suitable applications are being put in place.

#### **Organisational Structure**

Given the changes in the environment, VSNL is

improving the organisation's responsiveness to changing market and customer needs, with a view to improve internal decision making. VSNL is also restructuring both the headquarters and regional organisations to bring them in tune with customer requirements.

#### **New Projects**

VSNL is pursuing several new projects such as value-added products in voice, voice over Internet and national long distance services, to increase the Company's revenue and profitability.

### **STATUS OF JOINT VENTURES**

#### **Intelsat**

VSNL was a founder member of Intelsat, a consortium formed in 1964 that owns and operates satellite communication systems. When Intelsat was privatised on July 18, 2001, VSNL was allotted a share holding of about 5.42% shares in Intelsat Limited. As required under applicable law in the U.S., Intelsat now intends to make an initial public offering (IPO) before end-2002. Intelsat has offered its initial shareholders the chance to place their shares for sale in a post-IPO secondary offering. However, neither the IPO nor the size of the secondary offering are matters of certainty and would depend on Intelsat's perception of market conditions. VSNL will continue to review the possibility of offering its own shares for sale accordingly.

#### **Inmarsat**

The International Maritime Satellite Organisation (Inmarsat) was an Inter-Governmental Organisation (IGO) providing satellite mobile communication services. It was converted into a National Law Company (UK) on April 15, 2000 and VSNL's investment in the current structure remains the same, at 2.02%. Inmarsat proposes to make an initial public offering and has offered its existing shareholders the opportunity to sell their ordinary shares at that time. As in the case of Intelsat, Inmarsat's IPO and the size of the secondary offering are currently uncertain and VSNL will review the situation accordingly.

#### **Telstra Vishesh Communications Limited (TVCL)**

TVCL is a joint venture company formed by VSNL, IL&FS, and Telstra, with investment equity in the ratio of 40:40:20 at the time of formation. Currently,

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VSNL holds Rs.92 million out of the Company's total paid up capital of Rs.314 million. As a result of Telstra's exit from the joint venture, the company is being restructured and a new partner, Essel Shyam, has been inducted.

### **New Skies Satellite N.V.**

A Netherlands-based spin-off company called New Skies Satellites N.V. was carved out of Intelsat in 1998 with a number of Intelsat satellites transferred to NSS. VSNL's total holding in NSS as of March 31, 2002 stands at 3,442,150 ordinary shares out of a total of 130,570,241 shares issued and outstanding, a percentage holding of 2.6%.

### **RISK AND CONCERNS**

Like all companies, VSNL is exposed to certain risks and concerns in the course of its business:

#### **Lack of End Customers**

An important concern for the Company is that VSNL currently has no direct access to end customers. VSNL is dependent on cellular and basic access providers to route the international calls of their customers through VSNL. Some of these operators will even compete with VSNL. It would be a serious disadvantage to VSNL not to have access to a large base of customers in order to protect its business. VSNL is now ensuring such access, as discussed in the directors' report.

#### **Tariffs and Government Regulation**

- Most of VSNL's services including ILD services are operated under a license from the DoT that is valid until March 31, 2004.
- The tariffs charged by telecommunications service providers in India including VSNL are subject to TRAI regulations. Therefore, in these areas VSNL does not have complete freedom.
- VSNL's revenue sharing agreement with BSNL expired on March 31, 2002. The agreement is currently being revised and the revision could have a material effect on VSNL's operations and financial condition.

#### **Increased Competition**

The de-regulation of the Indian telecom market will expose the Company to increased competition in both existing and new business areas:

- Since April 1, 2002, VSNL no longer has a monopoly in international long distance services and new players are readying to enter the business.

- The Internet Service Provider (ISP) business is intensely competitive and has a large number of players.
- ISPs are now allowed to provide Internet telephony, and will compete with VSNL's international telephony business as well as the Company's own proposed entry into Internet telephony.
- VSNL plans to enter the national long distance business, where there are a number of potential and existing competitors.

### **Economic Conditions**

The general slowdown in regional economies and in India has resulted in slower growth in the volume of traffic handled by VSNL. Sustained or deepening global economic downturns could have a material adverse effect on the Company's short-term business and prospects.

Given the overall downturn in telecom businesses worldwide, VSNL's operations could be affected by virtue of adverse developments in the operations of some of its key associates overseas.

### **INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

VSNL has a well-developed internal control system and has also implemented the SAP system for accounting. The financial powers of the chairman, managing director and sub-ordinate officers are clearly defined in the delegation of powers. Technical and financial operations are controlled by state-of-the-art technology. The accounts of the Company are subjected to audit by statutory audit.

### **CAUTIONARY STATEMENT**

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the government regulations, policies, tax laws and other statutes and other incidental factors.

## REPORT ON CORPORATE GOVERNANCE FOR THE YEAR 2001-02

(In accordance with clause 49 of the listing agreement with Indian stock exchanges)

### 1. CORPORATE GOVERNANCE PHILOSOPHY AND PRACTICE

As an internationally reputed high-technology company, VSNL has always held itself to high standards of accountability, auditing, disclosure and reporting. Your company has transformed itself from a fledgling government department, to a wholly owned government company, to its present status as an NYSE-listed, widely-held and privately-managed member of the Tata Group, adding new private and international shareholders along the way. That internal transformation was mirrored externally as India's telecom industry moved from a highly regulated and closed environment to an era of accelerating deregulation and new emerging technologies. Throughout these transformations, VSNL's corporate governance philosophy has been consistent and transparent. Your company focuses on developing and implementing robust control systems and procedures to enable optimum returns to all stakeholders. To this end, your company is also installing new state-of-the art systems including integrated financial accounting and budgeting systems, 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 allow flexible compiling and reporting.

VSNL's operations and accounts are audited at three levels: an internal audit; a statutory audit by Indian accounting firms under Indian accounting requirements and their restatement by international accounting firms according to US GAAP. Your company communicates regularly with its shareholders through bulletins, presentations and meetings with analysts and investors.

### 2. BOARD OF DIRECTORS

The company has a non-executive chairman. Seven out of nine directors are non-executive directors, forming over 50% of the total number of directors. VSNL has two independent directors and two executive directors.

None of the directors holds directorships in more than the permissible number of companies under the applicable provisions. Similarly, none of the directors on the board's sub-committees holds membership of more than ten committees of boards, nor is any director a chairman of more than five committees of boards.

The names and categories of the directors on the board, their attendance at board meetings during the year and at the last annual general meeting, and the number of directorships and committee memberships held by them in other companies are given below:

Name	Category	Board Meetings during the tenure		Attendance at the last AGM (27.09.2001)	No. of Directorships in other Public Companies		No. of Committee Positions held in other Public Companies	
		Held	Attended		Chairman	Member	Chairman	Member
<b>Directors in Office</b>								
Mr. R.N. Tata [Chairman : w.e.f. 13.02.2002]	Not Independent Non Executive	1	1	N.A.	10	3	NIL	4
Mr. S.K. Gupta <sup>1</sup> [MD : w.e.f. 13.02.2002]	Not Independent Executive	11	11	Yes	NIL	NIL	NIL	NIL
Mr. N. Srinath [Director Operations : w.e.f. 13.02.2002]	Not Independent Executive	1	1	N.A.	NIL	2	NIL	NIL

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Name	Category	Board Meetings during the tenure		Attendance at the last AGM (27.09.2001)	No. of Directorships in other Public Companies		No. of Committee Positions held in other Public Companies	
		Held	Attended		Chairman	Member	Chairman	Member
Mr. Rakesh Kumar <sup>2</sup> [w.e.f. 30.01.2002]	Not Independent  Non Executive	2	2	N.A.	NIL	NIL	NIL	NIL
Mr. Y.S. Bhawe <sup>2</sup> [w.e.f. 15.05.2002]	Not Independent  Non Executive	—	—	N.A.	NIL	NIL	NIL	NIL
Mr. Subodh Bhargava <sup>3</sup> [w.e.f. 15.05.2002]	Independent  Non Executive	9	8	Yes	1	7	2	4
Mr. Suresh Krishna [w.e.f. 24.05.2002]	Independent  Non Executive	—	—	N.A.	6	4	2	3
Mr. Ishaat Hussain [w.e.f. 01.07.2002]	Not Independent  Non Executive	—	—	N.A.	2	12	3	5
Mr. Kishore A. Chaukar [w.e.f. 01.07.2002]	Not Independent  Non Executive	—	—	N.A.	2	11	3	7
<b>Directors served during the year</b>								
Mr. Rajneesh Gupta [ceased to be Director w.e.f. 13.02.2002]	Not Independent  Executive	11	11	Yes	NA	NA	NA	NA
Mr. Vinoo Goyal [ceased to be Director w.e.f. 22.04.2001]	Not Independent  Executive	1	—	N.A.	NA	NA	NA	NA
Mr. R. S. P. Sinha [ceased to be Director w.e.f. 13.02.2002]	Not Independent  Executive	11	11	Yes	NA	NA	NA	NA
Mr. Amitabh Kumar [ceased to be Director w.e.f. 03.06.2001]	Not Independent  Executive	3	3	N.A.	NA	NA	NA	NA

Name	Category	Board Meetings during the tenure		Attendance at the last AGM (27.09.2001)	No. of Directorships in other Public Companies		No. of Committee Positions held in other Public Companies	
		Held	Attended		Chairman	Member	Chairman	Member
Mr. Ashok Wadhwa [ceased to be Director w.e.f. 23.01.2002]	Independent Non Executive	9	7	Yes	NA	NA	NA	NA
Mr. N.R. Narayana Murthy [ceased to be Director w.e.f. 26.03.2002]	Independent Non Executive	11	0	No	NA	NA	NA	NA
Mr. H.P. Wagle [ceased to be Director w.e.f. 14.12.2001]	Independent Non Executive	9	9	Yes	NA	NA	NA	NA
Mr. C.V. Rajan <sup>2</sup> [ceased to be Director w.e.f. 06.08.2001]	Not Independent Non Executive	5	2	N.A.	NA	NA	NA	NA
Mrs. Sadhana Dikshit <sup>2</sup> [ceased to be Director w.e.f. 06.03.2002]	Not Independent Non Executive	11	8	Yes	NA	NA	NA	NA
Mr. P.V. Vaidyanathan <sup>2</sup> [ceased to be Director w.e.f. 18.01.2002]	Not Independent Non Executive	4	1	Yes	NA	NA	NA	NA

<sup>1</sup>Mr. S.K. Gupta functioned as chairman and managing director till February 13, 2002 and continued as managing director thereafter.

<sup>2</sup>Nominee director of the Government of India (promoter).

<sup>3</sup>Mr. Subodh Bhargava resigned from the directorship on January 17, 2002 due to expiry of his tenure and was appointed as director again w.e.f. May 15, 2002.

**Notes :**

- None of the directors is related to any other director.
- None of the directors has any business relationship with the company.
- None of the directors received any loans and advances from the company during the year.
- The information as required under annexure I to clause 49 is being made available to the board.
- The company did not have any pecuniary relationship or transactions with non-executive directors during 2001-02.
- The detailed resume of each director is published in a separate section in the annual report.
- The gap between two board meetings did not exceed four months. The dates on which the 11 board meetings were held are as follows:

April 9, 2001; April 30, 2001; May 2, 2001; July 10, 2001; July 27, 2001; September 27, 2001; October 12, 2001; October 30, 2001; December 14, 2001; January 30, 2002; February 13, 2002.

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## 3. AUDIT COMMITTEE

The audit committee of the board was first constituted on December 15, 1998. It was subsequently reconstituted on April 29, 2000 and then on July 10, 2001, so as to be in compliance of newly inserted section 292A of the Companies Act, 1956. After the post-privatisation reconstitution of the board, the audit committee was also reconstituted on May 24, 2002. The last modification in the constitution of the audit committee took place on June 24, 2002, with the change of the government nominee on the audit committee.

The reconstituted audit committee consists of three members. The chairman of the committee is Mr. Subodh Bhargava, an independent director, who earlier served as the chairman and managing director of Eicher Motors and has a sufficient financial and accounting background. The other members of the committee are the independent director Mr. Suresh Krishna, the chairman and managing director of Sundaram Fastners Ltd. and Mr. Y. S Bhave, government nominee director. Mr. Satish Ranade, executive director (legal) & company secretary is the audit committee's secretary.

At the annual general meeting held on September 27, 2001, the then chairman of the audit committee, Mr. Ashok Wadhwa was present. During the last financial year, the audit committee held only two meetings. The third meeting could not be held as the majority of its members had resigned from the board.

The audit committee has adequate powers and detailed terms of reference to play an effective role as required under the provisions of the Companies Act, 1956 and clause 49 of VSNL's listing agreement with the stock exchanges.

### Attendance at the Audit Committee Meetings

Name	No. of Audit Committee Meetings during 2001-02.	
	HELD	ATTENDED
Mr. Subodh Bhargava	2	2
Mr. S.K. Gupta	1	1
Mr. R.S.P. Sinha	2	2
Mr. Ashok Wadhwa	2	2
Mr. H.P. Wagle	2	2

## 4. REMUNERATION COMMITTEE

Presently, VSNL has no remuneration committee, since the whole-time directors were remunerated according to the applicable norms of the government prior to privatisation. After privatisation, the two whole-time directors are being remunerated in accordance with the provisions of the Companies Act, 1956. However, the board is now constituting a remuneration committee. The details of remuneration paid to the whole-time directors during the year 2001-02 are as follows:

Name	Salary (Rs.in'000)	Perquisites & Allowances (Rs. in '000)	Stock Options
Mr. S.K. Gupta <sup>(1)</sup>	458	851	NA
Mr. N. Srinath <sup>(2)</sup>	141	149	NA
Mr. Rajneesh Gupta (until 13.02.2002)	517	1,489 <sup>(3)</sup>	NA
Mr. R.S.P. Sinha (until 13.02.2002)	284	666	NA
Mr. Vinoo Goyal (until 22.04.2001)	62	263	NA
Mr. Amitabh Kumar (until 03.06.2001)	56	215	NA
<b>Total</b>	<b>1,518</b>	<b>3,633</b>	<b>NA</b>

<sup>1</sup>An agreement was entered into with Mr. S.K. Gupta as managing director for a period from February 13, 2002 valid till September 30, 2002. Under the applicable provisions of the Companies Act, 1956, this agreement effective February 13, 2002 is subject to the approval of the shareholders at the annual general meeting. The relevant provisions relating to the remuneration payable to Mr. Gupta were not applicable to VSNL prior to that date.

<sup>2</sup>An agreement was entered into with Mr. N. Srinath as director (operations) w.e.f February 13, 2002 valid till February 12, 2007. Under the applicable provisions of the Companies Act, 1956, this agreement effective February 13, 2002 is subject to the approval of the shareholders at the annual general meeting.

The agreements with the whole-time directors may be terminated by either party, giving the other party six months notice or the company paying six months' salary in lieu thereof.

Severance fees for Mr. S.K. Gupta and Mr. N. Srinath under the contracts is NIL.

<sup>3</sup> Perks for Mr. Rajneesh Gupta included Rs.9,83,000/- towards compensation paid in accordance with the share purchase agreement.

The company pays sitting fees of Rs.5,000 for every board and committee meeting to all non-executive directors, except the nominee directors of Government of India.

## 5. INVESTOR GRIEVANCE COMMITTEE

This committee was reconstituted post privatisation on May 28, 2002 with Mr. S.K. Gupta, managing director as its chairman and Mr. Satish Ranade, executive director (legal) & company secretary and Mr. A.K. Gupta, executive director (finance) as its members. Mr. R.N. Aditya, assistant company secretary responsible for share registry, is the committee's secretary.

The earlier committee under the chairmanship of Mr. Ashok Wadhwa met thrice during the last year. There were hardly any shareholder grievances lodged with SEBI or BSE during the year. The details of grievances received from the shareholders during the year and their status on March 31, 2002 is given below:

## 6. GENERAL BODY MEETINGS

The location and time of the last three general body meetings are as follows :

Meeting Date	Location, Description and Type of Resolutions	Voting
27 September 2001	15th Annual General Meeting was held at 11:00 Hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400 020. There were six resolutions (all ordinary)	All the resolutions were put to vote by show of hands. Five of the resolutions were carried out unanimously and one was passed by requisite majority.
2 May 2001 EGM	Requisitioned extraordinary general meeting was held on May 2, 2001 at 10:00 hrs at Sasmira, Sasmira Marg, Worli, Mumbai – 400 025. There was only one ordinary resolution.	Resolution was put to vote by show of hands and carried with majority.

Sr.	Nature of Complaints	No. of Complaints	
		Received	Pending
1	Non-receipt of Dividend Warrant	788	9
2	Non-receipt of Share Certificates	85	NIL
3	SEBI/Stock Exchange	16	NIL
4	Miscellaneous/Others	291	NIL
	<b>Total</b>	<b>1180</b>	<b>9</b>

A separate committee for share transfers is delegated with the powers to approve physical share transfers. As the shares of the company are under compulsory dematerialised trading for all investors, this delegation is considered adequate. All the shares received for transfer till March 31, 2002 have been duly processed and one transfer case involving 30 shares was pending to be approved as on that date.

### Compliance Officer

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

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26 September 2000	14th Annual General Meeting was held at 11:00 hrs at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400 020. There were 8 resolutions (7 ordinary and 1 special).	All the resolutions were put to vote by show of hands. 7 of the resolutions were carried unanimously and one was passed by requisite majority.
30 September 1999	13th Annual General Meeting was held at 10:00 hrs at Indian Merchants' Chamber, Indian Merchant Chamber Marg, Mumbai – 400 020. There were 12 resolutions (11 ordinary and 1 special).	All the resolutions were put to vote by show of hands and were carried unanimously.

## Postal Ballot

The object clause of the company's memorandum of association requires to be amended since the company does not remain a government company. Under the provisions of Section 17 of the Companies Act, 1956 [the Act], alterations in the objects clause of a company's memorandum of association require prior approval of the shareholders. The provisions of section 192A of the Act, read with The Companies (Passing of Resolution through Postal Ballot) Rules, 2001, require the shareholders' consent for the above purpose to be obtained by means of a postal ballot.

Accordingly, the company is following the procedure prescribed in The Companies (Passing of Resolution through Postal Ballot) Rules, 2001. The notices were dispatched to shareholders on June 18, 2002 and the last date for receipts of duly filled postal ballots is July 23, 2002. The company has appointed Mr Sharad D Abhyankar, solicitor and advocate, as the scrutiner for conducting the postal ballot voting process in a fair and transparent manner.

## 7. DISCLOSURES

- a) There were no significant related-party transactions of the company with its promoters, directors or management, their subsidiaries or relatives that may have potential conflict with the interest of company at large. Note no. 16 of the Notes on Accounts may also be referred to in this respect. No non-compliance notice has been issued and no penalties or strictures have been imposed on the company by SEBI, any stock exchange or any statutory authority on any matter related to capital markets during the last three years.
- b) Due to the transitory conditions prevailing in

VSNL on March 31, 2002, the directors were to be appointed as per the shareholders' agreement and it was not possible to comply with the requirements of clause 49 relating to the constitution of the board and its committees and the requisite number of committee meetings. The details of the non-compliances with the corporate governance requirements are as follows:

- i) The provisions of the listing agreement do not unequivocally state that the investor grievance committee shall not consist of officers not being directors of the company. Mr. Ashok Wadhwa, independent director, was the chairman of this committee till his resignation on January 23, 2002. After that, the board was reconstituted on February 13, 2002, the date of transition. Thereafter till March 31, 2002 this committee did not have any non-executive director as its member or chairman.
- ii) Prior to privatisation VSNL was a Government of India enterprise and appointment of directors on the VSNL was under the government's control. For this reason, it was not within VSNL's control to ensure that a minimum 50% of board composition comprising of independent directors when the chairman held an executive position as the chairman and managing director. This was communicated to the stock exchanges in the quarterly compliance report for the period ended March 31, 2002.
- iii) Consequent to the signing of shareholders' agreement between the strategic partner i.e. M/s. Panatone Finvest Limited and the

Government of India on February 13, 2002, 25% of VSNL's paid-up capital was transferred to M/s. Panatone Finvest Limited, an investing vehicle of the Tata Group, by the Government of India. Under the applicable clauses of the shareholders' agreement signed by the Government of India with Panatone Finvest Limited, all the then whole-time directors were required to resign from the board of VSNL, which they did. Three out of the four independent directors appointed while VSNL was a government company had resigned prior to that date. Therefore, all the committees appointed earlier became defunct. The constitution of VSNL's board on March 31, 2002 was as follows:

Mr. Ratan N Tata : Chairman  
(non-executive)  
Mr. S.K. Gupta : Managing director  
Mr. N. Srinath : Director (operations)  
Mr. Rakesh Kumar : Director (GOI nominee,  
non executive)

The above was communicated to the stock exchanges in the quarterly compliance report for the period ended March 31, 2002.

## 8. MEANS OF COMMUNICATION

VSNL's quarterly results are published in the Economic Times and Maharashtra Times among others, and are also hosted on VSNL's website: www.vsnl.com. The company's press releases, details of significant developments and investor updates are also made available on the website. The company generally holds a press conference/ investors' meet after the half-yearly results are taken on record by the board relating to September 30th and March 31st every year.

The management discussion and analysis forms part of the directors' report and is included in the annual report for the year 2001-02. Segmental information may be referred to in note no. 15 of the Notes on Accounts.

## 9. SHAREHOLDER INFORMATION

### DATE AND VENUE OF THE AGM

The sixteenth annual general meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours

on Tuesday, August 20, 2002, at Birla Matushri Sabhagar, New Marine Lines, Mumbai - 400020.

### FINANCIAL CALENDAR

Fiscal year ending : March 31, 2002  
Annual general meeting: Tuesday, August 20, 2002

### KEY FINANCIAL REPORTING DATES FOR FINANCIAL YEAR 2002-03

First quarter ending : June 30, 2002	On or before July 31, 2002
Second quarter ending : Sept 30, 2002	On or before October 31, 2002
Third quarter ending : Dec 31, 2002	On or before January 31, 2003
Fourth quarter ending : March 31, 2003	On or before April 30, 2003 or if audited, on or before May 31, 2003

### BOOK CLOSURE DATES FOR THE PURPOSE OF DIVIDEND

VSNL's register of members and share transfer books will remain closed from Thursday, August 1, 2002 to Tuesday, August 20, 2002 (both days inclusive), to determine the entitlement of shareholders to receive the final dividend as may be declared for the year ended March 31, 2002.

### DIVIDEND PAYMENT

Dividend on equity shares as recommended by the directors for the year ended March 31, 2002, when declared at the meeting, will be paid on or after August 25, 2002:

(i) to those members whose names appear on the company's register of members, after giving effect to all valid share transfers in physical form lodged with M/s. Sharepro Services, R&T agent of the company, on or before Wednesday, July 31, 2002.

(ii) in respect of shares held in electronic form, to those "deemed members" whose names appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL)

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and Central Depository Services (India) Limited (CDSL), as at the end of business on Wednesday, July 31, 2002.

## **DIRECT DEPOSIT OF DIVIDEND (ELECTRONIC CLEARING SERVICE)**

In respect of shares held in electronic form, dividends will be payable on the basis of beneficial ownership according to the details furnished by NSDL and CDSL for this purpose. The company is considering dividend payments in respect of shares held in electronic form, through E.C.S/D.D.S on the basis of particulars received from NSDL/CDSL. Members holding shares in electronic form are therefore required to update their bank details, including the nine digit MICR number appearing on the cheque pertaining to the respective bank account, with their concerned depository participants (DP) to facilitate the distribution of dividends. Members who wish to receive dividends in an account other than the one specified while opening the depository account may notify their DPs about any change in bank account details. Members are requested to furnish complete details of their bank accounts including MICR codes of their banks to their DPs.

In respect of shares held in physical form, members desirous of receiving dividends by direct electronic deposit to their bank accounts may authorise the company with their ECS mandate. For details, kindly write to the R&T agents M/s Sharepro Services.

## **BANK DETAILS**

In order to provide protection against fraudulent encashment of dividend warrants, members are requested to provide, if they have not already provided, their bank account numbers, bank account type and names and addresses of bank branches, quoting folio numbers, to the R&T agents M/s Sharepro Services (in case of physical shareholding) to enable them to incorporate the same on the dividend warrants. In case of dematerialised holding the bank account details should be intimated to the shareholder's depository participant.

## **LISTING ON STOCK EXCHANGES IN INDIA AND LISTING FEES**

The company's shares are listed on the stock exchanges at Mumbai (BSE), Chennai, Delhi, Kolkata and National Stock Exchange (NSE) in India. Annual listing fees as due to each of the above stock exchanges for 2002-2003 have been paid.

## **LISTING ON STOCK EXCHANGE OUTSIDE INDIA**

The company's ADRs are listed on the New York Stock Exchange (NYSE) and have been traded on the NYSE since August 15, 2000. The annual listing fee payable to the NYSE is being paid regularly.

## **DEPOSITARY BANK FOR ADR HOLDERS**

The Bank of New York, 101, Barclays Street, 22nd Floor West, New York, NY 10286, Telephone: +1 (212) 815 8128, Facsimile: +1 (212) 571 3050

Local Address : The Bank of New York, Express Towers, 12th Floor, Nariman Point, Mumbai 400 021, Telephone: (022) 202 4941/43, Facsimile: (022) 204 4942.

## **CUSTODIAN FOR THE DEPOSITARY IN INDIA**

ICICI Limited, Custodial Services, ICICI Towers, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, Telephone: 91-22-653 8211, Facsimile: 91-22-653 1164/65.

## **STOCK CODE**

Bombay Stock Exchange : 500483

National Stock Exchange : VSNL

New York Stock Exchange : VSL

ISIN No. for equity shares : INE151A01013

ISIN No. for ADRs : US92659G6008

CUSIP No. for ADRs : 92659G600

## **Reuters codes**

VSNL.BO (BSE)

VSNL.NS (NSE)

VSNLq.L (LSE)

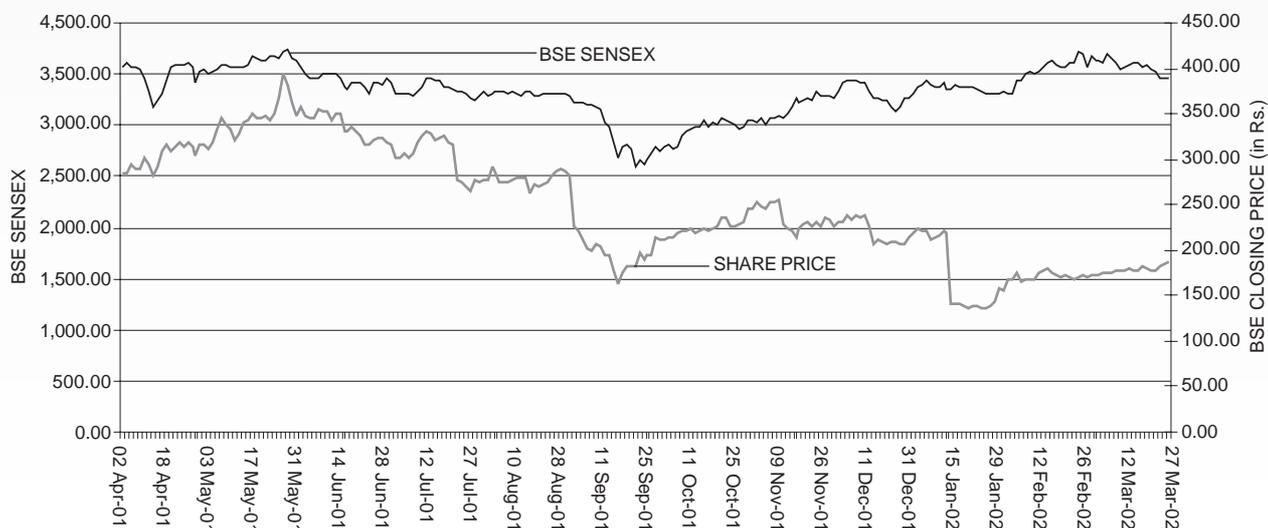
## STOCK MARKET DATA RELATING TO SHARES LISTED IN INDIA

Monthly high and low quotations and volume of shares traded at BSE & NSE for 2001-2002 are :

Date	BSE Share Price (Closing)			NSE Share Price (Closing)		
	High	Low	Volume	High	Low	Volume
Apr-01	319.70	283.00	4738736	319.85	283.00	5692103
May-01	393.25	310.20	8878458	392.15	310.75	10875597
Jun-01	356.50	316.30	6835057	357.85	316.40	7732264
Jul-01	330.70	264.50	5839025	329.50	262.70	6422898
Aug-01	290.95	263.20	3863978	290.35	263.85	5296828
Sep-01	226.45	162.85	6510775	278.35	162.95	9346824
Oct-01	236.60	210.60	4199696	237.20	210.25	5190029
Nov-01	254.85	214.45	6447211	254.75	214.30	8713055
Dec-01	239.15	205.75	8254885	239.65	206.00	12094634
Jan-02	223.15	135.75	6104656	223.15	135.75	13724308
Feb-02	156.55	166.05	15463797	179.40	168.75	24853383
Mar-02	186.95	172.00	7613590	187.60	171.50	9217765
Total			84749864			119159688
Percentage of volume traded on BSE & NSE to shares available in Indian market				276.35%**		

\*\* Out of the total 285 million outstanding shares, the number of shares available in Indian markets, as of March 31, 2002, have been considered to be 73787667 only, which has been arrived at after deducting 74446885 shares held by the Government of India, 71250000 shares held by the strategic partner M/s Panatone Finvest Limited, 59853902 shares as underlying shares for ADRs and 5661546 shares held as non-tradable shares by employees.

## PERFORMANCE OF VSNL'S SHARE PRICE ON THE BSE IN COMPARISON TO THE BSE SENSEX.



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## SHARE TRANSFER SYSTEM

Share transfers physical form can be lodged with M/s. Sharepro Services, the R & T agents of VSNL. The transfers are normally processed within 15 days from the date of receipt if the documents are complete in all respects. A Committee for Share Transfers is empowered to approve transfers.

## DISTRIBUTION OF SHAREHOLDING

Number of ordinary shares held	Number of shareholders	
	31.03.2002	31.03.2001
1 to 100	70162	56997
101 to 500	15796	9403
501 to 1000	2128	1195
1001 to 10000	4180	480
Over 10000	288	196
<b>Total</b>	<b>92554</b>	<b>68271</b>

## CATEGORIES OF SHAREHOLDERS AS OF 31 MARCH

Category	Number of Shareholders		Voting Strength		Number of Shares held	
	2002	2001	2002	2001	2002	2001
Central Government including nominees of President of India	4	3	26.12	52.97	74446885	150961440
Indian public financial institutes & mutual funds	45	64	7.09	6.78	20203572	19319800
Indian nationalised banks	10	13	0.03	0.08	99464	235711
Foreign Financial institutions	105	137	10.86	7.82	30954140	22296097
Foreign companies (shares held by Bank of New York as depository for ADRs)	2	1	21.00	29.22	59853902	83268219
Non resident individuals	333	202	0.04	0.02	119450	46763
Other Indian bodies corporates (including 71250000 shares held by Strategic Partner M/s Panatone Finvest Limited)	2544	1548	28.09	0.68	80048521	1923801
Others (including 5661546 shares held by employees as locked-in shares)	89510	66303	6.77	1.96	19266684	5591768
In transit demat shares	1		0.00	0.47	7382	1356401
<b>TOTAL</b>	<b>92554</b>	<b>68271</b>	<b>100</b>	<b>100</b>	<b>285000000</b>	<b>285000000</b>

## Dematerialisation of Shares and Liquidity

Approx 99% of the company's share capital available in the market is dematerialised as on 31.03.2002. The company's shares are regularly traded on the Stock Exchange Mumbai and the National Stock Exchange, as is evident from the table containing stock market data.

## Outstanding ADRs

29926951 ADRs (each representing two ordinary share of the company) are outstanding as of March 31, 2002. In respect of these ADRs, the option to convert into shares is alive.

## SHARE CAPITAL HISTORY

Details of share capital history since incorporation is as below:-

Dates	Particulars of Issue	Number of Shares	Total Number of Shares	Nominal Value of Shares (Rs.)
19.03.86	Allotted as Purchase consideration for assets & liabilities of OCS	126	126	126,000
01.04.86	Allotted as Purchase consideration for assets & liabilities of OCS	+599,874	600000	600,000,000
March '91	Shares of Rs.1000/- each subdivided into shares of Rs.10/- each	NIL	60000000	600,000,000
06.02.92	Bonus of 1:3 issued to Government of India.	+20,000,000	80000000	800,000,000
Jan-Feb 92	12 million shares disinvested in favour of Indian Financial Institutions by GOI @ Rs.123/- per share	NIL	80000000	800,000,000
1994-95	2,382,529 Shares transferred to disinvested parties as bonus shares	NIL	80000000	800,000,000
27.03.97	VSNL raised its share capital by way of GDR Issue, and also GOI Divested in GDR markets @ US\$13.93 per GDR equivalent to Rs.1000 per share.	+12,165,000	92165000	921,650,000
04.04.97	VSNL raised its capital by way of GDR Issue Green Shoe option @ US\$13.93 per GDR equivalent Rs.1000 per share.	+2,835,000	95000000	950,000,000
Feb. 1999	10,000,000 shares divested by GOI in GDR markets @ US\$9.25 per GDR equivalent to Rs.786.25 per share.	NIL	95000000	950,000,000
May 1999	396,991 shares Divested by GOI by way of offer of shares to employees of VSNL @ Rs.294 per share locked in for a period of 3 years.	NIL	95000000	950,000,000
Sept' 99	10,00,000 shares Divested by GOI in domestic markets @ Rs.750 per share.	NIL	95000000	950,000,000
15.08.2000	Listing of ADRs on New York Stock Exchange	NIL	95000000	950,000,000
24.11.2000	Bonus shares in the ratio of 2:1.	+190,000,000	285000000	2,850,000,000
13.02.02	25% of VSNL Stake transferred to Tata Group's investment vehicle Panatone Finvest Ltd. Government holdings reduced to 27.97% from 52.97%. VSNL ceases to be a Government of India Enterprise	NIL	285000000	2,850,000,000
21.02.02	5264555 shares divested by GOI by way of offer of shares to employees of VSNL @ Rs.47.85 per share locked in for a period of 1 year.	NIL	285000000	2,850,000,000
10.04.02	Open Offer by Panatone Finvest Limited in accordance with SEBI guidelines to acquire upto 57 million shares @ Rs.202/- per share	NIL	285000000	2,850,000,000
08.06.02	Open Offer complete with Panatone holding total of 128249910 shares including 57 million shares as above.	NIL	285000000	2,850,000,000

# VIDESH SANCHAR NIGAM LIMITED

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## Locations of Other Offices

Regional Offices : Mumbai, Chennai, Kolkatta and New Delhi

Branches : Ambattur, Arvi, Bangalore, Bhubaneswar, Chandigarh, Coimbatore, Dehradun, Ernakulam, Gandhinagar, Goa, Guwahati, Hyderabad, Indore, Jaipur, Jalandhar, Kanpur, Patna, Pondicherry, Pune, Thiruvananthapuram.

## Address for Correspondence

### Registered Office

Videsh Sanchar Bhawan (VSB)  
Mahatma Gandhi Road,  
Mumbai - 400 001.  
Tel : +91 22 262 4020/261 9632  
Fax : +91 22 262 4027  
Email : [help@vsnl.com](mailto:help@vsnl.com)  
Website : [www.vsnl.com](http://www.vsnl.com)

### Corporate Office

Lokmanya Videsh Sanchar Bhawan (LVSB)  
Kashinath Dhuru Marg  
Prabhadevi  
Mumbai – 400 028  
Tel. : +91 (22) 431 2700  
Fax : +91 (22) 432 2678

**Any shareholder complaints/queries may be addressed to:**

### Registrar and Transfer Agents

M/s. Sharepro Services  
Unit : Videsh Sanchar Nigam Limited  
Satam Estate, 3rd Floor,  
Above Bank of Baroda,  
Chakala, Andheri (East),  
Mumbai - 400 099.  
Tel : (022) 8215168, 8202108, 8202114.  
Fax : (022) 8375646  
E-mail : [sharepro@vsnl.com](mailto:sharepro@vsnl.com)

**Any queries relating to financial statements of the Company may be addressed to :**

Investor Relations Cell  
Videsh Sanchar Nigam Limited  
Lokmanya Videsh Sanchar Bhawan  
Kashinath Dhuru Marg, Opposite Kirti College,  
Prabhadevi, Mumbai - 400 028.  
Tel : +91 (22) 432 0621  
Fax: +91 (22) 432 0283  
Email: [invrelhq@vsnl.com](mailto:invrelhq@vsnl.com)

## SECRETARY RESPONSIBILITY STATEMENT

The Executive Director (Legal) and Company Secretary confirms that the Company has :

- (i) maintained all the books of account and statutory registers required under the Companies Act, 1956 ("the Act") and the Rules made thereunder.
- (ii) filed all the forms and returns and furnished all the necessary particulars to the Registrar of Companies and/or Authorities as required by the Act.
- (iii) issued all notices required to be given for convening of Board Meetings and General Meeting, within the time limit prescribed by law.
- (iv) conducted the Board Meetings and Annual General Meeting as per the Act.
- (v) complied with all the requirements relating to the minutes of the proceedings of the meetings of the Directors and the Shareholders.
- (vi) made due disclosure required under the Act including those required in pursuance of the disclosures made by the Directors.
- (vii) obtained all necessary approvals of Directors, Shareholders, Central Government and other Authorities as per the requirements.
- (viii) effected share transfers and despatched the certificates within the statutory time limit.
- (ix) paid dividend amounts to the Shareholders and unpaid dividend amounts, if applicable, have been transferred to the General Revenue Account of the Central Government or Investor Education and Protection Fund within the time limit prescribed.
- (x) complied with the requirements of the Listing Agreement entered into with the Stock Exchanges in India and requirements of New York Stock Exchange.

The Company has also complied with other statutory requirements under the Companies Act, 1956 and other related statutes in force.

**Satish Ranade**  
***ED (Legal) & Company Secretary***

**AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENTS**

To the Members of  
**Videsh Sanchar Nigam Ltd.**

1. We have examined the compliance of conditions of Corporate Governance by the **Videsh Sanchar Nigam Ltd.**, for the year ended on 31st March, 2002, as stipulated in Clause 49 of the Listing Agreement of the Said Company with various stock exchanges (herein after referred to as 'the agreement').
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. In our opinion and based on our review and to the best of our information and explanations given to us and subject to Para 4 below, we certify that the conditions of Corporate Governance as stipulated in the Clause 49 of the agreement have been complied with in all material aspects By the Company.
4. Attention is invited to the following :
  - (i) Except during the period 6th August 2001 to 26th August 2001, the Board of Directors of company did not have the optimum number of independent directors, as required by the Para I (A) of the Clause 49 of the agreement.
  - (ii) The following stipulations of Para II of the Clause 49 of the agreement, regarding Audit Committee were not complied with :
    - (a) The audit Committee did not have the stipulated minimum of three members from 23rd January 2002 to the end of the Financial Year i.e. 31st March 2002.
    - (b) The Audit Committee held only two meetings during the year against the stipulated minimum of three meetings every year.
    - (c) The Audit Committee did not have the

required number of non-executive and independent directors from 14th December, 2001 to 31st March, 2002. Further, during the year, Executive Directors were members of the Audit Committee.

- (d) The head of the internal audit was not present for the meetings of the Audit Committee.
- (iii) The following stipulations of Para VI (C) of the Clause 49 of the agreement regarding Shareholders/Investors Grievance Committee were not complied with :
  - (a) The membership of the said committee included persons not being directors of the company.
  - (b) The said committee had no non-executive director as member of chairman from 23rd January 2002 to 31st March 2002.
- (iv) As required by the Para IV (B) of the Clause 49 of the agreement, the information about the membership and/or chairmanship of committees in other companies taken-up by the directors of the company who have ceased to act as director during the year, have not been received by the company.
5. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state while the Shareholders/ Investor Grievance Committee has not maintained records to show the investor grievances pending for a period of one month against the Company, the Registrars of the Company have maintained the records of investor grievances and certified that as at 31st March, 2002 there were no investor grievances remaining unattended/pending for more than 30 days.
6. We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For **KHANDELWAL JAIN & CO.**  
*Chartered Accountants*

(NARENDRA JAIN)  
*Partner*

Place: Mumbai  
Dated: July 17, 2002

For **BHUCHAR & CHANDAK**  
*Chartered Accountants*

(V. RAJAGOPAL)  
*Partner*

Place: Mumbai  
Dated: July 17, 2002

## FINANCIAL RATIOS

<b>PROFITABILITY RATIOS (Percentage)</b>	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Operating Profit margin (OPM)	18.34	26.20	27.58	28.55	<b>28.23</b>
Gross Profit Margin	23.23	28.51	28.16	32.46	<b>31.02</b>
Cash Profit Margin	16.07	19.58	20.01	23.85	<b>21.62</b>
Net Profit Margin	15.04	18.46	11.62	22.33	<b>19.79</b>
Overheads/Total Income	2.91	1.73	2.13	3.38	<b>3.95</b>
Return on Average Capital Employed	29.42	31.82	16.00	29.14	<b>24.54</b>
Pre Interest profits as % of ACE	45.44	49.12	38.78	42.36	<b>38.86</b>
Return on Net Worth	27.04	27.60	14.49	27.87	<b>24.20</b>
Total Expenditure /Total Income	78.26	73.32	72.47	67.70	<b>70.83</b>
<b>BUSINESS CHARACTERISTICS</b>					
Debt to Capital Employed	0.04	0.0005	0.0007	NIL	<b>0.0975</b>
Tax Rate	30.17	29.99	32.82	31.94	<b>32.14</b>
Revenue to Capital Ratio	1.48	1.32	1.17	1.21	<b>1.21</b>
Income/Debtors Ratio	3.83	3.57	2.84	4.40	<b>4.78</b>
Income/Avg Assets Ratios	4.67	4.36	3.57	3.22	<b>2.59</b>
Net Working Capital as part of TCE %	66	68	68	65	<b>62</b>
Current Ratio	2.07	2.10	2.12	2.17	<b>2.90</b>
Quick Ratio	2.07	2.10	2.12	2.17	<b>2.90</b>
Cash and Equivalents /Total Assets Ratio	57.97	45.20	45.45	73.46	<b>42.96</b>
Depreciation/Gross Block %	4.30	4.52	4.09	4.37	<b>4.60</b>
<b>GROWTH (% OVER PRECEEDING YEARS)</b>					
Growth in Turnover	21.81	11.49	0.76	9.23	<b>10.30</b>
Growth in Forex Earnings (Gross)	18.39	17.78	1.68	1.04	<b>(14.16)</b>
Growth in PBDIT (excl. other income)	41.81	43.68	4.30	8.06	<b>(15.25)</b>
Growth in PAT (before ICO W/o)	91.78	36.89	2.12	112.31	<b>(21.11)</b>
Growth in PAT (after ICO W/o)	–	–	(36.58)	111.70	<b>(20.87)</b>
Growth in Cash Profit	84	36	3	31	<b>(19)</b>
<b>PER SHARE DATA</b>					
Earnings (Rs.)	101.88	139.47	88.45	#62.42	<b>49.33</b>
Dividend %	40	80	80	#500	<b>875</b>
Book Value (Rs.)	440.03	570.58	649.92	#231.18	<b>176.98</b>
P/E (as of Year End)	8.25	5.02	21.34	4.68	<b>3.79</b>

#During the year, the Company issued Bonus Shares in the ratio of 2:1. Without bonus issue these values would be three times the value depicted above.

# VIDESH SANCHAR NIGAM LIMITED

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## FIVE YEARS AT A GLANCE

DESCRIPTION	1997-98	1998-99	1999-00	2000-01	2001-02	% change over previous year
<b>1 INTERNATIONAL TELECOMMUNICATIONS TRAFFIC</b>						
1.1 Telephone Paid Minutes (million)	1684.51	1935.01	2245.83	2688.47	3120.07	16.05
1.2 Telex paid minutes (million)	14.02	11.06	9.89	9.02	7.08	(21.51)
1.3 Telegraph words (million)	16.32	14.63	8.75	6.96	5.09	(26.87)
1.4 Television Traffic (in minutes)	185930	92530	135500	185725	106900	(42.44)
1.5 Bureaufax (pages)	48250	40000	22000	9000	3610	(59.89)
1.6 Data transmission (GPSS)						
Minutes (in 000)	8920	7929	7116	7029	5917	(15.82)
Segments (million)	613	469	267	194	118.99	(38.66)
1.7 Inmarsat Traffic						
Telephone (000 minutes)	2660	1961	1953	3286	6547.8	99.26
Telex (000 minutes)	807	272	97	30.6	115.7	278.10
1.8 Internet Access Customers (including BSNL customers till 2001)	90042	213045	366432	630970	586638	(7.03)
<b>2 GROWTH OF INTERNATIONAL CIRCUITS</b>						
2.1 Telephone Circuits	15431	17922	19722	20495	22708	10.80
2.2 Telex Circuits	1012	787	682	658	358	(45.59)
2.3 Telegraph Circuits	35	34	25	24	22	(8.33)
2.4 Satellite Circuits	9266	10609	11409	10776	11388	5.68
2.5 Cable Circuits (IOCOM, Gulf & Sea-Me-We-2&3)	6165	7313	8313	9719	11320	16.47
2.6 Leased Telegraph Circuits	68	48	38	23	19	(17.39)
2.7 Leased Voice/Data Circuits	35	25	23	15	5	(66.67)
2.8 Leased High Speed Data Circuits (64 kbps equivalent)	878	1073	1630	4898	10907	122.68
2.9 Internet Leased Circuits	217	390	659	1064	1216	14.28
<b>3 INTERNATIONAL AUTOMATIC SERVICE</b>						
3.1 ISD Telephone Service to countries	236	236	237	237	237	0.00
3.2 IXSD Telex Service to countries	237	237	237	237	237	0.00
3.3 Bureaufax Service to countries	32	32	32	27	27	0.00

## AUDITORS' REPORT

### TO THE MEMBERS OF VIDESH SANCHAR NIGAM LIMITED

We have audited the attached Balance Sheet of **VIDESH SANCHAR NIGAM LIMITED**, as at 31st March, 2002 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. 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 audit.

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

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of Sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we 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 accounts, 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 Auditor's 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 accounts 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, to the extent applicable;
6. On the basis of the written representations received from the Directors as on 31st March, 2002 and taken on record by the Board of Directors, none of the Directors are disqualified as on 31st March, 2002 from being appointed as a director in terms of clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956;

In our opinion and to the best of our information and according to the explanations given to us, the said accounts *subject to Note No. B4 of Schedule 21 regarding debit/credit adjustments in Government of India Current Account being subject to approval and confirmation of the Government, the consequential effect of which is not ascertainable* and read together with other Notes given in Schedule 21, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India :

- a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2002;
- and
- b) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.

For **KHANDELWAL JAIN & CO.**  
*Chartered Accountants*

(NARENDRA JAIN)  
*Partner*

Place: Mumbai  
Dated: May 28, 2002

For **BHUCHAR & CHANDAK**  
*Chartered Accountants*

(V. RAJAGOPAL)  
*Partner*

Place: Mumbai  
Dated: May 28, 2002

## ANNEXURE TO AUDITORS' REPORT

The Annexure referred to in Paragraph 1 of the auditors' report to the members of **VIDESH SANCHAR NIGAM LIMITED** (the Company) for the year ended March 31st, 2002 we report that :

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, wherein 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, quantitative details thereof on a cumulative basis, accumulated depreciation thereon 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. The management, during the year, has conducted physical verification of stocks of stores and spare parts. 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 of the 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 of the 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.
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 are 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.
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 authority. The company has received exemption from the operation of, and as such it is not coverable under, the provisions of Employees' State Insurance Act, 1948.
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 2002 for a period of more than six months from the date they became payable except for an amount of Rs. 12.75 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.
21. In respect of the service activities of the Company:
- a) There is a reasonable system of recording receipts, issues and consumption of stores commensurate with the size of the Company and the 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 the information and explanations given to us there is a reasonable system of authorisation at proper levels with necessary internal controls on the issue of stores. Considering the nature of activities of the Company, the question of allocation of stores and labour to jobs does not arise.

For **KHANDELWAL JAIN & CO.**  
*Chartered Accountants*

(NARENDRA JAIN)  
*Partner*

Place: Mumbai  
Dated: May 28, 2002

For **BHUCHAR & CHANDAK**  
*Chartered Accountants*

(V. RAJAGOPAL)  
*Partner*

Place: Mumbai  
Dated: May 28, 2002

# VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

## BALANCE SHEET AS AT 31ST MARCH 2002

Particulars	Schedule	As at 31.03.2002 Rupees in '000	As at 31.03.2001 Rupees in '000
<b>I SOURCES OF FUNDS :</b>			
<b>1. Shareholders' Funds :</b>			
(a) Share Capital	1	2,850,000	2,850,000
(b) Reserves and Surplus	2	47,589,779	63,037,426
<b>2. Loan Funds :</b>			
Secured Loans	3	5,751,401	—
<b>3. Deferred Tax Liabilities</b>			
(Refer Note 19 & 20 of Schedule 21)		2,810,614	—
TOTAL		<b>59,001,794</b>	<b>65,887,426</b>
<b>II APPLICATION OF FUNDS :</b>			
<b>1. Fixed Assets:</b>			
(a) Gross Block	4	28,352,932	26,587,926
(b) Less : Depreciation		8,621,248	7,429,941
(c) Net Block		19,731,684	19,157,985
(d) Capital Work-in-progress		2,983,903	2,422,821
(e) Investments in Communication Satellites		—	2,549,064
TOTAL (A)		<b>22,715,587</b>	<b>24,129,870</b>
<b>2. Investments</b>			
	5	3,662,862	1,106,461
<b>3. Current Assets, Loans &amp; Advances :</b>			
(a) Inventories	6	5,058	17,094
(b) Sundry Debtors	7	14,885,235	18,109,308
(c) Cash and Bank Balances	8	25,349,434	48,400,710
(d) Other Current Assets	9	722,296	1,232,363
(e) Loans and Advances	10	8,871,338	7,696,859
TOTAL (A)		<b>49,833,361</b>	<b>75,456,334</b>
<b>Less : Current Liabilities &amp; Provisions :</b>			
(a) Current Liabilities	11	12,900,961	18,623,704
(b) Provisions	12	4,309,055	16,181,535
TOTAL (B)		<b>17,210,016</b>	<b>34,805,239</b>
Net Current Assets (A – B)		<b>32,623,345</b>	<b>40,651,095</b>
TOTAL		<b>59,001,794</b>	<b>65,887,426</b>
Significant Accounting Policies and Notes on Accounts	21		

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**  
Chartered Accountants

**NARENDRA JAIN**  
Partner

For **BHUCHAR & CHANDAK**  
Chartered Accountants

**V. RAJAGOPAL**  
Partner

Mumbai  
Dated : May 28, 2002

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

**RATAN N. TATA**  
Chairman

**S.K. GUPTA**  
Managing Director

**SATISH RANADE**  
Executive Director (Legal) &  
Company Secretary

**ARUN GUPTA**  
Executive Director (Finance)/  
Chief Financial Officer

Mumbai  
Dated : May 28, 2002

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2002

Particulars	Schedule	Year Ended 31.03.2002 Rupees in '000	Year Ended 31.03.2001 Rupees in '000
<b>INCOME :</b>			
Traffic Revenue	13	65,080,898	71,815,160
Revenue from Intelsat		—	1,159,920
Other Income	14	6,036,815	6,684,239
	TOTAL (A)	<u>71,117,713</u>	<u>79,659,319</u>
<b>EXPENDITURE :</b>			
Staff Cost	15	1,523,309	1,709,706
Network Cost	16	45,004,153	50,235,396
Operating and Other Expenses	17	1,015,047	869,416
Administrative Expenses	18	1,288,408	986,469
Interest	19	227,496	938
Depreciation		1,307,720	1,165,056
Less : Transferred from Capital Reserve		(3,728)	(3,014)
	TOTAL (B)	<u>50,362,405</u>	<u>54,963,967</u>
<b>Profit before Extraordinary Items, Prior Period Adjustments and Taxes (A – B)</b>		<b>20,755,308</b>	<b>24,695,352</b>
Extraordinary Items :			
Investment in ICO Global Communications (Holdings) Ltd. Written Off		—	(51,729)
Prior Year Adjustments	20	(9,798)	1,031,989
Provision For Taxation			
- Current		(6,276,300)	(7,887,300)
- Deferred		(395,000)	—
<b>Profit After Tax</b>		<b>14,074,210</b>	<b>17,788,312</b>
Surplus Brought Forward From Previous Year		443,858	137,946
Transfer from General Reserve for Special Interim Dividend		21,375,000	—
<b>Amount Available For Appropriation</b>		<b>35,893,068</b>	<b>17,926,258</b>
<b>Appropriations :</b>			
<b>Dividends :</b>			
Special Interim Dividend		21,375,000	—
Proposed Dividend			
(A) Final Dividend		3,562,500	2,850,000
(B) Special Dividend		—	11,400,000
Tax on Dividend		2,180,250	1,453,500
Transferred to General Reserve		4,000,000	1,778,900
Surplus carried to Balance Sheet		4,775,318	443,858
		<u>35,893,068</u>	<u>17,926,258</u>
<b>EARNINGS PER SHARE (EPS)</b>			
BASIC/DILUTED EARNINGS PER SHARE (Rs.)		<b>49.38</b>	<b>62.42</b>
(Refer note no. 18 of Schedule 21)			
Significant Accounting Policies and Notes on Accounts	21		

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**

Chartered Accountants

**NARENDRA JAIN**

Partner

For **BHUCHAR & CHANDAK**

Chartered Accountants

**V. RAJAGOPAL**

Partner

Mumbai

Dated : May 28, 2002

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

**RATAN N. TATA**

Chairman

**S.K. GUPTA**

Managing Director

**SATISH RANADE**

Executive Director (Legal) &

Company Secretary

**ARUN GUPTA**

Executive Director (Finance)/

Chief Financial Officer

Mumbai

Dated : May 28, 2002

# VIDESH SANCHAR NIGAM LIMITED

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## SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31.03.2002 Rupees in '000	As at 31.03.2001 Rupees in '000
<b>SCHEDULE - 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
300,000,000 (2000-2001 : 300,000,000) Equity Shares of Rs. 10/- each	<u>3,000,000</u>	<u>3,000,000</u>
<b>Issued, Subscribed and Paid up</b>		
285,000,000 (2000-2001 : 285,000,000) Equity Shares of Rs. 10/- each fully paid-up	<u>2,850,000</u>	<u>2,850,000</u>
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) 210,000,000 (2000-2001 : 210,000,000) shares are allotted as fully paid 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 30,000,000 American Depository Receipts (ADR). (2000-2001 : 30,000,000).		
TOTAL	<u>2,850,000</u>	<u>2,850,000</u>
<b>SCHEDULE - 2</b>		
<b>RESERVES AND SURPLUS</b>		
1. <b>Capital Reserve :</b>		
Balance as per last Balance Sheet	2,082,859	22,424
<u>Additions during the year :</u>		
Gifted Assets	-	26,523
Foreign Exchange gain on GDR proceeds	15,235	2,036,926
	<u>2,098,094</u>	<u>2,085,873</u>
Less : Transferred to Profit and Loss Account	<u>(3,728)</u>	<u>(3,014)</u>
	<u>2,094,366</u>	<u>2,082,859</u>
2. <b>Share Premium Account</b>		
Balance as per last Balance Sheet	14,481,809	14,481,809
3. <b>General Reserve</b>		
Balance as per last Balance Sheet	46,028,900	46,150,000
Less : Capitalisation of Bonus Shares	-	(1,900,000)
Less : Transferred to Profit and Loss Account (Refer Note No. 10 of Schedule 21)	<u>(21,375,000)</u>	-
Less : Cumulative Deferred Tax Liabilities (Net) upto 31.03.2001 (Refer Note No. 19 of Schedule 21)	<u>(24,15,614)</u>	-
Add : Transferred from Profit and Loss Account	<u>4,000,000</u>	<u>1,778,900</u>
	<u>26,238,286</u>	<u>46,028,900</u>
4. <b>Surplus in Profit and Loss Account</b>		
As per account annexed	<u>4,775,318</u>	<u>443,858</u>
TOTAL	<u>47,589,779</u>	<u>63,037,426</u>
<b>SCHEDULE - 3</b>		
<b>SECURED LOANS</b>		
<b>Loans from Bank</b>		
Short Term Loans From Bank (Secured against Fixed Deposits Receipts)	<u>5,751,401</u>	-
TOTAL	<u>5,751,401</u>	-

# SCHEDULES FORMING PART OF THE BALANCE SHEET

## SCHEDULE - 4

### FIXED ASSETS

(Rs. in '000)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as on 1st April 2001	Additions During the Year	Deductions/ Adjustments During the Year	Cost as on 31st March 2002	Accumulated as on 1st April 2001	For the Year	Deductions/ Adjustments During the Year	Accumulated as on 31st March 2002	As on 31/3/2002	As on 31/3/2001
Land	754,259	18,286	—	772,545	3,285	8,130	—	11,415	761,130	750,974
Buildings	2,062,118	138,971	1,567	2,199,522	160,719	38,488	18	199,189	2,000,333	1,901,399
Leasehold Building	—	10,694	—	10,694	—	67	—	67	10,627	—
Plant & Machinery	22,814,811	1,472,146	171,465	24,115,492	6,912,899	1,143,285	114,545	7,941,639	16,173,853	15,901,912
Leasehold Plant & Machinery	—	264,703	—	264,703	—	13,976	—	13,976	250,727	—
Furniture Fixture	179,332	6,191	1,284	184,239	62,148	10,342	327	72,163	112,076	117,184
Office Equipments	187,172	16,945	927	203,190	48,866	9,026	476	57,416	145,774	138,306
Computers	574,331	16,232	3,506	587,057	233,984	83,532	897	316,619	270,438	340,347
Motor Vehicles	15,903	19	432	15,490	8,040	1,203	479	8,764	6,726	7,863
Total	26,587,926	1,944,187	179,181	28,352,932	7,429,941	1,308,049	116,742	8,621,248	19,731,684	19,157,985
Previous Year	22,820,294	3,902,438	134,806	26,587,926	6,377,815	1,177,858	125,732	7,429,941	19,157,985	0
Capital Work in Progress									2,983,903	2,422,821

Investment In Communication Satellites (At Valuation Based On Share Of Net Assets)

International Telecommunication Satellite Organisation

— 2,549,064

#### NOTES TO FIXED ASSETS :

- Land includes Rs. 630.11 million for Leasehold Land.
- Land includes Rs. 617.81 million for Leasehold Land for which conveyance is not registered and the land has not been transferred in the name of the Company.
- Lease deed for Leasehold Land at Srinagar is not traceable.
- Freehold Land Rs. 25.73 million against which agreement has not been executed/ registered.
- Building includes Rs. 68.23 million for Leasehold Office Space.
- Building includes Rs. 4.40 million being cost of flats in Co-operative Society under formation.
- Building includes Rs. 345.78 million for flats/ office space at Mumbai and Rs. 10.77 million for flats at Jalandhar against which agreement has not been executed/ registered.
- Additions to Plant & Machinery/ Capital Work-in progress includes Rs. 3.26 million on account of increase in liability consequent to fluctuations in exchange rate.
- Plant & Machinery includes Rs. 1.62 million 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/ BSNL and MTNL have not been received.

- Assets acquired on lease after 31st March, 2001 have been disclosed separately.
- Plant & Machinery, Computer and Office Equipment includes assets retired from active use but held for disposal at expected realisable value of Rs. 3.01 million.
- Depreciation for the year includes Rs. 3.73 million being depreciation on gifted assets.
- Capital Work-in-Progress includes:
  - Rs. 314.65 million on account of Building. (2000 -2001: Rs. 381.67 million)
  - Rs. 2,663.77 million on account of Plant & Machinery. (2000 -2001: Rs. 1,978.44 million)
  - Rs. 5.48 million on account of Advances against Capital Expenditure. (2000-2001 : Rs. 62.71 million)

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## SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31.03.2002 Rupees in '000	As at 31.03.2001 Rupees in '000
<b>SCHEDULE - 5</b>		
<b>INVESTMENTS</b>		
<b>(Non-trade, unquoted)</b>		
<b>Long term : At cost</b>		
(A) New Skies Satellites N.V. 3,442,150 (2000-2001 : 3,442,150) Ordinary Shares of Common Stock of Euro 0.05 each fully paid up	562,304	562,304
(B) NEW ICO Global Communications (Holdings) Limited 180,053 (2000-2001 : 180,053) Class A common stock of US\$ 0.01 each Fully Paid Up	65	65
(C) Telestra Vishesh Communications Limited 9,200,000 (2000-2001 : 9,200,000) Equity Shares Rs. 10/- each fully paid up	92,000	92,000
(D) Inmarsat Ventures PLC. (Formerly Named as Inmarsat (Holdings) Limited) 2,022,190 (2000-2001 : 2,022,190) Ordinary Shares of 10 Pence Each fully paid up	452,092	452,092
(E) VSNL Seamless Services Private Limited 20 (2000-2001 : 20) Equity Shares of Rs. 10/- each fully paid up (Face Value of Rs. 200)	-	-
(F) United Telecom Limited Nepal 266,000 (2000-2001 : NIL) Equity Shares @ NRS 100/- each fully paid up	16,625	-
(G) Intelsat Ltd. 27,045,940 (2000-2001 : NIL) Ordinary Shares of US\$ 1 each fully paid up (Refer Note No. 8 of Schedule 21)	2,539,776	-
<b>TOTAL</b>	<b>3,662,862</b>	<b>1,106,461</b>
<b>SCHEDULE - 6</b>		
<b>INVENTORIES</b>		
Consumable Stores & Spares at Cost	5,083	17,647
Less : Provision for expected loss on obsolete stock	(25)	(553)
<b>TOTAL</b>	<b>5,058</b>	<b>17,094</b>

## SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31.03.2002 Rupees in '000	As at 31.03.2001 Rupees in '000
<b>SCHEDULE - 7</b>		
<b>SUNDRY DEBTORS (UNSECURED)</b>		
Debts outstanding for a period exceeding Six Months		
Considered Good	2,173,107	5,054,222
Considered Doubtful	1,653,569	1,008,933
	3,826,676	6,063,155
Less : Provision for Doubtful Debts	(1,653,569)	(1,008,933)
	2,173,107	5,054,222
Other Debts - Considered Good	12,712,128	13,055,086
TOTAL	14,885,235	18,109,308
 <b>SCHEDULE - 8</b>		
<b>CASH &amp; BANK BALANCES</b>		
Cash on Hand	435	576
Remittance in Transit	3,408	14,453
<b>Balances with Scheduled Banks</b>		
In Current Accounts	1,707,055	485,330
In Deposit Accounts **	23,638,536	47,900,351
TOTAL	25,349,434	48,400,710
 <b>SCHEDULE - 9</b>		
<b>OTHER CURRENT ASSETS</b>		
Interest Receivable	700,411	1,231,343
Rent Receivable	56	465
Other Receivables	21,829	555
TOTAL	722,296	1,232,363
 <b>SCHEDULE - 10</b>		
<b>LOANS AND ADVANCES (Unsecured - Considered Good)</b>		
Loan to VSNL Co-operative Society Ltd.	2,500	2,500
Loan to VSNL Employees Provident Trust Fund	7,500	-
Advances recoverable in cash or in kind or for value to be received	1,083,104	617,317
Advance Payment of Tax (Net of Provision)	7,751,418	7,077,042
Government of India Current Account	26,816	-
TOTAL	8,871,338	7,696,859

\*\* Includes an amount of Rs. 7,099,488,878/- (2000-2001 : Rs. 7,696,639,860/-) representing unutilised monies raised by way of Euro Equity Issue

# VIDESH SANCHAR NIGAM LIMITED

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## SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31.03.2002 Rupees in '000	As at 31.03.2001 Rupees in '000
<b>SCHEDULE - 11</b>		
<b>CURRENT LIABILITIES</b>		
Traffic Creditors	<b>5,772,200</b>	11,273,307
Sundry Creditors :		
A) Dues to Small Scale Industries*	<b>122</b>	126
B) Others	<b>4,616,005</b>	4,050,937
Income Received in Advance	<b>1,574,467</b>	2,045,987
Government of India Current Account	-	6,836
Interest Accrued but not due	<b>11,268</b>	-
Other Liabilities	<b>926,899</b>	1,246,511
*Includes amount due to M/s. Enertech Electronics for more than 30 days and in excess of Rs. 1 lakhs.		
TOTAL	<b><u>12,900,961</u></b>	<u>18,623,704</u>

### SCHEDULE - 12

#### PROVISIONS

Provision for Leave Encashment	<b>150,977</b>	112,375
Provision for Pension	<b>6,060</b>	3,563
Provision for Gratuity	<b>171,322</b>	31,647
Provision for Proposed Final Dividend	<b>3,562,500</b>	2,850,000
Provision for Proposed Special Dividend	-	11,400,000
Provision for Tax on Dividend	-	1,453,500
Provision for Diminution in the value of Fixed Assets	<b>389,294</b>	330,450
Provisions for Loyalty Discount	<b>28,902</b>	-
TOTAL	<b><u>4,309,055</u></b>	<u>16,181,535</u>

## SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

	Year Ended 31.03.2002 Rupees in '000	Year Ended 31.03.2001 Rupees in '000
<b>SCHEDULE - 13</b>		
<b>TRAFFIC REVENUE</b>		
Telephone	57,667,033	64,828,391
Telex	160,515	224,786
Telegraph	23,136	29,316
Leased Channel	3,602,638	3,134,267
Frame Relay	929,819	733,691
Television	168,368	184,339
Gateway Packet Switching System	15,173	28,719
Gateway Electronic Mail Service	15,794	51,547
Gateway Internet Access System	2,305,339	2,980,291
Other Traffic Revenue	517,992	395,825
Variance in Estimates (Net)	(324,909)	(776,012)
TOTAL	65,080,898	71,815,160
<b>SCHEDULE - 14</b>		
<b>OTHER INCOME</b>		
Interest on Bank Deposits - Gross (TDS Rs. 962,123,715/-, 2000-2001 : Rs. 483,959,269/-)	4,503,112	3,192,799
Interest on Other Deposits and Advances - Gross (TDS Rs. 35,580/-, 2000-2001 : Rs. Nil.)	11,612	8,945
Interest on Income Tax Refund	92,562	764,494
Miscellaneous Income	97,303	115,702
Rent	18,853	19,106
Compensation	279,000	-
Other Provisions Written Back (Net)	279,950	20,548
Gain on Exchange Fluctuation (Net)	754,423	2,562,645
TOTAL	6,036,815	6,684,239
<b>SCHEDULE - 15</b>		
<b>STAFF COST</b>		
Salaries & Bonus	1,010,706	1,109,848
Contribution to Provident and Other Funds	246,543	107,964
Staff Welfare Expenses	266,060	491,894
TOTAL	1,523,309	1,709,706
<b>SCHEDULE - 16</b>		
<b>NETWORK COST</b>		
Rent of Satellite Channels	2,767,437	2,711,775
Rent of Landlines	2,914,188	1,020,064
Administrative Lease Charges	100,752	93,384
Royalty & Licence Fee to Dept. of Telecommunication	6,414,073	4,967,557
Charges for use of Transmission Facilities :		
Telephone	31,405,116	39,817,416
Telex	89,254	139,697
Telegraph	20,662	27,367
Gateway Packet Switching System	12,272	22,258
Television	5,433	22,512
Internet	1,017,376	1,208,488
Leased Channel	17,846	10,513
Others	239,744	194,365
TOTAL	45,004,153	50,235,396

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## SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

	Year Ended 31.03.2002 Rupees in '000	Year Ended 31.03.2001 Rupees in '000
<b>SCHEDULE - 17</b>		
<b>OPERATING AND OTHER EXPENSES</b>		
Consumption of Stores	8,610	11,789
Light & Power	286,218	270,928
Repairs and Maintenance :		
Buildings	33,766	26,235
Plant & Machinery	655,690	527,305
Others	30,763	33,159
TOTAL	<b>1,015,047</b>	<b>869,416</b>
<b>SCHEDULE - 18</b>		
<b>ADMINISTRATIVE EXPENSES</b>		
Rent	13,111	17,689
Rates & Taxes	38,509	30,554
Travelling Expenses	45,086	45,574
Postage	4,540	6,378
Telephone and Telex	29,814	32,913
Printing and Stationery	16,680	13,952
Books and Periodicals	2,429	4,005
Vehicle Expenses	9,715	10,384
Hospitality	2,301	2,139
Security Expenses	30,922	29,658
Computer Expenses	5,486	37,361
Conveyance	2,585	2,829
Training Expenses	2,272	3,916
Recruitment Expenses	610	4,554
Legal and Professional Fees	9,873	40,980
Advertising and Publicity	44,595	116,344
Bad Debts Written off	269,360	—
Provision for Doubtful Debts	624,131	103,965
Sundry Assets written off	4,434	—
Remuneration to Auditors :		
Audit Fees	735	613
Tax Audit Fees	162	148
Reimbursement of Expenses	18	30
Other Matters	156	32
Commonwealth Telecom. Council Contribution	9,192	4,928
Water Charges	11,763	9,856
Insurance	24,083	15,655
Donations	814	100,441
Loss/(Profit) on Fixed Assets Sold/Discarded	11,980	5,328
Provision for Diminution in the value of Fixed Assets	58,750	330,450
Miscellaneous Expenses	14,302	15,793
TOTAL	<b>1,288,408</b>	<b>986,469</b>

## SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

	Year Ended 31.03.2002 Rupees in '000	Year Ended 31.03.2001 Rupees in '000
<b>SCHEDULE - 19</b>		
<b>INTEREST</b>		
Interest on short term bank loan	227,023	—
Others	473	938
TOTAL	<u>227,496</u>	<u>938</u>
<b>SCHEDULE - 20</b>		
<b>PRIOR YEAR ADJUSTMENT</b>		
<b>INCOME :</b>		
Traffic Revenue	(29,417)	(128,806)
Miscellaneous Income	786	2,340
Gain/(Loss) on Exchange Fluctuation	—	39,002
Interest on Bank Deposits	—	1,387,298
<b>EXPENSES :</b>		
Provision of Depreciation for Earlier Years (Net)	(329)	(12,802)
Charges for Use of Transmission Facilities	34,467	(128,852)
Salaries, Bonus and Staff Welfare	(57)	(22,215)
Administration & Other Expenses	(11,472)	(96)
Repairs and Maintenance	(3,776)	(102,886)
Travelling Expenses	—	(219)
Interest	—	(775)
TOTAL	<u>(9,798)</u>	<u>1,031,989</u>

**Note :** Figures in brackets are debits

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### SCHEDULE 21:

#### **A. SIGNIFICANT ACCOUNTING POLICIES :**

##### **I. ACCOUNTING CONCEPTS:**

- i) Accounting policies are consistent with generally accepted accounting principles except wherever stated otherwise.
- 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 for as current year's income and expenditure.
- vi) Prepaid expenses below Rs. 0.01 million in each case are accounted for 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 :**

###### **(A) Own Assets**

- i) The amounts paid or received according to the terms of transactions for acquiring/granting, from time to time, Indefeasible Rights of User (IRU) for international telecommunication circuits in Submarine Cables 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). Net Capital Contributions (that is, after adjusting the amortisations) billed by this Organisation to the Signatories from time to time upto July 18, 2001, being the date of privatisation in proportion to the respective ownership share were being disclosed as 'Investments in Communication Satellites' under the head 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 and credited to capital reserve 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.

###### **(B) Leases**

- i) Fixed Assets including Indefeasible Rights of User acquired for an agreed period of time on Lease have been recognised as an asset & liability. Such recognition is at an amount equal to the fair value of the Leased Asset at the inception of the lease or present value of minimum lease payment, whichever is lower.
- ii) Lease Payments are apportioned between the finance charge and the reduction of the outstanding liability.

##### **III. DEPRECIATION ON FIXED ASSETS:**

- i) In respect of assets taken over from Overseas Communications Service, depreciation has been provided for 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 for 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 for 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 for on Straight Line Method at the rates prescribed in Schedule XIV of the Companies Act, 1956.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

- iv) On Plant and Machinery which has been considered to be Continuous process plant, depreciation has been provided for at the applicable rate as per Schedule XIV to 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 previous month of such sale/disposal as the case may be.
- vi) Leasehold Lands are amortised over the respective period of lease.
- vii) Depreciation on Indefeasible Rights of User for International Telecommunication Circuits in Submarine Cables is provided for on the basis of balance life as intimated by the sellers.
- viii) On assets including IRU acquired after 31.03.2001 on lease, depreciation has been provided for on Straight Line Method at the rates as per Schedule XIV to the Companies Act, 1956 or at the rates worked out on the basis of remaining useful life of the asset, whichever is higher.
- ix) Depreciation on notional cost of gifted assets is provided for by annual transfer out of the Capital Reserve.
- x) Assets costing upto Rs.5,000/- each are fully depreciated in the year of purchase.
- xi) 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 Consumable Stores and Spares are valued at weighted average cost after making adjustments for variations that come to notice during physical verification of stock. Machinery spares which can be used only in connection with an item of fixed asset, whose use is expected to be irregular and which are procured subsequent to the commissioning of asset are charged to profit & loss account.

### 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 Bharat Sanchar Nigam Limited (BSNL) on account of delivering calls on foreign network. Estimates are included wherever information is awaited.

#### ii) REVENUE IN RESPECT OF INSURANCE, OTHER CLAIMS, INTEREST ETC.

Revenue in respect of insurance and other claims, interest, etc., is recognised only on reasonable certainty of ultimate collection.

### 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 Bharat Sanchar Nigam Limited 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. TAXES ON INCOME :

- (i) Current tax is measured at the amount expected to be paid to the taxation authorities, using the applicable tax rates and tax laws.
- (ii) Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been announced upto the balance sheet date. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences between the taxable income and accounting income. The effect of tax rate change is considered in the profit & loss account of the respective year of change.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### XI. 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.

### XII. CONTINGENT LIABILITIES:

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

### XIII. 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. As per the letter no. G-25015/6/86-OC dated 23.10.2001 of Govt. of India, Ministry of Communications, Department of Telecommunications there is no need to get registered any formal transfer deed or deed of sale in the matter of such transfer of assets.
2. The Government of India, the company and Panatone Finvest Ltd. (the strategic partner, whose shareholders are Tata Sons Limited, Tata Power Limited, Tata Iron & Steel Company Ltd. and Tata Industries Limited) are parties to the Share Purchase agreement dated February 6, 2002 whereby the Govt. of India has subject to the terms & conditions stated therein disinvested 25% of its shareholding in the company and transferred management control to Panatone Finvest Limited on February 13, 2002.
3. The company had an exclusive license to provide International telephone service upto March 2004. However, the Government of India terminated the company's monopoly two years ahead of schedule and opened up this service to other private players from April 1, 2002. The Government announced a compensation package for such early termination of monopoly which includes granting of Licence for providing domestic long distance (DLD) service, category 'A' Internet service provider (ISP) License, reimbursement by the government of all license fee, etc. The net compensation received amounting to Rs. 279.00 million has been accounted for as other income.
4. 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 and debit balance of Rs. 26.82 million (2000-01 Cr. Balance of Rs. 6.84 million) is subject to confirmation of Government of India.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

5. The following balances are subject to reconciliation/adjustments, if any:
  - (a) 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 (2000-01: Rs. 0.39 million) has been transferred to Branch Adjustment Account and shown as Other Receivable under Other Current Assets (Schedule 9).
  - (b) Balances in respect of Sundry Debtors and Sundry Creditors including Traffic Creditors are subject to confirmations/adjustments, if any. The company being the international telecommunications operator such confirmations from overseas carriers generally takes four to six months time.
6. 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 were being kept in banks abroad in short term deposits.

However, during October 2000, Reserve Bank of India directed the company to repatriate the GDR proceeds retained abroad. Accordingly, the balance amount of US\$ 50 million (2000-2001 US\$ 188.03 million) comprising principal amount of US\$ 28.30 (2000-2001 US\$ 151.36 million) and interest earned on such deposits amounting to US\$ 21.7 million (2000-2001 US\$ 36.67 million) was repatriated during the year. Foreign exchange gain realised on repatriation of unutilised GDR proceeds of US\$ 28.30 million (2000-2001 US\$ 151.36 million) amounting to Rs. 14.89 million (2000-2001 Rs. 1,669.27 million) has been credited to capital reserve.
7. During the year 1998-99 the company had spent Rs. 500 million towards the Gateway Equipments for Iridium India Telecom Limited (IITL), Pune, which was capitalised and is being depreciated. IITL has stopped its operational activities since April, 2000. The company is in the process of identifying alternative use of the equipment, pending which further provision for diminution in value of Rs. 58.75 million (2000-2001 Rs. 330.45 million) has been made after retaining the 5% of the cost of the equipments. The cumulative provision for diminution in value of these equipments amounts to Rs. 389.20 million.
8. The company is a signatory to the International Telecommunication Satellite Organisation (INTELSAT). During the year, INTELSAT as part of its restructuring exercise transformed itself into a privately held commercial entity on July 18, 2001 viz., INTELSAT, Ltd. (IL) a company with limited liability incorporated in Bermuda and transferred the assets and Liabilities to IL in return for issuing the ordinary shares to the former signatories of Organisation in settlement of their Investment shares. Consequently, upon privatisation the company with 5.409188% investment shares as on 18th July, 2001 became the initial shareholder of IL and received 27,045,940 ordinary shares of par value of US\$ 1 each fully paid up in IL. The amount of Rs. 2,539.78 million representing cost of the ownership share in INTELSAT as per the books of accounts of the company has been transferred from Investment in communication satellites under Fixed Assets (Schedule 4) to Investments (Schedule 5).

Consequently the dividend income when declared will be accounted for as other income.
9. Consequent to the settlement of pending dues in the form of perquisites, overtime and performance reward to the employees during the year, excess provision made in the earlier years amounting to Rs. 242.39 million has been adjusted in the current year under Other income in schedule 14 as excess provision written back.
10. During the year the company has declared and paid special interim dividend @ 750% amounting to Rs. 21,375 million by withdrawal from General Reserve which has been approved by The Department of Company Affairs, Ministry of Law, Justice & Company Affairs, Govt. of India U/S 205A (3) of the Companies Act, 1956. However the dividend tax u/s 115-O of the Income Tax Act, 1961 amounting to Rs. 2,180.25 million has been adjusted against the current year's profit.
11. During the year the company obtained operating licenses for various Radio/TV/Earth Links/Stations and has incurred an expenditure amounting to Rs. 1,021.11 million as radio spectrum charges payable to WPC Wing, DOT. This expenditure is for the period from 1992 to 2002 which was settled during the year and is included under the head Royalty & License fee to Department of Telecommunication in Schedule 16.
12. During the year, the company introduced a Voluntary Retirement Scheme which was opted by 81 employees of the company. Consequent to this, an ex-gratia payment amounting to Rs. 35.93 million was paid and has been entirely charged off in the current year.
13. The Provision for taxation – current includes Rs. 0.3 million (2000-2001 Rs. 0.3 million) for Wealth Tax.
14. The amount of borrowing cost capitalised during the year is Rs. Nil (2000-2001 Rs. Nil).

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### 15. Segmental Information

The company provides mainly international telephony which accounts for nearly 89% of the revenue, internet and leased line services. Business segments other than telephony segment do not meet the criteria specified in AS-17 'Segmental reporting' and do not qualify as reportable Segments and hence information about these segments has been aggregated and reported in "Other Services" category.

Secondary segments revenue are segregated by geographical area based on the location of the customer, who is invoiced or in relation to which the revenue is otherwise recognized.

Business segment:	International Telephony	Others services	(Rs. in '000) Total 2001-2002
Segment Revenue	57,342,124	7,738,774	65,080,898
Inter Segment Revenue	—	—	—
Segment Result:	18,105,689	6,007,110	24,112,799
Other Unallocable (expenses)/Income Net (Refer note (i))			(7,737,281)
Operating Profit			16,375,518
Interest Expenses			(227,496)
Interest Income			4,607,286
Profit Before tax			20,755,308
Prior Period Adjustments & Extraordinary items			(9,798)
Tax			(6,671,300)
Profit after tax			14,074,210

### Geographical Segment:

The company renders international telephony and other services from the following geographical locations:

Geographical Area	(Rs in '000)
India	23,526,905
United States of America	19,435,547
Saudi Arabia	3,802,738
United Arab Emirates	6,720,268
United Kingdom	2,092,289
Canada	1,960,986
Other Countries	7,542,165
Total Revenue earned	65,080,898

### Notes

- (i) Income and direct expenses in relation to segments is categorized based on items that are individually identifiable to that segment, while the remainder of the costs are categorized in relation to the associated turnover of the segment. Certain expenses such as staff cost, depreciation and certain part of network cost are not specifically allocable to specific segments as the underlying services are used interchangeably. Accordingly, it is not practicable to provide segment disclosure relating to those costs and expenses are separately disclosed as "unallocated" and directly charged against the total income.
- (ii) Fixed assets used in the company's business or liabilities contracted have not been identified to any of the reportable segment, as the fixed assets and services are used interchangeably between segments. Hence, it is currently not practicable to provide segment disclosures relating to total assets and liabilities since the meaningful segregation of the available data is onerous.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

### 16. Related Party Transactions

The company has transactions with the following related parties:

Name of the party	Nature of relationship	Description of transaction	Amount of O/S Balances		Written off or (Written Back) (Rs in 000)
			transaction (Rs. in 000)	(Rs. in 000) As on 31.03.02	
<b>A) Panatone Finvest Ltd.</b>	Holding Co.		Nil	Nil	Nil
<b>B) Telestra Vishesh Communication Ltd</b>	Joint Venture	Receipt towards Rendering of services	495	12487	Cr.
		Receipt of Rent	6,538		
		Purchase of VSAT Terminals & related spares	26,453		Nil
<b>C) United Telecom Ltd. Nepal.</b>		Joint Venture Investment in Equity Shares	16,625	Nil	Nil
<b>D) Key Management Personnel</b>					Nil
Vinoo Goyal	Director	Payment of Salary & Allowances	361		
		Payment towards Dividend	75		
Rajneesh Gupta	Director	Payment of Salary & Allowances	987		
		Compensation paid	983		
		Payment towards Dividend	75		
S K Gupta	Managing Director	Payment of Salary & Allowances	1,309	176	Dr.
R S P Sinha	Director	Payment of Salary & Allowances	950		
		Payment towards Dividend	75		
Amitabh Kumar	Director	Payment of Salary & Allowances	271		
N.Srinath	Director	Payment of Salary & Allowances	290	249	Dr.
<b>E) Government Of India and its Departments</b>	Associate	Receipt towards Rendering Of Services Acquisition/Purchase / Construction of fixed Assets	386,484 1,865		

# VIDESH SANCHAR NIGAM LIMITED

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## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

		Payment towards	6,414,073		
		Royalty & License Fees			
		Payment towards	80,790		
		Repairs to Plant & Machinery.			
		Payment towards other miscellaneous expenses	13		
		Net Receipt towards compensation Received	279,000		
		Payment towards Special Final Dividend (2000-2001)	6,038,458		
		Payment towards Final Dividend (2000-2001)	1,509,614		
		Payment towards Special Interim Dividend (2001-2002)	11,322,108		
		Pension Paid to employees	29,628	289,914	Dr. Nil
<b>F) Tata Consultancy Services</b>	Associate of Holding Co.	Rendering of Services	12,418	(2,349)	Cr. Nil
		EMD Deposit	114	114	Dr.
<b>G) Tata Sons Ltd</b>	Holding Co.		Nil	Nil	Nil

17. The assets acquired on finance lease have been recognised as assets and liabilities and were being amortised over the balance life. However on assets acquired on lease after 1.4.2001, the company provides depreciation on straight line method at the rates specified in Schedule XIV or at the rate worked out on the basis of its remaining useful life whichever is higher in accordance with the Accountant Standard 19 'Leases' issued by the Institute of Chartered Accountants of India. Consequent to this change the depreciation is higher and the profit for the year is lower by Rs. 1.99 million.

### 18. Earnings Per Share

Particulars	Year Ended 31.03.2002	Year Ended 31.03.2001
Net Profit attributable to shareholders (Rs. in '000)	<b>14,074,210</b>	17,788,312
Weighted average number of equity shares (No. in '000)	<b>285,000</b>	285,000
Basic earning per share of Rs.10/- each (in Rs.)	<b>49.38</b>	62.42

The Company does not have any outstanding dilutive potential equity shares. Consequently, the basic and diluted earning per share of the company remain the same.

19. Consequent to the standard on accounting for taxes on income becoming mandatory effective from April 1, 2001, the Company recorded the cumulative net deferred tax liability of Rs. 2,416 million until April 1, 2001 and has been adjusted against General Reserves. The deferred tax liability for the year ended 31st March, 2002 has been included in the provision for taxation.

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

20. The break up of Deferred Tax liability (net) into the major components is as under :-

Particulars	Amount (Rs. in '000)
On Fixed Assets	3,561,810
On Debtors	(607,845)
On Others	(143,351)
Total	2,810,614

21. **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:

	2001-2002 (Rs. in '000)	2000-2001 (Rs. in '000)
i) Salaries	2,757	2,182
ii) Contribution to Provident and other Funds	339	401
iii) Monetary value of perquisites	2,055	1,156
<b>TOTAL</b>	<b>*5,151</b>	<b>3,739</b>

\* includes Rs. 377,476 and Rs. 290,365 in respect of Shri S. K. Gupta, Managing Director and Shri N. Srinath, Director(O) respectively for the period February 13, 2002 to March 31, 2002 are paid as approved by the Board and are subject to the approval at the General Meeting.

22. **Value of Imports on C.I.F. basis:**

	2001-2002 (Rs. in '000)	2000-2001 (Rs. in '000)
i) Stores & Spares	20,239	35,539
ii) Capital Goods	451,383	418,911

23. **Expenditure in foreign currency on accrual basis on account of:**

	2001-2002 (Rs. in '000)	2000-2001 (Rs. in '000)
i) Charges for use of Transmission Facilities (Gross)	10,682,348	13,908,150
ii) Space Segment utilisation charges	2,767,437	2,711,910
iii) Administrative Lease Charges	80,425	91,173
iv) Repairs & Maintenance	343,525	455,856
v) Advertisement	1,117	4,312
vi) Legal & Professional Fees	37	2,379
vii) Others	15,044	25,078
<b>TOTAL</b>	<b>13,889,933</b>	<b>17,198,858</b>

24. **Earnings in Foreign Exchange on accrual basis in respect of:**

	2001-2002 (Rs. in '000)	2000-2001 (Rs. in '000)
i. Traffic Revenue (Gross)	41,499,081	46,449,281
ii. Revenue from Intelsat/Inmarsat	-	1,159,920
iii. Interest Income	39,521	925,922
iv. Miscellaneous Income	240,977	137,908
<b>TOTAL</b>	<b>41,779,579</b>	<b>48,673,031</b>

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

25. **Value of imported and indigenous stores & spares consumed:**

(Including for Repairs and Maintenance Rs. 21,512 thousands (2000-2001: Rs. 22,306 thousands)

	2001-2002		2000-2001 (Rs. in '000)	
	Value	(Rs. in '000)	Value	%
Imported	7,702	25.57	21,394	62.75
Indigenous	22,420	74.43	12,701	37.25
<b>TOTAL</b>	<b>30,122</b>	<b>100.00</b>	<b>34,095</b>	<b>100.00</b>

26. Estimated amount of contracts remaining to be executed on Capital Account and not provided for Rs 2,117.59 million (2000-01: Rs. 2,886.68 million).

27. **Contingent Liabilities not provided for:**

	2001-2002 (Rs. in '000)	2000-2001 (Rs. in '000)
a) Letters of Credit	41,543	102,041
b) Guarantee and Counter Guarantee Outstanding	36,239	78,296
c) Claims against the Company not acknowledged as Debts.		
i) Property Tax	1,707	853
ii) Motor Accident Case	198	198
iii) Liquidated Damages	7,717	3,774
iv) Disputed demands of Sales Tax. (Company has furnished bank guarantee for like amount)	12,058	343
v) Disputed claims of custom duty paid under protest.	11,373	11,373
vi) Rent of Poddar Court	Not ascertainable	Not ascertainable
vii) Disputed demands of customs duty against which the company has paid an advance of Rs. 51,120,827/- under protest.	Not ascertainable	Not ascertainable
viii) Ground rent	3,350	3,068
ix) Disputed amount of Income tax relating to non-recovery of tax at source against which the company has paid Rs.10 crores under protest.	267,764	267,764
x) Interest Payable to MIDC for delay with respect to space purchased at MAHAPE	263	263
xi) Penalty on Sales Tax Dispute	100	—
xii) Disputed royalty & licence fees payable on WPC links to DOT	12,100	245,700
xiii) Legal Cases on Employee matters	2,721	—
xiv) Stamp Duty on land at Hyderabad	1,800	—
xv) Interest/Penalty payable to MTNL on delayed payment with respect to VSB-LVSB OFC link commissioned in June 1994	2,696	2,696
xvi) Pending dispute for the work carried out at Technical Building, VSB Kakkand	3,850	—
d) For the Assessment years 1988-89, 1994-95 and 1996-97 to 1999-2000, Income Tax authorities have raised demands aggregating to Rs. 16,305.67 million including interest of Rs. 6,393.42 million on the disallowance of license fee being paid by the company to DoT and other claims against which amounts aggregating to Rs. 10,635.30 million have been paid/adjusted. The Company's claim for licence fee for assessment year 1995-96 has been allowed by Income Tax Appellate Tribunal. The Company is advised that the demands are not likely to be sustained and hence no further provision is considered necessary.		
28. The amount due to Small Scale Industrial Undertaking has been shown to the extent identified from the available information.		
29. Previous year's figures have been regrouped and reclassified wherever necessary.		

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

30 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.           3 9 2 6 6 State Code   1 1 (REFER CODE LIST)

Balance Sheet Date           3 1 0 3 2 0 0 2  
Date Month Year

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

Public Issue           N I L Rights Issue           N I L

Bonus Issue           N I L Private Placement           N I L

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

Total Liabilities           7 6 2 1 1 8 1 0 Total Assets           7 6 2 1 1 8 1 0

#### Sources of funds

Paid-up Capital           2 8 5 0 0 0 0 Reserves & Surplus           4 7 5 8 9 7 7 9

Secured Loans           5 7 5 1 4 0 1 Unsecured Loans           N I L

Deferred Tax Liabilities           2 8 1 0 6 1 4

#### Application of Funds

Net Fixed Assets           2 2 7 1 5 5 8 7 Investments           3 6 6 2 8 6 2

Net Current Assets           3 2 6 2 3 3 4 5 Misc. Expenditure           N I L

Accumulated Losses           N I L

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

Turnover           7 1 1 1 7 7 1 3 Total Expenditure           5 0 3 7 2 2 0 3

Profit/Loss before tax           2 0 7 4 5 5 1 0 Profit/Loss after Tax           1 4 0 7 4 2 1 0  
(Please tick appropriate box + for Profit, - for Loss)

Earning per Share in Rs.           4 9 . 3 8 Dividend rate %           8 7 5

# VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

## SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

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

Item Code No. (ITC Code)	
Product Description	I N T E R N A T I O N A L T E L E C O M M U N I C A T I O N S S E R V I C E S

Part IV of Schedule VI to the Companies Act, 1956

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		

Signature to Schedule 1 to 21

As per our attached report of even date

For **KHANDELWAL JAIN & CO.**

*Chartered Accountants*

**NARENDRA JAIN**

*Partner*

For **BHUCHAR & CHANDAK**

*Chartered Accountants*

**V. RAJAGOPAL**

*Partner*

Mumbai

Dated : 28th May, 2002

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

**RATAN N. TATA**

*Chairman*

**S.K. GUPTA**

*Managing Director*

**SATISH RANADE**

*Executive Director (Legal) &  
Company Secretary*

**ARUN GUPTA**

*Executive Director (Finance)/  
Chief Financial Officer*

Mumbai

Dated : 28th May, 2002

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2002

PARTICULARS	2001-2002 (Rupees in '000)	2000-2001 (Rupees in '000)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>NET PROFIT BEFORE TAX &amp; EXTRAORDINARY ITEMS</b>	<b>20,755,308</b>	24,695,352
<b>Less : Adjustments For :</b>		
Interest on Bank Deposits	(4,503,112)	(3,192,799)
Interest on Other Deposits	(11,612)	(8,945)
Interest on Income Tax Refund	(92,562)	(764,494)
Loss/(Profit) on Fixed Assets Sold/Discarded	11,980	5,328
Unrealised Foreign Exchange Difference	(2,129)	(8,102)
Provisions Written Back	(279,950)	(20,548)
Interest	227,496	938
<b>Add : Non Cash Operative Expenses :</b>		
Depreciation (Less Gifted Assets)	1,303,991	1,162,042
Provision for Obsolete Stores/Assets	94	—
Provision for Diminution in Value of Assets	58,750	330,450
Provision for Doubtful Debts	624,131	103,965
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>18,092,385</b>	22,303,187
<b>Adjustments For :</b>		
Trade Receivables	2,599,942	7,213,023
Other Current Assests	(20,865)	113
Inventories	12,036	14,869
Loans And Advances	(500,103)	(45,842)
Curent Liabilities and Provisions	(5,197,975)	568,215
<b>CASH GENERATED FROM OPERATIONS</b>	<b>14,985,420</b>	30,053,565
Interest Paid	(473)	(938)
Direct Taxes Paid	(6,950,676)	(9,491,914)
Interest on Income Tax Refund	92,562	764,494
Cash Flow Before Extraordinary Items	8,126,833	21,325,207
Prior Period Adjustments and Extraordinary Items :		
Prior Period Adjustments	(9,798)	1,031,989
Depreciation Adjustments for Prior years	329	12,802
Extraordinary Items	—	(51,729)
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES - TOTAL (A)</b>	<b>8,117,364</b>	22,318,269

# VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2002

	2001-2002 (Rupees in '000)	2000-2001 (Rupees in '000)
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(1,944,187)	(3,873,793)
Capital Work-in-Progress	(561,082)	(1,535,247)
Sale of Fixed Assets/Stores	4,050	1,623
Investments in Satellite Communication	9,288	92,112
Purchase of Investment	(16,625)	51,729
Interest/Dividend Received	5,045,656	2,129,983
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES - TOTAL (B)</b>	<b>2,537,100</b>	<b>(3,133,593)</b>
<b>C : CASH FLOW FROM FINANCING ACTIVITIES</b>		
Foreing Exchange Gain on GDR Proceeds	15,235	2,036,926
Unrealised Foreign Exchange Difference on GDR Proceeds	—	(302,559)
Proceeds (Repayment) from Secured Loans	5,751,401	(45,701)
Dividend Paid (Including Dividend Tax)	(39,258,750)	(864,500)
Interest paid	(215,755)	—
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES - TOTAL (C)</b>	<b>(33,707,869)</b>	<b>824,166</b>
<b>UNREALISED FOREIGN EXCHANGE DIFFERENCE (D)</b>	<b>2,129</b>	<b>310,661</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>	<b>(23,051,276)</b>	<b>20,319,503</b>
Cash & Cash Equivalents : Opening Balance	48,400,710	28,081,207
Cash & Cash Equivalents : Closing Balance	25,349,434	48,400,710
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(23,051,276)</b>	<b>20,319,503</b>

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

**VIDESH SANCHAR NIGAM LIMITED**

**RATAN N. TATA**  
Chairman

**S.K. GUPTA**  
Managing Director

**SATISH RANADE**  
Executive Director (Legal)  
& Company Secretary

Place : Mumbai

**ARUN GUPTA**

Date : 28th May, 2002 Executive Director (Finance)/Chief Financial Officer

### AUDITORS' CERTIFICATE

We have examined the above Cash Flow Statement of Videsh Sanchar Nigam Limited for the year ended 31st March 2002. The statement has been prepared by the Company in accordance with the requirements of clause 32 of listing agreement with Various Indian Stock Exchanges 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 **KHANDELWAL JAIN & CO.**  
Chartered Accountants

For **BHUCHAR & CHANDAK**  
Chartered Accountants

**NARENDRA JAIN**  
Partner

**V. RAJAGOPAL**  
Partner

Place : Mumbai

Dated : 28th May, 2002

Place : Mumbai

Date : 28th May, 2002

## **ADDENDUM 1 TO DIRECTORS' REPORT**

### **Statutory Auditors' Report**

Replies to comments of Statutory Auditors included in their Report for the year 2001-02 are attached as Annexure 2 and the same form part of the Directors' Report.

On behalf of the Board of Directors

Mumbai  
17th July, 2002

Ratan N. Tata  
Chairman

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### **Annexure 2 to the Directors' Report**

#### **Replies to the comments of Statutory Auditors included in their report for the year 2001-2002.**

- (a) Note No. B4 of Schedule 21 regarding debit / credit adjustments in Government of India Current Account being subject to approval and confirmation of the Government.

Reply : After conversion of Overseas Communications Service (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.

**Financial Statements in accordance with US GAAP**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors

Videsh Sanchar Nigam Limited:

We have audited the accompanying balance sheets of Videsh Sanchar Nigam Limited (the "Company") as of March 31, 2001 and 2002, and the related statements of income, cash flows and shareholders' equity for each of the years in the three year period ended March 31, 2002. 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 auditing standards generally accepted in the United States of America. 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, such financial statements present fairly, in all material respects, the financial position of Videsh Sanchar Nigam Limited as of March 31, 2001 and 2002, and the results of its operations and cash flows for each of the years in the three year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2(a) to the financial statements, these financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in certain material respects from accounting principles generally accepted in India, which form the basis of the Company's general purpose financial statements.

M/s. Deloitte Haskins & Sells

Mumbai, India  
May 28th, 2002

## BALANCE SHEET AS OF 31ST MARCH 2001 AND 2002

	As of March 31,		
	2001	2002	2002
	(In millions, except par value and number of shares)		
<b>ASSETS:</b>			
Cash and cash equivalents	Rs.2,200	Rs.7,881	US\$161
Short term investments	46,050	17,469	358
Trade and other receivables, net of allowances of Rs.979 million and Rs.1,654 million (US\$34 million), respectively	19,745	16,217	332
Investments	4,247	3,985	82
Property, plant and equipment	18,077	18,058	370
Capital work-in-progress	2,328	2,943	60
Other assets	7,778	8,293	170
<b>Total assets</b>	<b><u>Rs.100,425</u></b>	<b><u>Rs.74,846</u></b>	<b><u>US\$1,533</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<b>Liabilities</b>			
Short-term borrowings	Rs.-	Rs.5,751	US\$118
Trade payables	11,309	5,728	117
Accrued expenses and other liabilities	10,731	10,325	212
<b>Total liabilities</b>	<b><u>22,040</u></b>	<b><u>21,804</u></b>	<b><u>447</u></b>
<b>Commitments and contingencies (See Note 21)</b>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Shareholders' equity:</b>			
Equity shares: par value - Rs. 10 each;			
authorized: 300,000,000 shares at March 31, 2001 and 2002;			
issued and outstanding: 285,000,000 shares at March 31, 2001 and 2002	2,850	2,850	58
Additional paid in capital	14,481	15,377	315
Retained earnings	60,642	34,554	708
Accumulated comprehensive income	412	261	5
<b>Total shareholders' equity</b>	<b><u>78,385</u></b>	<b><u>53,042</u></b>	<b><u>1,086</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>Rs.100,425</u></b>	<b><u>Rs.74,846</u></b>	<b><u>US\$1,533</u></b>

See accompanying notes to financial statements

**STATEMENTS OF INCOME FOR EACH OF THE YEARS  
ENDED MARCH 31, 2000, 2001 AND 2002**

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions, except share and per share amounts)			
<b>Operating revenue:</b>				
Traffic revenues	Rs.69,640	Rs.71,916	Rs.65,050	US\$1,332
Income from satellite consortia	737	1,160	—	—
<b>Total operating revenue</b>	<b>70,377</b>	<b>73,076</b>	<b>65,050</b>	<b>1,332</b>
<b>Cost of revenue:</b>				
Network and transmission costs	45,621	45,150	39,577	811
License fee paid to DoT	4,712	5,022	5,393	110
<b>Total cost of revenue</b>	<b>50,333</b>	<b>50,172</b>	<b>44,970</b>	<b>921</b>
<b>Gross margin</b>	<b>20,044</b>	<b>22,904</b>	<b>20,080</b>	<b>411</b>
<b>Other operating costs</b>				
Depreciation and amortization	1,534	1,729	1,898	39
Other operating costs	2,622	3,023	4,803	98
<b>Total other operating costs</b>	<b>4,156</b>	<b>4,752</b>	<b>6,701</b>	<b>137</b>
<b>Operating profit</b>	<b>15,888</b>	<b>18,152</b>	<b>13,379</b>	<b>274</b>
<b>Other income (expense), net:</b>				
Non-operating income	1,821	3,058	1,371	28
Interest income	1,683	3,964	4,607	95
Interest cost	(7)	(1)	(227)	(5)
Permanent impairment in the value of investment	(54)	—	—	—
<b>Total other income (expense), net</b>	<b>3,443</b>	<b>7,021</b>	<b>5,751</b>	<b>118</b>
<b>Income before income tax</b>	<b>19,331</b>	<b>25,173</b>	<b>19,130</b>	<b>392</b>
Income tax expense	(6,156)	(9,646)	(5,959)	(122)
Dividend tax	(84)	(105)	(3,634)	(75)
<b>Net income</b>	<b>Rs.13,091</b>	<b>Rs.15,422</b>	<b>Rs.9,537</b>	<b>US\$195</b>
<b>Per share information:</b>				
Earnings per equity share - basic and diluted	Rs.45.93	Rs.54.11	Rs.33.46	US\$0.69
Weighted number of equity shares outstanding	285,000,000	285,000,000	285,000,000	285,000,000
Earnings per ADS - basic and diluted (where each ADS represents two equity shares)	Rs.91.86	Rs.108.22	Rs.66.92	US\$1.38

*See accompanying notes to financial statements*

## STATEMENTS OF SHAREHOLDERS' EQUITY FOR EACH OF THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

	Number of equity shares	Equity share capital	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive income
(In millions, except number of equity shares)							
<b>Balance at April 1, 1999</b>	95,000,000	Rs.950	Rs.14,481	Rs.35,549	—	Rs.50,980	
Net income				13,091		13,091	Rs.13,091
Dividends				(760)		(760)	
<b>Comprehensive income</b>							<u>13,091</u>
<b>Balance at March 31, 2000</b>	<b>95,000,000</b>	<b>950</b>	<b>14,481</b>	<b>47,880</b>	<b>—</b>	<b>63,311</b>	
Issue of stock dividends	190,000,000	1,900		(1,900)		—	
Net income				15,422		15,422	15,422
Dividends				(760)		(760)	
Unrealized gain on available for sale securities, net				—	412	412	412
<b>Comprehensive income</b>							<u>15,834</u>
<b>Balance at March 31, 2001</b>	<b>285,000,000</b>	<b>2,850</b>	<b>14,481</b>	<b>60,642</b>	<b>412</b>	<b>78,385</b>	
Stock based compensation expense (See Note 18)			896			896	
Net income				9,537		9,537	9,537
Dividends				(35,625)		(35,625)	
Unrealized loss on available for sale securities, net					(151)	(151)	(151)
<b>Comprehensive income</b>							<u>Rs.9,386</u>
<b>Comprehensive income</b>							<u>US\$192</u>
<b>Balance at March 31, 2002</b>	<b>285,000,000</b>	<b>Rs.2,850</b>	<b>Rs.15,377</b>	<b>Rs.34,554</b>	<b>Rs.261</b>	<b>Rs.53,042</b>	
<b>Balance at March 31, 2002</b>	<b>285,000,000</b>	<b>US\$58</b>	<b>US\$315</b>	<b>US\$708</b>	<b>US\$5</b>	<b>US\$1,086</b>	

See accompanying notes to financial statements

**STATEMENTS OF CASH FLOWS FOR EACH OF THE YEARS ENDED  
MARCH 31, 2000, 2001 AND 2002**

	Years ended March 31,			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2002</u>
	(In millions)			
<b>Cash flows from operating activities:</b>				
<b>Net income</b>	<b>Rs.13,091</b>	<b>Rs.15,422</b>	<b>Rs.9,537</b>	<b>US\$195</b>
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,534	1,729	1,898	39
Stock based compensation	—	—	896	18
Impairment of property, plant and equipment	356	—	30	1
Allowance for doubtful debts	62	112	675	14
Deferred tax charge / (benefit)	(219)	1,759	(702)	(14)
Unrealized exchange gain	(1,004)	(526)	(206)	(4)
Permanent impairment in the value of investment	54	—	—	—
(Profit)/loss on sale of fixed assets	(86)	5	2	—
Net change in:				
Trade and other receivables	(4,756)	5,865	3,067	63
Other assets	(2,742)	(1,400)	(515)	(11)
Trade payables	1,331	(2,225)	(5,611)	(115)
Accrued expenses and other liabilities	326	2,380	414	8
<b>Net cash provided by operating activities</b>	<b><u>7,947</u></b>	<b><u>23,121</u></b>	<b><u>9,485</u></b>	<b><u>194</u></b>
<b>Cash flows from investing activities:</b>				
Purchase of property, plant and equipment	(956)	(2,957)	(1,894)	(39)
Expenditure on capital work-in-progress	(2,665)	(1,281)	(615)	(12)
(Increase)/decrease in investments	(871)	92	(7)	—
(Increase)/decrease in short-term investments, net	494	(37,272)	28,581	585
Sale of property, plant and equipment	100	2	3	—
<b>Net cash used, (provided by) investing activities</b>	<b><u>(3,898)</u></b>	<b><u>(41,416)</u></b>	<b><u>26,068</u></b>	<b><u>534</u></b>
<b>Cash flows from financing activities:</b>				
Proceeds from short-term borrowings	—	—	28,205	578
Repayment of short-term borrowings	—	—	(22,454)	(460)
Dividends paid	(760)	(760)	(35,625)	(730)
Bank overdraft	20	(46)	—	—
<b>Net cash used by financing activities</b>	<b><u>(740)</u></b>	<b><u>(806)</u></b>	<b><u>(29,874)</u></b>	<b><u>(612)</u></b>
Unrealized exchange gain on cash and cash equivalents	879	455	2	—
<b>Net change in cash flows</b>	<b><u>4,188</u></b>	<b><u>(18,646)</u></b>	<b><u>5,681</u></b>	<b><u>116</u></b>
Cash and cash equivalents, beginning of year	Rs.16,658	Rs.20,846	Rs.2,200	US\$45
<b>Cash and cash equivalents, end of year</b>	<b><u>Rs.20,846</u></b>	<b><u>Rs.2,200</u></b>	<b><u>Rs.7,881</u></b>	<b><u>US\$161</u></b>
<b>Supplementary cash flow information:</b>				
Interest paid	Rs.7	Rs.1	Rs.227	US\$5
Income taxes paid	Rs.9,316	Rs.9,597	Rs.10,594	US\$217

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

### 1. Background

#### a. 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, with its registered office at Videsh Sanchar Bhavan, M.G. Road, Mumbai 400001, India. The Company is listed on major stock exchanges in India and on the New York Stock Exchange. During the year, Government of India (“Gol”) disinvested a portion of its holding to Panatone Finvest Limited (“Panatone”), a subsidiary of Tata Sons Limited (“Tata Sons”), the parent company of the selected strategic partner, the Tata Group (See Note 1(b) below).

The Tata Group operates in a variety of industries and has significant telecommunications operations in India. The Tata Group includes amongst other companies Panatone, Tata Sons, The Tata Power Company Limited (“Tata Power”), The Tata Iron and Steel Company Limited (“Tata Steel”) and Tata Industries Limited (“Tata Industries”).

As part of the disinvestment process, a shareholders’ agreement was entered into by Gol and Panatone and its shareholders on February 13, 2002. Pursuant to this agreement, Panatone and Gol have the right to appoint directors of the Company. As of March 31, 2002 the board of directors consisted of four members, of which three were nominated by Panatone and one by Gol.

Following disinvestment by Gol and the Tender Offer (See Note 1(b) below), the major shareholders of the Company are Panatone/Tata Sons, who own 45% and Gol, who own 26.12%.

The Company is 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 other offices at Mumbai, New Delhi, Kolkata, Chennai, Arvi, Bangalore, Bhuvaneshwar, Dehradun, Ernakulam, Gandhinagar, Goa, Guhawati,

Hyderabad, Indore, Jalandhar, Kanpur and Pune.

VSNL offers basic and specialized services. Basic services include telephony, telex and telegraph. Specialized services include gateway packet data transmission, electronic data interchange, e-mail, Internet, international maritime satellite mobile services, leased channels, transmission of signals for international television broadcasts and video conferencing.

#### b. Disinvestment

The Company was a public sector undertaking (“PSU”) with Gol holding approximately 52.97% in the paid-up equity capital in the Company. As part of the its disinvestment program, on February 01, 2001, Gol announced its intention to disinvest 25% of its shareholding of the Company to a strategic partner with the intention to transfer management control to the strategic partner through the competitive bidding route. As per the announcement made on February 05, 2002 by Gol, Panatone was selected by Gol as the strategic partner for the sale of 71,250,000 equity shares representing 25% of the voting capital of the Company at a price of Rs.202 per share (“Gol Shares”). The aggregate purchase price was Rs.14,393 million in cash.

The Share Purchase Agreement (“SPA”) giving effect to the above arrangement was entered into between Gol and Panatone on February 06, 2002. Panatone’s shareholders who are Tata Sons, Tata Power, Tata Steel and Tata Industries, are also signatories to the SPA though they did not directly purchase any of Gol’s shareholding in the Company. The Company is also a party to the SPA. In connection with the purchase of Gol Shares, Panatone was required by Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto, to launch a tender offer to acquire an additional 20% of the equity shares from other shareholders of the Company. On February 12, 2002, Panatone made a public announcement disclosing the proposed purchase of the Gol Shares and the proposed tender offer. Payment of

# VIDESH SANCHAR NIGAM LIMITED

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consideration for the Gol Shares and the transfer of such Gol Shares in favor of Panatone as well as the appointment of representatives of Panatone on the board of directors of the Company occurred on February 13, 2002.

As part of the tender offer, Panatone offered to purchase upto 57,000,000 equity shares (including equity shares underlying the American Depository Shares), representing 20% of the paid-up and voting equity share capital of the Company at a price of Rs.202 (US\$4.15) per share payable in cash. The current shareholding of Tata Sons and Tata Power in Panatone is 59.955% and 40%, respectively, with Tata Steel and Tata Industries holding the remainder equally. At the close of the tender offer on May 09, 2002, approximately 87,600,000 million equity shares were tendered for sale. As per the terms of the tender offer, Panatone will accept upto 57,000,000 equity shares on a pro rata basis. Upon acceptance of shares under the tender offer by Panatone, it will hold 45% in the paid-up equity capital of the Company.

Under the terms of the SPA and the shareholders' agreement, Panatone is required to take measures to separate out surplus land at Pune, Kolkata, New Delhi and Chennai, as identified in the SPA (the "Surplus Land"), from the Company and also to subject the use of the Surplus Land to special conditions as stated in the SPA. Panatone is required to facilitate the transfer of the Surplus Land to a new realty undertaking in the Company. Panatone, with Gol, will cause the demerger of the realty undertaking in to a separate company ("the Resulting Company"). On the issue of new shares of the Resulting Company, Panatone is required to transfer to Gol, without consideration, a minimum of 25% of the Resulting Company's issued shares, or such higher number of shares of the Resulting Company, which may be on account of any further sale of equity shares by Gol to Panatone prior to the demerger. If for any reason, the Company cannot transfer the Surplus Land into the Resulting Company, then at any time when the Company sells, transfers or develops the land, Panatone shall compensate Gol with an amount equivalent of 25% of the benefit accruing to the Company subject to local tax laws prevailing in India.

### c. Monopoly status

The Company had an exclusive license to provide international long distance ("ILD") services upto March

2004. However, Gol decided to terminate the company's monopoly two years ahead of schedule and accordingly opened up this service to private operators from April 01, 2002. Gol has agreed to compensate the Company for this early termination with the following package (See Note 17):

1. A license to operate national long distance ("NLD") services.
2. Re-imbursement by Gol of entry fees and revenue sharing fees, net of taxes, that the Company may have to pay with respect to the NLD license, for five years with effect from April 01, 2001.
3. Exemption from the performance bank guarantee of Rs.4 billion with respect to the NLD license, as long as the Company remains a PSU.
4. A category 'A' Internet Service Provider ("ISP") license, which will allow the Company to expand internet access services to the entire country.

On February 13, 2002, the Company ceased to be a PSU. Subsequent to the Company ceasing to be a PSU, Gol requested the Company to provide a performance bank guarantee of Rs. 4 billion. Currently, the Company is in the process of negotiating with Gol and is not in a position to predict the outcome of such negotiations at this stage.

The Company has accepted Gol's decision to terminate the Company's monopoly before the year 2004. The shareholders of the Company have approved the compensation package at the meeting held in May 2001.

### d. Revenue sharing arrangement

The Company operates its business pursuant to a license from Department of Telecommunications ("DoT"), Gol. In pursuance of the New Telecom Policy 1999, Gol decided to corporatise the service provision functions of the DoT. Accordingly, Gol transferred the business of providing telecom services in the country to a newly formed company, Bharat Sanchar Nigam Limited ("BSNL") with effect from October 1, 2000. Further, the existing contracts, agreements and MoUs, excepting licence fees payable for the usage of circuits, including the revenue sharing agreement entered into by DoT for the

## Financial Statements in accordance with US GAAP

supply of services were transferred and assigned to BSNL with effect from October 1, 2000.

The Company's license is periodically renewed by DoT subject to certain conditions and is currently valid up to March 31, 2004. With the opening of the telecommunications sector to private operators, the Company is negotiating for a fresh license agreement with DoT. 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 BSNL for the delivery of international calls abroad. Consequently, the Company and BSNL share revenues received by each entity from international calls pursuant to a revenue sharing arrangement between them.

Under the revenue sharing arrangement, the Company pays to BSNL, a charge per minute equal to the weighted average incoming settlement rate, minus Rs.10.00 on all incoming international calls and BSNL 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.

With effect from April 1, 1999, the revenue sharing arrangement provides for a comparison of the combined international traffic revenue per call minute of the Company and DoT/BSNL (net of payments by the Company to foreign administrations and carriers and by the Company and DoT/BSNL to each other in respect of incoming and outgoing calls) for each fiscal year, compared to the corresponding amount in the base fiscal year ended March 31, 1997. Increases or decreases are shared between the Company and DoT/BSNL according to the following percentages:

Years ended March 31	Increase/decrease	
	Company's share	Dot's share (BSNL since October 01, 2000)
2000	15%	85%
2001	20%	80%
2002	25%	75%

In computing the international traffic revenue of DoT/BSNL for purposes of calculating the combined international traffic revenue per call minute of the Company and DoT/BSNL, the tariff charged by DoT/BSNL 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/BSNL from its subscribers for outgoing international calls.

For the years ended March 31, 2000, 2001 and 2002, the net retention per call minute was Rs.9.43, Rs.9.39 and Rs.8.39 respectively.

The arrangement was effective from April 1, 1997 and was valid until March 31, 2002. Currently, the Company is in the process of negotiating terms with various telecommunication operators including BSNL and the Company is not in a position to predict the outcome of such negotiations at this stage.

## 2. Summary of Significant Accounting Policies

### a. Basis of presentation and consolidation

The Company does not have any subsidiaries. Entities where the Company controls between 20% to 50% of the voting stock of the investee company are considered affiliates and are accounted for using the equity method.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP differs in certain material respects from accounting principles generally accepted in India and the requirements of India's Companies Act, 1956, which form the basis of

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the statutory general purpose financial statements of the Company in India. Principal differences insofar as they relate to the Company include valuation of investments, accounting for property, plant and equipment and depreciation thereon, deferred income taxes, retirement benefits, stock based compensation, investment in affiliates and the presentation and format of the financial statements and related notes.

## b. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include traffic revenue, allowances for trade and other receivables and valuation of unlisted investments.

## c. Cash and cash equivalents

The Company considers all highly liquid financial instruments, which are readily convertible into cash and have original maturities of three months or less on the date of purchase, to be cash equivalents. The carrying value of cash equivalents approximates fair value.

## d. Trade and other receivables

Trade and other receivables are stated at their expected realizable values, net of allowance for doubtful debts. Amounts payable to, and receivable from, the same administration and the BSNL 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.

## e. Investments

The Company accounts for its investments in securities of telecommunication satellite companies for which readily determinable fair values are available in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. SFAS

No.115 requires that investments that are not classified as held to maturity or trading are classified as available for sale and recorded at fair value. Unrealized gains and losses on such securities, net of applicable taxes, are reported in other comprehensive income, a separate component of shareholders' equity.

Investments in telecommunication satellite corporations which are not freely transferable and for which fair values are not readily obtainable are accounted for in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. These investments are reflected at cost less permanent impairment, if any. Declines in the value of investments that are other than temporary are reflected in earnings as realized losses, based on management's best estimate of the value of the investment.

## f. 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 capitalized.

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
Buildings	61
Plant and machinery:	
Earth stations	12
Cables	10 - 25
Exchanges	12
Other network equipment	8
Office equipment	20
Computers	6
Furniture, fittings and vehicles	10-15

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

Assets gifted by unrelated parties have been accounted for in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made* at fair value and recognized as revenue and an asset in the period received. Such assets are depreciated over their remaining useful economic lives.

Property, plant and equipment includes intangible assets in the nature of indefeasible rights of use ("IRU's") for international telecommunication circuits in submarine cables, which the Company acquires from time to time. These rights extend over specific time periods. The amounts paid according to the terms of these transactions are recorded as additions to property, plant and equipment, respectively, and amortized over the contracted period of use. The Company's current amortization policy complies with SFAS No. 142 *Goodwill and Other Intangible Assets* which is applicable from fiscal years beginning after December 15, 2002.

The Company has not during the year traded in IRU's or bandwidth or entered into any swap or other similar agreements relating to IRU's or bandwidth.

**g. Impairment of long lived assets**

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 as 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.

**h. Operating leases**

Costs in respect of operating leases are expensed on a straight-line basis over the lease term.

**i. Retirement benefits**

**Gratuity**

In accordance with Indian law, the Company

provides for gratuity, a defined benefit retirement plan covering all eligible employees. The plan provides for lump sum payments to vested employees at retirement, death while in employment or on termination of employment in an amount equivalent to 15 days salary payable for each completed year of service or part thereof in excess of six months subject to a maximum of Rs.350,000. Vesting occurs upon completion of five years of service. The Company makes annual contributions to a fund administered by trustees, based on an external actuarial valuation carried out annually. The Company accounts for its liability for future gratuity benefits in accordance with SFAS No. 87, *Employers' Accounting for Pensions*.

**Leave encashment**

Leave encashment, a defined benefit plan, comprises of encashment of vacation entitlement carried forward by employees. These balances are encashable during the tenure of employment, on the employee leaving the Company or on retirement. The Company makes a provision towards leave encashment liability based on the total unavailed leave credited to each employee's account and his respective salary as at the end of each reporting date.

**Provident fund**

In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. The employee and employer each make monthly contributions to the plan equal to 12% of the employee's salary (basic and dearness allowance). The contributions are made to the provident fund trust established by the Company. The Company is obligated to make good any shortfall in the statutorily assured rate of return on the assets of the trust, which was 9.5% as of March 31, 2001 and 2002. Currently, the Company has no further obligation under the provided fund beyond its contribution, which is expensed when incurred.

**j. 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 recognized based upon contracted

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fee schedules. Revenues from Internet services are recognized based on usage by subscribers. The majority of revenues are derived from payments by the BSNL for completing outgoing calls made from India and from payments by foreign administrations for incoming calls that originate outside India.

Income from Intelsat, Ltd. is accounted as dividend income and included as part of non-operating income.

## k. Operating costs

The principal components of the Company's operating costs are network and transmission costs, license fees paid to the DoT and other operating costs.

Network and transmission costs include payments to BSNL for incoming traffic and to foreign administrations and carriers for outgoing traffic, as well as the cost of leasing transmission facilities, including lines from BSNL and satellite circuits from satellite companies. As discussed in note 1(b), the Company must pay a proportion of the amounts received from BSNL to transit and destination foreign administrations. Similarly, a proportion of the payments from the foreign administrations is paid to BSNL for completing calls within India.

Under the revenue sharing agreement with DoT/BSNL which was valid upto March 31, 2002, the Company paid to DoT a license fee of Rs.0.25 million per annum on average circuits commissioned.

Other operating costs include general and administrative expenses other than network and transmission costs and license fees

## l. Foreign currency transactions

The Company's functional currency is the Indian rupee. Foreign currency transactions are 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. Foreign currency denominated monetary assets and liabilities are converted into Indian rupees using exchange rates prevailing on

the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on settlement of foreign currency transactions are included in the determination of net income.

## m. Employee Stock Purchase Scheme

The Company has elected to use the intrinsic value method specified under APB Opinion No. 25, *Accounting for Stock Issued to Employees* to account for the compensation cost of stock purchase rights granted to employees of the Company. Pro forma disclosures required by SFAS No. 123, *Accounting for Stock-Based Compensation* have been provided in Note 18.

## n. Income tax

Income tax comprises the current tax provision and the net change in the deferred tax asset or liability in the year. Temporary differences are identified and the provision is made using the asset and liability method for all such differences. Deferred tax benefits are recognized on assets to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

## o. Dividends

Any dividends declared by the Company are based on the profit available for distribution as reported in the statutory financial statements of the Company prepared in accordance with Indian GAAP. Accordingly, in certain years, the net income reported in these financial statements may not be fully distributable. As of March 31, 2001 and 2002, the amounts available for distribution are Rs. 16,147 million and Rs.8,338 million, respectively. Dividends declared for the years ended March 31, 2000, 2001 and 2002 were Rs.8, Rs.50 and Rs.87.50 per equity share, respectively. The Company paid dividends of Rs.760 million, Rs.760 million and Rs.35,625 million (including Rs. 21, 375 million as special

dividend) during the years ended March 31, 2000, 2001 and 2002, respectively.

**p. Earnings per share**

The Company reports basic and diluted earnings per equity share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per equity share has been computed by dividing net income by the weighted average number of equity shares outstanding for the period. For the purposes of earnings per share, stock dividends declared by the Company have been given retroactive effect for all the years presented.

**q. Comprehensive Income**

The Company reports comprehensive income in accordance with SFAS No.130, *Reporting Comprehensive Income*. Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Unrealized gains and losses on available for sale securities along with net income are components of comprehensive income.

**r. Segment information**

The Company identifies basic telephony, Internet and leased line services as its operating segments. Segment-wise information has been provided in Note 23.

**s. New accounting pronouncements**

**SFAS No. 144**

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. SFAS No. 144 applies to all long-lived assets, including discontinued operations, and consequently amends APB opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value

or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 also amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary*. SFAS No. 144 will be applicable to the Company from the fiscal year beginning April 01, 2002.

**SFAS No. 145**

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Among other things, this statement rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt* which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, will now be used to classify those gains and losses. SFAS No. 145 will be applicable to the Company from the fiscal year beginning April 01, 2002.

**t. Convenience Translation**

The accompanying financial statements have been expressed in Indian rupees ("Rs."), the Company's functional currency. For the convenience of the reader, the financial statements as at and for the year ended March 31, 2002 have been translated into US dollars at US\$1.00 = Rs.48.83 based on the noon buying rate for cable transfers on March 29, 2002 as certified for customs purposes by the Federal Reserve Bank of New York. Such convenience translation should not be construed as a representation that the Indian rupee amounts referred to in these financial statements have been, or could be converted into US dollars at this or at any other rate of exchange, or at all.

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## 3. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Cash in hand	Rs.15	Rs.4	US\$-
Bank balances:			
Current accounts	485	1,707	35
Time deposits	1,700	6,170	126
<b>Total</b>	<u>Rs.2,200</u>	<u>Rs.7,881</u>	<u>US\$161</u>

Time deposits are interest-bearing deposits with original maturities ranging from 9 days to 90 days. Interest rates on such time deposits during the year ended March 31, 2002, ranged from approximately 6.00% to 9.75% on Indian rupee deposits.

## 4. Short-term investments

Short-term investments include the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Restricted cash			
balances:	Rs.7,730	Rs.7,108	US\$146
Time deposits with			
maturity exceeding			
90 days	38,320	10,361	212
<b>Total</b>	<u>Rs.46,050</u>	<u>Rs.17,469</u>	<u>US\$358</u>

Restricted cash balances include Rs.7,730 million and Rs.7,099 million as of March 31, 2001 and 2002, respectively, comprising of time deposits, the use of which is restricted to the import of capital equipment.

Interest rates on deposits placed out of restricted cash balances during the year ended March 31, 2002, ranged from approximately 7.50% to

11.25%. Interest rates on time deposits with maturity exceeding 90 days during the year ended March 31, 2002, ranged from approximately 7.50% to 9.25%.

Time deposits with maturity exceeding 90 days include Rs.5,730 million pledged against short-term borrowings of the Company.

## 5. Trade and other receivables

Trade and other receivables include the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Trade accounts			
receivables :			
Amount due from foreign			
administrations	Rs. 17,347	Rs. 14,380	US\$294
Domestic trade			
debtors	792	528	11
Total trade account			
receivables	18,139	14,908	305
Interest receivable			
on bank deposits	1,231	700	15
Other sundry deposits	56	63	1
Other receivables	319	546	11
	<u>Rs. 19,745</u>	<u>Rs.16,217</u>	<u>US\$332</u>

Trade accounts receivables are net of an allowance for doubtful debts of Rs. 979 million and Rs.1,654 million for the years ended March 31, 2001 and 2002, respectively.

Amounts due from BSNL for traffic settlement are netted against amounts due to BSNL for traffic settlement and are reported in trade payables. The Company has legal right of setoff.

## 6. Investments

The portfolio of investments as of March 31, 2001 and 2002 is as follows:

**Financial Statements in accordance with US GAAP**

	As of March 31, 2001			As of March 31, 2002		
	Amortized Cost	Gross unrealized Gain	Carrying value	Amortized Cost	Gross gains	Carrying value
Investment carried at fair value:						
Satellite companies	Rs.562	Rs.681	Rs.1,243	Rs.562	Rs.412	Rs.974
Investment carried at cost:						
Telecommunications companies			8,474			8,481
Less: Permanent impairment			(5,470)			(5,470)
<b>Total</b>			<u>Rs.4,247</u>			<u>Rs.3,985</u>
<b>Total</b>						<u>US\$82</u>

**Intelsat, Ltd.**

Intelsat, Ltd. was originally formed as an Inter Government Organisation ("IGO") in 1964 and owns and operates satellite communication systems. It offers Internet, broadcast, telephony and corporate network solutions to customers in over 200 countries through its network of 20 geostationary satellites. Currently, it has a few next-generation satellites under construction. Intelsat was converted into a private company incorporated in Bermuda effective July 18, 2001. Consequently, the Company now holds 27,045,940 shares of US\$1 each representing 5.4% of the paid up capital of Intelsat, Ltd.

Till the date of corporatization, the Company's ownership share in this organization was adjusted annually to conform to the respective percentage of total use of the system or based on the accession or cessation of any party as per the terms of Intelsat Agreement. Accordingly, on the basis of share re-determinations, as of March 2001, the Company's investment was at approximately 5.4%, of the total shareholding of Intelsat. Net capital contributions were billed by Intelsat to the Company from time to time in proportion to the ownership share determined.

Post corporatization, the investment in Intelsat, Ltd. has been accounted for in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* at cost since the fair value of equity shares is not readily obtainable.

On March 08, 2002, Intelsat, Ltd. announced its intention to conduct an initial public offering of its ordinary shares in an amount of approximately US\$500 million. In addition, it is anticipated that Intelsat, Ltd.'s existing shareholders will be offered the opportunity to sell ordinary shares in the offering.

**New Skies Satellite NV ("NSS")**

During 1998-99, Intelsat as part of its restructuring process incorporated NSS as a corporation with limited liability under the laws of Netherlands and transferred certain assets and liabilities to NSS accounted for at historic book values. In return, NSS issued 10,000,000 shares of common stock of Dutch Guilder 1 to Intelsat. Intelsat distributed 9,000,000 shares of NSS in the year 1998-99, and 1,000,000 shares of NSS in 1999-2000 in proportion to the investment shares of its members at the time of distribution. Consequently, the Company acquired 301,215 shares in 1998-99 and 43,000 shares in 1999-2000 which were recorded as a reduction in the investment in Intelsat and a new investment in NSS at face values.

NSS announced a 10:1 stock split prior to its initial public offering ("IPO") in October 2000 and redesignated its shares from Guilders to Euros. Thus, the Company's total holding in NSS as of March 31, 2002 stands at 3,442,150 ordinary shares of 0.05 Euros each. The market value per share as of March 28, 2002 was US\$5.8 per share.

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### **International Mobile Satellite Organisation (“Inmarsat”)**

Inmarsat was an IGO with membership from 88 countries providing satellite mobile communications in air, on land and at sea. Inmarsat was converted into a national law company incorporated in the United Kingdom effective April 15, 1999. The Company's investment in the holding company, Inmarsat Ventures Plc is 202,219 shares representing approximately 2.0% of the paid up capital. Further, there had been a 10:1 stock split in March 2001. Consequently, the Company now holds 2,022,190 shares of 10 pence each in Inmarsat Ventures Plc.

During the year, Inmarsat announced its intention to conduct an initial public offering of its ordinary shares. In addition, it is anticipated that Inmarsat's existing shareholders will be offered the opportunity to sell ordinary shares in the offering.

### **ICO Global Communications Holdings Ltd. (“ICO”)**

ICO, a company registered in Bermuda, was incorporated in January 1995 to provide global mobile personal communication services. ICO was listed on the NASDAQ in July 1998. The Company had invested a sum of Rs.5,471 million (US\$150 million) in ICO.

ICO filed a voluntary petition for re-organization under Chapter 11 of the United States Bankruptcy Code on August 27, 1999 in the United States Bankruptcy 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.

In May 2000, the court confirmed the plans of re-organization of ICO, which became effective on May 17, 2000. By virtue of the re-organization, the Company received 180,053 shares of class A common stock of US\$ 0.01, amounting to Rs.0.06 million and 975,398 warrants, with an option to purchase shares of class A common stock exercisable in New ICO by May 15, 2006. The Company recognized a charge of Rs.5,416 million and Rs.54 million as permanent impairment in the years ended March 31, 1999 and 2000, respectively.

### **Telstra Vishesh Communications Limited (“TVCL”)**

TVCL is a joint venture between the Company, Telstra-Australia and Infrastructure Leasing & Financial Services Ltd. (“ILFS”), initially formed with an investment equity in the ratio of 40:40:20. Currently, the Company holds Rs.92 million out of the total paid up capital of Rs.314 million. TVCL has invested in a hybrid VSAT project and has diversified into consulting, facility management services and turnkey VSAT projects for large organizations. The shares of TVCL are recorded at face value and consequently the Company has applied the provision for diminution in value of investments and written off these investments to their current fair value in the year ended March 31, 2000.

As per the proposed restructuring plan undertaken by TVCL, Essel Shyam Communications Ltd. (“ESCL”), a company incorporated in India, has been identified as the strategic partner. Further, Telstra-Australia will exit the joint venture and the shareholders of TVCL comprising the remaining joint venture partners, namely the Company and IL&FS and the Employee Welfare Trust will get 15% in the aggregate of the equity share capital of ESCL in exchange for their holding in TVCL. In addition, ESCL will pay a cash compensation of Rs.20 million to the Company and IL&FS in the aggregate.

### **United Telecom Limited (“UTL”)**

UTL is a joint venture between the Company, Mahanagar Telephone Nigam Limited (“MTNL”), Telecommunications Consultants India Limited (“TCIL”) and Nepal Ventures Private Limited (“NVPL”), with an investment equity in the ratio of 26.6:26.8:26.6:20. MTNL and TCIL are companies incorporated in India and NVPL is a company incorporated in Nepal. Currently, the Company holds 266,000 equity shares of Nepal Rupees (“NR.”) 100 each out of the total paid up capital of NR.100 million. UTL has been formed for bidding for license to operate and invest in basic telephony services in Nepal based on Wireless-in-Local Loop technology. As of date, UTL is yet to commence commercial operations. The equity shares of UTL are recorded at cost.

On May 15, 2002, UTL had further called up equity capital from all the joint venture partners totaling to NR.1,300 million payable as per the following schedule:

## Financial Statements in accordance with US GAAP

Particulars of equity calls	Equity capital called (In millions)	Payable on or before
2 <sup>nd</sup> call	NR.200	May 25, 2002
3 <sup>rd</sup> call	500	July 15, 2002
4 <sup>th</sup> call	300	September 15, 2002
5 <sup>th</sup> call	300	December 15, 2002

The Company on May 25, 2002 paid up the 2nd call of NR.53 million. Subsequent to the payment of this call, the Company now holds 2,266,000 equity shares at NR. 80 million.

### 7. Property, plant and equipment

Property, plant and equipment by asset category is as follows:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Land	Rs.754	Rs.773	US\$16
Buildings	2,062	2,210	45
Plant and machinery	23,349	25,117	515
Computers	574	587	12
Motor vehicles	16	16	—
Furniture and fixtures	366	184	4
Property, plant and equipment, at cost	27,121	28,887	592
Less: Accumulated depreciation	(9,044)	(10,829)	(222)
<b>Property, plant and equipment, net</b>	<b>Rs.18,077</b>	<b>Rs.18,058</b>	<b>US\$370</b>

Depreciation expense for the years ended March 31, 2000, 2001 and 2002 was Rs.1,534 million, Rs.1,729 million and Rs.1,898 million, respectively.

During the year 1998-99 the Company had spent Rs.496 million towards gateway equipment for Iridium India Telecom Limited ("IITL"), Pune, which was capitalized and was being depreciated. IITL stopped operational activities in April 2000 and since then these assets have not been used by IITL. An impairment charge has been recognized of Rs.356 million, Rs.Nil million and Rs.30 million for the years ended March 31, 2000, 2001 and 2002 to reflect their estimated realizable value.

Property, plant and equipment include Rs.1,672 million and Rs.2,262 million for indefeasible rights of use as of March 31, 2001 and 2002, respectively.

### 8. Capital work-in-progress

Capital work-in-progress includes the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Buildings	Rs. 382	Rs. 315	US\$6
Plant and Machinery	1,912	2,583	53
Other assets	34	45	1
<b>Total</b>	<b>Rs.2,328</b>	<b>Rs.2,943</b>	<b>US\$60</b>

### 9. Other assets

Other assets includes the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Advance tax (net)	Rs.7,463	Rs.7,752	US\$159
Advance paid for capital goods	63	6	—
Prepaid expenses	235	530	11
Inventories	17	5	—
<b>Total</b>	<b>Rs. 7,778</b>	<b>Rs. 8,293</b>	<b>US\$170</b>

### 10. Short-term borrowing

During the last quarter of fiscal 2002, the Company availed short-term borrowings of Rs. 28,205 million against pledge of fixed deposits placed with banks. These borrowings were for a maximum duration of six months. Interest rates on these borrowings ranged from approximately 8.25% to 9.00%. As of March 31, 2002, short-term borrowings of Rs. 5,751 million were outstanding.

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## 11. Trade payables

Trade payables include the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Accounts payable-trade:			
Amounts due to foreign administrations	Rs.2,585	Rs.1,420	US\$29
Amounts due to BSNL net of amounts due from BSNL for traffic settlement	8,724	4,308	88
<b>Total</b>	<b>Rs. 11,309</b>	<b>Rs.5,728</b>	<b>US\$117</b>

## 12. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the following:

	As of March 31,		
	2001	2002	2002
	(In millions)		
Unearned income	Rs.2,235	Rs.1,762	US\$36
Deferred taxation	3,183	2,363	48
Interest accrued but not due	—	11	—
Sundry creditors	4,051	4,616	95
Other payables and accrued expenses	1,262	1,573	33
<b>Total</b>	<b>Rs.10,731</b>	<b>Rs.10,325</b>	<b>US\$212</b>

## 13. Income tax

The income tax expense comprises the following :

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Current income tax expense	Rs. 6,375	Rs. 7,887	Rs. 6,661	US\$136
Deferred income tax expense (benefit)	(219)	1,759	(702)	(14)
<b>Income tax expense</b>	<b>Rs.6,156</b>	<b>Rs.9,646</b>	<b>Rs.5,959</b>	<b>US\$122</b>

The following is the reconciliation of estimated income taxes at the Indian statutory income tax rate to income tax expense as reported :

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Net income before taxes	Rs.19,331	Rs.25,173	Rs.19,130	US\$392
Effective statutory income tax rate	38.50%	39.55%	35.70%	35.70%
Expected income tax expense	7,442	9,956	6,829	140
Adjustments to reconcile expected income tax to actual tax expenses:				
Permanent differences :				
Income exempt under tax holiday	(899)	(1,209)	(957)	(20)
Provision for diminution in value of investment not allowed for tax	21	153	24	—
Stock based compensation cost	—	—	320	7

## Financial Statements in accordance with US GAAP

Exchange gain on GDR deposits treated as capital receipt for income tax purposes	(94)	(60)	59	1
Other, net	(451)	775	(110)	(2)
Effect of change in statutory tax rate	137	31	(206)	(4)
<b>Income tax expense</b>	<u>Rs. 6,156</u>	<u>Rs.9,646</u>	<u>Rs.5,959</u>	<u>US\$122</u>

The tax effects of significant temporary differences are as follows:

	<b>As of March 31,</b>		
	<b>2001</b>	<b>2002</b>	<b>2002</b>
	<b>(In millions)</b>		
<b>Tax Effect of :</b>			
<b>Deductible temporary differences:</b>			
Allowances for trade receivables	Rs.387	Rs.608	US\$12
Other	—	126	3
	<u>Rs.387</u>	<u>Rs.734</u>	<u>US\$15</u>
<b>Deferred tax asset</b>			
<b>Taxable temporary differences:</b>			
Property, plant and equipment	Rs.3,204	Rs.2,946	US\$60
Unrealized gain on securities available for sale	269	151	3
Other	97	—	—
	<u>Rs.3,570</u>	<u>Rs.3,097</u>	<u>US\$63</u>
<b>Deferred tax liability</b>			
<b>Net deferred tax liability</b>	<u>Rs.3,183</u>	<u>Rs. 2,363</u>	<u>US\$48</u>

### 14. Revenues

Revenues comprise the following:

	<b>Years ended March 31,</b>			
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>
	<b>(In millions)</b>			
Revenues from foreign administrations for incoming traffic:				
Telephone	Rs.45,161	Rs.46,674	Rs.41,503	US\$850
Telex	128	112	70	1
Revenues from BSNL for outgoing traffic:				
Telephone	18,375	18,345	16,153	331
Telex	175	112	88	2
Leased circuits	2,986	3,140	3,584	73
Telegraph, television and others	2,815	3,533	3,652	75
<b>Total</b>	<u>Rs.69,640</u>	<u>Rs.71,916</u>	<u>Rs.65,050</u>	<u>US\$1,332</u>

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## 15. Network and transmission costs

Network and transmission costs comprise the following:

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Payment for traffic costs to:				
BSNL	Rs.29,254	Rs.27,341	Rs.23,050	US\$472
Foreign administrations	13,374	13,866	10,721	220
Rent of land lines	579	1,037	2,914	60
Other transmission facilities	2,414	2,906	2,892	59
<b>Total</b>	<u>Rs.45,621</u>	<u>Rs.45,150</u>	<u>Rs.39,577</u>	<u>US\$811</u>

## 16. Other operating costs

Other operating costs comprise the following:

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Staff costs:				
Salaries and wages	Rs.866	Rs.1,400	Rs.2,134	US\$43
Social security contributions	90	132	391	8
Energy costs	235	271	286	6
Advertising	113	116	35	1
Repairs, maintenance, marketing and other costs	1,318	1,104	1,957	40
<b>Total</b>	<u>Rs.2,622</u>	<u>Rs.3,023</u>	<u>Rs.4,803</u>	<u>US\$98</u>

On August 1, 2001, the Company announced a Voluntary Retirement Scheme ("VRS") with the primary objective of improving the average mix of its employees and also to improve the overall skill level. The original period of the scheme was from September 01, 2001 to September 30, 2001. The scheme was later extended upto October 31, 2001. Employees who were at least 50 years of age and had rendered a minimum of 10 years service in the Company were eligible to opt for voluntary retirement. Apart from normal retirement benefits, employees who opted for voluntary retirement were entitled to an ex-gratia payment of 60 days salary (basic and dearness allowance) for each completed year of service or payment of salary for the remaining period of service left before retirement, whichever was lower. At the close of the scheme, 81 employees had opted for voluntary retirement. Staff costs include an amount of Rs.36 million on account of this scheme.

## 17. Non-operating income

Non-operating income comprises the following:

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Foreign exchange gains, net	Rs.1,449	Rs.2,878	Rs.939	US\$19
Profit (loss) on sale of fixed assets	86	(5)	(2)	—
Reimbursement by Gol of entry fees (See Note 1(c))	—	—	279	6
Miscellaneous income	286	185	155	3
Total	Rs.1,821	Rs.3,058	Rs.1,371	US\$28

## 18. Employee Stock Purchase Scheme (“ESPS”)

As part of the process of disinvestment, Gol on various dates transferred 5,661,546 equity shares to employees of the Company at a price significantly lower than the fair value on the date of transfer. The transfer of such equity shares has been accounted for as a charge to compensation cost of Rs.896 million and an accretion to additional paid in capital in the year ended March 31, 2002.

In addition to the equity shares already transferred, Gol is yet to transfer 346,860 equity shares to employees which has been approved by the board of directors of the Company.

Had compensation cost for the Company’s ESPS been determined based on the fair value at the grant dates, consistent with the method prescribed by SFAS No. 123, the Company’s net income and earnings per share would have been as per the *pro forma* amounts indicated below:

	Years ended March 31, 2002	
	(In millions, except per share amounts)	
Net income:		
As reported	Rs.9,537	US\$195
<i>Pro forma</i>	9,776	US\$200
Basic and diluted earnings per share		
As reported	Rs.33.46	US\$0.69
<i>Pro forma</i>	34.30	US\$0.70

The fair value of options used to compute pro forma net income and basic earnings per equity share have been estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

	Years ended March 31, 2002
Dividend yield	1%
Expected volatility	88%
Risk-free interest rate	9%
Lock-in period	1 year

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## 19. Retirement benefits

### Gratuity

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Company's financial statements as of March 31, 2001 and 2002.

	As of March 31,		
	2001	2002	2002
	(In millions)		
<b>Change in benefit obligation:</b>			
Projected benefit obligation, beginning of the year	Rs.153	Rs.232	US\$5
Service cost	8	16	—
Interest cost	16	23	—
Actuarial loss	65	39	1
Benefits paid	(10)	(22)	—
<b>Projected benefit obligation, end of the year</b>	<b>232</b>	<b>288</b>	<b>6</b>
<b>Change in plan assets:</b>			
Fair value of plan assets, beginning of the year	95	127	3
Actual return on plan assets	10	11	—
Employer contributions	32	—	—
Benefits paid	(10)	(22)	—
<b>Fair value of plan assets, end of the year</b>	<b>127</b>	<b>116</b>	<b>3</b>
Excess of obligation over plan assets	(105)	(172)	(3)
Unrecognized actuarial loss	68	102	2
Unrecognized transitional obligation	13	9	—
<b>Accrued benefit</b>	<b>Rs.(24)</b>	<b>Rs.(62)</b>	<b>US\$(1)</b>

Net gratuity cost for the years ended March 31, 2000, 2001 and 2002 comprises the following components:

	Years ended March 31,			
	2000	2001	2002	2002
	(In millions)			
Service cost	Rs.8	Rs.8	Rs.16	US\$-
Interest cost	16	16	23	1
Net transitional liability recognized	—	—	13	—
Net actuarial loss recognized	—	—	105	2
Amortization of unrecognized transitional obligation	5	5	—	—
Actual investment return	(7)	(10)	(11)	—
<b>Net gratuity cost</b>	<b>Rs.22</b>	<b>Rs.19</b>	<b>Rs.146</b>	<b>US\$3</b>

## Financial Statements in accordance with US GAAP

The assumptions used in accounting for the gratuity plan for the years ended March 31, 2000, 2001 and 2002 are set out below:

	Years ended March 31,		
	2001	2002	2002
	(In millions)		
Discount rate	10.5	10.5	10.0
Rate of increase in compensation levels of covered employees	6.0	6.0	6.0
Rate of return on plan assets	9.5	9.5	9.5

### Leave encashment

The Company provided Rs.26 million, Rs.28 million and Rs.120 million for leave encashment for the years ended March 31, 2000, 2001 and 2002, respectively.

### Provident fund

The Company contributed Rs.45 million, Rs.75 million and Rs.69 million to the provident fund for the years ended March 31, 2000, 2001 and 2002, respectively.

### 20. Estimated fair value of financial instruments

The carrying amounts for cash, cash equivalents, short-term investments, accounts receivable and accounts payable approximate their fair values due to the short maturity of these instruments.

### 21. Commitments and contingencies

Commitments and contingencies are as follows:

#### Capital commitments

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 a one year period. The amount of these commitments totalled Rs.2,118 million as of March 31, 2002.

#### Contingencies

##### Income tax matters

For the fiscal years 1987-88, 1993-94 and 1995-96 to 1998-99, the income tax authorities have raised demands aggregating Rs.16,306 million, including interest of Rs. 6,393 million on the disallowance of license fee paid by the Company to DoT and other claims against which amounts aggregating to Rs.10,635 million have been paid or adjusted. The claim for license fee for fiscal year 1994-95 has been allowed by the Income Tax Appellate Tribunal. The Company has been advised by counsel that the demands are not likely to be sustained and hence no provision is considered necessary.

##### Other contingencies

The Company is involved in lawsuits, claims, investigations and proceedings, which arise in the normal course of business. There are no such matters pending that the Company expects to be material in relation to the business.

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## 22. Related party transactions

The Company's principal related parties consist of its major shareholders, government departments, government owned or controlled companies and affiliates of the Company. The Company routinely enters into transactions with its related parties, such as providing telecommunication services, paying license fees and subletting premises. Transactions other than with DoT and BSNL are at arm's length in accordance with law. Transactions with the DoT and BSNL are subject to the revenue sharing agreement discussed in Note 1d. The Company's significant related party balances and transactions with DoT are detailed in the Statement of Income and in Notes 5, 11, 14 and 15. In addition to the same, following are the significant related party transactions.

Name of the Party	Nature of Relationship	Description of the transaction	Amount of		Outstanding balances Debit/	
			(Receipts)/Payments		(Credit)	
Gol and its departments	Principal owner	Rendering of services	Rs.386	US\$8		
		Royalty payments	6,414	131		
		Dividend payments	18,870	386		
		Compensation received from Gol	(279)	(6)		
			Rs.25,391	US\$520	Rs.290	US\$6
TVCL	Joint venture partner	Purchase of VSAT terminals	26	1	(12)	—
UTL	Joint venture partner	Investment in equity share capital	16	—	—	—
Employee trusts	Trusts controlled by the management	Loans made	75	2	100	2
		Payment towards gratuity	32	1	—	—

Other related party transactions and balances are immaterial individually and in the aggregate.

The Company grants loans to employees for acquiring assets such as computers and vehicles and for purchase of equity shares of the Company. The annual rate of interest at which the loans have been made to employees are at 4%. The loans are secured by assets acquired by the employees. As of March 31, 2001 and 2002, amounts receivable from employees aggregated to Rs.75 million and Rs.301 million, respectively, are included in trade and other receivables. Interest free short term advances made to employees aggregated to Rs.67 million and Rs.8 million as of March 31, 2001 and 2002, respectively.

The Company also grants interest subsidy in excess of 4% of the interest rate for loans taken by the employees for purchase of property. The cost of interest subsidy of Rs.7 million, Rs.9 million and Rs.11 million for the years ended March 31, 2000, 2001 and 2002, respectively, is included in staff costs.

## 23. Segment information

The Company has three operating segments, comprising telephony, Internet and leased line services. Operating segments other than the telephony segment do not meet the quantitative thresholds specified by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and do not qualify as reportable segments. Information about these segments has been aggregated and reported in the "All other" category.

The Company's chief operating decision maker utilizes revenue information in assessing performance and making overall operating decisions and resource allocation. Communication services are provided utilizing the Company's assets, which generally do not make a distinction between the types of services. As a result, the Company cannot, and does not, allocate expenses relating to assets or asset costs by segment.

## Financial Statements in accordance with US GAAP

Summarized segment information for the years ended March 31, 2000, 2001 and 2002 is as follows:

	Years ended March 31,					
	2000		2001		2002	
	Basic telephony	All Other	Basic telephony	All other	Basic telephony	All other
	(In millions)					
Traffic revenue	Rs.63,535	Rs.6,105	Rs.65,019	Rs.6,897	Rs.57,656	Rs.7,394
Income from satellite consortia	—	737	—	1,160	—	—
<b>Operating revenue</b>	<b>63,535</b>	<b>6,842</b>	<b>65,019</b>	<b>8,057</b>	<b>57,656</b>	<b>7,394</b>
Network and transmission costs	43,004	2,617	41,861	3,289	33,858	5,719
License fee	4,712	—	5,022	—	5,393	—
<b>Segment operating profit</b>	<b>15,819</b>	<b>4,225</b>	<b>18,136</b>	<b>4,768</b>	<b>18,405</b>	<b>1,675</b>
<b>Total Segment operating profit</b>		<b>20,044</b>		<b>22,904</b>		<b>20,080</b>
Less: Unallocable operating costs		4,156		4,752		6,701
<b>Operating profit, as reported</b>		<b>Rs.15,888</b>		<b>Rs.18,152</b>		<b>Rs.13,379</b>

Unallocable operating costs include staff cost, energy cost, depreciation and other general administrative overheads, which are not allocated segment-wise.

The company renders international telephony and value added services and derives its revenue from the administrations in the following geographical locations:

	Years ended March 31,				
	2000	2001	2002	2002	2002
	(In millions, except percentages)				
India	Rs.18,550	Rs.18,346	Rs.23,527	US\$482	36.2 %
United States of America	18,459	23,297	19,436	398	29.8
United Arab Emirates	6,589	7,222	6,720	138	10.3
Saudi Arabia	3,179	4,185	3,802	78	5.8
United Kingdom	5,204	2,930	2,092	43	3.2
Canada	1,199	702	1,961	40	3.0
Rest of the world	16,460	15,234	7,512	154	11.7
<b>Total</b>	<b>Rs.69,640</b>	<b>Rs.71,916</b>	<b>Rs.65,050</b>	<b>US\$1,332</b>	<b>100.0 %</b>

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Revenues from major customers are as follows:

	Years ended March 31,				
	2000	2001	2002	2002	
	(In millions, except percentages)				
BSNL	Rs.18,550	Rs.18,346	Rs.23,527	US\$482	36.2 %
MCI WorldCom	11,071	10,916	9,513	195	14.6
Concert AT&T	5,157	9,639	6,987	143	10.7
United Arab Emirates	6,589	7,222	6,720	138	10.3
Others	28,273	25,793	18,303	374	28.2
<b>Total</b>	<b>Rs.69,640</b>	<b>Rs.71,916</b>	<b>Rs.65,050</b>	<b>US\$1,332</b>	<b>100.0 %</b>

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter parties whose aggregate credit exposure is material in relation to the Company's total credit exposure.

The balances due from major customers are as follows:

	Years ended March 31,				
	2001	2002	2002	2002	
	(In millions, except percentages)				
MCI WorldCom	Rs.4,066	Rs.5,612	US\$ 115		37.7 %
Concert AT&T	2,585	1,668	34		11.2
United Arab Emirates	2,419	2,366	48		15.8
Saudi Arabia	2,057	1,659	34		11.1
Others	7,012	3,603	74		24.2
<b>Total</b>	<b>Rs.18,139</b>	<b>Rs.14,908</b>	<b>US\$305</b>		<b>100.0 %</b>

All revenues earned by the Company are from its operations in India. Substantially, all of the Company's fixed assets are located in India.

## 24. Subsequent events

On May 28, 2002, the board of directors of the Company declared a dividend of Rs.12.50 per equity share aggregating to Rs.3,563 million which is subject to approval by the shareholders at the ensuing annual general meeting. The board of directors of the Company also approved an investment of Rs.12,000 million in Tata Teleservices Ltd., a company incorporated in the state of Andhra Pradesh, India, that provides basic telephony services in India.

## BOARD OF DIRECTORS

### Mr. Ratan N. Tata

Mr. Ratan N. Tata was born in Mumbai on December 28, 1937. He received a Bachelor of Science degree in architecture from Cornell University in 1962, and completed the Advanced Management Program conducted by Harvard University in 1974-75.

Mr. Tata joined the Tata Group in 1962. He was assigned to various companies before being appointed director-in-charge of National Radio & Electronics Company Limited (NELCO) in 1971. He was named chairman of Tata Industries Limited in 1981, where he was responsible for transforming the company into a Group strategy think-tank and a promoter of new ventures in high-technology businesses. In 1991, Mr. Tata was appointed chairman of Tata Sons Limited, the apex body of the Tata Group. He also currently holds the chairmanship of major Tata companies like Tata Steel, Tata Engineering, Tata Power and Indian Hotels.

Besides his directorships on the boards of various Tata companies, Mr. Tata is the chairman of two of

the largest private sector-promoted philanthropic undertakings in India. He serves in important capacities in various organisations in India, and is a member of the central board of the Reserve Bank of India (RBI) as well as of the Prime Minister's Council on Trade and Industry. His foreign affiliations include memberships of the international advisory boards of J.P. Morgan Chase, Booz-Allen and Hamilton Inc. and the American International Group; of the board of governors of the East-West Center; and of the board of trustees of the Ford Foundation. In 1999, he was appointed to serve on the International Investment Council set up by the President of the Republic of South Africa. Mr. Tata has recently been appointed a member of the Asia Pacific advisory committee to the board of directors of the New York Stock Exchange.

Mr. Tata was honoured by the Government of India with the Padma Bhushan on January 26, 2000. In March 2001, the Ohio State University awarded Mr. Tata an honorary doctorate in business administration.

### Mr. S.K. Gupta

Mr. Shailendra Kumar Gupta was born on September 9, 1942. He earned a Bachelor of Science degree from Lucknow University and a degree in electrical engineering from Roorkee University, graduating with a gold medal in 1964. He was immediately absorbed as a lecturer in electrical engineering at Roorkee University.

Mr. Gupta joined the Indian Telecom Service in September 1965 and held various responsible positions in the Department of Telecommunications and Mahanagar Telephone Nigam Limited in the fields of planning, installation, maintenance, training and management of telecommunication systems.

Mr. Gupta first took charge of Videsh Sanchar Nigam Limited (VSNL) as its chairman and managing director in September 1999. In August 2000, he helped make VSNL the first Indian public sector enterprise to find listing on any US stock exchange, when its American depository receipts began trading on the New York Stock Exchange. After the Tata Group acquisition of VSNL in February 2002, Mr. Gupta continues as VSNL's managing director.

Mr. Gupta has had extensive international exposure in various capacities. During his career, he was deputed through the United Nations to Malawi, Africa as a switching telecom expert during 1982-83. He was also

trained at Japan in C-400 cross bar systems and at the University of Essex, U.K., in computer software engineering. As managing director of VSNL, he has been closely associated with various international telecom bodies including INTELSAT, the Commonwealth Telecommunication Organisation (CTO), Asia Pacific Telecommunications (APT), the International Maritime Satellites (INMARSAT), and the South Asian Association for Regional Co-operation (SAARC) Telecom Projects. In July 2001, he was elected as a director to the board of the privatised INTELSAT by the highest number of votes.

Mr. Gupta has travelled extensively around the world to represent VSNL and raise its profile in various global forums, including in the USA, UK, Switzerland, Germany, France, The Netherlands, Hong Kong, Malaysia, Ecuador, Ireland, Senegal and Bermuda.

Mr. Gupta received a national award for excellent communication arrangements during the Maha Kumbh at Allahabad in 1989. He also received the best chief executive (PSU) of the year 2001 award from the National Foundation of Indian Engineers in August 2001. Mr. Gupta was honoured with the Udyog Rattan Award by the Institute of Economic Studies in January 2002 and the Rashtriya Rattan Award for outstanding individual achievements and distinguished services to the nation in January 2002.

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## **Mr. Srinath Narasimhan**

Mr. Srinath Narasimhan was born on July 8, 1962. He received a degree in mechanical engineering from IIT (Madras) and completed his management degree from IIM (Calcutta), specialising in marketing and systems.

Joining the Tata Administrative Services in 1986 as a probationer, Mr. Srinath has held positions in the project management, sales and marketing, and corporate functions in different Tata companies over the last 14 years. He has been responsible for setting up new projects in high-technology areas like process automation and control, computers and telecommunications. After his probation, he was a project executive in Tata Honeywell from 1987 to 1988,

working on getting various approvals and the necessary project funding. He then moved to Tata Industries as executive assistant to the chairman, an assignment he handled till mid-1992. He was part of the team that set up Tata Information Systems (later Tata IBM). In June 1992 he moved into that company full-time for the next six years, during which period he handled a number of assignments in sales and marketing. In March 1998, he returned to Tata Industries as general manager (projects) and worked with Tata Teleservices in this capacity for a year. In April 1999, he moved to Hyderabad as chief operating officer responsible for all the operations of the Tata Teleservices. In late 2000 he took over as chief executive officer of Tata Internet Services, a position he held till February 2002, when he moved to VSNL as director (operations).

## **Mr. Rakesh Kumar**

Mr. Rakesh Kumar belongs to the 1968 batch of the Indian Telecom Service. He is a graduate in science from the University of Allahabad, graduated in mechanical engineering with honours from Varanasi and holds an MBA (marketing) from the Faculty of Management Studies, Delhi University.

Mr. Rakesh Kumar is a fellow of the Institute of Engineers; fellow of the Institute of Electronics and Telecom Engineers; and director, Quality Circle Forum of India, besides being a board member and trustee of several prestigious organisations. He is also on the advisory panel of the Union Public Service Commission (UPSC) and a regular visiting

faculty at a renowned training centre of the Department of Telecommunications at Ghaziabad.

Mr. Kumar has wide experience in planning, operations and management of telecom networks as well as considerable international exposure. He has undergone specialised training in India and abroad including in the Netherlands and at the Centre for Telecom Management at the University of Southern California (USA). He was deputed to assist the Nigerian PTT for three years. He had been involved in business promotion in West Africa and the Middle East while on deputation to Telecommunications Consultants India Limited (TCIL). Bharat Sanchar Nigam Ltd. introduced its Internet services during his tenure as chief general manager (data network).

## **Mr. Y.S. Bhave**

Mr. Y.S. Bhave is joint secretary and financial advisor, Department of Information Technology, as well as of the Ministry of Environment and Forests.

Mr. Bhave completed his M.Sc in electronics in 1970 and joined the Indian Administrative Services in 1972, belonging to the Maharashtra cadre. He has held various managerial positions primarily in industry-related sectors such as finance, rural development, district administration and planning, with responsibilities for both staff and line functions. Mr. Bhave has held different important positions including chief executive officer of the Maharashtra Industrial Development Corporation; managing director, Maharashtra Small-Scale Industries Development Corporation; managing director, Maharashtra State Finance Corporation; development commissioner (industries) and secretary (industries), Government of Maharashtra; chairman, Maharashtra State Electricity

Board; and president and chief executive officer, Indian Institute of Software Engineering, amongst many others.

During 1989-90 he was deputed to Harvard University and obtained the degree of Master in Public Administration. He was selected Lucius Littur Fellow 1990 for academic excellence and dedicated public services.

His book " Macro Economic Adjustments Theoretical Issues and Practical Policies" published in 1993 traces the imperatives of the liberalisation of the Indian economy and analyses its impact on the new development paradigm.

As joint secretary, Department of Information Technology he is responsible for the project Media Lab Asia, as well as other special IT projects. He is also responsible for the department's budget, five-year plans and other financial matters.

### **Mr. Subodh Bhargava**

Born in Agra in 1942, Mr. 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 Accreditation Board for Certifying Bodies (NABCB) under the aegis of the Quality Council of India (QCI). Mr. 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 IIM, 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.

### **Mr. Suresh Krishna**

Mr. Suresh Krishna was born in Madurai, South India, on December 24, 1936. He received a Bachelor of Science degree from Madras Christian College in 1955 and an M.A. in literature from the University of Wisconsin in 1959. He did his post-graduate work in literature in the University of Munich, Germany.

Mr. Krishna is the chairman and managing director of Sundaram Fasteners Limited, the leading company in high tensile fasteners in India. Mr. Krishna was the president of the Confederation of Engineering Industry for 1987-88 and the president of the Automotive Component Manufacturers Association of India during 1982-84.

He has been involved in several other public bodies set up from time to time by the central as well as the state governments. He has been appointed as a director on the central board of the Reserve Bank of India. He was a member of the Indo-German Consultative Group, jointly set up by the Prime Minister of India and the Chancellor of the Federal

Republic of Germany, with a view to improve bilateral relations between the two countries. He was one of the members of the advisory council to the Prime Minister, formed to advise him on matters relating to trade and industry. The Government of Tamil Nadu appointed Mr. Krishna as the sheriff of Madras for 1992 and 1993.

Mr. Krishna has won numerous awards and honours. He was awarded the prestigious Sir Jehangir Ghandy Medal for Industrial Peace by XLRI in 1991. Business India magazine selected him as the Businessman of the Year, 1995. He was awarded the Qimpro Platinum Standard 1997 for being a role model for quality leadership for corporate India, and the Juran Quality Medal by the Indian Merchants Chamber, Mumbai. Last year, the Asian Productivity Organisation, Japan, conferred the national award for 2000 (for India) on Mr. Krishna, for his outstanding contribution towards productivity improvement in the country during the last five years. The All India Management Association gave him the prestigious JRD Tata Corporate Leadership Award for the year 2000.

# VIDESH SANCHAR NIGAM LIMITED

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## **Mr. Ishaat Hussain**

Mr Ishaat Hussain joined the Board of Tata Sons as an executive director on July 1, 1999, and became the finance director of Tata Sons Ltd. with effect from July 28, 2000. Prior to joining Tata Sons he was the senior vice president and executive director - finance in Tata Steel for almost ten years.

Born on September 2, 1947, Mr Hussain completed his schooling from the Doon School in 1963 and joined St. Stephens College Delhi to do his graduation in

economics. A chartered accountant from England and Wales, Mr Hussain joined the board of The Indian Tube Company (a Tata Steel associate company) in 1979. He moved to Tata Steel in 1981 after Indian Tube was merged with Tata Steel.

Besides being on the board of Tata Sons Limited, he is the chairman of Tata SSL Limited and Voltas Limited. He is also on the boards of several Tata companies, including Tata Steel, Tata Industries, Tata Teleservices, Titan Industries Limited.

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## **Mr. Kishor A. Chaukar**

Mr. Kishor A. Chaukar, currently the managing director of Tata Industries Limited (TIL), is a post-graduate in management from IIM, Ahmedabad.

TIL is one of the two principal holding companies of the Tata Group, India's largest and best-known conglomerate. TIL acts as the Group's diversification and new projects-promotion arm, and spearheads the Group's entry into the emerging, high-tech and sunrise sectors of the economy. As managing director of TIL, Mr. Chaukar is responsible for enhancing TIL's interests in the companies it promotes and adding value,

especially by providing strategic direction to these companies. Mr. Chaukar is also a member of the Tata Group executive office, which is engaged in strategy formulation at the House of Tata.

Mr. Chaukar was previously the managing director of ICICI Securities & Finance Company Limited (July 1993 to October 1998), and a member of the board of directors of ICICI Limited from February 1995. His other experiences include stints in Godrej Soaps Limited and in the Bhartiya Agro Industries Foundation, a public trust engaged in rural development on a no-profit-no-loss basis and based in Pune, Maharashtra.

