# SEVENTEENTH ANNUAL REPORT 2002-03

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Annual General Meeting on Tuesday, 2 September 2003 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.

# CORPORATE DETAILS

## BOARD OF DIRECTORS

(As on 1 August 2003)

Mr. R. N. Tata (Chairman)
Mr. S. K. Gupta (Managing Director)
Mr. N. Srinath (Director Operations)
Mr. Rakesh Kumar
Mr. Y. S. Bhave
Mr. Subodh Bhargava
Mr. Suresh Krishna
Mr. Ishaat Hussain
Mr. Kishor A. Chaukar
Mr. Vivek Singhal
Dr. Ashok Jhunjhunwala
Mr. F.A. Vandrevala

| | |
|---|---|
| Mr. Satish Ranade | ED (Legal) & Company Secretary |
| **REGISTERED OFFICE** | Videsh Sanchar Bhavan, Mahatma Gandhi Road,<br>Mumbai – 400 001. |
| **CORPORATE OFFICE** | Lokmanya Videsh Sanchar Bhawan<br>Kashinath Dhuru Marg, Prabhadevi, Mumbai – 400 028. |
| **BANKERS** | Indian Overseas Bank<br>HDFC Bank<br>Bank of Baroda<br>Canara Bank<br>State Bank of India |
| **LEGAL ADVISORS** | Messrs Little & Company<br>Messrs Mulla & Mulla and Craigie Blunt & Caroe<br>Messrs ANS Law Associates |
| **STATUTORY AUDITORS** | Messrs S.B. Billimoria & Co., Chartered Accountants |
| **REGISTRARS & TRANSFER AGENTS** | Messrs Sharepro Services<br>Satam Estate, 3rd Floor,<br>Above Bank of Baroda, Chakala<br>Andheri (East), Mumbai - 400 099. |

# NOTICE

NOTICE is hereby given that the Seventeenth Annual General Meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours on Tuesday, 2 September 2003, at Birla Matushri Sabhagar, New Marine Lines, Mumbai - 400 020 to transact the following business:

**Ordinary Business**

1. To receive, consider and adopt the Balance Sheet of the Company as on 31 March 2003, the audited Profit and Loss Account for the year ended on that date, the Auditors' Report thereon and the Report of the Board of Directors.

2. To declare dividend for the financial year 2002-2003.

3. To appoint a Director in place of Mr. Ratan N. Tata who retires at this Annual General Meeting and being eligible offers himself for reappointment.

4. To appoint a Director in place of Mr. Subodh Bhargava who retires at this Annual General Meeting and being eligible offers himself for reappointment.

5. To consider and, if thought fit, to pass with or without modification the following Resolution as a **Special Resolution**:

   "RESOLVED THAT pursuant to Section 224 A and other applicable provisions, if any, of the Companies Act, 1956, M/s S.B. Billimoria & Co., Chartered Accountants be and are hereby appointed Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to examine and audit the accounts of the Company for the financial year 2003-2004 on such remuneration as may be mutually agreed upon between the Board of Directors and the Auditors, plus reimbursement of service tax, traveling and out of pocket expenses."

   "RESOLVED FURTHER THAT the Auditors of the Company be and are hereby authorized to carry out (either themselves or through qualified associates) the audit of the Company's accounts maintained at all its branches and establishments (whether now existing or acquired during the financial year ending 31 March 2004) wherever in India or abroad."

**Special Business**

6. To pass the following resolution with or without modifications as a **Special Resolution**:

   "RESOLVED THAT the Company do take steps so as to delist the shares of the Company from the Delhi Stock Exchange Association Limited, The Calcutta Stock Exchange Association Limited and The Madras Stock Exchange Limited in accordance with the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003."

7. To pass the following resolution with or without modifications as an ordinary resolution:

"RESOLVED THAT pursuant to the provisions of Sections 269, 198 and 309 and other applicable provisions, if any, of the Companies Act, 1956, (the "Act") read with Schedule XIII thereto, subject to the provisions of the Memorandum and Articles of Association of the Company, and subject to such approvals, if any, as may be necessary, approval of the Company be and is hereby accorded to the reappointment of Mr. Shailendra Kumar Gupta as the Managing Director of the Company on deputation from M/s. Tata Services Limited for a period of upto two years from 1 October 2002 on the terms and conditions as set out in the explanatory statement attached to this notice and hereby approved, with liberty to the Board of Directors to revise the terms as to remuneration, from time to time within the limits prescribed under the provisions of Schedule XIII or any amendment thereto for the time being in force."

"RESOLVED FURTHER THAT where in any financial year during the tenure of Mr. Shailendra Kumar Gupta as the Managing Director of the Company as above, the Company has no profits or the profits are inadequate, the Company shall subject to the provisions of Sections 198, 269 and 309 of the Act pay basic salary, perquisites and allowances as mutually agreed between the Company and Mr. Gupta and specified in the explanatory statement."

8. To appoint a Director liable to retire by rotation in place of Mr. Vivek Singhal who holds office only up to the date of this Annual General Meeting and in respect of whom a notice under the provisions of Section 257 of the Companies Act, 1956 has been received by the Company from a member signifying his intention to propose Mr. Vivek Singhal as a candidate for the office of director.

9. To appoint a Director liable to retire by rotation in place of Dr. Ashok Jhunjhunwala who holds office only up to the date of this Annual General Meeting and in respect of whom a notice under the provisions of Section 257 of the Companies Act, 1956 has been received by the Company from a member signifying his intention to propose Dr. Ashok Jhunjhunwala as a candidate for the office of director.

10. To appoint a Director liable to retire by rotation in place of Mr. F.A. Vandrevala who holds office only up to the date of this Annual General Meeting and in respect of whom a notice under the provisions of Section 257 of the Companies Act, 1956 has been received by the Company from a member signifying his intention to propose Mr. F.A. Vandrevala as a candidate for the office of director.

By Order of the Board of Directors

Satish Ranade
E D (Legal) & Company Secretary

Dated : 1 August 2003
Registered Office :
Videsh Sanchar Bhavan
M.G. Road, Mumbai - 400 001.

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING A PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

2. Members who hold shares in dematerialized form are requested to bring their DP ID and Client ID numbers for easy identification of attendance at the meeting.

3. The statement of material facts pursuant to Section 173 (2) of the Companies Act, 1956, setting out the material facts in respect of the business under all items except item Nos.1 to 5 is annexed hereto.

4. This may be taken as notice of declaration of dividend for 2002-2003 in accordance with Article 93 of Articles of Association of the Company in respect of dividend for that year when declared.

5. Registers of members and transfer books of the Company shall remain closed from 16 August 2003 to 2 September 2003 (both days inclusive) for the purpose of ascertaining eligibility to dividend.

6. The dividend as recommended by the Board of Directors, if declared at this Annual General Meeting, shall be paid on or after Monday, 8 September 2003.

   (i) to those shareholders whose names appear on the Company's Register of Members after giving effect to all valid share transfers in physical form lodged with the Registrar & Transfer Agents (R&T Agents) of the Company on or before Thursday, 14 August 2003 (15 August being a public holiday).

   (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) and Central Depository Services (India) Limited (CDSL) as at the end of business on Thursday, 14 August 2003 (15 August being a public holiday). In respect of shares held in demat mode, the dividend will be paid on the basis of beneficial ownership as per details to be furnished by NSDL and CDSL for this purpose.

7. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividends for the financial year ended 31 March 1995 and thereafter, which remain unclaimed in the unpaid dividend account for a period of seven years from the date of transfer of the same, will be transferred to the Investor Education and Protection Fund established by the Central Government. Shareholders who have not encashed their dividend warrant(s) so far for the financial year ended 31 March 1995 or any subsequent financial years are requested to make their claim to the R & T Agents of the Company. According to the provisions of the Act, no claims shall lie against the said Fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.

8. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form No. 2B in duplicate (which will be made available on request) to the R & T Agents of the Company.

9. Members are requested to notify any change in their addresses immediately, in any event not later than Thursday, 14 August 2003 (15 August being a public holiday) so as to enable us to despatch the dividend warrants at the correct addresses:

   a) in case of physical shares to the R & T Agents, M/s Sharepro Services, Satam Estate, 3rd Floor, Above Bank of Baroda, Chakala, Andheri East, Mumbai-400 099.

   b) in case of shares held in demat form to their depositary participants (DPs).

**Annexure to the Notice dated 1 August 2003**

**The Statement of Material Facts pursuant to Section 173 (2) of the Companies Act, 1956.**

**In respect of Item No. 6**

VSNL shares are currently listed at Stock Exchanges at Kolkata, Delhi, Chennai, Mumbai and the National Stock Exchange in India. After its first disinvestment in the year 1992, the listing of VSNL shares was done on all major stock exchanges in India including those at Chennai, Delhi and Kolkata, as also The Stock Exchange, Mumbai, which was the regional stock exchange for VSNL. Although, initially some marginal trading of VSNL shares was noticed in the Stock Exchanges at Chennai, Delhi and Kolkata but from 1996 onwards there has been nil or negligible trading of VSNL shares in these Stock Exchanges. Listing on the Stock Exchanges at Chennai, Delhi and Kolkata was done to facilitate trading by shareholders located at places other than Mumbai. Now, since online trading system introduced by BSE/NSE, the shareholders are able to deal in Company's shares from number of cities in India. The Company, nevertheless, has to pay applicable Annual Listing Fee to these Stock Exchanges and comply with all listing agreement requirements. The Board, therefore, commends the resolution. The shares of VSNL will continue to be listed on The Bombay Stock Exchange, Mumbai and the National Stock Exchange. In view of the continuing listing at these two stock exchanges, no exit opportunity is required to be given to the members and shareholders under the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 ("SEBI Delisting Guidelines"). Under the provisions of the SEBI Delisting Guidelines, the decision of voluntary delisting of shares by the Company is required to be approved by a special resolution. The board commends the resolution to be passed by the members and shareholders of the Company by requisite majority.

None of the directors is interested or concerned in this resolution.

**In respect of Item No. 7**

The Board of Directors of the Company had, at its Meeting held on 20 August 2002, reappointed Mr.S.K. Gupta as Managing Director of the Company with effect from 1 October 2002 on the same terms and conditions. Further, the Board at its meeting held on 21 October 2002 approved the following terms and conditions for appointment of Mr. S.K. Gupta as Managing Director, subject to the approval of the shareholders. The Company signed a Memorandum of Agreement with Mr. Gupta as the Managing Director of the Company on 6 December 2002.

The main terms and conditions of the agreement dated 6 December 2002 with Mr. Gupta as Managing Director of the Company, together with the memorandum of concern or interest, are given below:

1. This appointment of Mr. Gupta as the Managing Director on deputation from Tata Services Limited is effective from 1 October 2002 i.e. the date of the Board meeting as above, and the period of this reappointment will be for a period of up to two years from the above date, unless otherwise decided by the Board of Directors. This reappointment may be terminated by Tata Services or Mr. S.K. Gupta as per the terms of appointment agreed between Tata Services and Mr. S. K. Gupta. This reappointment shall also be subject to all such approvals as may be required including that of the members of the Company in a General Meeting.

2. Subject to the superintendence, control and direction of the Board, the Managing Director shall have the powers for the general conduct and management of the whole of the business and affairs of the Company except for such matters which are specifically required to be done by the Board or the shareholders pursuant to the provisions of the Companies Act, 1956 (the “Act”) or by the Articles of Association of the Company, and the Managing Director shall also exercise and perform such powers and duties as the Board may from time-to-time delegate to him, and he shall also do and perform all other acts and things which in the ordinary course of business, he may consider necessary, or proper or in the interest of the Company.

3. Subject to the percentage limits as laid down in sub-section (3) of Section 309 of the Companies Act 1956 and the overall limit as laid down in sub-section (1) of Section 198 of the Companies Act 1956, and further subject to the approvals as may be necessary in terms of Sections 198, 269, 309, 310 and 311 of the Companies Act 1956 and also subject to the approval of the members in a General Meeting, the Company shall not remunerate the Managing Director directly but shall reimburse Tata Services all costs incurred on account of Mr. S.K. Gupta during the period he is deputed to VSNL as its Managing Director.

4. VSNL shall not be liable for compensating and Managing Director shall not be eligible for claiming from VSNL, any compensation for loss of office as Managing Director in VSNL.

5. The Managing Director shall not be paid any sitting fees for attending the meeting of the Board of Directors or any committee thereof from the date of his reappointment.

None of the Directors, other than Mr. S. K. Gupta to the extent of his appointment, is concerned or interested in the above Resolution.

**In respect of Item No. 8**

Mr. Vivek Singhal was appointed as Additional Director on the Board with effect from the conclusion of the 16th AGM held on 20 August 2002 under Article 66 B of the Articles of Association of the Company. Under Section 260 of the Companies Act, 1956 and under the said Article, Mr. Vivek Singhal holds office only up to the date of the forthcoming Annual General Meeting. Mr. Vivek Singhal is eligible for appointment as a director of the Company and the Company has, pursuant to Section 257 of the Companies Act, 1956, received a notice in writing proposing his candidature for appointment. If appointed, Mr Vivek Singhal will act as a non-executive director liable to retire by rotation. For the purpose of provisions of clause 49 of the Listing Agreement, Mr. Vivek Singhal would be an independent director.

None of the Directors other than Mr. Vivek Singhal is concerned or interested in the above Resolution.

**In respect of Item No. 9**

Dr. Ashok Jhunjhunwala was appointed as Additional Director on the Board with effect from the conclusion of the 16th AGM held on 20 August 2002 under Article 66 B of the Articles of Association of the Company. Under Section 260 of the Companies Act, 1956 and under the said Article, Dr. Ashok Jhunjhunwala holds office only up to the date of the forthcoming Annual General Meeting. Dr. Ashok Jhunjhunwala is eligible for appointment as a director of the Company and the Company has, pursuant to Section 257 of the Companies Act, 1956, received a notice in writing proposing his candidature for appointment. If appointed, Dr. Ashok Jhunjhunwala will act as a non-executive director liable to retire by rotation. For the purpose of provisions of clause 49 of the Listing Agreement, Dr. Ashok Jhunjhunwala would be an independent director.

None of the Directors other than Dr. Ashok Jhunjhunwala is concerned or interested in the above Resolution.

**In respect of Item No. 10**

Mr. F.A. Vandrevala was appointed as Additional Director on the Board with effect from 26 February 2003 under Article 66B of the Articles of Association of the Company. Under Section 260 of the Companies Act, 1956 and under the said Article, Mr. F.A. Vandrevala holds office only up to the date of the forthcoming Annual General Meeting. Mr. F.A. Vandrevala is eligible for appointment as a director of the Company and the Company has, pursuant to Section 257 of the Companies Act, 1956, received a notice in writing proposing his candidature for appointment.

None of the Directors other than Mr. F.A. Vandrevala is concerned or interested in the above Resolution.

By Order of the Board of Directors

Satish Ranade
E D (Legal) & Company Secretary

Dated : 1 August 2003
Registered Office :
Videsh Sanchar Bhavan
M.G. Road, Mumbai - 400 001.

# DIRECTORS' REPORT

Dear Shareholders,

The directors are pleased to present the annual report and audited accounts for the financial year ended March 31, 2003.

**OVERVIEW**

During the past year, the government opened up international long distance (ILD) services, your Company's largest business, to competition for the first time. VSNL had two competitors in this business by July 2002, and the Company made its best efforts to protect its traffic volumes. In a dynamic and competitive market, VSNL grew its other business lines such as value added services, entered the high-potential new businesses of national long distance (NLD) services and Internet telephony, continued to globalise its business through new international operations and restructured internally for greater effectiveness.

**FINANCIAL PERFORMANCE**

As VSNL had anticipated, the immediate effect of competition was that both settlement rates (which determine ILD services payments between telecom providers of different countries) and interconnect rates (which determine VSNL's revenues for international calls passed to or from other domestic telecom networks) fell, and so did call tariffs. Despite the competition, VSNL made its best efforts to protect its traffic volumes, though both revenues per minute and margins declined.

Those declines are fairly typical in the early stages of market opening, though competition is likely to eventually expand the market and increase volumes for all players. Thus, VSNL's income from operations fell, mainly due to lower revenue from ILD services, which also reflected the effects of previous tariff reductions. Meanwhile, other income was lower than in the previous year, due to a reduction in the Company's surplus funds and the appreciation of the Indian rupee against the U.S. dollar, leading to lower income from foreign exchange fluctuations. Profits were accordingly lower as well.

However, during 2002-03, your Company's value-added services segment grew significantly, both in volumes and in its share of VSNL's business, contributing 18% of traffic revenues against 11.61% the previous year (although on a smaller revenue base). The segment's overall revenues grew by 8.14%, despite considerable rate reductions and discounts in some services during the year. VSNL reported substantial growth in certain important services within this segment, such as Internet services, where the subscriber base grew 19.54%; and international private leased circuits (IPLCs), where revenues grew 31.78%.

During 2002-03, your Company also began implementing a profit enhancement programme, to increase profits through cost cutting and improved operational efficiencies. VSNL is already reaping the benefits. For example, in 2002-03, VSNL reduced network costs by 33.25% over the previous year, while certain operating costs fell by 20.64% VSNL remains financially strong, with a robust net worth of Rs.53.41 billion in 2002-03.

**TABLE 1**

**Audited financial results for the year 2002-2003**

(Rs. in Million)

| Description | 2002-2003 | 2001-2002* | % Change |
|---|---|---|---|
| Traffic revenue (basic services) | **37,215** | 57,526 | (35.31) |
| Revenue from specialised services | **8,170** | 7,555 | 8.14 |
| Other income | **2,740** | 5,809 | (52.83) |
| **Total Revenue** | **48,125** | 70,890 | (32.11) |
| EBITDA margins(%) | **25.13** | 24.97 | - |
| Depreciation | **1,467** | 1,304 | 12.50 |
| Prior years adjustment | **136** | 10 | 1260.00 |
| **Profit before tax** | **12,544** | 20,745 | (39.53) |
| Tax | **4,743** | 6,671 | (28.90) |
| **Profit after tax** | **7,801** | 14,074 | (44.57) |
| Earnings per share (Rs.) | **27.37** | 49.38 | (44.57) |
| Net worth | **53,413** | 48,345 | 10.48 |
| Dividend per share (Rs.) | **8.50** | 87.50 | (90.29) |

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

**Dividend**

The directors are pleased to recommend a final dividend at the rate of Rs.8.50 per share on every share of Rs.10 for the financial year ended March 31, 2003. The directors propose that profits be appropriated in the following manner:

**TABLE 2**

(Rs. in Million)

| DESCRIPTION | | Amount |
|---|---|---|
| Amount available for appropriation | | |
| - balance carried forward | 4,775.32 | |
| - Profit for the year | 7,800.71 | 12,576.03 |
| Less: | | |
| - Dividend @ 85% (on the paid-up capital of Rs.2,850) | | 2,422.50 |
| - Tax on dividend | | 310.38 |
| - Transfer to general reserve | | 4,790.00 |
| Surplus carried to balance sheet | | 5,053.15 |

## INDUSTRY AND REGULATORY ISSUES

The Indian telecom market is now highly competitive, with a large number of service providers of different kinds, including fixed-line, cellular and wireless-in-local-loop (WLL) providers, operating in different combinations of service segments such as local, ILD and national long distance (NLD) services. In this complex and rapidly evolving marketplace, regulatory actions have a crucial impact on the business and viability of all operators.

On January 24, 2003, the Telecom Regulatory Authority of India (TRAI) decided to introduce the interconnection usage charge (IUC) regime to govern inter-operator settlements for calls passed between different networks; it implemented the system from May 1, 2003. The IUC includes the cost of the origination/termination of a call and an inbuilt access deficit charge (ADC), which makes up for below-cost monthly rentals and local call charges for fixed telephones. Currently, the IUC for ILD calls is a high (Rs.5.50 to Rs.6.60) per minute including an ADC of Rs.5.00 per minute. For NLD traffic, the IUC is Rs.0.50 to Rs.2.00 per minute, depending on the call distance.

These high IUCs have inadvertently encouraged grey market ILD services, especially in the larger cities. Illegal routing operators offer cheaper services since they do not pay IUCs; various market estimates put the volumes as much as 30%-50% share of the incoming long distance traffic into India. These illegitimate operators take away the business of licensed providers and deprive the government of income since licence fees are revenue based.

The TRAI is currently reviewing the IUC system. VSNL has suggested to the TRAI that the ADC should be reviewed yearly and eventually phased out. Meanwhile, if the ADC must be imposed, it should be based on uniform principles for ILD and NLD calls and should vary depending on the distance the call travels in India. Thus, the ADC for ILD traffic could be Rs.3 to Rs.6, similar to the current ADC for NLD traffic. The ADC in cities should be low enough to ensure that illegal operators have no advantage.

The TRAI also intends to implement carrier selection in the Indian market, though this move has been delayed. The carrier access code (CAC) regime was initially to have been implemented in phases for different segments of the long distance sector, with the final implementation of carrier pre-selection (CPS) by December 2003. However, little progress has been made and it is likely that the dealine for full implementation will have to be extended beyond December 2003, because of the inadequate network readiness of BSNL/MTNL. Carrier selection will give subscribers the option to either pre-select a long distance carrier for all ILD calls, or choose a provider for each call by dialling a carrier access code before the call. The customer will then be free to choose a carrier based on competitiveness and quality, rather than that choice being made by access operators, as is the case currently.

## STRATEGIC DIRECTION

Your Company is one of India's premier telecommunications companies with over 130 years of experience, state-of-the-art technology and infrastructure and market leadership in its key businesses such as ILD services and value-added services.

To keep VSNL in the forefront of the Indian telecom sector, the Company's strategy is three-fold. First, given the pressure on its international voice traffic business, which VSNL will make its best efforts to protect, VSNL will also endeavour to enhance its other offerings, increasing value to customers through improved and new services. For example, VSNL has considerably enhanced its corporate offerings, such as through the launch of its IP-based virtual private network (IP-VPN) services. VSNL also now uses the important emerging Voice over Internet Protocol (VoIP) technology to handle some international voice traffic. Second, VSNL has expanded into related businesses, which will de-risk and increase revenues, leverage VSNL's capabilities and infrastructure and capitalise on telecom sector liberalisations in India and abroad. Accordingly, VSNL entered the Indian NLD services and Internet telephony markets during 2002-03, and has established operations in the emerging telecom markets of Nepal and Sri Lanka. Finally, VSNL is restructuring its operations for improved efficiency, by cutting costs, optimising assets, redesigning core business processes, sharpening its customer focus and strengthening its marketing.

VSNL, formerly a government-owned company, was privatised and became a Tata Group company in February 2002. 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 and the Internet business. In a highly competitive telecom environment, the integrated 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. VSNL's services are now provided under the Tata Indicom name, an umbrella brand for the Group's various telecom service offerings.

**Investment in TTSL**

For voice services, VSNL currently has no direct access to end customers and is entirely dependent on cellular and basic telecommunication service providers to route their international traffic through VSNL. Some of these companies are VSNL's direct or indirect competitors. It became imperative for VSNL to acquire an end-customer base of its own because of increased competition and the fact that VSNL's two principal customers, BSNL and MTNL,controlled access to a significant majority of subscribers, especially given the delay in implementing the carrier selection system.

Therefore, the VSNL board decided to invest in Tata Teleservices Ltd. (TTSL). 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, has an equity interest in Maharashtra (including Mumbai) and is assessing Kerala, Punjab, Haryana and Uttar Pradesh. Thus, TTSL is present in crucial telecom circles across India that yield over 65% of the country's telecom revenues. Within these circles, TTSL is successfully establishing a strong customer base, especially of high-value corporate customers. Therefore, VSNL's investment in TTSL should give the Company substantial access to attractive end users.

The VSNL board constituted a committee to examine the modalities of the investment in TTSL and received the findings at its meeting on October 21, 2002. The committee decided that VSNL would invest up to Rs.8.35 billion in TTSL's equity over a seven-year period. The committee also decided that the investment should be made at par, based on various valuations including an independent valuation by ICICI Securities, which the committee had appointed. Accordingly, during 2002-03, VSNL invested Rs.2.80 billion and picked up 19.9% of TTSL's equity.

**INTERNATIONAL LONG DISTANCE (ILD) TELEPHONY**

ILD services remain VSNL's largest business line, accounting for about 82% of total traffic revenue in 2002-03. As India's leading ILD services provider, VSNL offers telephone services to 237 international destinations. The Company operates 14 international gateways at 10 locations in India with 47 earth stations, is a founder signatory to six submarine cable systems and has acquired bandwidth on over 30 additional submarine cable systems globally. During the year VSNL increased the number of telephone circuits from 22,708 to 25,758. In 2002-03, VSNL made its best efforts to protect and maintain its volume of ILD traffic at almost the same level as the previous year; it was greatly assisted in this endeavour by the continued flow of traffic from BSNL and MTNL based on commitments made at the time of disinvestment by the Government of India. However, revenues declined 35.31%, due to sharp reductions in tariffs and settlement rates.

The Government of India allowed private players into the ILD business from April 1, 2002 and by July 2002

VSNL had two competitors in this business. The immediate effect of competition was that international call tariffs fell by about 50% during the next six months. This came on top of VSNL's earlier tariff reductions effective April 1, 2002, with a peak rate reduction of around 15%. At the same time, settlement rates for incoming ILD traffic fell, reducing retention per minute for incoming traffic.

Increased competition could lead to further decline in tariffs and settlement rates. These rate declines will mean lower margins per minute but are very likely to result in increased volumes and a larger number of both incoming and outgoing calls to and from India. VSNL, which has direct business relationships with 83 international administrations, offers highly competitive settlement rates to international carriers. VSNL will continue to periodically re-negotiate these rates, as it did during the past year.

Meanwhile, the Indian telecom market is now host to numerous basic and cellular services providers with large subscriber bases, all potential users of VSNL's ILD and NLD services. It is now vital for all telecom players to dynamically negotiate agreements for the interconnection of their telecom networks. In February 2002, VSNL began negotiating interconnect agreements with BSNL/MTNL for ILD services. However, the agreements for the year 2002-03 were signed only in November 2002, followed by agreements for 2003-04. The Government of India has assured VSNL that as per its commitment at the time of disinvestment 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.

VSNL has also signed interconnect agreements with a number of cellular service providers and private basic operators for direct termination and pick up of ILD traffic. For example, in June 2003, VSNL became a preferred long distance carrier for the MobileFirst alliance of cellular companies consisting of BPL Mobile, Escotel, RPG Cellular and Spice Telecom. VSNL is now the 'first-in-route' for all outgoing ILD traffic for the MobileFirst alliance and among its preferred NLD carriers. VSNL will also carry long distance traffic for Hutch and Idea, the strategic partners for the MobileFirst alliance.

In the new competitive environment, VSNL will seek to leverage the following advantages, in order to remain India's foremost ILD services provider:

- Extensive expertise with more than 130 years of experience dating back to its first telegraph services;
- Stable and tested operations;
- About 850 qualified and trained engineers;
- Large investments over the last 17 years in state-of-the-art technology and infrastructure;
- Existing bulk volumes, multiple international gateways, and ready access to substantial submarine cable and satellite bandwidth, making it the most reliable provider of ILD services to the telephone networks at competitive prices;
- Long-standing relationships with almost every major international carrier.

In its ILD services business, VSNL already offers convenient products such as the India Direct service, which permits calls from abroad to be charged to a called number in India or the International Toll Free service for direct dialling of international calls billed to the terminating number. VSNL now intends to introduce new products and services such as prepaid calling cards, which would be introduced on TRAI notifying the regulations on the subject. VSNL and TTSL have jointly purchased the Alcatel IN platform and are working towards the launch of ILD/NLD calling cards. During 2002-03, VSNL began capitalising on the technology shift to the Voice over Internet Protocol (VoIP) for incoming voice termination, and tied up with four international VoIP carriers. VoIP traffic accounted for 10% of the total incoming traffic in the month of March 2003.

Given lower tariffs, improving telecom penetration and increased globalisation in India, ILD services will remain an important business for VSNL.

**VALUE-ADDED SERVICES**

VSNL is India's leading player in a range of value-added services. These include services in the areas of international private leased circuits (IPLCs) and Internet leased lines, Inmarsat satellite mobile telecommunications, electronic data interchange, managed data network services, video conferencing, television relay services, packet switched data transmission and Internet access and e-mail services.

Value-added services are growing fast and are also increasing their contribution to VSNL's revenues. The segment accounted for 18% of traffic revenues in 2002-03 against 11.61% the previous year. VSNL's revenue from value-added services increased to Rs.8.17 billion in the year 2002-03 against Rs.7.56 billion in the previous year, despite substantial rate reductions and discounts on some services. Within this segment, the corporate data business is a key growth opportunity.

**Corporate Data Business**

The corporate demand for data services is increasing rapidly worldwide, offering excellent growth potential for VSNL's services. The demand for bandwidth from corporate customers is expected to grow at an average of over 50% annually over the next five years. In March 2002, VSNL formed a unit solely focused on the corporate data business. This team has a three-tier structure for coverage and a product management team. It covers about 300 customers directly, while about 45 channel partners cover the rest of the marketplace. As a result, the data business grew substantially in the past year and is still a major focus.

The IPLC segment is the flagship of the corporate business, offering point-to-point, high-speed, 24-hour connectivity for transmitting integrated applications like voice, data and video. During 2002-03, IPLC revenues grew by 31.78% to Rs.2.91 billion, as IPLC circuit bookings jumped to 45,012 circuits from 11,142 bookings in 2001-02. The main growth driver was demand from the information technology enabled services (ITES) sector, including business process outsourcing and call centre customers.

The Internet bandwidth segment also grew substantially during 2002-03, as VSNL maintained its leadership and grew its market share in this highly competitive market. Other services, such as managed network services in partnership with other global telecom giants, continue to grow profitably. VSNL is moving up the value chain in the managed website hosting services by providing security back-up and database management services to its numerous Indian and international customers. The Company has a 20,000 square feet Internet server farm at Vashi near Mumbai, another server farm in Chennai and plans similar facilities in Bangalore and New Delhi.

IP-based virtual private network (VPN) services are another key focus area. In November 2002, VSNL entered a strategic tie-up with U.S. based Gemplex, a global provider of business-networking services, to offer customised IP-based international VPN services to Indian enterprise customers. Thus, VSNL is India's first VPN vendor that can provide international IP connectivity. VSNL and Gemplex jointly set up dedicated nodes in Mumbai and Bangalore. Following a decision by Gemplex's board to dissolve the company by June 30, 2003, VSNL decided to take over the company's assets and network, which were available at a substantially discounted value. In June 2003, VSNL also formed VSNL America Inc., a wholly owned U.S. subsidiary for IP–VPN solutions. This company would take over Gemplex's assets and network, and also set up subsidiaries in other countries like the United Kingdom, extending its reach throughout the main global markets.

In July 2003, AT&T and VSNL launched a range of networking services for Indian corporate customers, including MPLS-based ATM and frame relay services, secure IP dial and MPLS-based IP-VPN services, a first in the Indian market. AT&T branded services will be offered in India under the VSNL umbrella.

In April 2003, VSNL joined hands with Tata Teleservices, Tata Internet Services and Tata Net to form the Tata Indicom Enterprise Business Unit. This unit provides specialised sales and marketing coverage to the top 400–500 Indian corporate accounts, offering integrated voice and data solutions under the Tata Indicom brand through a single interface.

**Internet Related Services**

VSNL is the market leader in the highly competitive Internet Service Provider (ISP) business. Over the past two years the industry has consolidated substantially, with many ISPs surrendering their licences. VSNL is India's biggest ISP and its subscriber base for Internet access grew from

5,86,638 in March 2002 to 7,01,259 in March 2003. With an all-India ISP licence, VSNL now offers Internet access to 22 cities and plans to extend this to more cities.

VSNL is continuously upgrading its service and distribution quality in this business. VSNL's Internet access service was re-branded and launched as Tata Indicom Internet Service on February 15, 2003. For the first time, the internet packs were distributed through a retail network across Mumbai, Delhi, Hyderabad, Chennai, Bangalore, Pune, Coimbatore and Pondicherry, covering over 2,500 outlets. In May 2003 VSNL tied up with ICICI Bank in a first-of-its-kind partnership in the Indian market. ICICI Bank's six million ATM/debit cardholders can now buy and renew Tata Indicom dial-up Internet packs through 1,675 ICICI Bank ATMs countrywide.

VSNL has already upgraded its customer care services substantially, as discussed later. The Company has also put in place a new order management team, which has increased efficiencies in stock movement, inventory control and order tracking. To improve service quality even further and provide innovative convergent billing solutions, VSNL developed a new billing and email system. This system has, however, taken time to stabilise; while there have been difficulties experienced by some customers, the Company has done its best to make the transition as smooth as possible. This system now allows VSNL to offer one single value card for all retail products, such as dial-up services or net telephony calls, thus leveraging its strong customer base for all future retail product launches.

### TV Up-linking

Since October 1998, VSNL has provided cost-effective TV up-linking facilities to numerous channels. On July 25, 2000, the Government of India 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 U.S. market. The implementation of the conditional access system (CAS) is likely to further stimulate demand for TV up-linking services.

## NATIONAL LONG DISTANCE (NLD)

In September 2002, VSNL entered the NLD services market, as a growth opportunity and a logical extension of its ILD and value added services businesses. Apart from increasing VSNL's overall revenues, the NLD business is likely to help VSNL reduce costs and increase margins by reducing its dependence on other NLD operators for domestic connectivity.

In the past year, VSNL rolled out its NLD service in the metros and several other cities, and presently carries the NLD traffic of several basic and cellular service operators. By June 2003, VSNL had received approval from the Department of Telecommunications for 60 long distance calling areas (LDCAs). The Company eventually plans a presence in 322 LDCAs spread across the country. VSNL's optical fibre cable backbone will allow it to collect, carry and deliver voice and data traffic and allow it to extend its existing backbone Internet network countrywide. From March 2003, the 3,500 km Delhi–Mumbai–Hyderabad–Bangalore section of VSNL's NLD backbone became operational, backed up by leased bandwidth from GAIL/BSNL to ensure high service quality. VSNL is currently expanding the backbone network on the Amritsar-Delhi and Mysore-Mangalore-Ernakulam routes.

## INTERNET TELEPHONY

From April 2002, the Government of India permitted ISPs to offer voice telephony over the Internet using the Voice over Internet Protocol (VoIP). VSNL is deploying a fully owned Internet telephony infrastructure to offer high quality Internet telephony to complement its ILD business. Low tariffs in Internet telephony could encourage usage and increase international call volumes.

VSNL launched its corporate net telephony services in December 2002, offering both customised and off-the-shelf solutions. For example, the closed user group (CUG) service is for companies with multiple locations or numerous accounts. VSNL plans to launch retail net telephony by the end of the year, which will include pre-paid cards, and is also working towards a solution for net telephony calling from cyber cafés.

## INTERNATIONAL INITIATIVES

VSNL is now globalising its operations and capitalising on the liberalisation of emerging telecom markets.

### United Telecom Ltd.

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 CDMA based basic services in Nepal and is currently setting up a network for 150,000 subscribers in Nepal's top 10 cities. UTL can also operate NLD and ILD services.

### VSNL Lanka Ltd.

In June 2003, VSNL Lanka Ltd., a wholly owned subsidiary set up by VSNL in Sri Lanka, received an External Gateway Operator (EGO) licence, since Sri Lanka Telecom's monopoly has ended. The EGO licence, acquired against a licence fee of US$ 60,000, allows VSNL to offer ILD voice and data services. The Sri Lankan market, estimated at 400 million ILD minutes, offers VSNL a promising opportunity to increase its presence in the sub-continent.

### VSNL America Inc.

In June 2003, VSNL formed VSNL America Inc., a wholly owned subsidiary in the U.S., to provide IP–VPN solutions. This venture will allow end-to-end management of VSNL's Internet bandwidth from India all the way to the U.S., providing improved service to its Internet, data and IP–VPN customers. This company would take over Gemplex's assets and set up other subsidiaries as already discussed.

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.

## BUSINESS RESTRUCTURING AND INTERNAL INITIATIVES

The Company is restructuring its business to maximise competitiveness in the new market environment. VSNL has created three customer-facing divisions - wholesale, corporate and retail – to better serve its major customer segments. VSNL's other restructuring initiatives are as follows:

### Sales and Marketing

VSNL has significantly increased its sales and marketing effectiveness by creating dedicated teams of trained people to proactively address the corporate and retail markets. VSNL now has a three-tier structure: the Company's sales force directly handles large corporate accounts; channel partners service small and medium enterprises; and retail service channels serve retail customers. The Company is also part of the Tata Indicom Enterprise Business Unit as discussed earlier, for focussed coverage of large corporate accounts.

### TBEM and Quality Initiatives

During the year, VSNL began to implement the Tata Business Excellence Model (TBEM), which aims at business excellence driven by the use of quality improvement tools and processes. TBEM lays down best practices for Tata Group companies focusing on areas like strategy development and deployment, managing for innovation, planning and processes, customer service and social responsibility. Over the next few years, VSNL intends to use TBEM as a framework to match industry and global best-practice benchmarks in these areas.

### Profit Enhancement and Cost Cutting

In September 2002 VSNL embarked on a major cost reduction exercise. The exercise is part of a broader profit enhancement programme that aims to increase efficiency and productivity; cut costs; optimise traffic, equipment and infrastructure; and improve debt recovery and timely collections. The Company is attacking its cost base, including legacy costs, through a combination of measures.

A major focus area is saving bandwidth charges - which contribute a sizeable share of VSNL's operating expenses - by maximising bandwidth capacity utilisation through re-grooming cables, surrendering excess bandwidth and identifying lower-cost suppliers. VSNL has also instituted a new revenue assurance function to minimise revenue leakages, in line with industry best practices. Various assets, notably earth station equipment, are also being redeployed for maximum utilisation.

### Customer Service

Customer service is a key focus for VSNL. Over the past year, the Company has put in place a customer service organisation with dedicated call centres and back office infrastructure to support both corporate and retail customers. Apart from setting up helpdesks at all its branches, in March 2003 VSNL set up a round-the-clock call centre for the western region, catering to six cities. The Company is currently setting up call centres for the other three regions of the country. VSNL has also developed a customer relationship management system to improve service levels and has installed backend customer service support teams and processes.

## INFRASTRUCTURE AND INFORMATION TECHNOLOGY

Over the years, VSNL has invested in a combination of satellite bandwidth, submarine cables and microwave systems, which provide seamless, high-quality connectivity and a strong platform for continued leadership in the field of international voice and data communications and value added services. VSNL spent Rs.3.95 billion in 2002-03 on infrastructure including cables, NLD switches, its optical fibre link and a data centre at Vashi.

The Company is upgrading its information technology (IT) systems with an emphasis on billing systems and integrated network management systems. During 2002-03, VSNL upgraded business critical applications like wholesale and retail billing and the billing mediation system to the latest versions with new features, while others like ILD billing were also upgraded and migrated to state-of-the-art servers. The Company implemented wholesale (inter-carrier) billing for NLD and improved service availability and security by relocating all critical IT infrastructure to its data centre at Vashi. VSNL also began to consolidate its existing dialup Internet billing systems into a single, centralised system, with a similar exercise for Internet messaging systems.

## FIXED DEPOSITS

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

## HUMAN RESOURCES

VSNL has attracted and retained some of the country's top talent by offering challenging job opportunities and career growth. The Company has also hired a number of senior professionals to strengthen its leadership.

On March 31, 2003, VSNL employed 2,752 people against 2,880 on March 31, 2002. Of these 1,081 (1,126 last year) were executives and 1,671 (1,754 last year) were non-executives. The Company had 381 women employees (131 executives and 250 non-executives) on March 31, 2003 against 400 (134 executives and 266 non-executives) on March 31, 2002.

During the year, the Company stepped up communications with employees and training activities. A series of programmes called 'Integration Confluence' were held, involving over 1,000 VSNL employees. Senior executives shared business information with employees through videoconferences and several town-hall meetings were held. The Company conducted specialised sales training and managerial and leadership programmes. About 1,000 executives were trained on a newly designed performance management system.

VSNL announced a Voluntary Retirement Scheme (VRS) on May 9, 2003. The scheme was opened on May 15, 2003 for employees who were 40 years of age or above with 10 years of service. Approximately 1,675 employees were eligible, of which around 1,100 were non-executives. The scheme closed on July 14, 2003 and a total of 953 employees opted to retire voluntarily, including 246 executives (23% of the executive workforce) and 706 non-executives (44% of the non-executive workforce). VSNL's workforce has consequently fallen to 1,775 employees.

### Employee Relations

VSNL's privatisation has proceeded smoothly. During the year, harmonious relationships were maintained with the employees' representative bodies and regular meetings were held with them. Various employee concerns were resolved through discussions.

## 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.28,499 million and foreign exchange outgo was equivalent to Rs.9,759 million.

There are no qualifications contained in the report of the statutory auditors for the year 2002-03.

**THE BOARD OF DIRECTORS**

After VSNL's privatisation during February 2002, the VSNL board was reconstituted. Mr. Ratan Tata was appointed chairman of the board. Mr. S K Gupta was appointed as managing director until September 30, 2002. In its meeting held on August 20, 2002, the board decided to appoint Mr. Gupta as managing director on deputation from M/s Tata Services Limited for a period of up to two years, with effect from October 1, 2002. Mr. Srinath Narasimhan was appointed director (operations).

Mr. Y.S. Bhave, joint secretary (FA), Ministry of Information Technology was appointed as Government of India nominee director with effect from May 15, 2002. Mr. Rakesh Kumar continues as a Government of India nominee director. Both Mr. Bhave and Mr.Rakesh Kumar are non-retiring directors. Mr. Subodh Bhargava and Mr. Suresh Krishna were appointed as independent directors with effect from May 15, 2002 and May 24, 2002, respectively. Thereafter, Mr. Ishaat Hussain and Mr. K.A. Chaukar were appointed as additional directors with effect from July 1, 2002. Mr. Vivek Singhal and Dr. Ashok Jhunjhunwala joined the board on August 20, 2002 as independent directors. Mr. F.A. Vandrevala was appointed as an additional director on February 26, 2003.

None of the Company's directors 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 I 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;
- 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 Government of India, the DoT, BSNL and MTNL.

The directors are also 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: 1 August 2003

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

# ANNEXURE 1 : MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY BACKGROUND AND PROSPECTS

Until the mid-1980s, India's telecommunications sector was a public sector monopoly controlled by the Government of India (GoI) through the Department of Posts and Telegraphs of the Ministry of Communications. In the mid-1980s, the Government of India 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 Government of India'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. In 1997, the Telecom Regulatory Authority of India (TRAI) was established to provide adequate safeguards to ensure fair competition and protection of consumer interests. As part of the National Telecommunication Policy (NTP) 1999, the Government of India separated and corporatised the services function of the DoT as Bharat Sanchar Nigam Limited (BSNL), leaving DoT with its regulatory role. Through various policy initiatives and successive NTPs in 1994 and 1999, the Government of India reaffirmed its commitment to take India to international standards in telecommunications by 2010.

The Indian telecommunications industry has changed significantly 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 NTP 99 target of 15%. By 2006, telecom is expected to be a Rs.660 billion sector, contributing 5.4% to India's GDP.

## PRIVATISATION

VSNL ceased to be a government Company on February 13, 2002 when the Government of India, 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. Following its subsequent open offer for a further 20% of VSNL's equity, the Tata Group is now the Company's biggest shareholder with a share of over 46%, while the Government of India is VSNL's second-largest shareholder with a 26.12% stake.

## TERMINATION OF MONOPOLY AND COMPENSATION

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

- A licence to operate NLD services.

- Reimbursement by the Government of India of all NLD licence, 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 licence performance bank guarantee of Rs.4 billion. However, subsequently, VSNL was required to provide this guarantee, since the Government of India 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.

The package further specified that if a detailed review in future, after the entry of competition, established the need for additional compensation, this would be considered by the Government of India. VSNL has made a representation to the Government of India pointing out the inadequacies of the compensation package and this is presently under discussion with the Government.

## VSNL'S INITIATIVES

Given the changed market environment after the international long distance (ILD) sector was opened up, VSNL has undertaken several initiatives to compete effectively and meet the increasingly diverse needs of its corporate and retail customers. These initiatives are in the areas of sales and marketing, profit enhancement, customer service, information technology and organisational structure. VSNL has also entered new businesses such as national long distance (NLD) services and Internet telephony services, to increase the Company's revenue and profitability. All these developments have been discussed in the directors' report.

In the last couple of years, alongside the growth of the Indian economy, there has been very rapid growth in IT/IT enabled services from India. Meeting the growing needs of the Company's ILD voice business as also corporate data services and other value added services requires fundamentally the availability of international bandwidth. There is also a demand by corporate and retail internet users to upgrade to broadband services. In order to meet these requirements of its customers, VSNL is procuring adequate bandwidth on an ongoing basis.

## STATUS OF JOINT VENTURES AND ASSOCIATED COMPANIES

### 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 shareholding 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). 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.

### TVC India Private 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, VSNL holds Rs.92 million out of the Company's total paid up capital of Rs.314 million. TVCL undertakes turnkey VSAT projects for large organisations besides providing consultancy and facility management services. 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. As a part of the re-organisation of TVCL, VSNL is to receive shares of Essel Shyam Limited in lieu of its holding in TVCL. However, in view of the difficult financial position of TVCL, VSNL has decided to write off Rs.92 Million during 2002-03.

**New Skies Satellite N.V. (NSS)**

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, 2003 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%.

**VSNL Seamless Services Limited (VSSL)**

VSSL was a private limited company until November 21, 2002, when the VSSL board decided to make it a wholly owned subsidiary of VSNL. On May 29, 2003, the VSNL board decided to liquidate VSSL, since it was not an active company. On the same date, the VSSL board decided on a voluntary liquidation. VSSL will soon proceed to take all further steps for expeditious voluntary winding up.

## DEMERGER OF SURPLUS LAND

Under the terms of the share purchase and shareholders' agreements signed at the time of VSNL's privatisation, Panatone Finvest Ltd. agreed that VSNL would demerge certain land that the Company owns at Pune, Kolkata, New Delhi and Chennai, into a separate company. The shares of this resulting company would be distributed pro-rata to VSNL's existing shareholders. As part-consideration for its purchase of the Government of India's shares in VSNL, Panatone Finvest Ltd. also agreed to transfer to the Government of India, without further consideration, a portion of the shares of the resulting company that it receives. No time period was specified in the agreements for the demerger. VSNL, Panatone Finvest Ltd. and the Government of India are currently discussing the most expeditious and expedient manner to accomplish the demerger or sale of the land, while also ensuring the most beneficial income tax and stamp duty treatment.

## RISKS 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 telecommunication service providers to route the international calls of their customers through VSNL. Some of these operators are even competitors of 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 seeking to ensure such access, as discussed in the directors' report.

The commitment by the Government of India to route all ILD calls of BSNL/MTNL through VSNL as 'most favoured customer' for a period of two years after transfer of management control of VSNL to the strategic partner expires in early 2004, after which it will not be binding on BSNL/MTNL to route their ILD calls exclusively through VSNL. VSNL, however, has offered the use of its facilities and services at reasonable commercial rates on a continued basis to BSNL/MTNL, so that there is no duplication by them of the valuable infrastructure that has been created within VSNL, which would be a national waste.

**Tariffs and Government Regulation**

Most of VSNL's services including ILD services are operated under a licence 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 will periodically renegotiate interconnect agreements with various domestic mobile service operators and basic telecom service providers; and settlement rates with international carriers. The consequent revisions could have a material effect on VSNL's operations and financial condition.

**Delay in Implementation of CAC Regime**

The CAC regime offers the end customer the right to choose the NLD/ILD carrier, based on competitiveness and quality, rather than such choice being made by the access provider. Implementation of the CAC regime has been delayed due to technical and other issues. BSNL and MTNL, who almost completely control access to the end customer, are presently the two principal customers for VSNL's international voice telephony business. With 'most favoured customer' status expiring in early 2004, early implementation of the CAC regime is required for VSNL to be able to develop its own customer base. The delay in implementation of the CAC regime is a serious cause of concern for VSNL.

**Increased Competition**

The de-regulation of the Indian telecom market exposes the Company to increased competition:

- Since April 1, 2002, VSNL no longer has a monopoly in ILD services and new players have entered the business.
- The Internet Service Provider (ISP) business is intensely competitive and has a large number of players.
- ISPs are allowed to provide Internet telephony, and now compete with VSNL's ILD business and the Company's own Internet telephony services.
- VSNL has entered the national long distance business, where there are several 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 adverse developments in the operations of some of its key overseas associates.

## INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

VSNL has a well-developed internal control system and has also implemented the SAP system for accounting. Financial powers of various executives 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 statutory audit.

## CAUTIONARY STATEMENT

Statements in the directors' report and management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ substantially or 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 government regulations, policies, tax laws and other incidental factors. Further, the Company retains the flexibility to respond to fast-changing market conditions and business imperatives. Therefore, the Company may need to change any of the plans and projections that have been outlined in this report, depending on market conditions.

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# REPORT ON CORPORATE GOVERNANCE FOR THE YEAR 2002-03

## (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 internationally recognised accounting firm 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. Ten out of twelve directors are non-executive directors, forming over 50% of the total number of directors. VSNL has four 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 as of 31 March 2003 are given below :

| Name | Category | Board Meetings during the tenure | | Attendance at the last AGM (20.08.2002) | No. of Directorships in other Public Companies | | No. of Committee Positions held in other Public Companies | |
|---|---|---|---|---|---|---|---|---|
| | | Held | Attended | | Chairman | Member | Chairman | Member |
| **Directors in Office** | | | | | | | | |
| Mr. R.N. Tata | Not Independent Non Executive | 6 | 6 | Yes | 10 | 2 | NIL | 5 |
| Mr. S.K. Gupta | Not Independent Executive | 6 | 6 | Yes | NIL | 1 | NIL | NIL |
| Mr. N. Srinath | Not Independent Executive | 6 | 6 | Yes | NIL | 2 | NIL | NIL |

| Name | Category | Board Meetings during the tenure | | Attendance at the last AGM (20.08.2002) | 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[1] | Not Independent Non Executive | 6 | 6 | Yes | NIL | NIL | NIL | NIL |
| Mr. Y.S. Bhave[1] [Joined w.e.f. 15.05.2002] | Not Independent Non Executive | 6 | 4 | Yes | NIL | 3 | NIL | NIL |
| Mr. Subodh Bhargava [Joined w.e.f. 15.05.2002] | Independent Non Executive | 6 | 6 | Yes | 1 | 6 | 1 | 6 |
| Mr. Suresh Krishna [Joined w.e.f. 24.05.2002] | Independent Non Executive | 6 | 4 | Yes | 6 | 3 | 2 | 3 |
| Mr. Ishaat Hussain [Joined w.e.f. 01.07.2002] | Not Independent Non Executive | 5 | 5 | Yes | 2 | 12 | 4 | 4 |
| Mr. Kishor A. Chaukar [Joined w.e.f. 01.07.2002] | Not Independent Non Executive | 5 | 5 | Yes | NIL | 12 | 3 | 6 |
| Mr. Vivek Singhal [Joined w.e.f. 20.08.2002] | Independent Non Executive | 3 | 1 | N.A. | NIL | 7 | 1 | NIL |
| Dr. Ashok Jhunjhunwala [Joined w.e.f. 20.08.2002] | Independent Non Executive | 3 | 3 | N.A. | NIL | 5 | NIL | 1 |
| Mr. F.A. Vandrevala [Joined w.e.f. 26.02.2003] | Not Independent Non Executive | 1 | 1 | N.A. | NIL | 10 | NIL | 3 |

[1] Nominee director of the Government of India.

**Notes** :

(a) None of the directors is related to any other director.

(b) None of the directors has any business relationship with the company.

(c) None of the directors received any loans and advances from the company during the year.

(d) The information as required under annexure I to clause 49 is being made available to the board.

(e) The company did not have any pecuniary relationship or transactions with non-executive directors during 2002-03.

(f) The detailed resume of each director is published in a separate section in the annual report.

(g) The gap between two board meetings did not exceed four months. The dates on which the 6 board meetings were held are as follows:

28 May 2002; 29 July 2002; 20 August 2002;
21 October 2002; 24 January 2003; 28 March 2003

### 3. AUDIT COMMITTEE

The audit committee of the board was first constituted on December 15, 1998. It was subsequently reconstituted several times in accordance with the changing legal and other requirements. The last modification in the constitution of the audit committee took place on March 28, 2003 with the induction of Mr. Ishaat Hussain and Dr. Ashok Jhunjhunwala. Mr. Ishaat Hussain joined the committee with effect from May 10, 2003.

The reconstituted audit committee consists of five 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 necessary and sufficient financial and accounting background. The other members of the committee are Mr. Ishaat Hussain, Director (Finance), Tata Sons Limited, Mr. Y. S Bhave, government nominee director, Mr. Vivek Singhal, Chairman, Electronic & Software Export Corporation and Dr. Ashok Jhunjhunwala, Professor, Electrical Engineering Department, IIT Madras, and Head, Telecommunications and Computer Networks (TeNeT) Group. Mr. Satish Ranade, ED (Legal) & Company Secretary is the audit committee's Secretary.

At the Annual General Meeting held on August 20, 2002 the Chairman of the Audit Committee, Mr. Subodh Bhargava was present. During the last financial year, the Audit Committee held eight meetings.

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 2002-03 | |
|---|---|---|
| | Held during the tenure | Attended |
| Mr. Subodh Bhargava | 8 | 8 |
| Mr. Rakesh Kumar (replaced by Mr. Y.S. Bhave on 29 July 2002) | 3 | 1 |
| Mr. Suresh Krishna (replaced by Mr. Vivek Singhal on 21 October 2002) | 5 | 0 |
| Mr. Y.S. Bhave (inducted w.e.f. 29 July 2002) | 5 | 5 |
| Mr. Vivek Singhal (inducted w.e.f. 21 October 2002) | 3 | 2 |
| Mr. Ishaat Hussain (inducted w.e.f. 10 May 2003) | - | - |
| Dr. Ashok Jhunjhunwala (inducted w.e.f. 28 March 2003) | - | - |

### 4 REMUNERATION COMMITTEE

The Remuneration Committee consists of three members. The Chairman of the Committee is Mr. Suresh Krishna, Chairman, and Independent Director who is the Chairman and Managing Director of Sundram Fasteners Limited. The other members are Mr. Ratan Tata and Mr. Subodh Bhargava. Mr. Satish Ranade, ED (Legal) & Company Secretary is the Remuneration Committee's Convenor. The first meeting of the Remuneration Committee was held on 29 May 2003.

The details of remuneration to the whole-time directors during the year 2002-03 is as follows:

**(Rs. in '000)**

| Name | Salary | Perquisites & Allowances | Commi-ssion |
|---|---|---|---|
| Mr. S.K. Gupta | 2391 | 973 | 1500 |
| Mr. N. Srinath | 1808 | 738 | 1200 |
| Total | 4199 | 1711 | 2700 |

1 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. Thereafter Mr. S.K. Gupta has been

reappointed as the MD of the Company on deputation to VSNL from Tata Services Limited for a period of up to two years with effect from 1 October 2002. Accordingly, a new agreement was signed under the applicable provisions of the Companies Act, 1956. This agreement effective 1 October 2002 is subject to the approval of the shareholders at the annual general meeting.

2 Either party, giving the other party six months' notice or the company paying six months' salary in lieu thereof, may terminate the agreements with the whole-time directors.

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

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 on May 29, 2003 to have Dr. Ashok Jhunjhunwala as its member. Now, the committee consists of three members. The Chairman of the Committee is Mr. Kishor A. Chaukar who is the Managing Director of Tata Industries Limited. The other members are Mr. Y.S. Bhave, nominee Director of the Government, Dr. Ashok Jhunjhunwala, Professor, Electrical Engineering Department, IIT Madras, and Head, Telecommunications and Computer Networks (TeNeT) Group, Chennai. Mr. Satish Ranade, ED (Legal) & Company Secretary is the Investor Grievance Committee's secretary. During the last financial year, the Committee held three meetings.

The details of grievances received from the shareholders during the year and their status on March 31, 2003 is given below:

| Sr. No. | Nature of Complaints | No. of Complaints | |
|---|---|---|---|
| | | Received | Pending |
| 1 | Non-receipt of Dividend Warrant | 652 | 7 |
| 2 | Non-receipt of Share Certificates | 70 | 0 |
| 3 | SEBI/Stock Exchange | 15 | 0 |
| 4 | Miscellaneous/Others | 176 | 0 |
| | **Total** | **913** | **7** |

This committee has been delegated the powers to approve the issue of Duplicate Share Certificates and approve transfer/transmission of shares exceeding 500 shares per folio. The Registrar and Transfer Agents have been authorised to issue Duplicate Share Certificates and approve transfer/transmission up to a maximum of 500 shares per folio, limited only to routine day-to-day work. 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, 2003 have been duly processed.

*Compliance Officer*

Mr. Rishabh Nath Aditya
Assistant Company Secretary
Videsh Sanchar Nigam Limited
M. G. Road, Mumbai - 400 001.
Tel : +91 22 5657 8765 Extn.2031
Fax : +91 22 5659 2354
Email : Rishabh.Aditya@vsnl.co.in

## 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 |
|---|---|---|
| 20 August 2002 | The 16th annual general meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020. There were 14 resolutions (3 special 11 ordinary). Out of three special resolutions one was passed through Postal Ballot result of which was declared at the AGM. | All the resolutions were put to vote by show of hands. Thirteen resolutions were carried out unanimously and one through Postal Ballot was passed with the requisite majority. |
| 27 September 2001 | The 15th annual general meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020. There were six resolutions (all ordinary). | All the resolutions were put to vote by show of hands. Five resolutions were carried out unanimously and one was passed with the requisite majority. |

| | | |
|---|---|---|
| 2 May 2001 EGM | A requisitioned extraordinary general meeting was held on May 2, 2001 at 1000 hours at Sasmira, Sasmira Marg, Worli, Mumbai – 400025. There was only one ordinary resolution. | The resolution was put to vote by show of hands and carried with a majority. |
| 26 September 2000 | The 14th annual general meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020. There were 8 resolutions (7 ordinary and one special). | All the resolutions were put to vote by show of hands. Seven resolutions were carried unanimously and one was passed by requisite majority. |

## 7 DISCLOSURES

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 the company at large. Note no. 15 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.

## 8 MEANS OF COMMUNICATION

VSNL's quarterly results are published in the Indian Express and Loksatta 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 2002-03. Segmental information may be referred to in Note no. 8 of the Notes on Accounts.

## 9 SHAREHOLDER INFORMATION

### DATE AND VENUE OF THE AGM

The seventeenth annual general meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours on 2 September 2003, at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020.

### FINANCIAL CALENDAR

| | | |
|---|---|---|
| Fiscal year ending | : | March 31, 2003 |
| Annual General Meeting | : | September 2, 2003 |

### KEY FINANCIAL REPORTING DATES FOR THE FINANCIAL YEAR 2003-04

| | | |
|---|---|---|
| First quarter ending June 30, 2003 | : | July 30, 2003 |
| Second quarter ending Sept. 30, 2003 | : | On or before October 31, 2003 |
| Third quarter ending Dec. 31, 2003 | : | On or before January 31, 2004 |
| Fourth quarter ending March 31, 2004 | : | On or before April 30, 2004 or if audited, on or before May 31, 2004 |

### BOOK CLOSURE DATES FOR THE PURPOSE OF DIVIDEND

VSNL's register of members and share transfer books will remain closed from Saturday, August 16, 2003 to Tuesday, September 2, 2003 (both days inclusive), to determine the entitlement of shareholders to receive the final dividend as may be declared for the year ended March 31, 2003.

### DIVIDEND PAYMENT

Dividend on equity shares as recommended by the directors for the year ended March 31, 2003, when declared at the meeting, will be paid on or after September 8, 2003:

(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 Thursday, 14 August 2003 (15 August being a public holiday).

(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) and Central Depository Services (India) Limited (CDSL), as at the end of business on Friday, August 15, 2003.

**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 ECS/DDS 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 DP.

**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 2003-2004 have been paid. Proposal to delist VSNL shares from Delhi, Kolkata and Chennai stock exchanges is placed before the shareholders at this AGM.

**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.

**DEPOSITORY 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) 2202 4941/43, Facsimile: (022) 2204 4942.

**CUSTODIAN FOR THE DEPOSITORY IN INDIA**

ICICI Bank Limited, Securities Markets Services, ICICI Towers, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, Telephone: 91-22-2653 6238, Facsimile: 91-22-26531164.

**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)

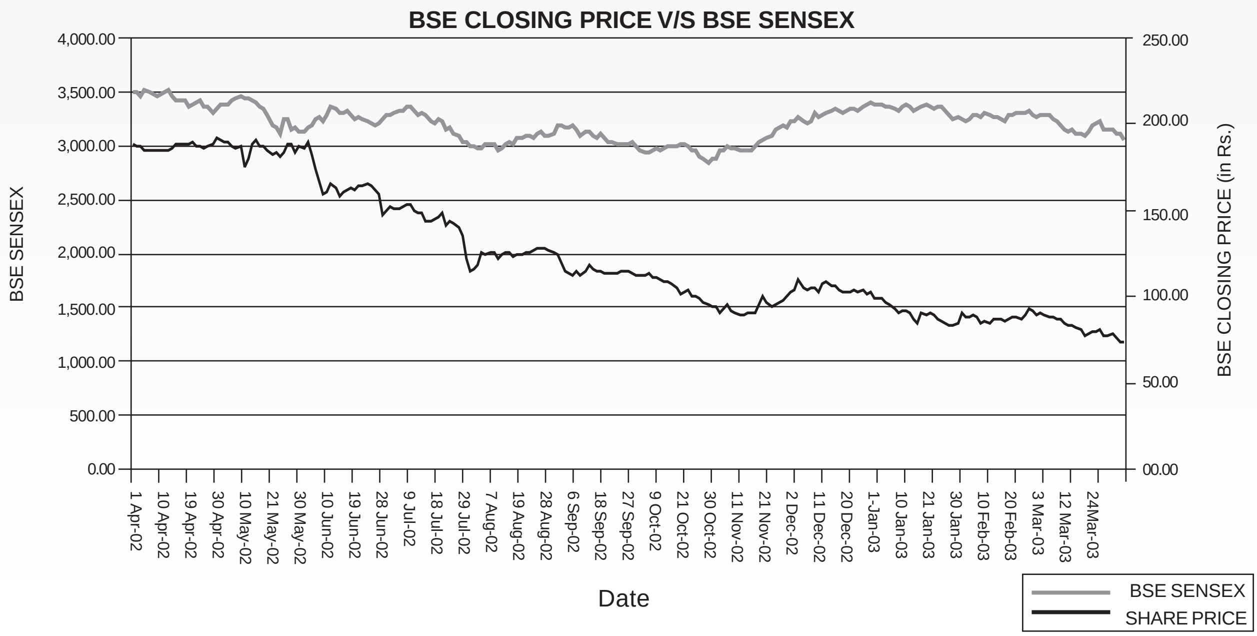
### STOCK MARKET DATA RELATING TO SHARES LISTED IN INDIA

Monthly high and low quotations and volume of shares traded at BSE & NSE for 2002-2003 are :

| | BSE Share Price (Closing) | | | NSE Share Price (Closing) | | |
|---|---|---|---|---|---|---|
| Date | High | Low | Volume | High | Low | Volume |
| Apr-02 | 191.80 | 184.30 | 4834567 | 191.65 | 184.65 | 8719535 |
| May-02 | 191.35 | 175.00 | 2668678 | 191.75 | 175.15 | 6470974 |
| Jun-02 | 189.20 | 147.40 | 6533331 | 188.40 | 147.70 | 12865127 |
| Jul-02 | 153.50 | 114.45 | 3884015 | 153.20 | 114.30 | 8869894 |
| Aug-02 | 128.35 | 118.45 | 3570574 | 128.35 | 118.25 | 4744092 |
| Sep-02 | 119.90 | 111.85 | 1310027 | 120.05 | 111.75 | 3166099 |
| Oct-02 | 112.95 | 90.65 | 791187 | 112.90 | 90.85 | 2547760 |
| Nov-02 | 103.30 | 89.05 | 2738501 | 103.20 | 89.15 | 6800860 |
| Dec-02 | 109.50 | 98.50 | 2290919 | 109.45 | 98.45 | 5449696 |
| Jan-03 | 99.30 | 83.45 | 1946162 | 99.25 | 83.65 | 6403058 |
| Feb-03 | 93.55 | 85.05 | 2846769 | 93.55 | 85.00 | 6640771 |
| Mar-03 | 88.50 | 73.50 | 2105234 | 88.60 | 73.15 | 3757132 |
| Total | | | 35519964 | | | 76434998 |
| Percentage of volume traded on BSE & NSE to shares available in Indian market | | | | | | 215.83%** |

***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 51872110 only, which has been arrived at after deducting 128250000 shares held by the strategic partner M/s Panatone Finvest Limited, 74446885 shares held by the Government of India and 30431005 shares as underlying shares for ADRs.*

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



**SHARE TRANSFER SYSTEM**

Share transfers in 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. The Investor Grievances Committee is empowered to approve the share transfers beyond 500 shares per folio. Upto 500 shares per folio the R&T Agents have been empowered to approve the share transfer.

**DISTRIBUTION OF SHAREHOLDING**

| | Number of shareholders | |
|---|---|---|
| Number of ordinary shares held | **31.03.2003** | 31.03.2002 |
| 1 to 500 | **87764** | 85958 |
| 501 to 1000 | **2179** | 2128 |
| 1001 to 10000 | **4025** | 4180 |
| Over 10000 | **156** | 288 |
| **Total** | **94124** | 92554 |

**CATEGORIES OF SHAREHOLDERS AS OF 31 MARCH**

| Category | Number of Shareholders | | Voting Strength | | Number of Shares held | |
|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| Central Government including nominees of President of India | **1** | 4 | **26.12** | 26.12 | **74446885** | 74446885 |
| Indian public financial institutions and mutual funds | **24** | 45 | **7.38** | 7.09 | **21028907** | 20203572 |
| Indian nationalised banks | **10** | 10 | **0.04** | 0.03 | **102344** | 99464 |
| Foreign financial institutions | **32** | 105 | **1.94** | 10.86 | **5541572** | 30954140 |
| Foreign companies (shares held by Bank of New York as depository for ADRs) | **2** | 2 | **10.68** | 21.00 | **30310704** | 59853902 |
| Non-resident individuals / Overseas Corporate Bodies | **358** | 333 | **0.06** | 0.04 | **176970** | 119450 |
| Other Indian bodies corporate (including 128250000 shares held by strategic partner M/s Panatone Finvest Limited) | **2336** | 2544 | **47.80** | 28.09 | **136240354** | 80048521 |
| Others | **91359** | 89510 | **5.98** | 6.77 | **17029707** | 19266684 |
| In transit demat shares | **1** | 1 | **0.00** | 0.00 | **2256** | 7382 |
| **TOTAL** | **94123** | 92554 | **100** | 100 | **285000000** | 285000000 |

**Dematerialisation of Shares and Liquidity**

Approx 99% of the company's share capital available in the market is dematerialised as on March 31, 2003. 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**

15155352 ADRs (each representing two ordinary share of the company) are outstanding as of March 31, 2003. 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 follows :

| 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 | 600,000 | 600,000,000 |
| March'91 | Shares of Rs.1000/- each subdivided into shares of Rs.10/- each. | NIL | 60,000,000 | 600,000,000 |
| 06.02.92 | Bonus of 1:3 issued to GoI of India. | +20,000,000 | 80,000,000 | 800,000,000 |
| Jan-Feb 92 | 12 million shares disinvested in favour of Indian financial Institutions by GoI @ Rs.123/- per share. | NIL | 80,000,000 | 800,000,000 |
| 1994-95 | 2,382,529 shares transferred to disinvested parties as bonus shares. | NIL | 80,000,000 | 800,000,000 |
| 27.03.97 | VSNL raised its share capital by way of a GDR issue, and GoI divested, 3.9 million shares, in GDR markets @ US$13.93 per GDR equivalent to Rs.1000 per share. | +12,165,000 | 92,165,000 | 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 | 95,000,000 | 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 | 95,000,000 | 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 | 95,000,000 | 950,000,000 |
| Sept'99 | 10,00,000 shares divested by GoI in domestic markets @ Rs.750 per share. | NIL | 95,000,000 | 950,000,000 |
| 15.08.2000 | Listing of ADRs on the New York Stock Exchange. | NIL | 95,000,000 | 950,000,000 |
| 24.11.2000 | Bonus shares in the ratio of 2:1. | +190,000,000 | 285,000,000 | 2,850,000,000 |
| 13.02.02 | 25% of VSNL's equity transferred to Tata Group's investment vehicle Panatone Finvest Ltd. GoI 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 VSNL's employees @ Rs.47.85 per share, locked in for one year. | NIL | 285000000 | 2,850,000,000 |
| 10.04.02 | Open offer by Panatone Finvest Limited in accordance with SEBI guidelines to acquire up to 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 |

**Locations of Other Offices**

Regional Offices : Mumbai, Chennai, Kolkata 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 Bhavan (VSB)
Mahatma Gandhi Road,
Mumbai - 400 001.
Tel : +91 22 5657 8765
Fax : +9122 5639 5162
Email : help@vsnl.com
Website : www.vsnl.com

**Corporate Office**
Lokmanya Videsh Sanchar Bhavan (LVSB)
Kashinath Dhuru Marg
Prabhadevi
Mumbai – 400 028.
Tel : +91 22 5657 8765
Fax : +9122 5639 5162
Email : help@vsnl.com
Website : www.vsnl.com

**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) 2821 5168
Fax : (022) 2837 5646
E-mail : 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 Bhavan
Kashinath Dhuru Marg, Opposite Kirti College,
Prabhadevi, Mumbai - 400 028.
Tel : +91 (22) 2432 0621
Fax: +91 (22) 2432 0283
Email: invrelhq@vsnl.com;
investor.relations@vsnl.co.in

************

# SECRETARY RESPONSIBILITY STATEMENT

The ED (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, committee meetings and the general meeting, within the time limit prescribed by law;

(iv) conducted the board meetings and 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 disclosures required under the Act including those required in pursuance of the disclosures made by the directors;

(vii) obtained all the necessary approvals of directors, shareholders, the 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 transferred unpaid dividend amounts, if applicable, to the general revenue account of the central government or the 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 the requirements of the 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 LIMITED**

We have examined the compliance of conditions of Corporate Governance by Videsh Sanchar Nigam Limited, for the year ended on 31 March 2003, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

During the period 1 April 2002 to 19 August 2002, the Company did not have the requisite number of independent directors resulting in non-compliance with clause 49 of the Listing Agreement, which stipulates that one-third of the directors should be independent.

Except for insufficient number of independent directors during the period 1 April 2002 to 19 August 2002, as stated in the preceding paragraph, in our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that while the Shareholders/Investor Grievance Committee has not maintained records to show the investor grievance 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 31 March 2003 there were no investor grievances remaining unattended/pending for more than 30 days.

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **S. B. BILLIMORIA & CO.**
*Chartered Accountants*

**N.Venkatram**
*Partner*

Mumbai
29 May 2003

# FINANCIAL RATIOS

| PROFITABILITY RATIOS (Percentage) | 1998-99 | 1999-2000 | 2000-2001 | 2001-2002 | **2002-2003** |
|---|---|---|---|---|---|
| Operating Profit margin (OPM) | 26.20 | 27.58 | 28.55 | 28.23 | **31.87** |
| Gross Profit Margin | 28.51 | 28.16 | 32.46 | 31.02 | **29.38** |
| Cash Profit Margin | 19.58 | 20.01 | 23.85 | 21.62 | **19.24** |
| Net Profit Margin | 18.46 | 11.62 | 22.33 | 19.79 | **16.20** |
| Overheads/Total Income | 1.73 | 2.13 | 3.38 | 3.95 | **3.19** |
| Return on Average Capital Employed | 31.82 | 16.00 | 29.14 | 24.54 | **14.75** |
| Pre Interest profits as % of ACE | 49.12 | 38.78 | 42.36 | 38.86 | **26.81** |
| Return on Net Worth | 27.60 | 14.49 | 27.87 | 24.20 | **14.73** |
| Total Expenditure /Total Income | 73.32 | 72.47 | 67.70 | 70.83 | **73.95** |
| **BUSINESS CHARACTERISTICS** | | | | | |
| Debt to Capital Employed | 0.0005 | 0.0007 | NIL | 0.0975 | **0.0569** |
| Tax Rate | 29.99 | 32.82 | 31.94 | 32.14 | **37.41** |
| Revenue to Capital Ratio | 1.32 | 1.17 | 1.21 | 1.21 | **0.77** |
| Income/Debtors Ratio | 3.57 | 2.84 | 4.40 | 4.78 | **6.11** |
| Income/Avg Assets Ratios | 4.36 | 3.57 | 3.22 | 2.59 | **1.69** |
| Net Working Capital as part of TCE % | 68 | 68 | 65 | 63 | **60** |
| Current Ratio | 2.10 | 2.12 | 2.17 | 2.97 | **3.42** |
| Quick Ratio | 2.10 | 2.12 | 2.17 | 2.97 | **3.42** |
| Cash and Equivalents /Total Assets Ratio | 45.20 | 45.45 | 73.46 | 42.96 | **37.89** |
| Depreciation/Gross Block % | 4.52 | 4.09 | 4.37 | 4.60 | **4.46** |
| **GROWTH (% OVER PRECEDING YEARS)** | | | | | |
| Growth in Turnover | 11.49 | 0.65 | 10.30 | (10.72) | **(32.28)** |
| Growth in Forex Earnings (Gross) | 17.78 | 1.68 | 1.04 | (14.16) | **(31.79)** |
| Growth in PBDIT (excl. other income) | 43.68 | 4.30 | 8.06 | (15.25) | **(29.81)** |
| Growth in PAT (before ICO W/o) | 36.89 | 2.12 | 112.31 | (20.88) | **(44.57)** |
| Growth in PAT (after ICO W/o) | – | (36.58) | 111.70 | (20.88) | **(44.57)** |
| Growth in Cash Profit | 36 | 3 | 31 | (19) | **(40)** |
| **PER SHARE DATA** | | | | | |
| Earnings (Rs.) | 139.47 | 88.45 | #62.42 | 49.38 | **27.37** |
| Dividend % | 80 | 80 | #500 | 875 | **85** |
| Book Value (Rs.) | 570.58 | 649.92 | #231.18 | 176.98 | **194.75** |
| P/E (as of Year End) | 5.02 | 21.34 | 4.68 | 3.79 | **3.24** |

*#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.*

# 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, 2003, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto. 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 misstatements. 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 (Auditors' 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:

(i) 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;

(ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(iii) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(iv) in our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(v) on the basis of written representations received from the directors as on 31st March, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2003, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

(vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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, 2003;

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

   (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

**For S. B. BILLIMORIA & CO.**
Chartered Accountants

**N. VENKATRAM**
Partner
(Membership No.71387)

Mumbai : 29th May, 2003

# Annexure To The Auditors' Report

## TO THE MEMBERS OF VIDESH SANCHAR NIGAM LIMITED

Referred to in our Report of even date.

(1) The Company has generally maintained proper records showing full particulars, including quantitative details and situation of fixed assets. In our opinion the programme of physical verification carried out, other than for those assets taken over from Overseas Communications Service (OCS), is reasonable having regard to the size of the Company and nature of its business. To the best of our knowledge, no material discrepancies have been noticed on such verification.

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

(3) The stocks of stores and spare parts were physically verified by the Management during the year. In our opinion, the frequency of verification is reasonable.

(4) In our opinion and according to the information and explanations given to us, 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 between the physical stocks and book records were not material in relation to the operations of the Company and the same have been properly dealt with in the books of account.

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

(7) As explained to us, the Company has not taken or granted any loans, secured or unsecured from/to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. As explained to us, there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.

(8) In respect of loans and advances in the nature of loans given by the Company where stipulations have been made, the parties have been generally regular in the repayment of principal amounts as stipulated and have also been generally regular in payment of interest.

(9) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores and spare parts, plant and machinery, equipment and other assets and for the sale of services.

(10) 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.

(11) As explained to us, unserviceable or damaged stores and spare parts are determined by the Company and adequate provision for the loss arising on the items has been made in the books of account.

(12) The Company has not accepted any deposits from the public.

(13) As explained to us, the operations of the Company do not generate any by-product or realisable scrap.

(14) In our opinion the Company has an adequate internal audit system commensurate with the size and nature of its business.

(15) To the best of our knowledge and according to the information given to us, the Central Government has not prescribed maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956.

(16) According to the records of the Company, provident fund dues have generally been regularly deposited during the year with the appropriate authorities in accordance with the procedure agreed with them and there are no arrears of provident fund dues as at 31st March, 2003. The Company has received exemption from the operation of Employees' State Insurance Act, 1948.

(17) According to the information and explanations given to us, there were no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax and Customs Duty which have remained outstanding as at 31st March, 2003 for a period of more than six months from the date they became payable.

(18) According to the information and explanations given to us, and the records of the Company examined by us, no personal expenses have been charged to revenue account, other than those payable under contractual obligations or in accordance with the generally accepted business practice.

(19) The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

(20) In respect of the service activities of the Company:

(i) there is a reasonable system of recording receipts, issues and consumption of material and stores commensurate with the size of the Company and nature of its business;

(ii) as explained to us, considering the nature of activities of the Company, the question of allocation of materials and man-hours to relative jobs does not arise;

(iii) the Company has a reasonable system of authorisation at proper levels and an adequate system of internal control commensurate with the size of the Company and the nature of its business for issue of stores. As explained to us, the Company's activities do not require an allocation of stores to relative jobs.

**For S. B. BILLIMORIA & CO.**
Chartered Accountants

**N. VENKATRAM**
Partner
(Membership No.71387)

Mumbai : 29th May, 2003

# BALANCE SHEET AS AT 31ST MARCH, 2003

| | | Schedule | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|---|---|
| | **FUNDS EMPLOYED :** | | | |
| 1 | SHARE CAPITAL | 1 | 2,850,000 | 2,850,000 |
| 2 | RESERVES AND SURPLUS | 2 | 52,654,188 | 47,589,779 |
| 3 | TOTAL SHAREHOLDERS' FUNDS | | **55,504,188** | **50,439,779** |
| 4 | SECURED LOANS | 3 | 3,540,000 | 5,751,401 |
| 5 | DEFERRED TAX LIABILITY (NET) | | 3,202,634 | 2,810,614 |
| | (See Note 10, Schedule 20) | | 62,246,822 | 59,001,794 |
| | **APPLICATION OF FUNDS:** | | | |
| 6 | FIXED ASSETS: | 4 | | |
| | (a) Gross Block | | 34,044,601 | 31,336,835 |
| | (b) Less : Depreciation | | 10,151,930 | 9,010,543 |
| | (c) Net Block | | **23,892,671** | **22,326,292** |
| 7 | INVESTMENTS | 5 | **6,558,687** | **3,662,862** |
| 8 | A. CURRENT ASSETS | | | |
| | (a) Inventories | 6 | 6,766 | 5,058 |
| | (b) Sundry Debtors | 7 | 7,876,994 | 14,856,334 |
| | (c) Cash and Bank Balances | 8 | 23,585,864 | 25,349,434 |
| | (d) Other Current Assets | 9 | 235,631 | 722,296 |
| | | | 31,705,255 | 40,933,122 |
| | B. LOANS AND ADVANCES | 10 | 13,252,835 | 8,871,338 |
| | | | 44,958,090 | 49,804,460 |
| 9 | Less : CURRENT LIABILITIES AND PROVISIONS | | | |
| | (A) CURRENT LIABILITIES | 11 | 10,177,816 | 12,900,961 |
| | (B) PROVISIONS | 12 | 2,984,810 | 3,890,859 |
| | | | 13,162,626 | 16,791,820 |
| 10 | NET CURRENT ASSETS | | **31,795,464** | **33,012,640** |
| 11 | TOTAL ASSETS (NET) | | **62,246,822** | **59,001,794** |
| | **SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** | 20 | | |

As per our report attached

FOR S. B. BILLIMORIA & CO.
Chartered Accountants

N. VENKATRAM
Partner

MUMBAI
DATED : 29th May, 2003

For and on behalf of the Board

RATAN N. TATA
Chairman

S.K. GUPTA
Managing Director

SATISH RANADE
Executive Director (Legal) &
Company Secretary

ARUN GUPTA
Executive Director (Finance)

MUMBAI
DATED : 29th May, 2003

VSNL

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2003

| | | Schedule | Year Ended 31.03.2003 Rupees '000 | Year Ended 31.03.2002 Rupees '000 |
|---|---|---|---|---|
| | **INCOME:** | | | |
| 1 | TRAFFIC REVENUES | 13 | 45,385,451 | 65,080,898 |
| 2 | OTHER INCOME | 14 | 371,746 | 1,429,529 |
| 3 | INTEREST (net) | 15 | 1,832,698 | 4,287,228 |
| 4 | INTEREST ON INCOME TAX REFUNDS (net) (See Note 9, Schedule 20 ) | | 535,412 | 92,562 |
| 5 | **TOTAL INCOME** | | **48,125,307** | **70,890,217** |
| | **EXPENDITURE:** | | | |
| 6 | SALARIES AND RELATED COSTS | 16 | 1,536,401 | 1,523,309 |
| 7 | NETWORK COSTS | 17 | 30,039,171 | 45,004,153 |
| 8 | OPERATING AND OTHER EXPENSES | 18 | 2,403,248 | 2,303,455 |
| 9 | DEPRECIATION | | 1,470,179 | 1,307,720 |
| | Less: TRANSFER FROM CAPITAL RESERVE | | (3,423) | (3,728) |
| 10 | PRIOR PERIOD ADJUSTMENTS | 19 | 135,743 | 9,798 |
| **11** | **TOTAL EXPENDITURE** | | **35,581,319** | **50,144,707** |
| | **PROFIT BEFORE TAXES** | | **12,543,988** | **20,745,510** |
| 12 | TAXES | | | |
| | (a) CURRENT TAX (See Note 10, Schedule 20) | | (4,351,253) | (6,276,300) |
| | (b) DEFERRED TAX | | (392,020) | (395,000) |
| | **PROFIT AFTER TAXES** | | **7,800,715** | **14,074,210** |
| 13 | BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR | | 4,775,318 | 443,858 |
| | Add : TRANSFER FROM GENERAL RESERVE FOR SPECIAL INTERIM DIVIDEND | | — | 21,375,000 |
| | **AMOUNT AVAILABLE FOR APPROPRIATIONS** | | **12,576,033** | **35,893,068** |
| 14 | APPROPRIATIONS : | | | |
| | (a) SPECIAL INTERIM DIVIDEND | | — | 21,375,000 |
| | (b) PROPOSED FINAL DIVIDEND | | 2,422,500 | 3,562,500 |
| | (c) TAX ON DIVIDEND | | 310,383 | 2,180,250 |
| | (d) GENERAL RESERVE | | 4,790,000 | 4,000,000 |
| | **BALANCE CARRIED TO BALANCE SHEET** | | **5,053,150** | **4,775,318** |
| | **EARNINGS PER SHARE (EPS)** | | | |
| 16 | Basic/Diluted earnings per share (Rs.) (See Note 12, Schedule 20) | | **27.37** | **49.38** |
| | **SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS** | 20 | | |

As per our report attached

FOR S. B. BILLIMORIA & CO.
Chartered Accountants

N. VENKATRAM
Partner

MUMBAI
DATED : 29th May, 2003

For and on behalf of the Board

RATAN N. TATA
Chairman

S.K. GUPTA
Managing Director

SATISH RANADE
Executive Director (Legal) &
Company Secretary

ARUN GUPTA
Executive Director (Finance)

MUMBAI
DATED : 29th May, 2003

# SCHEDULES FORMING PART OF THE BALANCE SHEET

| | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|
| **SCHEDULE - 1** | | |
| **SHARE CAPITAL** | | |
| AUTHORISED | | |
| [300,000,000 (2002 : 300,000,000) Equity Shares of Rs. 10/- each ] | 3,000,000 | 3,000,000 |
| ISSUED, SUBSCRIBED AND PAID UP | | |
| [285,000,000 (2002 : 285,000,000) Equity Shares of Rs. 10/- each, fully paid-up] | 2,850,000 | 2,850,000 |
| Notes : | | |
| Of the above : | | |
| 1) 60,000,000 Shares are allotted as fully paid up, pursuant to the contract without payment being received in cash | | |
| 2) 210,000,000 (2002 : 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 (ADRs). (2002 : 30,000,000). | | |
| | **2,850,000** | **2,850,000** |
| **SCHEDULE - 2** | | |
| **RESERVES AND SURPLUS** | | |
| **(a) Capital Reserve :** | | |
| Balance as per last account | 2,094,366 | 2,082,859 |
| Additions during the year | | |
| Foreign exchange gain on GDR proceeds | — | 15,235 |
| | 2,094,366 | 2,098,094 |
| Less : Transferred to Profit and Loss account | (3,423) | (3,728) |
| | 2,090,943 | 2,094,366 |
| **(b) Share Premium Account** | | |
| Balance as per last account | 14,481,809 | 14,481,809 |
| **(c) General Reserve** | | |
| Balance as per last account | 26,238,286 | 46,028,900 |
| Add : Transferred from Profit and Loss account | 4,790,000 | 4,000,000 |
| Less : Transferred to Profit and Loss account | — | (21,375,000) |
| Less : Cumulative deferred tax liability (net) upto 31.03.2001 | — | (2,415,614) |
| | 31,028,286 | 26,238,286 |
| **(d) Profit and Loss Account** | | |
| Balance carried forward | 5,053,150 | 4,775,318 |
| | **52,654,188** | **47,589,779** |
| **SCHEDULE - 3** | | |
| **SECURED LOANS** | | |
| **Loans from Bank** | | |
| Short-term loans from banks | 3,540,000 | 5,751,401 |
| (Secured against fixed deposits amounting to Rs.3,605,000 thousands, 2002:Rs.6,110,000 thousands) | | |
| | **3,540,000** | **5,751,401** |

SCHEDULE - 4

# SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rs. '000)

| SL. NO. | FIXED ASSETS | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 01.04.2002 | Additions during the year | Deductions/ Adjustments | 31.03.2003 | 01.04.2002 | Depreciation during the year | Deductions/ Adjustments | 31.03.2003 | 31.03.2003 | 31.03.2003 |
| (a) | LAND | 772,545 | 9,782 | - | 782,327 | 11,415 | 8,356 | - | 19,771 | 762,556 | *761,130* |
| | | *754,259* | *18,286* | *-* | *772,545* | *3,285* | *8,130* | *-* | *11,415* | *761,130* | *750,974* |
| (b) | BUILDINGS | 2,210,216 | 226,032 | (2,265) | 2,433,983 | 199,256 | 48,185 | 57 | 247,498 | 2,186,485 | *2,010,960* |
| | | *2,062,118* | *149,665* | *(1,567)* | *2,210,216* | *160,719* | *38,555* | *(18)* | *199,256* | *2,010,960* | *1,901,399* |
| (c) | PLANT AND MACHINERY | 24,380,195 | 4,690,022 | (581,950) | 28,488,267 | 8,344,816 | 1,331,936 | (357,776) | 9,318,976 | 19,169,291 | *16,035,379* |
| | | *22,814,811* | *1,736,849* | *(171,465)* | *24,380,195* | *6,912,899* | *1,157,261* | *274,656* | *8,344,816* | *16,035,379* | *15,901,912* |
| (d) | FURNITURE AND FIXTURES | 184,239 | 28,564 | (709) | 212,094 | 72,163 | 11,989 | (155) | 83,997 | 128,097 | *112,076* |
| | | *179,332* | *6,191* | *(1,284)* | *184,239* | *62,148* | *10,342* | *(327)* | *72,163* | *112,076* | *117,184* |
| (e) | OFFICE EQUIPMENT | 203,190 | 30,733 | (1,607) | 232,316 | 57,416 | 10,140 | 567 | 68,123 | 164,193 | *145,774* |
| | | *187,172* | *16,945* | *(927)* | *203,190* | *48,866* | *9,026* | *(476)* | *57,416* | *145,774* | *138,306* |
| (f) | COMPUTERS | 587,057 | 151,484 | (427) | 738,114 | 316,713 | 87,866 | (242) | 404,337 | 333,777 | *270,344* |
| | | *574,331* | *16,232* | *(3,506)* | *587,057* | *233,984* | *83,532* | *(803)* | *316,713* | *270,344* | *340,347* |
| (g) | MOTOR VEHICLES | 15,490 | 2 | (314) | 15,178 | 8,764 | 768 | (304) | 9,228 | 5,950 | *6,726* |
| | | *15,903* | *19* | *(432)* | *15,490* | *8,040* | *1,203* | *(479)* | *8,764* | *6,726* | *7,863* |
| | | 28,352,932 | 5,136,619 | (587,272) | 32,902,279 | 9,010,543 | 1,499,240 | (357,853) | 10,151,930 | 22,750,349 | *19,342,389* |
| | | *26,587,926* | *1,944,187* | *(179,181)* | *28,352,932* | *7,429,941* | *1,308,049* | *272,553* | *9,010,543* | *19,342,389* | |
| (h) | CAPITAL WORK-IN-PROGRESS | | | | 1,142,322 | | | | | 1,142,322 | |
| | (Including advances for capital expenditure Rs. 22,506 thousands, 2002: Rs. 5,484 thousands) | | | | *2,983,903* | | | | | *2,983,903* | |
| | | | | | 34,044,601 | | | | | 23,892,671 | |
| | | | | | *31,336,835* | | | | | *22,326,292* | |

**NOTES :**

1 Land includes Rs. 638,340 thousands for leasehold land. This includes:
   (i) Rs. 2,558 thousands for leasehold land in respect of which conveyance is not done and consequently, the land has not been transferred in the name of the Company.
   (ii) Leasehold Land at Srinagar in respect of which the lease deed is not available.
   (iii) Rs. 25,729 thousands against which agreement has not been executed/ registered.
   (iv) Rs. 1,772 thousands identified as surplus land.
2 Buildings include:
   (i) Rs. 70,168 thousands for leasehold office space.
   (ii) Rs. 4,398 thousands being cost of flats in Co-operative Societies under formation.
   (iii) Rs.347,688 thousands for flats/ office space at Mumbai and Rs. 10,774 thousands for flats at Jallandhar in respect of which agreements have not been executed/ registered.
3 Plant and Machinery includes Rs.1,622 thousands 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.
4 Additions to plant and machinery/ Capital Work in Progress include Rs. 6,102 thousands on account of increase in liabilities consequent to fluctuations in foreign exchange rates.
5 Buildings and plant and machinery include leasehold assets acquired on or after 31st March 2001 Rs. 296,357 thousands.
6 Plant and machinery, computer, furniture and fixtures and office equipment includes assets retired from active use but held for disposal at estimated realisable value of Rs. 51,170 thousands (Rs. 28,010 thousands as on 31.03.2002).
7 Gross Block is at cost except in respect of assets amounting to Rs. 94,906 thousands (Rs. 94,906 thousands as on 31.03.02) received as gifts from Foreign Telecom Administrations, which are capitalised at Notional Cost (cost adopted by customs authorities).
8 Plant and Machinery includes amounts paid for Indefeasible Rights of Use (IRU) for international telecommunication circuits in submarine cable Rs. 1,425,570 thousands (Rs. 1,485,730 thousands as on 31.03.2002)
9 Depreciation for the year includes Rs. 3,423 thousands being depreciation on gifted assets.
10 Included under prior year adjustments is depreciation expense amounting to Rs. 29,061 thousands (Rs. 329 thousands as on 31.03.2002).
11 Additions include adjustments for inter-se transfers.
12 Figures in italics are for the previous year.

# SCHEDULES FORMING PART OF THE BALANCE SHEET

| | Number of Shares fully paid up | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|---|
| **SCHEDULE - 5** | | | |
| **INVESTMENTS** | | | |
| **LONG TERM INVESTMENTS (At cost, less provision for diminution in value)** | | | |
| **A. Trade - Quoted** | | | |
| New Skies Satellites N.V. | | | |
| Ordinary shares of common stock of Euro 0.05 each (Market value of quoted investment Rs.682,378 thousands, 2002 Rs. 973,468 thousands) | 3,442,150 | 562,304 | 562,304 |
| **B. Trade - Unquoted** | | | |
| (a) Tata Teleservices Ltd. Ordinary shares of Rs. 10/- each (See Note 6, Schedule 20) | 280,400,000 | 2,804,000 | — |
| (b) New ICO Global Communications (Holdings) Limited Class A common stock of US$ 0.01 each | 180,053 | 65 | 65 |
| (c) Telstra Vishesh Communications Limited (Book value Re.1) Equity shares of Rs. 10 each | 9,200,000 | — | 92,000 |
| (d) Inmarsat Ventures Plc. (Formerly named as Inmarsat (Holdings) Limited) Ordinary shares of 10 Pence each | 2,022,190 | 452,092 | 452,092 |
| (e) United Telecom Limited Ordinary shares @NRS. 100 each (2,933,200 shares subscribed during the year) | 3,199,200 | 199,950 | 16,625 |
| (f) Intelsat Limited Ordinary shares of US$ 3 each | 9,015,314 | 2,539,776 | 2,539,776 |
| **C. Investment in Subsidiary Company** (See Note 7, Schedule 20) VSNL Seamless Services Limited Equity shares of Rs.10/- each (49,980 shares subscribed during the year) | 50,000 | 500 | - |
| | | **6,558,687** | **3,662,862** |

| | | |
|---|---|---|
| **SCHEDULE - 6** | | |
| **INVENTORIES** | | |
| Consumable Stores & Spares (at Cost) | 6,851 | 5,083 |
| Less : Provision for obsolescence | (85) | (25) |
| | **6,766** | **5,058** |

# SCHEDULES FORMING PART OF THE BALANCE SHEET

| | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|
| **SCHEDULE - 7** | | |
| **SUNDRY DEBTORS (Unsecured)** | | |
| (a) Over six months | | |
| Considered good | 1,494,375 | 2,173,107 |
| Considered doubtful | 1,740,233 | 1,653,569 |
| | 3,234,608 | 3,826,676 |
| Less : Provision for doubtful debts | (1,740,233) | (1,653,569) |
| | 1,494,375 | 2,173,107 |
| (b) Other debts - considered good | 6,382,619 | 12,683,227 |
| | **7,876,994** | **14,856,334** |
| **SCHEDULE - 8** | | |
| **CASH AND BANK BALANCES** | | |
| (a) Cash in hand | 537 | 435 |
| (b) Remittances in transit | 337 | 3,408 |
| (c) Current accounts with scheduled banks | 270,979 | 1,707,055 |
| (d) Deposit accounts with scheduled banks | 23,314,011 | 23,638,536 |
| Note: | | |
| i) Deposit accounts include an amount of Rs. 6,257,729 thousands (2002. Rs. 7,099,489 thousands) representing unutilised monies raised during GDR issue | | |
| ii) Deposit accounts include fixed deposits amounting to Rs.3,605,000 thousands (2002. Rs.6,110,000 thousands) secured against short-term loans from banks. | **23,585,864** | **25,349,434** |
| **SCHEDULE - 9** | | |
| **OTHER CURRENT ASSETS** | | |
| (a) Interest receivable | 224,596 | 700,411 |
| (b) Rent receivable | - | 56 |
| (c) Others | 11,035 | 21,829 |
| | **235,631** | **722,296** |
| **SCHEDULE - 10** | | |
| **LOANS AND ADVANCES (Unsecured and considered good)** | | |
| (a) Advances recoverable in cash or in kind or for value to be received | 1,072,070 | 1,093,104 |
| (b) Advance payment of tax (net of current tax provision) | 12,140,797 | 7,751,418 |
| (c) Government of India current account | 39,968 | 26,816 |
| | **13,252,835** | **8,871,338** |

Notes:

Advances include:

(i) Loans due by an officer of the Company Rs. 221 thousands (2002: Rs.245 thousands)

(ii) Deposits with public bodies Rs.36,595 thousands (2002: Rs.37,349 thousands)

# SCHEDULES FORMING PART OF THE BALANCE SHEET

| | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|
| **SCHEDULE - 11** | | |
| **CURRENT LIABILITIES** | | |
| (a) Sundry Creditors: | | |
| (i) Traffic creditors | 2,493,373 | 5,772,200 |
| (ii) For other liabilities | 6,405,618 | 6,190,594 |
| (b) Interest accrued but not due | 606 | 11,268 |
| (c) Liability towards Investors Education and Protection Fund under Section 205C of the Companies Act 1956 not due | | |
| (i) Unpaid dividend | 14,108 | 28,180 |
| (d) Other liabilities | 1,264,111 | 898,719 |
| Notes: | | |
| i) Dues to small scale industries include amount due to M/s.Enertech Electronics for more than 30 days and in excess of Rs.100,000. | | |
| ii) Dividends are not outstanding for a period exceeding seven years. | | |
| | **10,177,816** | **12,900,961** |
| **SCHEDULE - 12** | | |
| **PROVISIONS** | | |
| (a) Provisions for employee benefits | 251,927 | 328,359 |
| (b) Provision for proposed final dividend | 2,422,500 | 3,562,500 |
| (c) Dividend tax | 310,383 | — |
| | **2,984,810** | **3,890,859** |

# SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

| | Year Ended 31.03.2003 Rupees '000 | Year Ended 31.03.2002 Rupees '000 |
|---|---|---|
| **SCHEDULE - 13** | | |
| **TRAFFIC REVENUES** | | |
| (a) Telephone | 36,800,163 | 57,667,033 |
| (b) Telex | 95,891 | 160,515 |
| (c) Telegraph | 22,246 | 23,136 |
| (d) Leased channel | 4,231,004 | 3,602,638 |
| (e) Frame Relay | 1,061,500 | 929,819 |
| (f) Internet | 2,250,518 | 2,305,339 |
| (g) Other traffic revenues | 627,016 | 717,327 |
| (h) Variance in estimates (net) | 297,113 | (324,909) |
| | **45,385,451** | **65,080,898** |
| **SCHEDULE - 14** | | |
| **OTHER INCOME** | | |
| (a) Miscellaneous income | 138,184 | 97,303 |
| (b) Rent | 17,266 | 18,853 |
| (c) Compensation | - | 279,000 |
| (d) Other provisions written back (net) | 94,124 | 279,950 |
| (e) Gain on exchange fluctuations (net) | 122,172 | 754,423 |
| | **371,746** | **1,429,529** |
| **SCHEDULE - 15** | | |
| **INTEREST** | | |
| (a) Interest on- | | |
| i. Bank Deposits (Gross, inclusive of tax deducted at source Rs. 387,177 thousands, 2002: Rs. 962,124 thousands) | 1,844,020 | 4,503,112 |
| ii. Other Deposits and Advances (Gross, inclusive of tax deducted at source Rs.75 thousands 2002 : Rs.35 thousands) | 21,335 | 11,612 |
| (b) Less: | | |
| i. Interest paid on short term bank loan | (32,400) | (227,043) |
| ii. Other Interest | (257) | (453) |
| | **1,832,698** | **4,287,228** |
| **SCHEDULE - 16** | | |
| **SALARIES AND RELATED COSTS** | | |
| (a) Salaries including bonus | 1,077,751 | 1,010,706 |
| (b) Contribution to provident and other funds | 179,343 | 246,543 |
| (c) Staff welfare expenses | 279,307 | 266,060 |
| | **1,536,401** | **1,523,309** |
| **SCHEDULE - 17** | | |
| **NETWORK COSTS** | | |
| (a) Rent of satellite channels | 2,425,562 | 2,767,437 |
| (b) Rent of landlines | 3,318,732 | 2,914,188 |
| (c) Administrative lease charges | 86,757 | 100,752 |
| (d) Royalty and licence fee to Department of Telecommunications | 4,248,935 | 6,414,073 |
| (e) Charges for use of transmission facilities | | |
| (i) Telephone | 19,052,921 | 31,405,116 |
| (ii) Telex | 59,133 | 89,254 |
| (iii) Telegraph | 13,276 | 20,662 |
| (iv) Leased channel | 33,003 | 17,846 |
| (v) Internet | 465,478 | 1,017,376 |
| (iv) Others | 335,374 | 257,449 |
| | **30,039,171** | **45,004,153** |

# SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

| | Year Ended 31.03.2003 Rupees '000 | Year Ended 31.03.2002 Rupees '000 |
|---|---|---|
| **SCHEDULE - 18** | | |
| **OPERATING AND OTHER EXPENSES** | | |
| (a) Consumption of Stores | 8,998 | 8,610 |
| (b) Light and power | 301,992 | 286,218 |
| (c) Repairs & Maintenance: | | |
| (i) Buildings | 47,728 | 33,766 |
| (ii) Plant & Machinery | 936,880 | 655,690 |
| (d) Bad Debts Written Off | 121,077 | 269,360 |
| (e) Provision for Doubtful Debts | 70,308 | 624,131 |
| (f) Rent | 16,405 | 13,111 |
| (g) Rates and taxes | 45,038 | 38,509 |
| (h) Travelling expenses | 54,813 | 45,086 |
| (i) Postage | 7,438 | 4,540 |
| (j) Telephone and telex | 18,971 | 29,814 |
| (k) Printing and stationery | 9,861 | 16,680 |
| (l) Security expenses | 29,893 | 30,922 |
| (m) Computer software and maintenance | 40,742 | 5,486 |
| (n) Legal and professional fees | 84,788 | 9,873 |
| (o) Advertising and publicity | 116,602 | 44,595 |
| (p) Commonwealth Telecommunication Council Contribution | 4,920 | 9,192 |
| (q) Water charges | 11,692 | 11,763 |
| (r) Insurance | 37,222 | 24,083 |
| (s) Donations | — | 814 |
| (t) Loss on fixed assets sold | 1,146 | 11,980 |
| (u) Investment written off | 92,000 | - |
| (v) Provision for diminution in the value of fixed assets | 218,255 | 58,750 |
| (w) Other expenses | 126,479 | 70,482 |
| | **2,403,248** | **2,303,455** |

| | | |
|---|---|---|
| **SCHEDULE - 19** | | |
| **PRIOR PERIOD ADJUSTMENTS** | | |
| **INCOME:** | | |
| Traffic revenue | 43,639 | 29,417 |
| Miscellaneous income | (7,139) | (786) |
| **EXPENSES:** | | |
| Depreciation for earlier years (net) | 29,061 | 329 |
| Charges for use of transmission facilities | 41,743 | (34,467) |
| Salaries, bonus and staff welfare | — | 57 |
| Operation and other expenses | 1,249 | 11,472 |
| Repairs and maintenance | 27,190 | 3,776 |
| | **135,743** | **9,798** |

Note : Figures in brackets are credits

# Significant Accounting Policies and Notes to accounts

**SCHEDULE - 20**

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

## A. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention on an accrual basis.

### 1. Revenue Recognition

Revenues from long distance telephone services are recognised at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased circuits are recognised based upon contracted fee schedules. Revenues from internet services are recognised based on usage by subscribers/customers. Majority of revenues are on account of recoveries from Foreign Telecommunication Administrations for incoming traffic and recovery from domestic carriers for delivery of calls on foreign networks. Estimates are made for revenues accrued, where statements of accounts or other information are awaited.

### 2. Operating Costs

The principal components of cost of operations are network and transmission costs, licence fees paid to the Department of Telecommunications and other operating costs. Transmission costs include cost of delivering a call on domestic network payable to domestic carriers and cost of delivering a call on foreign network payable to Foreign Telecommunication Administrations. Estimates are made where statements of accounts or other information are awaited. Other operating costs include general and administrative expenses other than transmission costs and licence fees.

### 3. Retirement Benefits

a) Provision is made for unutilised leave due to employees at the end of the year and is determined based on actuarial valuation.

b) Provision for gratuity is made on the basis of actuarial valuation.

c) Pension contributions are charged to the profit and loss account based on actuarial valuation. Pension contributions mainly comprise the Company's share of contribution relating to OCS employees who were transferred to VSNL in the financial year ended 31st March 1990.

d) Company's contributions to Employees' Provident Fund and Benevolent Fund are defined contribution plans and are recognised in the profit and loss account in the period when such contributions are made.

### 4. Foreign Currency Transactions

a) Foreign currency transactions, other than traffic revenues and charges for use of transmission facilities, are translated in Rupees at the exchange rates prevailing on the first working day of the month in which the transaction occurs. In the case of traffic revenues 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. The exchange rates used approximate the rate prevailing on the date of transaction.

b) Monetary items denominated in foreign currencies at the year end are translated into Rupees at the rates of exchange prevailing at the balance sheet date.

c) Gains and losses, other than those relating to liabilities incurred to acquire fixed assets, on foreign exchange transactions are recognised in the profit and loss account. Exchange gains and losses on translation of liabilities incurred for purchase of fixed assets are recognised as part of cost of such assets.

### 5. Taxes on Income

Tax expense for the year comprises current and deferred income taxes.

Current tax is measured based on applicable tax rates. Deferred tax assets and liabilities are measured using the tax rates which have been enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are recognised for future tax consequences attributable to timing differences between the taxable and accounting income.

### 6. Fixed Assets

a) Fixed assets are stated at cost less accumulated depreciation. Cost includes freight, duties, taxes and all incidental expenses related to bringing the assets to its present location and condition together with the cost of spares, if supplied with the assets.

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

b) Fixed Assets received as gifts from other Foreign Telecom Administrations are capitalised and credited to capital reserve on the basis of notional cost (cost assessed by customs authorities). Cost includes freight, insurance and customs duty.

c) Intangible assets in the nature of Indefeasible Rights of Use (IRU's) for international telecommunication circuits in submarine cables are recorded as fixed assets. IRU agreements transfer substantially all the risks and rewards of ownership.

**7. Depreciation**

a) In respect of fixed assets taken over from OCS, depreciation has been provided for on a straight line method so as to write off the cost, at the rates stated in Circular No.1/86 dated 21.5.1986 issued by the Department of Company Affairs, read with Para 22 of the Guidance Note on Depreciation for Companies issued by the Institute of Chartered Accountants of India.

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

c) On assets purchased/acquired after 31st March 1994 depreciation has been provided on a straight line method at the rates prescribed in Schedule XIV of the Companies Act, 1956.

d) Leasehold lands are amortised over the period of lease.

e) Depreciation on IRU's is provided over the period of agreement.

f) Depreciation on notional cost of gifted assets is offset by transfer from capital reserve.

**8. Investments**

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

**9. Inventories**

Stores and spares are valued at cost (weighted average basis). Provision is made for obsolescence.

**10. Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current and other accounts including fixed deposits held with banks.

**B. NOTES TO ACCOUNTS**

**1.** The Company was incorporated on 19th March 1986. The Government of India, vide its Order No. G 25015/6/86-OC dated 27.3.1986, transferred all the assets and liabilities of the OCS (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31st March 1986 to the Company with effect from 1st April 1986. As per the letter no. G-25015/6/86-OC dated 23.10.2001 of Government of India, Department of Telecommunications, there was no requirement to register a formal transfer deed or deed of sale in the matter of such transfer of assets.

**2.** The Government of India transferred 25 percent of its shareholding in the Company together with management control to Panatone Finvest Limited on 13th February 2002. The shares were transferred in accordance with the terms and conditions of the share purchase agreement, dated 6th February 2002, between the Government of India and Panatone Finvest Limited.

**3.** Capital reserve includes an amount of Rs. 2,052,161 thousands (2002: Rs. 2,052,161 thousands) representing foreign exchange gain on unutilised Global Depository Receipts (GDR) Fund arising in previous years.

**4.** The Company has undertaken a review of the useful lives of fixed assets. Pending completion of the review, depreciation has been provided based on rates prescribed in Schedule XIV of the Companies Act, 1956. Fixed assets acquired from OCS and under IRU agreements have been depreciated in accordance with the stated depreciation accounting policy.

**5.** During the year, the Company has written off from its fixed assets, 95 percent of the cost incurred on gateway equipments for Iridium India Telecom Limited. These assets were written down to their residual values in the previous financial year.

**6.** The Company has an investment of Rs. 2,804,000 thousands in Tata Teleservices Limited ("TTSL") representing an equity interest of 19.9% in the issued and paid up capital of TTSL. In accordance with the

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

shareholders' agreement of TTSL, the Company has an obligation to contribute additional capital of Rs. 5,554,000 thousands by 2008-09.

TTSL has accumulated losses which have significantly eroded its net worth. In the opinion of the management, having regard to the long gestation period inevitable in the nature of its business, there is no permanent diminution in value of the investment.

**7.** Consolidated financial statements have not been presented, as subsequent to the year-end, the Board of Directors have proposed liquidation of VSNL Seamless Services Limited (VSSL). Further, VSSL has not commenced operations and its results and financial position are immaterial, for the purposes of consolidation.

**8. Business Segments**

The Company provides International Long Distance Service mainly providing voice and data services. The Company's primary segment is international telephony.

| | Year ended 31.03. 2003 Rupees '000 | | | Year ended 31.03.2002 Rupees '000 | | |
|---|---|---|---|---|---|---|
| | International Telephony | Other Services | Total | International Telephony | Other Services | Total |
| **Revenue** | | | | | | |
| External Revenue | 37,097,276 | 8,288,175 | 45,385,451 | 57,342,124 | 7,738,774 | 65,080,898 |
| **Results** | | | | | | |
| Segment Results | 10,186,287 | 5,640,083 | 15,826,370 | 14,537,581 | 5,539,163 | 20,076,744 |
| Unallocated (expenses)/ income (net) | | | (3,282,382) | | | 668,766 |
| **Profit before taxes** | | | **12,543,988** | | | **20,745,510** |
| Taxes | | | (4,743,273) | | | (6,671,300) |
| **Profit after taxes** | | | **7,800,715** | | | **14,074,210** |

(i) Revenue and expenses which are directly identifiable to segments are attributed to the relevant segment. Expenses on rent of satellite channels and landlines, and royalty and licence fee on revenues from operations are allocated based on revenue. Certain expenses such as staff costs, operating and other expenses, and depreciation are not allocable to segments and consequently have been classified as "unallocated expenses".

(ii) Segment total assets and liabilities have not been allocated, in the absence of a meaningful basis to allocate assets and liabilities between segments. Fixed assets are used interchangeably between segments.

**Geographical Segment:**

The operations of the Company are in India and all the assets (other than certain cables) are located in India.

| | Segment Revenues by Geographical Market | |
|---|---|---|
| **Name of the Country** | **Year ended 31.03.2003 Rupees '000** | **Year ended 31.03.2002 Rupees '000** |
| India | 16,911,741 | 23,526,905 |
| United States of America | 10,773,545 | 19,435,547 |
| Saudi Arabia | 3,199,423 | 3,802,738 |
| United Arab Emirates | 5,467,697 | 6,720,268 |
| Other Countries | 9,033,045 | 11,595,440 |
| **Total Revenue** | **45,385,451** | **65,080,898** |

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

**9.** Consequent to the favourable outcome of appeals before the CIT(A) relating to the allowability of licence fee, income tax refunds, including interest aggregating to Rs. 963,496 thousands were received during the year. Interest on tax refunds aggregating to Rs. 428,084 thousands which were recognised in previous years, have been reversed by debit to profit and loss account in the current year on receipt of adverse assessment orders. In April 2003, further refunds have been received, including interest amounting to Rs. 490,307 thousands, which will be considered in the financial year ending 31st March 2004.

**10. Taxes**

Significant components of deferred tax assets and liabilities on account of timing differences are:-

| **Particulars** | **As at 31.03.2003 Rupees '000** | **As at 31.03.2002 Rupees '000** |
|---|---|---|
| **Deferred tax assets** | | |
| Provision for doubtful debts | 624,225 | 607,845 |
| Other timing differences | 92,916 | Nil |
| | **717,141** | **607,845** |
| **Deferred tax liabilities** | | |
| Difference between accounting and tax depreciation | (634,961) | (467,670) |
| Difference due to change in tax rate | 66,920 | (71,043) |
| Other differences on account of disposal and write-down of fixed assets, etc. | (3,351,734) | (2,879,746) |
| **Deferred tax liability (net)** | **(3,202,634)** | **(2,810,614)** |
| The tax expense for the year comprises: | | |
| Income tax - Current Year | 4,298,494 | 6,276,000 |
| - Previous Years | (14,450) | Nil |
| Wealth tax | 67,209 | 300 |
| | **4,351,253** | **6,276,300** |

**11.** Included in operating and other expenses:

| | **Year ended 31.03.2003 Rupees '000** | **Year ended 31.03.2002 Rupees '000** |
|---|---|---|
| Auditors' remuneration and expenses | | |
| (i) Audit fees | 4,500 | 700 |
| (ii) Tax audit fees | 1,000 | 153 |
| (iii) Other professional services | 1,000 | 150 |
| (iv) Service tax | 520 | 50 |

Auditors' remuneration excludes fees of Rs 2,000 thousands (2002: Rs 2,000 thousands) payable/paid for professional services to a firm of auditors in which partners of the firm of statutory auditors are partners.

**12. Earnings Per Share**

| | **Year ended 31.03.2003 Rupees '000** | **Year ended 31.03.2002 Rupees '000** |
|---|---|---|
| Net Profit for the year | 7,800,715 | 14,074,210 |
| Number of Ordinary Shares (in Nos.'000) | 285,000 | 285,000 |
| Basic and Diluted Earnings (Rupees per share) | 27.37 | 49.38 |

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

**13. Managerial Remuneration**

Managerial Remuneration for Managing Director, Whole-time Director and Non-Executive Directors.

| **Nature of Payment** | **Year ended 31.03.2003 Rupees '000** | **Year ended 31.03.2002 Rupees '000** |
|---|---|---|
| i) Salaries | 3,546 | 2,757 |
| ii) Contribution to provident and other funds | 653 | 339 |
| iii) Estimated monetary value of perquisites | 1,711 | 2,055 |
| iv) Commission | 2,700 | — |
| v) Directors' sitting fees | 155 | 110 |
| | **8,765** | **5,261** |

Note:

The appointment of the Managing Director w.e.f. 1st October, 2002 is subject to the approval of the shareholders.

**Computation of Net Profit in accordance with Section 309(5) of the Companies Act, 1956**

| | **Year ended 31.03.2003 Rupees '000** | **Year ended 31.03.2002 Rupees '000** |
|---|---|---|
| Profit before taxes as per profit and loss account | 12,543,988 | 20,745,510 |
| Add: | | |
| Managerial Remuneration | 8,765 | 5,261 |
| Loss on sale of fixed assets | 1,146 | 11,980 |
| Provision for doubtful debts | 70,308 | 624,131 |
| | **12,624,207** | **21,386,882** |
| Less: | | |
| Other provisions written back | (94,124) | (279,950) |
| **Net profit as per Section 309(5)** | **12,530,083** | **21,106,932** |
| **Commission** | | |
| Managing Director and Whole-time Director (including commission for the period 13th February, 2002 to 31st March, 2002) | 2,700 | — |

**14. Cash and cash equivalents**

| | **As at 31.03.2003 Rupees '000** | **As at 31.03.2002 Rupees '000** |
|---|---|---|
| Cash on hand and balances with banks | 271,853 | 1,710,898 |
| Fixed deposits held with banks | 23,314,011 | 23,638,536 |
| **Cash and cash equivalents** | **23,585,864** | **25,349,434** |

(i) Cash and cash equivalents are stated after adjustments for foreign exchange rate difference amounting to Rs. 803 thousands (2002: Rs. 2,129 thousands).

(ii) Included under fixed deposits held with banks is an amount of Rs. 4,011 thousands (2002: Rs. 8,536 thousands) relating to deposits held for unpaid dividends.

(iii) Bank balance amounting to Rs. 6,257,729 thousands (2002: Rs 7,099,489 thousands) relates to unutilised money from GDR proceeds.

(iv) Fixed deposits amounting to Rs. 22,910,000 thousands (2002: 17,460,000 thousands) have maturity periods of more than three months from the date of such deposits.

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

**15. Related Party Disclosures**

(a) List of related parties and relationship:

| **Party** | **Relationship** |
|---|---|
| Panatone Finvest Limited | Investing Party |
| Tata Teleservices Limited | Associate |
| VSNL Seamless Services Limited | Subsidiary |
| United Telecom Limited | Joint Venture |
| Telstra Vishesh Communications Limited | Joint Venture |
| **Key Managerial Personnel** | |
| Mr. S.K.Gupta | Managing Director |
| Mr. N. Srinath | Whole- time Director |

(b) Related party transactions

(Rupees '000)

| **Transactions** | **Subsidiary** | **Joint Venture** | **Associate** | **Key Managerial Personnel** |
|---|---|---|---|---|
| Rendering of services | **—** | **42** | **42** | **—** |
| | *—* | *495* | *—* | *—* |
| Managerial remuneration | **—** | **—** | **—** | **8,610** |
| | *—* | *—* | *—* | *5,151* |
| Receipt of Rent | **—** | **—** | **—** | **—** |
| | *—* | *6,538* | *—* | *—* |
| Traffic revenue | **—** | **—** | **28,564** | **—** |
| | *—* | *—* | *—* | *—* |
| Network cost | — | **—** | **1,759** | **—** |
| | *—* | *—* | *—* | *—* |
| Purchase of fixed assets and related spares | **—** | **—** | **—** | **—** |
| | *—* | *26,453* | *—* | *—* |
| Management contract for deputation of employees | **—** | **—** | **5,252** | **—** |
| | *—* | *—* | *—* | *—* |
| Finance - equity contributions | **—** | **183,325** | **2,804,000** | **—** |
| | *—* | *16,625* | *—* | *—* |
| Receivables outstanding as on 31st March 2003 | **88** | **—** | **931** | **—** |
| | *—* | *—* | *—* | *425* |
| Payables outstanding as on 31st March 2003 | **—** | **—** | **640** | **2,700** |
| | *—* | *12,487* | *—* | *—* |
| Bank guarantee | **—** | **213,280** | **—** | **—** |
| | *—* | *—* | *—* | *—* |

Note: *Figures in italic are in respect of the previous year.*

**16.** In view of the early termination of the exclusive licence to provide International Telephone Service, Government of India has approved the reimbursement of licence fee, net of tax, in respect of NLD Service, for a period of five years from April 2001.

**17.** Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 7,819,729 thousands (2002: Rs.2,117,590 thousands).

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

**18. Contingent Liabilities not provided for**

| | As at 31.03.2003 Rupees '000 | As at 31.03.2002 Rupees '000 |
|---|---|---|
| Letters of Credit | 238,757 | 41,543 |
| Guarantee and Counter - Guarantee Outstanding | 4,318,876 | 36,239 |
| Claims against the Company not acknowledged as debts | | |
| (i) Claims for taxes on income (see note below) | 10,152,969 | 15,927,764 |
| (ii) Claims for other taxes | 84,343 | 13,865 |
| (iii) Other Claims | 241,423 | 46,068 |

Significant claims by the revenue authorities in respect of income tax matters are in respect of:

(a) expenditure on licence fees for the Assessment Year 1995-96 disallowed by the revenue authorities. The Company's appeal was allowed at the Tribunal stage, and the matter is now pending before the High Court. An appeal on similar grounds for the Assessment Year 1994-95 is pending before the Commissioner of Income Tax (Appeals). The Company has obtained favourable decisions in other assessment years, which have not been contested by the revenue authorities, and the Company is of the view that the claims will eventually be decided in its favour.

(b) deductions claimed under Section 80 IA of the Income Tax Act from Assessment years 1996-97 onwards have been disallowed by the revenue authorities. The Company has contested the disallowance and has preferred appeals.

(c ) reimbursement by the Department of Telecommunications (DoT) of income tax paid by the Company on the DoT levy during 1994-95, that were taxed by the revenue authorities. The Company is in appeal.

**19. Value of Imports on C.I.F. basis**

| | Year ended 31.03.2003 Rupees '000 | Year ended 31.03.2002 Rupees '000 |
|---|---|---|
| Stores and Spares | 7,079 | 20,239 |
| Capital Goods | 276,359 | 451,383 |

**20. Expenditure in foreign currencies**

| | Year ended 31.03.2003 Rupees '000 | Year ended 31.03.2002 Rupees '000 |
|---|---|---|
| i) Charges for use of transmission facilities (gross) | 6,635,149 | 10,682,348 |
| ii) Rent of satellite channels | 2,435,562 | 2,767,437 |
| iii) Administrative lease charges | 86,756 | 80,425 |
| iv) Repairs and Maintenance | 519,425 | 343,525 |
| v) Advertisement | 1,194 | 1,117 |
| vi) Legal and Professional Fees | 31,169 | 37 |
| vii) Others | 50,103 | 15,044 |
| | **9,759,358** | **13,889,933** |

**21. Earnings in Foreign currencies**

| | Year ended 31.03.2003 Rupees '000 | Year ended 31.03.2002 Rupees '000 |
|---|---|---|
| i. Traffic Revenue (gross) | 28,473,710 | 41,499,081 |
| ii. Interest Income | — | 39,521 |
| iii. Other Income | 25,784 | 240,977 |
| | **28,499,494** | **41,779,579** |

# SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

**22. Value of imported and indigenous stores/spares consumed**

| | Year ended 31.03.2003 Rupees '000 | | Year ended 31.03.2002 Rupees '000 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Imported | 7,511 | 41.66 | 7,702 | 25.57 |
| Indigenous | 10,519 | 58.34 | 22,420 | 74.43 |
| | **18,030** | **100.00** | **30,122** | **100.00** |

**23. Net Dividend remitted to non-resident shareholders in foreign currency**

The Company has not remitted any amount in foreign currencies on account of dividends during the year and does not have information as to the extent to which remittances, if any, in foreign currencies on account of dividends have been made by / on behalf of non - resident shareholders. The particulars of final dividends for the year ended 31st March, 2002 payable to non-resident shareholders, for which dividends were declared during the year, are as under:

| | | Year ended 31.03.2003 Rupees '000 | Year ended 31.03.2002 Rupees '000 |
|---|---|---|---|
| i) | Number of non-resident shareholders | 390 | 404 |
| ii) | Number of shares held by them | 36,863,590 | 101,932,825 |
| iii) | Year to which dividend relates | 2001-2002 | 2000-2001 |
| iv) | Amount remitted net of tax | 7,541,574 | 5,096,641 |

**24.** The amount due to Small Scale Industrial Undertaking has been shown to the extent identified from the available information.

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

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

**I Registration Details**

Registration No. 39266 State Code 11 (REFER CODE LIST)

Balance Sheet Date 31 (Date) 03 (Month) 2003 (Year)

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

| | |
|---|---|
| Public Issue | Rights Issue |
| NIL | NIL |
| Bonus Issue | Private Placement |
| NIL | NIL |

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

| | |
|---|---|
| Total Liabilities | Total Assets |
| 75409448 | 75409448 |

**Sources of funds**

| | |
|---|---|
| Paid-up Capital | Reserves & Surplus |
| 2850000 | 52654188 |
| Secured Loans | Unsecured Loans |
| 3540000 | NIL |
| Deferred Tax Liabilities | |
| 3202634 | |

**Application of Funds**

| | |
|---|---|
| Net Fixed Assets | Investments |
| 23892671 | 6558687 |
| Net Current Assets | Misc. Expenditure |
| 31795464 | NIL |
| Accumulated Losses | |
| NIL | |

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

| | |
|---|---|
| Turnover | Total Expenditure |
| 48125307 | 35581319 |
| Profit/Loss before tax | Profit/Loss after Tax |
| ✔ + – 12543988 | ✔ + – 7800715 |

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

| | |
|---|---|
| Earning per Share in Rs. | Dividend rate % |
| 27.37 | 85 |

**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 | | |

For and on behalf of the Board

RATAN N. TATA
Chairman

S.K. GUPTA
Managing Director

SATISH RANADE
Executive Director (Legal) &
Company Secretary

ARUN GUPTA
Executive Director (Finance)

MUMBAI
DATED : 29th May, 2003

VSNL

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH 2003

| | | Year ended 31.03.2003 (Rupees '000) | Year ended 31.03.2002 (Rupees '000) |
|---|---|---|---|
| | **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| 1. | **NET PROFIT BEFORE TAX** | **12,543,988** | **20,745,510** |
| | **Adjustments for:** | | |
| | Depreciation (including amount included under prior period adjustments) | 1,499,240 | 1,308,049 |
| | Transfer from capital reserve | (3,423) | (3,728) |
| | Loss on sale of fixed assets | 1,146 | 11,980 |
| | Investments written off | 92,000 | — |
| | Bank interest income | (1,844,020) | (4,503,112) |
| | Interest expense | 32,657 | 227,496 |
| | Fixed assets discarded / provision for diminution in value | 218,255 | 58,750 |
| | Interest on income tax refunds | (535,412) | (92,562) |
| 2. | **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | **12,004,431** | **17,752,383** |
| | **Adjustments for:** | | |
| | Inventories | (1,708) | 12,130 |
| | Sundry debtors | 6,979,340 | 3,224,073 |
| | Other current assets | 10,850 | (20,865) |
| | Loans and advances | 7,882 | (500,103) |
| | Current liabilities and provisions | (3,245,336) | (5,477,926) |
| | **Cash generated from operations** | **15,755,459** | **14,989,692** |
| | Income taxes paid | (9,168,716) | (6,950,676) |
| | Interest on income tax refunds | 963,496 | 92,562 |
| 3. | **NET CASH FROM OPERATING ACTIVITIES** | **7,550,239** | **8,131,578** |
| | **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| | Purchase of fixed assets | (2,817,825) | (2,505,269) |
| | Proceeds from sale of fixed assets | 3,297 | 4,050 |
| | Purchase of investments | (2,987,825) | (7,337) |
| | Bank interest received | 2,319,835 | 5,034,044 |
| 4. | **NET CASH (USED IN)/ FROM INVESTING ACTIVITIES** | **(3,482,518)** | **2,525,488** |

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2003

| | | Year ended 31.03.2003 (Rupees '000) | Year ended 31.03.2002 (Rupees '000) |
|---|---|---|---|
| | **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| | Foreign exchange gain on GDR proceeds | — | 15,235 |
| | Proceeds from secured loans | 3,540,000 | 5,751,401 |
| | Repayment of secured loans | (5,751,401) | — |
| | Dividends paid (including dividend tax) | (3,576,572) | (39,258,750) |
| | Interest paid | (43,318) | (216,228) |
| **5** | **CASH FLOW USED IN FINANCING ACTIVITIES** | **(5,831,291)** | **(33,708,342)** |
| **6.** | **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(1,763,570)** | **(23,051,276)** |
| **7.** | **CASH AND CASH EQUIVALENTS AS AT 1st APRIL 2002** (see note 14, schedule 20) | **25,349,434** | **48,400,710** |
| **8.** | **CASH AND CASH EQUIVALENTS AS AT 31st MARCH 2003** (see note 14, schedule 20) | **23,585,864** | **25,349,434** |

Note :

*Figures in brackets represent outflows.*

As per our report attached

FOR S. B. BILLIMORIA & CO.
Chartered Accountants

N. VENKATRAM
Partner

MUMBAI
DATED : 29th May, 2003

For and on behalf of the Board

RATAN N. TATA
Chairman

S.K. GUPTA
Managing Director

SATISH RANADE
Executive Director (Legal) &
Company Secretary

ARUN GUPTA
Executive Director (Finance)

MUMBAI
DATED : 29th May, 2003

# 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, 2002 and 2003, and the related statements of income, cash flows and shareholders' equity for each of the years in the three year period ended March 31, 2003. These consolidated 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, 2002 and 2003, and the results of its operations and cash flows for each of the years in the three year period ended until March 31, 2003, 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.

Deloitte Haskins & Sells
Mumbai, India
May 29, 2003

# BALANCE SHEETS AS OF 31ST MARCH 2002 AND 2003

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions, except par value and number of shares) | | |
| **ASSETS:** | | | |
| Cash and cash equivalents | Rs. 7,881 | Rs. 272 | US$ 6 |
| Short term investments | 17,469 | 23,314 | 490 |
| Trade and other receivables, net of allowances of Rs. 1,654 million and Rs.1,740 million (US$37 million), respectively | 16,217 | 8,591 | 181 |
| Investments | 3,985 | 3,674 | 77 |
| Investments in Affiliates/Joint Venture | — | 2,870 | 60 |
| Property, plant and equipment | 18,058 | 20,653 | 435 |
| Capital work-in-progress | 2,943 | 1,120 | 24 |
| Other assets | 8,293 | 12,803 | 269 |
| **Total assets** | **Rs. 74,846** | **Rs. 73,297** | **US$ 1,542** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | | |
| **Liabilities** | | | |
| Short-term borrowings | Rs. 5,751 | Rs. 3,540 | US$ 74 |
| Trade payables | 5,728 | 2,422 | 51 |
| Accrued expenses and other liabilities | 7,962 | 8,118 | 171 |
| Deferred taxation | 2,363 | 2,472 | 52 |
| **Total liabilities** | **21,804** | **16,552** | **348** |
| **Commitments and contingencies (See Note 23)** | — | — | — |
| **Shareholders' equity:** | | | |
| Equity shares: par value - Rs. 10 each; authorized: 300,000,000 shares; issued and outstanding: 285,000,000 shares | 2,850 | 2,850 | 60 |
| Additional paid in capital | 15,377 | 15,377 | 323 |
| Retained earnings | 34,554 | 38,435 | 809 |
| Accumulated other comprehensive income | 261 | 83 | 2 |
| **Total shareholders' equity** | **53,042** | **56,745** | **1,194** |
| **Total liabilities and shareholders' equity** | **Rs. 74,846** | **Rs. 73,297** | **US$ 1,542** |

***See accompanying notes to financial statements***

# STATEMENTS OF INCOME FOR EACH OF THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | (In millions, except share, ADS and per share and per ADS amounts) | | | |
| **Operating revenue:** | | | | |
| Traffic revenues | Rs. 71,916 | Rs. 65,050 | Rs. 45,341 | US$ 954 |
| Income from satellite consortia | 1,160 | — | — | — |
| **Total operating revenue** | **73,076** | **65,050** | **45,341** | **954** |
| **Cost of revenue:** | | | | |
| Network and transmission costs | 45,150 | 39,577 | 26,044 | 548 |
| License fee paid to DoT | 5,022 | 5,393 | 4,037 | 85 |
| **Total cost of revenue** | **50,172** | **44,970** | **30,081** | **633** |
| **Gross Profit** | **22,904** | **20,080** | **15,260** | **321** |
| **Other operating costs** | | | | |
| Depreciation and amortization | 1,729 | 1,898 | 2,086 | 44 |
| Other operating costs | 3,023 | 4,803 | 3,990 | 84 |
| **Total other operating costs** | **4,752** | **6,701** | **6,076** | **128** |
| **Operating income** | **18,152** | **13,379** | **9,184** | **193** |
| **Other income (expense), net:** | | | | |
| Non-operating income | 3,058 | 1,371 | 425 | 9 |
| Interest income | 3,964 | 4,607 | 2,401 | 51 |
| Interest expense | (1) | (227) | (33) | (1) |
| Share in loss of affiliates | — | — | (143) | (3) |
| **Total other income (expense), net** | **7,021** | **5,751** | **2,650** | **56** |
| **Income before income tax** | **25,173** | **19,130** | **11,834** | **249** |
| Income tax expense | (9,646) | (5,959) | (4,390) | (92) |
| Dividend tax | (105) | (3,634) | — | — |
| **Net income** | **Rs. 15,422** | **Rs. 9,537** | **Rs. 7,444** | **US$ 157** |
| **Per share information:** | | | | |
| Earnings per equity share - basic and diluted | Rs. 54.11 | Rs. 33.46 | Rs. 26.12 | US$ 0.55 |
| 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.108.22 | Rs.66.92 | Rs.52.24 | US$ 1.10 |

***See accompanying notes to financial statements***

# STATEMENTS OF SHAREHOLDERS' EQUITY FOR EACH OF THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

| | 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) | | | |
| **Balance at April 1, 2000** | **95,000,000** | **Rs.950** | **Rs.14,481** | **Rs.47,880** | **—** | **Rs.63,311** | |
| 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 |
| **Comprehensive income** | | | | | | | |
| **Balance at March 31, 2001** | **285,000,000** | **2,850** | **14,481** | **60,642** | **412** | **78,385** | **15,834** |
| Stock based compensation expense (See Note 20) | | | 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) |
| **Comprehensive income** | | | | | | | **Rs. 9,386** |
| **Balance at March 31, 2002** | **285,000,000** | **Rs.2,850** | **Rs.15,377** | **Rs.34,554** | **Rs.261** | **Rs.53,042** | |
| Net income | | | | 7,444 | | 7,444 | 7,444 |
| Dividends | | | | (3,563) | | (3,563) | |
| Unrealized loss on available for sale securities, net | | | | | (184) | (184) | (184) |
| Foreign exchange reserve on translation of investment in joint venture | | | | | 6 | 6 | 6 |
| **Comprehensive income** | | | | | | | **Rs.7,266** |
| **Comprehensive income** | | | | | | | **US$153** |
| **Balance at March 31, 2003** | **285,000,000** | **Rs. 2,850** | **Rs. 15,377** | **Rs. 38,435** | **Rs. 83** | **Rs. 56,745** | |
| **Balance at March 31, 2003** | **285,000,000** | **US$60** | **US$323** | **US$809** | **US$2** | **US$1,194** | |

***See accompanying notes to financial statements***

# STATEMENTS OF CASH FLOWS FOR EACH OF THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | (In millions) | | | |
| **Cash flows from operating activities:** | | | | |
| **Net income** | **Rs.15,422** | **Rs.9,537** | **Rs.7,444** | **US$157** |
| *Adjustment to reconcile net income to net cash provided by operating activities:* | | | | |
| Depreciation and amortization | 1,729 | 1,898 | 2,086 | 44 |
| Stock based compensation | — | 896 | — | — |
| Impairment of property, plant and equipment | — | 30 | 129 | 3 |
| Allowance for doubtful debts | 112 | 675 | 86 | 2 |
| Deferred income tax expense / (benefit) | 1,759 | (702) | 214 | 5 |
| Unrealized exchange gain | (526) | (206) | (1) | — |
| (Profit)/loss on sale of fixed assets | 5 | 2 | (1) | — |
| Share of loss from affiliate/joint venture | — | — | 143 | 3 |
| Investments written off | — | — | 2 | — |
| *Net change in:* | | | | |
| Trade and other receivables | 5,865 | 3,067 | 7,540 | 159 |
| Other assets | (1,400) | (515) | (4,510) | (95) |
| Trade payables | (2,225) | (5,611) | (3,306) | (70) |
| Accrued expenses and other liabilities | 2,334 | 414 | 35 | (1) |
| **Net cash provided by operating activities** | **23,075** | **9,485** | **9,861** | **207** |
| **Cash flows from investing activities:** | | | | |
| Purchase of property, plant and equipment | (4,238) | (2,509) | (2,868) | (60) |
| (Purchase)/sale of investments | 92 | (7) | — | — |
| Purchase of investments in affiliate/joint venture | — | — | (2,987) | (63) |
| Short-term investments in term deposits | (37,272) | 28,581 | (5,845) | (123) |
| Proceeds from sales of property, plant and equipment | 2 | 3 | 3 | — |
| **Net cash (used)/provided by investing activities** | **(41,416)** | **26,068** | **(11,697)** | **(246)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds/(Repayment) of short-term borrowings (net) | - | 5,751 | (2,211) | (46) |
| Dividends paid | (760) | (35,625) | (3,563) | (75) |
| **Net cash used by financing activities** | **(760)** | **(29,874)** | **(5,774)** | **(121)** |
| Unrealized exchange gain on cash and cash equivalents | 455 | 2 | 1 | — |
| **Net change in cash flows** | **(18,646)** | **5,681** | **(7,609)** | **(160)** |
| Cash and cash equivalents, beginning of year | Rs.20,846 | Rs.2,200 | Rs. 7,881 | Rs. 166 |
| **Cash and cash equivalents, end of year** | **Rs.2,200** | **Rs.7,881** | **Rs. 272** | **US$ 6** |
| **Supplementary cash flow information:** | | | | |
| Interest paid | Rs.1 | Rs.227 | Rs.43 | US$1 |
| Interest received | Rs. 2,121 | Rs.5,034 | Rs 2,320 | US$49 |
| Income taxes paid | Rs.9,597 | Rs.10,594 | Rs. 9,169 | US$193 |

***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 ended March 31, 2002, the Government of India ("GoI") 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, GoI and Panatone and its shareholders entered into a shareholders' agreement on February 13, 2002. Pursuant to this agreement, Panatone and GoI have the right to appoint directors of the Company. As of March 31, 2003 the board of directors consisted of 12 members, of which eight are nominated by Panatone and four by GoI.

Following disinvestment by GoI and the Tender Offer (See Note 1(b) below), the major shareholders of the Company are Panatone/Tata Sons, who own 46.31% and GoI, who own 26.12%.

VSNL operates from its corporate office at Mumbai and through its other offices at Mumbai, New Delhi, Kolkata, Chennai, Arvi, Bangalore, Bhubaneshwar, Dehradun, Ernakulam, Gandhinagar, Goa, Guwahati, Hyderabad, Indore, Jalandhar, Kanpur and Pune.

The Company is the largest provider of international telecommunications services in India, directly and indirectly linking the domestic Indian telecommunications network to 237 territories worldwide. The Company has been licensed to provide national long distance services with effect from February 8, 2002.

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

Prior to disinvestments by GoI, the Company was a public sector undertaking ("PSU") with GoI holding approximately 52.97% in the paid-up equity capital in the Company. As part of its disinvestment program, GoI disinvested its shareholding in the Company to Panatone, together with management control, through 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 ("GoI Shares") for an aggregate purchase price of Rs.14,393 million in cash.

The Share Purchase Agreement ("SPA") giving effect to the above arrangement was entered into between GoI and Panatone on February 6, 2002. Panatone's shareholders Tata Sons, Tata Power, Tata Steel and Tata Industries, are also signatories to the SPA though they did not directly purchase any of GoI's shareholding in the Company. The Company is also a party to the SPA.

In connection with the purchase of GoI Shares, Panatone was required by India's Takeover Code to make a tender offer to acquire an additional 20% of the equity shares from public shareholders of the Company. Accordingly, 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.

At the close of the tender offer on May 9, 2002, approximately 87,600,000 equity shares were tendered for sale, of which Panatone accepted 57,000,000 equity shares on a pro rata basis. Upon acceptance of the tendered shares, Panatone now holds 45% of 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 tender offer. Panatone is required to facilitate the transfer of the Surplus Land to a new realty undertaking in the Company. Panatone, with GoI, will cause the demerger of the realty undertaking into a separate company ("the Resulting Company"). On the issue of new shares of the Resulting Company, Panatone is required to transfer to GoI, 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 GoI 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 GoI 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, GoI decided to terminate the Company's monopoly two years ahead of schedule and accordingly opened up this service to private operators from April 1, 2002. GoI had however agreed to compensate the Company for this early termination with the following package (See Note 18):

1. A license to operate national long distance ("NLD") services.
2. Re-imbursement by GoI 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 1, 2001.
3. A category 'A' Internet Service Provider ("ISP") license, which will allow the Company to expand internet access services to the entire country.

The Company had accepted GoI's decision to terminate the Company's monopoly before the year 2004. The shareholders of the Company 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"), GoI. In pursuance of the New Telecom Policy 1999, GoI decided to corporatize the service provision functions of the DoT. Accordingly, GoI 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, existing contracts, agreements and MoUs, except for licence fees payable for the usage of circuits, including the revenue sharing agreement entered into by DoT for the supply of services, were transferred and assigned to BSNL with effect from October 1, 2000.

The 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 from April 1, 2002 the Company is in the process of negotiating a fresh ILD 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 and MTNL for the delivery of international calls abroad. Consequently, the Company and BSNL/MTNL 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/MTNL 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 BSNL/MTNL (net of payments by the Company to foreign administrations and carriers and by the Company and BSNL/MTNL 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 BSNL/MTNL according to the following percentages:

**Increase/decrease**

| Years ended March 31 | Company's share | BSNL/MTNL Share |
|---|---|---|
| 2001 | 20% | 80% |
| 2002 | 25% | 75% |

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

Effective April 1, 2002, the international long distance telephony market in India was liberalized with GoI permitting the entry of private operators.

The Company negotiated terms with various telecommunication operators including BSNL and MTNL. In accordance with the terms of agreement with BSNL and MTNL, for the period from April 1, 2002 to July 31, 2002, the prior Revenue Sharing Agreement that expired on March 31, 2002 was extended upto July 31, 2002.

With effect from August 1, 2002, BSNL and MTNL would pay VSNL amounts ranging from Rs.6.00 - Rs.14.00 per minute depending upon which region the traffic was terminated. In the case of incoming calls, VSNL is required to pay BSNL and MTNL amounts ranging from Rs.4.40 – Rs.13.00 per minute depending upon which distance slab the incoming traffic is being terminated. Discounts are allowable in respect of incoming calls depending upon a committed volume of traffic.

For the years ended March 31, 2001, 2002 and 2003 the effective net retention per call minute was Rs.9.39, Rs.8.39 and Rs. 5.69, respectively.

The Company has also negotiated the terms of agreement with BSNL, MTNL and various other telecommunication operators for fiscal 2004. Based on the agreements effective April 1, 2003 to March 31, 2004, BSNL and MTNL would pay VSNL amounts ranging from Rs. 6.00 - Rs.14.00 per minute for outgoing traffic depending upon the region to which the traffic would be terminated. In the case of incoming calls, VSNL is required to pay BSNL and MTNL amounts ranging from Rs. 5.70 - Rs. 6.60 per minute depending on the distance slab to which the incoming traffic is being terminated. Discounts are allowable in respect of incoming calls depending upon a committed volume of traffic.

## 2. Summary of Significant Accounting Policies

### a. Basis of presentation

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 the statutory general purpose financial statements of the Company in India. Principal differences in so far 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 and the presentation and format of the financial statements and related notes.

The Company has a wholly owned subsidiary. Consolidated financial statements have not been presented as the financial position and results of the subsidiary are immaterial for the purposes of consolidation (See Note 6).

Entities where the Company exercises significant influence, generally 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.

**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 the 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 an allowance for doubtful debts. Amounts payable to and receivable from the same administration and BSNL/MTNL are shown on a net basis where a legal right of set-off exists. These payables and receivables are generally 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 companies 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.

Entities where the Company controls between 20% and 50% of the working stock of the investee company are considered as affiliates/joint ventures and are accounted using the equity method.

**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 motor 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 and does not trade in IRU's or bandwidth or enter into any swap or other similar agreements relating to IRU's or bandwidth.

**g. Impairment and disposal of long lived assets**

The Company evaluates the carrying value of its long-lived tangible assets whenever events or circumstances indicate the carrying value of such 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 or disposition of an asset are less than the carrying amount of the asset. Measurement of an impairment loss is based on the lower of the fair value and the net realizable value of the asset.

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 off 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.

The Company adopted SFAS No. 144 with effect from April 1, 2002, with no material impact on its results of operations, financial position or cash flows.

**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.

**Pension**

Pension contributions are charged to the statement of income based on actuarial valuation. Pension contributions mainly comprise the Company's share of contribution relating to OCS employees who were transferred to VSNL in the financial year ended March 31, 1990.

***Provident fund***

In addition to the above benefits, all eligible 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 has remained constant at 9.5% during the years ended March 31, 2002 and 2003. Currently, the Company has no further obligation under the provident 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 fee schedules. Revenues from Internet services are recognized based on usage by subscribers. The majority of revenues are derived from payments by the BSNL/MTNL 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 and other expenses**

The principal components of the Company's operating and other expenses are network and transmission costs, license fees paid to the DoT, light and power expenses and repairs to plant and machinery.

Network and transmission costs include payments to BSNL/MTNL 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 other domestic operators and satellite circuits from satellite companies. As discussed in Note 1(d), the Company must pay a proportion of the amounts received from domestic operators to transit and destination foreign administrations. Similarly, a portion of the payments from the foreign administrations is paid to domestic operators for completing calls within India.

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 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 charges for the 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. Income tax**

Income tax comprises current income tax and the net change in the deferred tax asset or liability in the year. Deferred income taxes are accounted for using the asset and liability method for the future tax consequences of temporary differences between the tax basis and the carrying value of assets and liabilities.

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.

**n. 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, 2002 and 2003, the amounts available for distribution are Rs. 8,338 million and Rs.7,786 million, respectively. Dividends declared for the years ended March 31, 2001, 2002 and 2003 were Rs.50, Rs.87.50 and Rs.8.50 per equity share. For the year 2003, the dividend proposed by the Board of Directors which is pending approval of the shareholders in the Annual General Meeting is Rs. 8.50 per equity share. The Company paid dividends of Rs.760 million, Rs.35,625 million (including Rs. 21,375 million as special dividend) and Rs.3,563 million during the years ended March 31, 2001, 2002 and 2003 respectively.

**o. 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.

**p. 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, exchange differences on translation of foreign affiliates/joint ventures along with net income are components of comprehensive income.

**q. Segment information**

The Company identifies International telephony, Internet and Leased line services as its operating segments. Operating segments other than the international 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. Segment-wise information has been provided in Note 25.

**r. New accounting pronouncements**

**SFAS No. 143**

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 will become applicable to the Company for its fiscal year beginning on April 1, 2003, and when adopted, is not expected to have any impact on the results of operations, financial position or cash flows.

**SFAS No. 146**

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity including Certain Costs Incurred in a Restructuring". The principal difference between SFAS No. 146 and Issue 94-3 relates to SFAS No. 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the FASB in this Statement is that an entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. Therefore, this Statement eliminates the definition and requirements for recognition of exit costs in Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that the adoption of SFAS No. 146 will not have a material impact on its financial position or results of operations.

**SFAS No. 148**

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation.* This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Statement 123 required prospective application of the fair value recognition provisions to new awards granted after the beginning of the period of adoption. When Statement 123 was issued in 1995, the Board recognized the potential for misleading implications caused by the "ramp-up" effect on reported compensation cost from prospective application of the fair value based method of accounting for stock-based employee compensation to only new grants after the date of adoption. However, the Board was concerned that retroactive application would be excessively burdensome to financial statement preparers because the historical assumptions required to determine the fair value of awards of stock-based compensation for periods prior to the issuance of Statement 123 were not readily available. This Statement permits two additional transition methods for entities that adopt the preferable method of accounting for stock-based employee compensation. Both of those methods avoid the ramp-up effect arising from prospective application of the fair value based method. In addition, to address concerns raised by some constituents about the lack of comparability caused by multiple transition methods, this Statement does not permit the use of the original Statement 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003.

**SFAS No. 149**

In February 2003, the FASB issued SFAS No. 149, *Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities.* This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement amends Statement 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement 133, (2) in connection with other Board projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative, in particular, the meaning of *an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors,* the meaning of *underlying,* and the characteristics of a derivative that contains financing components. This Statement is effective for contracts entered into or modified after June 30, 2003. All provisions of this Statement should be applied prospectively.

**FIN 45**

In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an interpretation of FASB No 5, 57 and 107 and rescission of FASB interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others,* which is being superseded. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretive guidance incorporated without change from Interpretation 34 continues to be required for financial statements for fiscal years ending after June 15, 1981—the effective date of Interpretation 34.

**s. 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, 2003 have been translated into US dollars at US$1.00 = Rs.47.53 based on the noon buying rate for cable transfers on March 31, 2003 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.

## 3. Cash and cash equivalents

Cash and cash equivalents include the following:

| | As of March 31, | | |
|---|---|---|---|
| | **2002** | **2003** | **2003** |
| | (In millions) | | |
| Cash in hand | Rs.4 | Rs.1 | US$- |
| Bank balances: | | | |
| Current accounts | 1,707 | 271 | 6 |
| Time Deposits | 6,170 | - | - |
| **Total** | Rs.7,881 | Rs.272 | US$ 6 |

## 4. Short-term investments

Short-term investments include the following:

| | As of March 31, | | |
|---|---|---|---|
| | **2002** | **2003** | **2003** |
| | (In millions) | | |
| Term Deposits | Rs.7,108 | Rs.6,262 | US$ 132 |
| Time deposits with maturity exceeding 90 days | 10,361 | 17,052 | 358 |
| **Total** | Rs. 17,469 | Rs.23,314 | US$ 490 |

Term Deposits include Rs.7,099 million and Rs.6,258 million as of March 31, 2002 and 2003, respectively the use of which is restricted to the import of capital equipment.

Interest rates on term deposits during the year ended March 31, 2003, ranged from approximately 5.60% to 8.75%.

Term deposits with maturity exceeding 90 days include Rs.3,605 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, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Trade accounts receivables : | | | |
| Amount due from foreign administrations | Rs. 14,380 | Rs. 6,302 | US$ 133 |
| Domestic trade debtors | 528 | 1,575 | 33 |
| Total trade account receivables | 14,908 | 7,877 | 166 |
| Interest receivable on bank deposits | 700 | 225 | 5 |
| Other sundry deposits | 63 | 60 | 1 |
| Other receivables | 546 | 429 | 9 |
| **Total** | Rs. 16,217 | Rs. 8,591 | US$ 181 |

Amounts due from BSNL/MTNL for traffic settlement are netted against amounts due to BSNL/MTNL for traffic settlement and are reported in trade payables. The Company has the legal right of set-off.

## 6. Investments

The portfolio of investments as of March 31, 2002 and 2003 is as follows :

| | As of March 31, 2002 | | | As of March 31, 2003 | | |
|---|---|---|---|---|---|---|
| | Original Cost | Gross unrealized gains | Carrying value | Original Cost | Gross unrealized gains | Carrying value |
| | | | | (In millions) | | |
| Investment carried at fair value: | | | | | | |
| Satellite companies | Rs.562 | Rs.412 | Rs.974 | Rs.562 | Rs.120 | Rs.682 |
| Investment carried at cost: | | | | | | |
| Telecommunication companies | | | 8,481 | | | 2,992 |
| Less: Permanent impairment | | | (5,470) | | | — |
| **Total** | | | Rs. 3,985 | | | Rs. 3,674 |
| **Total** | | | | | | US$ 77 |

**VSNL Seamless Services Limited**

During the year the Company acquired a wholly owned subsidiary VSNL Seamless Services Limited ("VSSL"), incorporated in India, for a cash consideration of Rs. 1,000. Subsequent to the acquisition, the Company subscribed to equity shares of Rs. 500,000 issued by VSSL. The intended principal activity of VSSL was provision of value-added services. Subsequent to the year-end, the Board of Directors of the Company, proposed liquidation of the subsidiary. VSSL has not commenced operations.

**Intelsat Ltd.**

Intelsat Ltd., originally formed as an Inter Governmental Organisation ("IGO") in 1964, owns and operates satellite communication systems. It offers telephony, corporate network, video and Internet solutions to customers in over 200 countries through its network of 26–geosynchronous satellites. Intelsat was converted into a private company incorporated in Bermuda effective July 18, 2001. Consequent to its privatisation the Company was allotted 27,045,940 ordinary shares of US$1 each representing 5.4% of the paid up capital of Intelsat Ltd. On June 4, 2002 Intelsat amended its bye-laws consolidating its shares, whereby every three ordinary shares of $ 1.00 each were consolidated into one ordinary share of $ 3.00 each. Consequently, the company now holds 9,015,314 ordinary shares with a par value of $ 3 per share.

Post corporatization, the Company's 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 8, 2002, Intelsat Ltd. announced its intention to conduct an initial public offering (IPO) 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. The Open-Market Reorganisation for the Betterment of International Telecommunications Act (ORBIT Act) has extended the deadline for conducting the IPO to December 31, 2003.

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

During 1998-99, as part of its restructuring process Intelsat incorporated NSS as a corporation with limited liability under the laws of Netherlands and transferred certain assets and liabilities to NSS and accounted for the transaction 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, 2003 stands at 3,442,150 ordinary shares of 0.05 Euros each. The market value per share as of March 31, 2003 was US $ 4.17 per share**.**

**Inmarsat Venture Plc.**

International Mobile Satellite Organisation (Inmarsat) was an IGO with membership from 88 countries providing satellite mobile communications in air, on land and at sea. It 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.

Due to poor stock market conditions, Inmarsat has postponed its IPO during the fiscal year 2002. It is anticipated that Inmarsat's existing shareholders will be offered the opportunity to sell their holdings in the offering when it occurs. The ORBIT Act has extended the deadline for conducting the IPO to June 30, 2004.

**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.

## 7. Investment in Affiliates/Joint Venture

### 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. 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. Investment in UTL has been equity accounted in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

### Tata Teleservices Limited ("TTSL")

The company has an equity interest of 19.9% in Tata Teleservices Limited ("TTSL"). The Company has the right to appoint two directors in TTSL. TTSL and its subsidiaries provide basic telephony and Internet services in Andhra Pradesh and Maharashtra. Investment in TTSL has been equity accounted in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.*

## 8. Property, plant and equipment

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

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Land | Rs. 773 | Rs. 782 | US$ 16 |
| Buildings | 2,210 | 2,434 | 51 |
| Plant and machinery | 25,117 | 29,751 | 626 |
| Computers | 587 | 738 | 16 |
| Motor vehicles | 16 | 15 | - |
| Furniture and fixtures | 184 | 212 | 5 |
| Property, plant and equipment, at cost | 28,887 | 33,932 | 714 |
| Less: Accumulated depreciation | (10,829) | (13,279) | (279) |
| **Property, plant and equipment, net** | Rs. 18,058 | Rs. 20,653 | US$ 435 |

The Company is in the process of reviewing the estimated useful lives of property, plant and equipment. Pending completion of such review, depreciation has been computed based on estimated useful lives stated in Note 2(f).

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 of Rs.30 million was recognized in the year ended March 31, 2002 to reflect their estimated realizable value.

Property, plant and equipment include Rs.1,486 million and Rs. 1,426 million for indefeasible rights of use as of March 31, 2002 and 2003 respectively.

## 9. Capital work-in-progress

Capital work-in-progress includes the following:

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Buildings | Rs.315 | Rs.182 | US$4 |
| Plant and machinery | 2,583 | 110 | 2 |
| Other assets | 45 | 828 | 18 |
| **Total** | Rs.2,943 | Rs.1,120 | US$24 |

**10. Other assets**

Other assets includes the following:

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Advance tax (net) | Rs.7,752 | Rs.12,141 | US$256 |
| Advance paid for capital goods | 6 | 23 | — |
| Prepaid expenses | 530 | 632 | 13 |
| Inventories | 5 | 7 | — |
| **Total** | Rs. 8,293 | Rs. 12,803 | US$269 |

**11. Short-term borrowings**

As of March 31, 2002 and 2003, the Company had short-term borrowings of Rs. 5,751 million and Rs. 3,540 million respectively. The short-term borrowings carry interest at 6.25% and are repayable by April 2003. Term deposits amounting to Rs. 3,605 million are secured against short-term borrowings.

**12. Trade payables**

Trade payables include the following:

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Accounts payable-trade: | | | |
| Amounts due to foreign administrations | Rs.1,420 | Rs.586 | US$12 |
| Amounts due to Domestic Operators | 4,308 | 1,836 | 39 |
| **Total** | Rs. 5,728 | Rs. 2,422 | US$ 51 |

**13. Accrued expenses and other liabilities**

Accrued expenses and other liabilities include the following:

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (In millions) | | |
| Unearned income | Rs. 1,762 | Rs. 3,039 | US$ 64 |
| Interest acrued but not due | 11 | 1 | — |
| Other payables and accrued expenses | 6,189 | 5,078 | 107 |
| **Total** | Rs.7,962 | Rs. 8,118 | US$ 171 |

**14. Income tax**

The income tax expense comprises the following :

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | (In millions) | | | |
| Current income tax expense | Rs. 7,887 | Rs. 6,661 | Rs. 4,176 | US$ 88 |
| Deferred income tax expense (benefit) | 1,759 | (702) | 214 | 4 |
| **Income tax expense** | Rs.9,646 | Rs.5,959 | Rs.4,390 | US$92 |

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, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | | | (In millions) | |
| Net income before taxes | Rs.25,173 | Rs.19,130 | Rs. 11,834 | US$249 |
| Effective statutory income tax rate | 39.55% | 35.70% | 36.75% | 36.75% |
| Expected income tax expense | 9,956 | 6,829 | 4,349 | 91 |
| Adjustments to reconcile | | | | |
| expected income tax expense to actual tax expense: | | | | |
| Permanent differences: | | | | |
| Income exempt under tax holiday | (1,209) | (957) | — | — |
| Provision for diminution in value of investment not allowed for tax | 153 | 24 | — | — |
| Stock based compensation cost | — | 320 | — | — |
| Exchange gain on GDR deposits treated as capital receipt for income tax purposes | (60) | 59 | — | — |
| Share of loss of affiliates | — | — | 52 | 1 |
| Others, net | 775 | (110) | 42 | 1 |
| Effect of change in statutory tax rate | 31 | (206) | (53) | (1) |
| **Income tax expense** | Rs.9,646 | Rs.5,959 | Rs.4,390 | US$92 |

The tax effects of significant temporary differences are as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | (In millions) | |
| **Tax Effect of :** | | | |
| **Deductible temporary differences:** | | | |
| Allowances for trade receivables | Rs.608 | Rs.624 | US$13 |
| Other | 126 | 132 | 3 |
| **Deferred tax asset** | Rs.734 | Rs.756 | US$16 |
| **Taxable temporary differences:** | | | |
| Property, plant and equipment | Rs.2,946 | Rs.3,182 | US$67 |
| Unrealized gain on securities available for sale | 151 | 46 | 1 |
| **Deferred tax liability** | Rs.3,097 | Rs.3,228 | US$68 |
| **Net deferred tax liability** | Rs.2,363 | Rs. 2,472 | US$52 |

## 15. Traffic Revenues

Revenues comprise the following:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | | | (In millions) | |
| Revenues from foreign Administrations : | | | | |
| Telephone | Rs.46,674 | Rs.41,503 | Rs.27,143 | US$571 |
| Others | 112 | 70 | 36 | 1 |
| Revenues from domestic operators : | | | | |
| Telephone | 18,345 | 16,153 | 9,656 | 203 |
| Leased circuits | 3,140 | 3,584 | 4,231 | 89 |
| Telegraph, television and others | 3,645 | 3,740 | 4,275 | 90 |
| **Total** | Rs.71,916 | Rs. 65,050 | Rs. 45,341 | US$ 954 |

## 16. Network costs

Network and transmission costs comprise the following :

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | | | (In millions) | |
| Payment for traffic costs to: | | | | |
| Domestic operators | Rs.27,341 | Rs.23,050 | Rs. 13,528 | US$284 |
| Foreign administrations | 13,866 | 10,721 | 6,741 | 142 |
| Rent of land lines | 1,037 | 2,914 | 3,319 | 70 |
| Other transmission facilities | 2,906 | 2,892 | 2,456 | 52 |
| **Total** | Rs.45,150 | Rs.39,577 | Rs. 26,044 | US$548 |

## 17. Other operating costs

Other operating costs comprise the following:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | | | (In millions) | |
| Staff costs: | | | | |
| Salaries and wages | Rs.1,400 | Rs.2,134 | Rs.1,302 | US$27 |
| Social security contributions | 132 | 391 | 264 | 6 |
| Energy costs | 271 | 286 | 302 | 6 |
| Advertising | 116 | 35 | 89 | 2 |
| Repairs, maintenance, marketing and other costs | 1,104 | 1,957 | 2,033 | 43 |
| **Total** | Rs.3,023 | Rs.4,803 | Rs.3,990 | US$84 |

### 18. Non-operating income

Non-operating income comprise the following:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| | | | (In millions) | |
| Foreign exchange gains, net | Rs.2,878 | Rs.939 | Rs.167 | US$4 |
| Profit (loss) on sale of fixed assets | (5) | (2) | 1 | — |
| Reimbursement by GoI of entry fees | | | | |
| (See Note 1(c)) | — | 279 | — | — |
| Miscellaneous income | 185 | 155 | 257 | 5 |
| **Total** | Rs.3,058 | Rs.1,371 | Rs.425 | US$9 |

### 19. Interest Income

Included under interest income is an amount of Rs. 535 million relating to interest on income tax refunds. Consequent to the favourable outcome of appeals before the Commissioner of Income Tax (Appeals) relating to the allowability of licence fee, income tax refunds, including interest aggregating to Rs. 963 million were received during the year. Interest on tax refunds aggregating to Rs. 428 million which were recognised in previous years, have been debited to the Statement of Income for the year ended March 31, 2003 on receipt of adverse assessment orders.

### 20. Employee Stock Purchase Scheme ("ESPS")

As part of the process of disinvestment, GoI 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.

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 for the year ended March 31, 2002 would have been as per the *pro forma* amounts indicated below:

| | Year ended March 31, 2002 | |
|---|---|---|
| | (In millions, except per share amounts) | |
| **Net income :** | | |
| As reported | Rs.9,537 | US$195 |
| *Pro forma* | 9,776 | US$200 |
| **Basic and diluted earnings per share** | | |
| As reported | Rs.33.46 | US$0.69 |
| *Pro forma* | 34.30 | US$0.70 |

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

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

**21. 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, 2002 and 2003.

| | As of March 31, | | |
|---|---|---|---|
| | **2002** | **2003** | **2003** |
| | | **(In millions)** | |
| **Change in benefit obligation:** | | | |
| Projected benefit obligation, beginning of the year | Rs.232 | Rs.288 | US$6 |
| Service cost | 16 | 21 | — |
| Interest cost | 23 | 27 | — |
| Actuarial loss | 39 | 33 | 1 |
| Benefits paid | (22) | (12) | — |
| **Projected benefit obligation, end of the year** | 288 | 357 | 8 |
| **Change in plan assets:** | | | |
| Fair value of plan assets, beginning of the year | 127 | 288 | 6 |
| Actual return on plan assets | 11 | 28 | 1 |
| Employer contributions | — | 52 | 1 |
| Benefits paid | (22) | (12) | — |
| Gain on plan assets | — | 1 | — |
| **Fair value of plan assets, end of the year** | 116 | 357 | 8 |
| Excess of obligation over plan assets | (172) | — | — |
| Unrecognized actuarial loss | 102 | — | — |
| Unrecognized transitional obligation | 9 | — | — |
| **Accrued benefit** | Rs.(61) | — | US$- |

Net gratuity cost for the years ended March 31, 2001, 2002 and 2003 comprises the following components:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2003** |
| | | | **(In millions)** | |
| Service cost | Rs.8 | Rs.16 | Rs. 21 | US$- |
| Interest cost | 16 | 23 | 27 | 1 |
| Net transitional liability recognized | — | 13 | — | — |
| Net actuarial loss recognized | — | 105 | 31 | 1 |
| Amortization of unrecognized transitional obligation | 5 | — | — | — |
| Actual investment return | (10) | (11) | (27) | (1) |
| **Net gratuity cost** | Rs.19 | Rs.146 | Rs.52 | US$1 |

The assumptions used in accounting for the gratuity plan for the years ended March 31, 2001, 2002 and 2003 are set out below:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2001** | **2002** | **2003** |
| | | (%) | |
| Discount rate | 10.5 | 10.0 | 9.5 |
| Rate of increase in compensation levels of covered employees | 6.0 | 6.0 | 5.0 |
| Rate of return on plan assets | 9.5 | 9.5 | 9.5 |

***Leave encashment***

The Company provided Rs.28 million, Rs.120 million and Rs. 110 million for leave encashment for the years ended March 31, 2001, 2002 and 2003 respectively.

***Pension***

Pension contributions comprise the Company’s share of contribution relating to the OCS employees who were transferred to VSNL in the financial year ended March 31, 1990. The gross pension obligation as at March 1, 2003 is Rs. 290 million of which the Company’s share amounted to Rs. 45 million.

***Provident fund***

The Company contributed Rs.75 million, Rs.69 million and Rs.70 million to the provident fund for the years ended March 31, 2001, 2002 and 2003 respectively.

**22. Estimated fair value of financial instruments**

The carrying amounts for cash, cash equivalents, short-term investments, investments available for sale, accounts receivable, short term borrowings, trade payables and other liabilities approximate their fair values due to the short maturity period of these instruments.

### 23. 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 with the majority of payments due within a one-year period. The amount of these commitments totalled Rs. 2,133 million as of March 31, 2003. In accordance with the shareholders' agreement with Tata Teleservices Limited, an affiliate, the Company has an obligation to contribute additional capital of Rs. 5,554 million by March 31, 2009. In accordance with the shareholders' agreement of United Telecom Limited, an affiliate, the Company has an obligation to contribute additional capital of Rs. 133 million.

**Contingencies**

**Income tax matters**

Significant claims by the revenue authorities in respect of income tax matters are in respect of:

(a) expenditure on licence fees for the Assessment Year 1995-96 disallowed by the revenue authorities. The Company's appeal was allowed at the Tribunal stage, and the matter is now pending before the High Court. An appeal on similar grounds for the Assessment Year 1994-95 is pending before the Commissioner of Income Tax (Appeals). The Company has obtained favourable decisions in other assessment years, which have not been contested by the revenue authorities, and the Company is of the view that the claims will eventually be decided in its favour. Tax expense and interest on the license fee disallowed amounts to Rs. 3,680 million.

(b) deductions claimed under Section 80IA of the Income Tax Act from Assessment years 1996-97 onwards have been disallowed by the revenue authorities. The Company has contested the disallowance and has preferred appeals. Tax expense and interest on disallowance of the deduction amounts to Rs. 2,950 million.

(c ) reimbursement by DoT of income tax paid by the Company on the DoT levy during 1994-95, that was taxed by the revenue authorities. The Company is in appeal. Tax expense and interest on the re-imbursement amounts to Rs. 2,250 million.

**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.

### 24. Related party transactions

The Company's principal related parties consist of its principal 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 with DoT and BSNL/MTNL are subject to the revenue sharing agreement discussed in Note 1(d).

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 is at 4%. The loans are secured by assets acquired by the employees. As of March 31, 2002 and 2003, amounts receivable from employees aggregated to Rs.301 million and Rs. 260 million, respectively, are included in trade and other receivables. Interest free short term advances made to employees aggregated to Rs.8 million and Rs.11 million as of March 31, 2002 and 2003, 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.9 million, Rs.11 million and Rs.20 million for the years ended March 31, 2001, 2002 and 2003, respectively, is included in staff costs.

## 25. Segment information

The Company has three operating segments, comprising international telephony, Internet and leased line services. Operating segments other than the international 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 "Others" 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.

Summarized segment information for the years ended March 31, 2001, 2002 and 2003 is as follows:

| | Years ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2002 | | 2003 | | | |
| | International telephony | Others | International telephony | Others | International telphony | | Others | |
| Traffic revenues | Rs.65,019 | Rs.6,897 | Rs.57,656 | Rs.7,394 | Rs.36,799 | US$774 | Rs.8,542 | US$180 |
| Income from satellite consortia | — | 1,160 | — | — | — | — | — | — |
| **Operating revenue** | **65,019** | **8,057** | **57,656** | **7,394** | **36,799** | **774** | **8,542** | **180** |
| Network and transmission costs | 41,861 | 3,289 | 33,858 | 5,719 | 24,200 | 509 | 1,844 | 39 |
| License fee | 5,022 | — | 5,393 | — | 2,707 | 60 | 850 | 18 |
| **Segment operating profit** | **18,136** | **4,768** | **18,405** | **1,675** | 9,892 | 208 | 5,848 | 123 |
| **Total Segment operating profit** | | **22,904** | | **20,080** | | | **15,740** | **331** |
| Less: Unallocable operating costs | | 4,752 | | 6,701 | | | 6,556 | 138 |
| **Operating profit, as reported** | | **Rs.18,152** | | **Rs.13,379** | | | **Rs.9,184** | **US$193** |

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

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

| | Years ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 | 2003 |
| | (In millions, except percentages) | | | | |
| India | Rs.18,346 | Rs.23,527 | Rs. 16,912 | US$356 | 37 % |
| United States of America | 23,297 | 19,436 | 10,774 | 227 | 24 |
| United Arab Emirates | 7,222 | 6,720 | 5,468 | 115 | 12 |
| Saudi Arabia | 4,185 | 3,802 | 3,199 | 67 | 7 |
| Rest of the world | 18,866 | 11,565 | 8,988 | 189 | 20 |
| **Total** | **Rs.71,916** | **Rs.65,050** | **Rs. 45,341** | **US$954** | **100 %** |

Revenues from major customers are as follows:

| | Years ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2003** | **2003** |
| | **(In millions, except percentages)** | | | | |
| Domestic Carriers | Rs.18,346 | Rs.23,527 | 11,504 | 242 | 25 % |
| MCI WorldCom | 10,916 | 9,513 | 5,588 | 118 | 13 |
| Concert AT&T | 9,639 | 6,987 | 3,854 | 81 | 8 |
| Etisalat | 7,222 | 6,720 | 5,599 | 118 | 12 |
| Others | 25,793 | 18,303 | 18,796 | 395 | 42 |
| **Total** | **Rs.71,916** | **Rs.65,050** | **Rs. 45,341** | **US$954** | **100.0 %** |

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, | | | |
|---|---|---|---|---|
| | **2002** | **2003** | **2003** | **2003** |
| | **(In millions, except percentages)** | | | |
| MCI WorldCom | Rs.5,612 | 493 | 10 | 6 % |
| Concert AT&T | 1,668 | 740 | 16 | 9 |
| United Arab Emirates | 2,366 | 1,015 | 21 | 13 |
| Saudi Arabia | 1,659 | 1,444 | 30 | 19 |
| Others | 3,603 | 4,185 | 88 | 53 |
| **Total** | **Rs.14,908** | **Rs.7,877** | **US$165** | **100 %** |

All revenues earned by the Company are from its operations in India. Substantially all of the Company's property, plant and equipment are located in India.

**26. Post Balance Sheet events**

a) Interest Income

In April 2003, further income tax refunds have been received including interest amounting to Rs. 490 million.

b) Dividends

On May 29, 2003, the board of directors of the Company declared dividend of Rs.8.50 per equity share aggregating to Rs.2,423 million which is subject to approval by the shareholders at the ensuing annual general meeting. Dividend tax amounting to Rs. 310 million would be payable on the dividend distributed and charged to the statement of income for the year ending March 31, 2004.

# BOARD OF DIRECTORS

**Mr. Ratan N. Tata**

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 1974-1975.

Mr. Tata joined the Tata Group in 1962. He was assigned to various companies before being appointed director-in-charge of The National Radio & Electronics Company Ltd. (NELCO) in 1971. He was named Chairman of Tata Industries Ltd. 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 Ltd., the apex body of the Tata Group. He currently holds the chairmanships of major Tata companies like Tata Steel, Tata Engineering, Tata Power, Tata Tea, Tata Chemicals, Indian Hotels and VSNL. He is also Chairman of two of the largest private sector-promoted philanthropic undertakings in India.

Mr. Tata serves in important capacities in various organisations in India, and is a member of the central board of the Reserve Bank of India (RBI) and of the Prime Minister's Council on trade and industry. His foreign affiliations include memberships of the international advisory boards of Mitsubishi Corporation, the American International Group, J.P. Morgan Chase, Booz-Allen Hamilton Inc., and of the board of trustees of the Ford Foundation. He also serves on the International Investment Council set up by the President of the Republic of South Africa, the Asia Pacific advisory committee to the board of directors of the New York Stock Exchange, the board of governors of the East West Center, the advisory board of RAND's Center for Asia Pacific Policy and the Programme Board of the Bill & Melinda Gates Foundations' India AIDS Initiative.

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. Shailendra Kumar Gupta**

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

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

Mr. Gupta first took charge of 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. Mr. Gupta continues as VSNL's managing director currently.

Mr. Gupta has had extensive international exposure. 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 VSNL's managing director, 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. Mr. Gupta was a member of INTELSAT's board from 1999 to June 2003. He is currently the chairman of the interim management committee of the SEA – ME – WE # 4 Cable consortium, the chairman of VSNL Lanka Ltd. and a member of the board of VSNL's Nepalese joint venture, United Telecom Ltd.

Mr. Gupta has travelled extensively to represent VSNL and raise its profile in various global forums, including in the US, 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.

**Mr. Srinath Narasimhan**

Mr. Srinath Narasimhan was born on July 8, 1962. He received a degree in mechanical engineering from IIT (Madras) and a 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, getting various approvals and 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 the operations of 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 graduated in science from the University of Allahabad and in mechanical engineering with honours from Varanasi. He 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 the Advance Level Telecom Training Centre of the Department of Telecommunications (DoT) at Ghaziabad.

Mr. Kumar has wide experience in the 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 Center for Telecom Management at the University of Southern California (US). 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 Ltd. (TCIL). Bharat Sanchar Nigam Ltd. introduced its Internet services during his tenure as chief general manager (data network).

He is presently the senior deputy director general (service units) in the DoT where his main responsibility is coordination and liaison with service PSUs namely MTNL, BSNL and TCIL for all operations and service matters.

**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, among many others.

During 1989-90 he was deputed to Harvard University and obtained a Master in Public Administration degree. He was selected Lucius Littur Fellow 1990 for academic excellence and dedicated public services. His 1993 book “Macro Economic Adjustments Theoretical Issues and Practical Policies”, analyses the impact of India’s economic liberalisation.

As joint secretary, Department of Information Technology he is responsible for the project Media Lab Asia, other special IT projects and 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 as general manager (materials). In 1977, he became director in-charge of projects and materials and in 1980 took additional charge as executive director. On March 31, 2000, he retired as the group chairman and chief executive and is currently an advisor to the group.

Mr. Bhargava has been a key spokesperson for Indian industry, as the past president of the Confederation of Indian Industry (CII) and the Association of Indian Automobile Manufacturers, and as the vice president of the Tractor Manufacturers Association.

Mr. Bhargava was a member of the Insurance Tariff Advisory Committee and currently is on the governing bodies of the Economic Development Board, Government of Rajasthan; the Centre for Policy Research; the India Trade Promotion Organisation; the Technology Information Forecasting and Assessment Council; and on the central board of State Bank of India.

Mr. Bhargava has been closely associated with technical and management education. He is on the boards of IIM, Indore; the Indian Institute of Foreign Trade, New Delhi; the Entrepreneurship Development Institute of India, Ahmedabad; and other institutions. He is also on the senior panel of the All India Council for Technical Education (AICTE); and on the committee set up by the Ministry of Human Resource Department, GoI for policy perspectives for management education. He is a trustee of the India Brand Equity Fund, the National Centre for Promotion of Employment for Disabled People and the Bhartiya Yuva Shakti Trust.

Mr. Bhargava is the chairman of Wartsila India Ltd. and is on the boards of Samtel Colour Ltd., Samcor Glass Ltd., Rane Engine Valves Ltd., TRF, Robins Fraser Ltd. and Carborundum Universal Ltd. He is also the mentor of two start-up companies -Autoparts Asia Pvt. Ltd. and Nicco Internet Ventures Ltd.

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 Sundram Fastners Ltd. He was the president of the Confederation of Engineering Industry (1987-88) and the president of the Automotive Component Manufactures Association of India (1982-84).

He has been involved in several other public bodies set up by the central and state governments. He was a director on the central board of the Reserve Bank of India; a member of the Indo-German Consultative Group, set up by the Prime Minister of India and the Chancellor of the Federal Republic of Germany, to improve bilateral relations; and a member of the advisory council on trade and industry to the Prime Minister. The Government of Tamil Nadu appointed him the sheriff of Madras for 1992 and 1993.

Mr. Krishna has won numerous awards and honours, including the Sir Jehangir Ghandy Medal for Industrial Peace from XLRI in 1991; Business India magazine's Businessman of the Year award, 1995; the Qimpro Platinum Standard 1997 for being a role model for quality leadership; the Juran Quality Medal from the Indian Merchants Chamber, Mumbai; the national award for 2000 (for India) from the Asian Productivity Organisation, Japan; the JRD Tata Corporate Leadership Award 2000 from the All India Management Association; and Ernst & Young's Entrepreneur of the Year award for manufacturing for 2001.

**Mr Ishaat Hussain**

Mr Ishaat Hussain joined the board of Tata Sons Ltd. as an executive director on July 1, 1999, and has been its finance director since July 28, 2000. Before joining Tata Sons he was the senior vice president and executive director – finance in Tata Steel for almost 10 years.

Born on September 2, 1947, Mr Hussain completed his schooling from the Doon School in 1963 and then graduated in economics from St. Stephens College Delhi.

A chartered accountant from England and Wales, Mr Hussain joined the board of The Indian Tube Company (a Tata Steel associate company) in 1981. He moved to Tata Steel in 1983 after Indian Tube was merged with Tata Steel.

Besides being on the board of Tata Sons, he is the chairman of Tata Finance Ltd. and Voltas Ltd. He is also on the boards of several other Tata companies: Tata Steel, Tata Industries, Tata Teleservices and Titan Industries Ltd.

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**Mr. Kishor A. Chaukar**

Mr. Kishor A. Chaukar (55), currently the managing director of Tata Industries Ltd. (TIL), is a post-graduate in management from the Indian Institute of Management, Ahmedabad.

TIL is one of the two principal holding companies of the Tata Group, acts as its diversification and new projects-promotion arm, and spearheads its entry into the emerging high-technology 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 and the Group corporate centre, which are engaged in strategy formulation. He is the chairman of Tata Telecom Ltd., and is on the board of various Tata companies like Tata Honeywell Ltd., Information Technology Park Ltd., Tata Teleservices Ltd. and Idea Cellular Ltd.

Mr. Chaukar was previously the managing director of ICICI Securities & Finance Company Ltd. (July 1993 to October 1998), and a board member of ICICI Ltd. from February 9, 1995 to October 15, 1998. His other experiences include stints in Bhartiya Agro Industries Foundation, a public trust engaged in rural development and Godrej Soaps Ltd.

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**Mr. Vivek Singhal**

Mr. Vivek Singhal, born on June 26, 1940 in Agra, started his own company Computronics India in 1971, and was among the pioneers of computer and software related activities. In 1993, he began another company, Biotech International Ltd., a pioneer in the field of biotechnology-based products for agriculture and public health.

Mr. Singhal is the founder-president of the All-India Biotech Association, a non-profit organisation established in 1994, dedicated to the development of biotechnology in India.

For his contribution in bringing computer consciousness in India, and looking to his outstanding performance in exports, social service and other fields, he has received various prestigious awards, including three awards from the President and two from the Prime Minister of India.

Mr. Singhal is a member of the governing councils of CSIR and the Indraprastha Mahavidyalay; a member of the Gujarat Council of Biotechnology, Govt. of Gujarat; the chairman (NR) of the Federation of Indian Exports Organization; the former chairman of Electronics & Computer Software Export Promotion Council; and a director of BSNL, Bharat Yantra Nigam Ltd. and HILTRON, as well as the department of Electronics Accreditation Computer Courses Society, under the Ministry of Information Technology, GoI.

**Prof. Ashok Jhunjhunwala**

Dr. Ashok Jhunjhunwala is a professor at the electrical engineering department, IIT Madras, and was a founder of the Telecommunications and Computer Networks (TeNeT) Group there, which he now heads.

He graduated from IIT Kanpur and received his MS and Ph.D. from the University of Maine, USA. He worked as assistant professor at the Washington State University before joining IIT Madras in 1981 as faculty. He was the head of the electrical engineering department from August 1998 to July 2001.

Dr. Jhunjhunwala has led research in developing low-cost technologies. He has made significant policy contributions as a member of various government bodies and councils including the National Advisory Committee on Communications and Information Technology (NACCIT)-Ministry of Communications and IT; Engineering Sciences Research Committee-CSIR, National Advisory Committee-ISRO; the boards of VSNL and BSNL; and as advisor to the Universal Service Fund.

Dr. Jhunjhunwala currently works closely with industry and venture capital funds to promote R&D and entrepreneurship. He has incubated several companies including Midas Communications, Banyan Networks, NMS Works, Chennai Kavigal and n-Logue Communications He is on the board of various companies including Sasken Communications, Tejas Networks, Jataayu Software, Polaris Software, Shyam Telecom and HTL.

He was awarded the Padmashri in 2002 for distinguished service in science, engineering and telecommunications. His other awards include the Vikram Sarabai Research Award 1997, the Shanti Swarup Bhatnagar Award 1998, the Millennium Medal by CSIR-2000 and the H.K.Firodia Award 2002.

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**Mr. Firdose A Vandrevala**

Mr. F A Vandrevala, 52, has been the managing director of The Tata Power Company Ltd. since September 1, 2002. He joined the company on November 1, 2001 as deputy managing director after a 29-year career at Tata Steel. Joining Tata Steel as a superintendent at its bar forging & tyre mill in 1984, he rose to general manager (production), vice president (raw materials) and finally to executive director (marketing & sales) on the company's board in 2000.

Mr. Vandrevala graduated with a Bachelor of Technology degree in electrical engineering (Hon) from the Indian Institute of Technology, Kharagpur, and subsequently earned a post graduate diploma in business management from XLRI, Jamshedpur.

Mr. Vandrevala has spearheaded many change initiatives resulting in improvements at the shop-floor level including production and quality improvements, and has successfully implemented management practices of planning, organizing, people management and customer focus in all business activities.

He has attended specialised training programs including a visit to Malcolm Baldridge award-winning companies in the US, Strategic Marketing Management at Harvard Business School, US and a general management programme at CEDEP INSEAD, France.

He is a director on the boards of several Tata companies. He has held various important positions in CII and is presently the chairman of CII, Western Region.

Notes

Registered office : Videsh Sanchar Bhavan, M.G. Road, Mumbai - 400 001.

SEVENTEENTH ANNUAL GENERAL MEETING - 2 SEPTEMBER, 2003 AT 1100 HRS.

## ATTENDANCE SLIP

I, Mr/Mrs./Miss....................................................................... LF/Client ID. No ........................... hereby record my presence at the 17th Annual General Meeting of Videsh Sanchar Nigam Limited at the Birla Matushri Sabhagar, New Marine Lines, Mumbai - 400 020.

...............................
Signature of the Shareholder or Proxy

Notes: 1. Please fill this Attendance Slip and hand it over at the entrance of the hall.
2. SHAREHOLDERS ARE REQUESTED TO BRING THEIR COPIES OF THE NOTICE DOCUMENT WITH THEM.

## PROXY

Registered office : Videsh Sanchar Bhavan, M.G. Road, Mumbai - 400 001.

I/We ..............................................................................................(LF/Client ID. No..................................)

(Address)...............................................................................being a Member/Members of Videsh Sanchar Nigam Limited, do hereby appoint ................................................................ of .........................or/failing him ........................................................................of ..........................as my/our proxy in my/our absence to attend and vote for me/us on my/our behalf at the 17th Annual General Meeting of the Company to be held at 1100 Hrs on Tuesday, the 2 September, 2003, and at any adjournment thereof.

IN WITNESS whereof I/We have set my/our hand/hands this..................day of..................2003.

Please affix
1.00 Re.
Revenue
Stamp

( Signature of the Shareholder across the stamp)

Note : 1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself, and a proxy need not be a Member.
2. A One Rupee Revenue Stamp should be fixed to this and it should then be signed by the Member.
3. The instrument appointing the proxy and the power of attorney or other authority, if any, under which it is signed, or a copy of that power of authority duly certified by a notary or other proper authority, shall be deposited at the Registered Office of the Company not later than forty-eight hours before the time for the holding of the Meeting, in default, the instrument of proxy shall not be treated as valid.