VIDESH SANCHAR NIGAM LTD
Form 20-F
September 29, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON
September 29, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ________

COMMISSION FILE NUMBER 001-15118

VIDESH SANCHAR NIGAM LIMITED
(Exact name of Registrant as specified in its charter)

NOT APPLICABLE
(Translation of Registrant's name into English)

THE REPUBLIC OF INDIA
(Jurisdiction of incorporation or organization)

VIDESH SANCHAR BHAVAN
MAHATMA GANDHI ROAD
MUMBAI 400 001
INDIA
+91-22 5657 8765
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares*	New York Stock Exchange
Equity Shares, par value Rs.10 per share**	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE

Securities for which there is a reporting obligation
pursuant to Section 15(d) of the Act:

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last fiscal year covered by this Annual Report.

285,000,000 EQUITY SHARES.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

* American Depositary Shares evidenced by American Depositary Receipts. Each American Depositary Share represents two Equity Shares.

** Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

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CERTAIN DEFINED TERMS

Unless the context otherwise requires, references herein to "we," "us," "our," the "Company" and "VSNL" are to Videsh Sanchar Nigam Limited, a limited liability company organized under the laws of the Republic of India. References to "Equity Shares" or "Shares" are to the equity shares, par value Rupees 10 per share of the Company. References to the American Depositary Shares or "ADSs" are to American Depositary Shares, each representing two Shares. The ADSs are evidenced by American Depositary Receipts ("ADRs"). References to the "Department of Telecommunications" or "DoT" are to the Department of Telecommunications/Telecom Commission/Department of Telecom Operations and to the Department of Telecom Services of the Government of India, collectively. The Government of India is sometimes referred to herein as the "Government." Effective October 1, 2000, the operations of the Department of Telecom Services and Department of Telecom Operations were transferred to Bharat Sanchar Nigam Limited, sometimes referred to herein as "BSNL". References to "MTNL" are to Mahanagar Telephone Nigam Limited. References to the "Shareholders' Agreement" or the "SHA" are to the Shareholders' Agreement dated February 13, 2002, among the Government of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, and Tata Industries Limited. References to the "Share Purchase Agreement" or the "SPA" are to the Share Purchase Agreement dated February 6, 2002 among the Government of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, Tata Industries Limited, and the Company. References to the "TRAI" are to the Telecom Regulatory Authority of India of the Government of India. References to "NLD" are to national long distance services/domestic long distance services. References to "ILD" are to international long distance services/international telephony services. References to "PSU" are to public sector undertakings of the Government of India. References to "IUC" are to the Interconnect Usage Charge regime made effective by the TRAI from May 1, 2003. References to the term "OECD" are to the Organization for Economic Cooperation and Development.

CURRENCY OF PRESENTATION

In this annual report, references to "$" or "Dollars" or "US Dollars" are to the legal currency of the United States and references to "Rs" or "Rupees" or "Indian Rupees" are to the legal currency of India. The Company's financial statements included in this annual report are presented in Indian Rupees and are prepared in accordance with United States generally accepted accounting principles ("US GAAP"). For the convenience of the reader, this annual report contains translations of certain Indian Rupee amounts into US Dollars, which should not be construed as a representation that such Indian Rupee or US Dollar amounts referred to herein could have been, or could be, converted to US Dollars or Indian Rupees, as the case may be, at any particular rate, the rates stated, or at all. References to "Indian GAAP" are to Indian generally accepted accounting principles. References to a particular "fiscal" year are to the Company's fiscal year ended March 31 of such year. References to years not specified as being fiscal years are to calendar years.

EXCHANGE RATES

The noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") was Rs.47.53 per $1.00 on March 31, 2003 for the conversion of Rupees into US Dollars.

Unless otherwise specified herein, financial information has been converted into US Dollars at such Noon Buying Rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. For more information regarding rates of exchange between Indian Rupees and US Dollars, see "Item 3. Key Information--Selected Financial Data--Exchange Rates."

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD LOOKING STATEMENTS ARE IDENTIFIED BY THEIR USE OF TERMS AND PHRASES SUCH AS "ANTICIPATE", "BELIEVE", "COULD", "ESTIMATE", "EXPECT", "INTEND", "MAY", "PLAN", "OBJECTIVES", "OUTLOOK", "PROBABLY", "PROJECT", "WILL", "SEEK", "TARGET" AND SIMILAR TERMS AND PHRASES. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED "ITEM 3. KEY INFORMATION-RISK FACTORS," "ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS" AND ELSEWHERE IN THIS ANNUAL REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE OF THIS ANNUAL REPORT. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN THE COMPANY'S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") FROM TIME TO TIME.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following table sets forth our selected financial data. The financial data have been derived from our financial statements prepared in accordance with US GAAP. Our selected income statement data for the fiscal years ended March 31, 2001, 2002 and 2003 and the selected balance sheet data as of March 31, 2002 and 2003 are derived from our audited financial statements included in this annual report, together with the report of Deloitte Haskins & Sells, independent auditors. Our selected income statement data for the fiscal years ended March 31, 1999 and 2000 and our selected balance sheet data as of March 31, 2000 and 2001 are derived from our audited US GAAP financial statements not included in this annual report. Our selected financial data and our financial statements are presented in Indian rupees. Financial data as of and for the year ended March 31, 2003 have been translated into US dollars for your convenience.

The balance sheet for the Company as of March 31, 1999 was prepared under International Accounting Standards. It is not practicable, without unreasonable effort or expense, to convert the data for that year from International Accounting Standards to US GAAP.

Years ended March 31,

	1999	2000	2001	2002	2003
			(millions of Rs.) (1)		
Income Statement Data(6)					
Total operating revenue	67,938	70,377	73,076	65,050	45,34
Total cost of revenue	49,296	50,333	50,172	44,970	30,08
Gross margin	18,642	20,044	22,904	20,080	15,26
Total other operating costs	2,894	4,156	4,752	6,701	6,07
Operating profit	15,748	15,888	18,152	13,379	9,18
Total other income (expense), net	(746)	3,443	7,021	5,751	2,65
Income before income tax	15,002	19,331	25,173	19,130	11,83
Income tax expense	(6,298)	(6,156)	(9,646)	(5,959)	(4,39
Dividend tax	(38)	(84)	(105)	(3,634)	
Net income	8,666	13,091	15,422	9,537	7,44
Earnings per equity share - basic and diluted(2)&(5)	Rs.30.41	Rs.45.93	Rs. 54.11	Rs.33.46	Rs.26.1
Weighted average number of Equity Shares outstanding(3)	285	285	285	285	28
Earnings per ADS- basic and diluted (where each ADS represents two equity shares)	Rs.60.82	Rs.91.86	Rs.108.22	Rs.66.92	Rs.52.2
Dividends per share	Rs. 1.33	Rs. 2.67	Rs. 2.67	Rs. 125	Rs.12.5
Other Financial Data(6)					
Net cash provided by operating activities	6,679	7,947	23,075	9,485	9,86
Net cash provided/(used) by investing activities(4)	(6,601)	(3,898)	(41,416)	26,068	(11,69
Dividends	(380)	(760)	(760)	(35,625)	(3,56
Net cash provided/(used) by financing activities	(1,916)	(740)	(760)	(29,874)	(5,77

	As at March 31,			
	2000	2001	2002	2003
Balance Sheet Data(6)				
Total assets	83,211	100,425	74,846	73,29
Short term borrowings	-	-	5,751	3,54
Trade payables	13,535	11,309	5,728	2,42
Accrued expenses and other liabilities	6,365	10,731	10,325	10,59
Total liabilities	19,900	22,040	21,804	16,55
Total shareholders' equity	63,311	78,385	53,042	56,74
Total liabilities and shareholders' equity	83,211	100,425	74,846	73,29

Note

(1) Except per share data.

(2) Calculated on a weighted average basis giving retroactive effect to stock dividends issued during November 2000.

(3) In millions.

(4) Comprise purchases of property, plant and equipment, investments, including net investments in various satellite consortia and short-term investments in deposits.

(5) On September 26, 2000, the shareholders of the Company approved a stock dividend of Equity Shares in the ratio of two Equity Shares for every one Equity Share held, which was distributed on November 24, 2000 to shareholders on record as on November 16, 2000. The Company has capitalized the legally required face value of the Equity Shares issued.

(6) The above data should be read along with the Notes included with the financial statements.

DIVIDENDS

Although the amount varies, it is customary for public companies in India to pay cash dividends. Under Indian law, a corporation pays dividends upon a recommendation by the Board of Directors and approval by a majority of the shareholders attending the annual general meeting of shareholders, who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. In addition, the Board of Directors is empowered to approve interim dividends. Under the Indian Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of previous fiscal years. Owners of ADRs are entitled to receive dividends payable in respect of the Equity Shares represented by their ADSs. The Equity Shares represented by ADSs rank pari passu with existing Equity Shares of the Company in respect of dividends. Cash dividends in respect of the Equity Shares represented by the ADSs will be paid to the Company's depositary for the ADSs, The Bank of New York (the "Depositary") in Rupees and except as otherwise described in the Deposit Agreement will be converted by the Depositary into US Dollars and distributed, net of Depositary fees and expenses, to the holders of such ADRs.

With respect to Equity Shares issued by the Company during a particular fiscal year, dividends declared and paid for such fiscal year generally would be prorated from the date of issuance to the end of such fiscal year. Holders of ADRs would only receive dividends prorated from the date of issuance of the underlying Equity Shares to the end of the fiscal year for which such dividends are declared and paid.

The following table sets forth the annual dividends paid per Equity Share for each of the fiscal years indicated.

FOR THE FISCAL YEAR ENDED MARCH 31,	ACTUAL DIVIDEND PAID PER SHARE(1)	DIVIDEND PER SHARE BASED ON INCREASE IN SHARE CAPITAL(3)

	INDIAN RUPEES	US$(2)	INDIAN RUPEES	US$(2)
2003(5)	8.50	0.18	8.50	0.18
2002(5)	12.50	0.26	12.50	0.26
2002(4)	75.00	1.55	75.00	1.55
2001(5)	50.00	1.04	50.00	1.04
2000(5)	2.00	0.04	0.67	0.01
2000(4)	6.00	0.14	2.00	0.04
1999(5)	8.00	0.18	2.67	0.06

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(1) Based on the recommendation of the Board of Directors at a Shareholders meeting held on September 2,2003, the Company's shareholders approved a final dividend of Rs.8.50 per share for fiscal year 2003.

(2) The conversion of the dividends paid per Share from Indian Rupees to US Dollars is based on the Noon Buying Rate at each respective dividend payment date. For fiscal year 2003, the figure in the chart is based on the Noon Buying Rate for March 31, 2003. However, the actual dividends paid per share will be based on the Noon Buying Rate as on the date of payment of the dividends.

(3) On September 26, 2000, the shareholders of the Company approved the distribution of bonus shares to shareholders. Consequently, each shareholder received two shares for every share held by such shareholder. Accordingly, the dividend per share information presented here has been computed retroactively to reflect the distribution of bonus shares and the consequent increase in the share capital of the Company.

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(4) Interim Dividend.

(5) Final Dividend.

Although the Company has no current intention to discontinue dividend payments, there can be no assurance that any future dividends will be declared or paid or that the amount thereof will not be decreased.

EXCHANGE RATES

Fluctuations in the exchange rate between the Indian Rupee and the US Dollar will affect the US Dollar equivalent of the Indian Rupee price of the Company's Equity Shares on the Indian stock exchanges and, as a result, will likely affect the market price of the Company's ADSs, listed on the New York Stock Exchange, and vice versa. Such fluctuations will also affect the US Dollar conversion by the Depositary of any cash dividends paid in Indian Rupees on the Company's Equity Shares represented by the ADSs.

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian Rupees for which one US Dollar could be exchanged based on the average of the Noon Buying Rate in the City of New York on the last business day of each month during the period for cable transfers in Indian Rupees as certified for customs purchases by the Federal Reserve Bank of New York. The column titled "Average" in the table below is the average of the daily Noon Buying Rate on the last business day of each month

during the year.

FISCAL YEAR ENDED MARCH 31,	PERIOD END	AVERAGE	HIGH	LOW
2003	47.53	48.36	49.07	47.53
2002	48.83	47.81	48.83	46.88
2001	46.85	45.88	46.90	43.70
2000	43.65	43.46	43.65	42.84
1999	42.50	42.27	42.83	39.75

The following table sets forth the high and low exchange rates for the previous six months and are based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian Rupees as certified for customs purposes by the Federal Reserve Bank of New York.

MONTH	HIGH (RS.)	LOW (RS.)
March 2003	47.85	47.53
April 2003	47.46	47.34
May 2003	47.35	46.85
June 2003	47.15	46.40
July 2003	46.49	46.06
August 2003	46.18	45.80
September 2003 (through September 23)	45.98	45.72

CAPITALIZATION AND INDEBTEDNESS

During the fiscal year 2002-03, an amount of Rs.3,540 million (US $74 million) was borrowed by the Company from banks to meet short-term working capital needs, and was subsequently repaid in April 2003. During the fiscal year 2001-02, an amount of Rs.5,751 million was borrowed to meet short-term working capital needs, and was subsequently repaid in May 2002.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

RISK FACTORS

In addition to the other information contained in this annual report, prospective investors should carefully consider the risks described below. Additional risks not currently known to the Company or that the Company now deems immaterial may also impair the Company's business operations. This annual report also contains forward-looking information that involves risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks the Company faces as described below and elsewhere in this annual report.

THE IMPLEMENTATION OF THE NEW TELECOMMUNICATIONS POLICY AND OTHER

REGULATORY CHANGES WITH RESPECT TO THE TELECOMMUNICATIONS INDUSTRY, INCLUDING THE EARLY TERMINATION OF THE COMPANY'S MONOPOLY IN INTERNATIONAL TELEPHONY SERVICES, MAY CONTINUE TO ADVERSELY AFFECT OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The New Telecommunications Policy 1999 (the "Policy") came into effect on April 1, 1999.

The Policy sets forth a new policy framework for telecommunications regulations in India. One of the stated goals of the Policy is to foster greater competition in the telecommunications industry and it addresses a broad range of matters, including cellular mobile services, fixed line service, domestic long distance, global mobile personal communications, the Department of Telecommunications restructuring, spectrum management, the role of the Telecom Regulatory Authority of India (the "TRAI") and Internet telephony. The Policy stated, among other things, that the opening up of international telephony service to competition would be reviewed by the year 2004. The Department of Telecommunications retained the right to modify the terms and conditions of the Company's licenses at any time if in its opinion it is necessary or expedient to do so in the interest of the general public or for the proper operation of the telecommunications sector. In September 2000, the Government announced the early termination of the Company's monopoly in international telephony services. Instead of ending on March 31, 2004, the Company's monopoly ended on March 31, 2002. To offset the likely loss to the Company due to the early termination of its monopoly, the Government announced the following compensation package, which was approved by the Company's shareholders in an Extraordinary General Meeting on May 2, 2001:

(1) Grant of a license to offer domestic long distance services with the following terms:

  (a) the Government would pay to the Company a sum equal to the amount paid by the Company as entry fee and license fee for a period of 5 years commencing from April, 2001, net of taxes, and

  (b) a performance bank guarantee of Rs.4 billion for the prescribed roll out would be waived;

(2) the Company would be granted a Category `A' All India Internet Service Provider ("ISP") license which would enable it to provide Internet access at locations across the country; and

(3) The Government would also consider additional compensation if found to be necessary based on a detailed review when undertaken.

Prior to the Extraordinary General Meeting, the Company had represented to the Government that the compensation package should be arrived at through an objective process. The Company had appointed external consultants for this purpose and had submitted their reports to the Government for due consideration.

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On January 18, 2002, the Government directed BSNL and MTNL to route their ILD calls at market rates through the Company as a "Most Favored Customer" for a period of 2 years after the transfer of management control to Panatone Finvest Limited. On January 28, 2002, the Government announced that this routing arrangement was to be in satisfaction of any and all claims that the Company may have had regarding the advancement of ILD de-monopolization by two years.

In February 2002, the Company was granted a license to provide domestic long distance telephone services and the Government refunded the Company the amount paid towards the entry fee during the fiscal year 2001-02 amounting to Rs.1000 million (US$ 20.48 million), net of taxes. In June 2002, the Government asked the Company to provide the performance bank guarantee, since in the Government's view the exemption that was contained in the compensation package that was approved in the May 2, 2001 Extraordinary General Meeting applied only as long as the Company remained a Public Sector Undertaking ("PSU"). Accordingly, the Company provided the required bank guarantees for Rs.4000 million (US$ 84.16 million) under protest. In May 2002, the Company was granted a license to operate Internet telephony Services, along with a Category "A" All India ISP license to provide Internet access at locations across the country.

The Company has represented to the Government that the compensation package is inadequate and, as provided for in the compensation package, has requested the Government to consider additional compensation for the early termination of the Company's monopoly in international telephony services. The Company is in ongoing discussions with the Government regarding the appropriate level of compensation. However, there can be no assurance that the Company will receive such compensation, or if the Company does receive compensation, as to the amount, nature or timing of such compensation.

The Government has asked international long distance operators in India, including the Company, to execute a standard license agreement, which stipulates terms and conditions of the license to operate international long distance services. The Company had requested the Government to agree to certain modifications to the standard license agreement incorporating certain services which the Company is already providing. However, the Government has notified the Company that it will not permit modifications to the standard license agreement. The Company is evaluating whether to re-submit its proposal to the Government. The Company's current license to provide international long distance services is valid until March 31, 2004.

Since April 1, 2002 when international telephony was opened up to competition, operating licenses have been issued by the Government to at least four operators, including BSNL, Reliance Infocomm, Data Access and Bharti Tele-ventures Limited. BSNL has not yet started ILD operations. The steep rate cuts provided by the other operators have already affected the Company's traffic minutes, revenues and market share adversely. See "Item 5. Operating and Financial Review and Prospects". The telecom industry is also likely to experience rapid changes including acquisitions and mergers, which could result in the consolidation within the industry giving rise to large competitors with significant resources. There can be no assurance that we will be able to compete successfully against our competition and retain our market share.

The Government legalized the provision of Internet telephony in India with effect from April 1, 2002, for which detailed guidelines were released by the Government on March 21, 2002. Only licensed ISPs are permitted to provide Internet telephony as per these guidelines. The opening up of this sector might adversely affect the telephony revenues of the Company.

ANY ADVERSE CHANGES TO THE COMPANY'S "MOST FAVORED CUSTOMER" ROUTING ARRANGEMENT WITH BSNL AND MTNL, ANY ADVERSE RENEGOTIATION OF THE COMPANY'S INTERCONNECT ARRANGEMENTS WITH BSNL OR MTNL OR THE COMMENCEMENT OF INTERNATIONAL LONG DISTANCE SERVICE OPERATIONS BY BSNL OR MTNL, COULD PLACE THE COMPANY AT A COMPETITIVE DISADVANTAGE AND COULD ADVERSELY AFFECT THE AMOUNT OF CALL TRAFFIC WE CARRY AND OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

As part of the compensation package relating to the termination of VSNL's international long distance services monopoly, the Government directed BSNL and MTNL to route their international calls at

market rates through the Company as a "Most Favored Customer" for a period of two years after the transfer of management control to Panatone Finvest Limited, which occurred on February 13, 2002. This directive of the Government does not create a contractual relationship between the Company and BSNL or MTNL, and therefore the Company would not have a contractual claim directly against them should they cease to route calls through the Company or attempt to renegotiate for rates that are less favorable to the Company. If BSNL and/or MTNL cease to route their international traffic through the Company or seek to renegotiate for rates that are less favorable to the Company, the amount of call traffic carried by the Company and its revenues could be adversely affected.

The Company derived a significant percentage of its revenues in fiscal 2003 and prior years from BSNL and MTNL pursuant to revenue sharing arrangements between the Company and these access providers. Gross revenues from BSNL and MTNL in fiscal 2003 fell to Rs. 8.7 billion compared to Rs. 16 billion and Rs. 18 billion during fiscal 2002 and 2001, respectively. In November 2002, after protracted negotiations, the Company concluded interconnect agreements with MTNL and BSNL that became effective on April 1, 2002. These agreements were effective until April 30, 2003. New agreements based on the Government's new tariff structure and the Interconnect Usage Charge ("IUC") regime have since been concluded with BSNL and MTNL, and became effective on May 1, 2003. Any adverse renegotiation of these agreements, including as a result of potential revisions by the TRAI to the IUC, could have an adverse impact on the Company's results of operation and financial condition. See "Item 4. Information on the Company--Traffic and Revenue Sharing Arrangements."

Furthermore, BSNL has been granted an operating license for international telephony services by the Government and it is possible that MTNL may also be granted an ILD operating license. BSNL and/or MTNL are likely to start offering international telephony services in the near future. If BSNL and/or MTNL start offering international telephony services at competitive rates, as the largest basic line operators in India, their access to end customers could give them a competitive advantage over the Company, which could adversely affect the Company's international telephony revenues. Moreover, BSNL's emergence as a strong cellular operator will enable it, in the absence of regulation, to cross-subsidize its other telephony activities, including any ILD telephony services. This could enable BSNL to significantly erode the Company's market share in ILD services.

THE GOVERNMENT'S NEW TARIFF REGIME AND COMPETITION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The TRAI has authority, among other things, to set the limits on tariffs charged by telecommunications service providers in India, including the Company. Effective May 1999, the TRAI implemented the Telecommunications Tariff Order 1999, which was intended to take account of a shift to a more competitive environment through cost-based, transparent tariffs. The Tariff Order envisaged reductions of up to 50 percent in peak international call tariffs, phased over time. In response to these changes, the Department of Telecommunications has been periodically reducing peak international long distance tariffs from Rs. 60 per minute in 1999-2000 to Rs. 48 per minute in 2000-01 and 2001-02 to Rs. 40.80 per minute in 2002-03. In addition, the Tariff Order sets maximum tariffs for other services provided by the Company, including Internet services and leased lines. On January 24, 2003, the TRAI issued a further amendment to the Tariff Order. The amendment states that for the time being TRAI has decided not to fix the charges for specific telecommunications services and that such charges may be decided upon by service providers. This could result in significant further lowering of tariffs, which could affect the Company's revenues adversely.

In May 2003, the TRAI implemented the new IUC regulation, which prescribes the manner in which the revenue collected from the end customer or from another carrier is shared among the originating carrier, the terminating carrier and with other national and international long distance service providers. Under the new IUC, the retentions of the Company are likely to be adversely affected. The extent to which such retentions may be affected depends on factors such as the distance the call is carried and the nature of the terminating operator (i.e. fixed or mobile), which are difficult to predict in advance. The TRAI has since commenced an exercise for review of the IUC which is not yet complete. Changes in the IUC could have a material adverse effect on the Company's results of operations and financial condition.

DELAYS IN THE IMPLEMENTATION OF THE NEW CARRIER ACCESS CODE REGIME COULD ADVERSELY AFFECT US.

The Government's new Carrier Access Code ("CAC") regime offers end customers the right to choose their national long distance or international long distance carrier, based on rates 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 currently control access to most of the Company's end customers and, because of the Company's "Most Favored Customer" arrangement with BSNL and MTNL, use the Company as their preferred ILD carrier. However, the Company's "Most Favored Customer" status expires in February 2004, and the Company believes that the CAC is necessary to be able to approach end customers directly and market its services to them. There can be no assurances, however, that the CAC will be implemented in the near future or that even if the CAC is implemented, end customers will choose the Company as their preferred ILD carrier.

DELAYS IN REACHING AGREEMENT WITH MAJOR INTERNATIONAL CARRIERS REGARDING RATES COULD CAUSE A SIGNIFICANT INCREASE IN OUR WORKING CAPITAL NEEDS WHICH IN TURN COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A substantial portion of the Company's revenue consists of amounts received from foreign telecommunications administrations and carriers for connection to the Indian telecommunications network. As with most developing countries, the volume of incoming calls to India exceeds the volume of outgoing calls from India by a significant margin, resulting in larger net settlement payments being made to the Company from most foreign administrations and carriers. The amounts due to the Company are subject to periodic renegotiation.

In recent years, international organizations such as the International Telecommunications Union and the Organization for Economic Cooperation and Development have expressed the need for revision of the international accounting rate system. Certain foreign telecommunications administrations and carriers have sought to reduce the accounting rates through bilateral negotiations with the Company. In August 1997, the United States Federal Communications Commission (the "FCC") issued an order (the "Order") establishing FCC Benchmarks that US carriers must comply with in establishing settlement rates for international calls with non-US telecommunications administrations and carriers. The Order requires, effective as of January 1, 1998, the accounting rate between US carriers and the Company to be reduced substantially over a four year transition period. See "Item 4. Information on the Company--Traffic Revenue and Revenue Sharing Arrangement--Payments to and from Foreign Administrations or Carriers." The authority of the FCC to issue the Order and the Order itself have been upheld by a United States federal court of appeals. In upholding the Order, the United States federal court of appeals held that the Order was a valid exercise of the FCC's regulatory authority under the United States Communications Act and

rejected the argument that the FCC's unilateral establishment of benchmark settlement rates constituted an unlawful assertion of extraterritorial jurisdiction over foreign carriers and foreign telecommunication services. However, the United States federal court of appeals also stated that the Order does not apply to foreign carriers, and only permits the FCC to contact responsible foreign government authorities to seek their support in lowering settlement rates. The FCC, acting pursuant to the Order, has forced US carriers to agree to the benchmark rates, which are lower than the rates previously in effect between the Company and some of its correspondent US carriers. Currently the settlement rates are negotiated from time to time and the prevailing settlement rates with respect to the US carriers are well below the benchmark rates.

Any further lowering of benchmark rates by the FCC and/or delays in reaching final agreement with US carriers or other major carriers regarding rates could cause a significant decrease in the Company's working capital needs and ability to recognize revenues which in turn could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that such delays will not occur in the future. Any such reduction in the accounting settlement rates in effect between the Company and US or other foreign administrations or carriers may reduce the amount of net settlement payments received by the Company. The Company believes that such rate reductions from international carriers will result in pressure on the revenues retained by the Company in respect of incoming traffic. Similarly, any lowering of rates payable by Indian access providers in respect of outgoing calls will have a similar impact on the revenues retained by the Company.

THE COMPANY CURRENTLY OPERATES ITS INTERNATIONAL LONG DISTANCE BUSINESS UNDER A LICENSE AGREEMENT THAT WILL EXPIRE ON MARCH 31, 2004 AND HAS NOT EXECUTED THE NEW STANDARD LICENSE AGREEMENT REQUIRED BY THE GOVERNMENT AND THUS MAY BE SUBJECT TO PUNITIVE ACTION BY THE DEPARTMENT OF TELECOMMUNICATIONS.

Following the early termination of the Company's international telephony services monopoly in March 2002, the Government asked the Company to execute a standard license agreement stipulating the terms and conditions of the Company's license to operate international long distance services. The Company had requested the Government to agree to modifications to the standard license agreement. The modifications proposed by the Company incorporated certain additional services which the Company is already providing to customers and proposed changes to the procedure for calculating license fees. However, the Government has notified the Company that it will not permit modifications to the standard license agreement. The Company is evaluating whether to re-submit its proposal to the Government. In the meantime, the Company continues to offer international long distance services under its existing license agreement that will expire on March 31, 2004 rather than the standard license agreement. There can be no assurance that the Government or the Department of Telecommunications will not seek to take punitive action against the Company for offering international long distance services without having executed the standard license agreement.

MANY TELECOMMUNICATIONS CARRIERS THAT THE COMPANY DOES BUSINESS WITH HAVE SUFFERED DECREASING MARGINS AND FINANCIAL DISTRESS, WHICH MAY NEGATIVELY IMPACT THE COMPANY'S BUSINESS.

As an international telecommunications service provider, the Company does significant business with foreign carriers all over the world. Several telecommunications carriers, especially those located in the United States and Europe, have recently suffered reduced profit margins as well as significant financial pressures. Some companies, including some of those with whom the

Company does business, have filed for protection from creditors under applicable bankruptcy and insolvency laws, including the US Bankruptcy Code. The Company has a significant amount of exposure to carriers in the United States, with around 24 percent of its revenues generated through US based carriers.

On July 21, 2002, WorldCom (now renamed MCI) announced that it and substantially all of its US subsidiaries had filed voluntary petitions for relief under Chapter 11 of the US Bankruptcy Code. MCI and its subsidiaries are currently in reorganization but continue to operate their businesses and manage their properties as debtors in possession pursuant to the Bankruptcy Code. MCI is one of the Company's major carrier partners and for the year ended March 31, 2003, gross revenues from MCI represented 12.5 % of the Company's total operating revenues. As at March 31, 2003, balances due from MCI amounted to Rs. 712.40 million (US$ 14.99 million). Of this amount, the Company has recovered Rs. 500.80 million (US$ 10.50 million) during the period commencing from April 1, 2003 through August 22, 2003. Startec is another US carrier that has filed for bankruptcy protection. The Company has recovered payments due to it from Startec in an amount of US$ 1.5 million by invoking a bank guarantee, although this has been challenged by Startec in the bankruptcy proceedings.

While the Company remains optimistic that MCI and other carriers that are in financial distress will continue to operate and be able to pay amounts due to the Company, there can be no assurance that all the Company's receivables can be collected or that the Company will not be adversely affected by the financial difficulties of MCI or such other carriers.

WE ARE SUBJECT TO EXTENSIVE REGULATION AND SUPERVISION BY THE GOVERNMENT, WHICH COULD ADVERSELY AFFECT THE OPERATION OF OUR BUSINESS OR PREVENT US FROM ENTERING INTO TRANSACTIONS THAT ARE IN THE BEST INTERESTS OF OUR SHAREHOLDERS.

The Company and its business are subject to extensive regulation and supervision by the Government of India and its departments, including the DoT and the TRAI. As noted above, the TRAI sets limits for the tariffs for telecommunication services. The Company's licenses provide that disputes relating to the terms of the Company's licenses are required to be submitted for compulsory and binding arbitration before the Government's Director General of Telecommunications. Under the terms of the new standard

license agreement proposed by the Government and under the provisions of TRAI Act 1997, any dispute between the Company and the Government is required to be adjudicated by the Telecom Disputes Settlement and Appellate Tribunal (the "TDSAT"). The TDSAT was set up by an amendment in January 2000 to the TRAI Act 1997 and vested with the jurisdiction to adjudicate telecom disputes and to entertain appeals from any order of the TRAI.

The TRAI has primary responsibility for, among other things, facilitating competition and promoting efficiency, protecting the interests of consumers, regulating revenue sharing among service providers and ensuring compliance with license conditions and to set the rates at which domestic and international telecommunication services are provided in India. The TRAI also has the power to (1) call upon service providers to furnish information relating to their operations, (2) appoint persons to make official inquiries, (3) inspect the books of service providers and (4) issue directives to service providers to ensure their proper functioning. Failure to follow the TRAI directives may lead to the imposition of fines and/or other punitive actions.

THE GOVERNMENT CONTROLS OUR LICENSES TO PROVIDE INTERNATIONAL TELEPHONY SERVICES AND ANY MATERIAL MODIFICATIONS OF THE TERMS AND CONDITIONS OF THE

LICENSES COULD DISRUPT OUR BUSINESS AND HAVE A MATERIAL ADVERSE EFFECT ON OUR PROSPECTS.

The Company operates substantially all of the ILD services it provides, including basic international telephony services to and from India, pursuant to a license from the DOT that is valid until March 31, 2004. The Government has proposed a new standard license agreement applicable to all ILD providers that it has asked the Company to execute. In addition, the Company has also been granted an NLD license and a Category "A" All India ISP license, including Internet telephony, subject to the restrictions contained in the license. The DoT retains the right to modify the terms and conditions of the Company's licenses at any time if in its opinion it is necessary or expedient to do so in the interest of the general public or for the proper operation of the telecommunication sector. A change in certain significant terms of any of the licenses, such as their duration, the range of services permitted or the scope of exclusivity, if any, or non-issue of a fresh license beyond March 31, 2004, could have a material adverse effect on the Company's business and prospects. See "Item 4. Information on the Company - Government Regulations."

WE DO NOT CONTROL THE DOMESTIC TELEPHONE NETWORK ON WHICH ALL CALLS CARRIED BY US EITHER ORIGINATE OR TERMINATE NOR DO WE CONTROL THE RATES CHARGED TO END USERS OF SUCH SERVICES. CONSEQUENTLY, WE CANNOT ENSURE THE QUALITY OF, OR RATES FOR, THE DOMESTIC TELEPHONE NETWORK USED BY OUR CUSTOMERS.

The Company's principal business is in providing international telephone services to and from India. All calls carried by the Company either originate or terminate on India's domestic telephone network, which the Company does not own or control. Demand for the Company's international services will depend, to a very significant degree, on the development and maintenance of India's domestic telephone network. Demand for the Company's services also will depend on the rates charged to end users of such services, which rates are not controlled by the Company. Moreover, other competitors such as BSNL and MTNL which, unlike the Company, have direct customer access, could erode the Company's share of telephony traffic. See "Item 4. Information on the Company - Industry Overview" and "- Government Regulation."

THE COMPANY IS CONTROLLED BY THE TATA GROUP AND THE GOVERNMENT.

Panatone Finvest Limited, a wholly owned subsidiary of companies affiliated with the Tata Group, owned approximately 46.60 percent, and the Government of India owned approximately 26.12 percent, of our total outstanding equity. Panatone Finvest Limited acquired a 25 percent stake from the Government in February 2002 as a result of the Government's decision to privatize the Company. Panatone Finvest Limited subsequently acquired an additional 20 percent of the Company's Shares through an open offer to other shareholders and during the past twelve months certain other Tata Group entities have made open market purchases of 1.60 percent of the Company's shares.

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Panatone Finvest Limited and the Government are also parties to a Shareholders' Agreement dated February 13, 2002 (the "Shareholders' Agreement") pursuant to which they have agreed on certain matters with respect to the governance and operation of the Company, including the composition and election of the board of directors. As of September 1, 2003, the board of directors consisted of 12 members, six of whom were nominated by Panatone Finvest Limited and two of whom were nominated by the Government. There were four directors appointed as independent directors on the board as per the provisions of the Shareholders' Agreement. As a result of their equity holdings and the Shareholders' Agreement, Panatone Finvest Limited and the Government control the Company, and have the power to elect all the directors and control all matters

submitted to shareholders. The interests of Panatone Finvest Limited and the Government could differ from the interests of other shareholders of the Company.

THE COMPANY MAY FACE POTENTIAL CONFLICTS OF INTEREST RELATING TO ITS PRINCIPAL SHAREHOLDER, THE TATA GROUP.

The Tata Group companies which own Panatone Finvest Limited exert significant control over the Company. The Tata Group has diverse business activities and interests, and some of its affiliates could engage in activities, or seek opportunities, that are or could be in competition with the activities or interests of the Company. The Tata Group has interests in other companies in the telecommunications sector. While the Tata Group companies and Panatone Finvest Limited have agreed in a Shareholders' Agreement to act in the best interests of the Company in the event that they become engaged in activities in competition with the Company, any conflicts of interest between these Tata Group companies and/or Panatone Finvest Limited and the Company could adversely affect the Company's business.

A disagreement between the Tata Group and the Government concerning activities of the Company could result in a deadlock, which could adversely affect the Company's business.

Panatone Finvest Limited and the Government are parties to the Shareholders' Agreement, pursuant to which, among other things, they have agreed on the composition of the Company's board of directors, which comprise a certain number of persons nominated by each of them as well as a certain number of independent directors. Panatone Finvest Limited and the Government have also agreed that the Company shall not undertake certain corporate actions unless at least one director nominated by each of them (in the case of a Board meeting) or at least one authorized representative nominated by each of them (in the case of a shareholder meeting) consents to such action. These actions include any change in the Memorandum of Association and Articles of Association, the granting of any security or incurring of indebtedness in excess of the net worth of the Company, winding-up the Company, the making of loans in excess of Rs.500 million other than in the ordinary course of business, the sale or lease of any fixed assets acquired prior to privatization - and the entering into of an amalgamation, merger, or consolidation. Panatone Finvest Limited and the Government have also agreed not to transfer their Shares in the Company without giving the other certain rights of first refusal and tag along rights.

In the event that Panatone Finvest Limited and the Government fail to agree on any such matter, their disagreement could result in the Company not taking action or not taking advantage of a potential opportunity, which could in turn adversely affect the Company's business or the value of the Company's ADSs or Equity Shares.

See "Item 10. Additional Information -- Rights of the Government of India under the Shareholders' Agreement to be exercised through its nominee directors on the Board -- Approval of Matters."

THE TRANSITION OF THE COMPANY CONSEQUENT TO PRIVATIZATION COULD RESULT IN DIFFICULTIES.

The Company's transition from a Government-owned entity to a company that is primarily owned by private sector entities entails changes in management and may also mean changes in operating procedures, strategy and culture. In addition, the Company could be adversely affected by labor issues and compliance issues arising from the privatization process and obligations assumed by Panatone Finvest Limited. Under the terms of the Shareholders' Agreement between Panatone Finvest Limited and the

Government, the parties have agreed, among other things, that Panatone Finvest Limited will not cause the Company to retrench employees for two years or to make certain other changes in employee benefit matters. The Company cannot assure that it will not encounter difficulties in the transition to becoming a private sector company.

THE COMPANY HAS INITIATED A REVIEW OF THE USEFUL LIVES AND THE CONSEQUENT CARRYING VALUES OF CERTAIN LONG-LIVED ASSETS WHICH COULD RESULT IN A REDUCTION IN THE CARRYING VALUE OF SUCH ASSETS.

The Company has initiated a review of the estimated useful lives and the consequent carrying values of certain long-lived assets. As and when such review is completed, it could result in a downward revision in the useful lives and the consequent carrying values of the assets. The Company is presently unable to quantify the effect, if any, that such review when completed would have on its financial condition and results of operations. This could impact the trading price of the Shares and the ADSs.

THE DEMERGER OF SURPLUS LAND HELD BY THE COMPANY MAY NOT BE COMPLETED ON SATISFACTORY TERMS.

Under the terms of the Shareholders' Agreement signed at the time of privatization of the Company, Panatone Finvest Limited agreed that the Company would demerge certain lands that the Company owns in Pune, Kolkata, New Delhi and Chennai into a separate company. No time period was specified in the agreement for such demerger. The Company, Panatone Finvest Limited and the Government are currently discussing various options in connection with the demerger or sale of the land with a view to completing a transaction that is beneficial from a tax and stamp duty perspective. Until such time as the demerger takes place, the lands are under the possession and upkeep of the Company.

The Company cannot predict if and when the demerger will take place or the expenditure that the Company might have to incur for the security, upkeep and maintenance of the surplus land. The Company may have to bear significant costs, including taxes and duties, relating to the demerger, and the Company cannot predict what effect, if any, the demerger and the legal and valuation process relating to the demerger will have on the Company's financial condition. See "Item 4. Property, Plants and Equipment."

THE COMPANY MAY BE REQUIRED TO PAY ROYALTIES, LEVIES AND OTHER FEES WHICH AROSE IN PRIOR PERIODS.

As a PSU, the Company has not had to pay the Government certain royalties, levies and other fees which arose in prior periods. The Company has made payments for certain other royalties and fees already. However, there can be no assurance that the Company will not be required to make additional payments in the future, particularly since the Company is no longer majority-controlled by the Government and is no longer a PSU.

THE INDIAN TAX AUTHORITIES CLAIM THAT WE OWE CERTAIN TAX PAYMENTS. WE HAVE NOT MADE PROVISION IN OUR FINANCIAL STATEMENTS FOR SUCH CLAIMS AND IN THE EVENT THAT THE TAX AUTHORITIES PREVAIL ON THEIR CLAIMS THERE COULD BE A SIGNIFICANT NEGATIVE IMPACT ON OUR FINANCIALS AND OPERATIONS.

The Indian tax authorities have taken the position that the Company is not entitled to tax deductions that it took in the fiscal years ended March 31, 1994, 1995, 1996, 1997 and 1998 for license fees paid by it to the DOT. The Indian tax authorities claim that the Company owes approximately Rs.2,551 million, Rs.2,236 million, Rs.2,693 million, Rs.2,977 million and Rs.2,086

million in respect of the taxes due (including interest but excluding penalties and measured as of March 31, 2003) in connection with the license fees for the fiscal years ended March 31, 1994, 1995, 1996, 1997 and 1998, respectively. The Income Tax Commissioner of Appeals (Mumbai) has ruled that the Company is entitled to take the license fee deduction for the fiscal years ended March 31, 1996, 1997 and 1998. The Income Tax Department has not appealed against this decision, and the time limit for appeal has expired. The Income Tax Appellate Tribunal has ruled that the Company may take the license fee deduction for the fiscal year ended March 31, 1995. The Income Tax Department has appealed to the High Court against this decision. If the Company

loses this appeal, there is a risk that the Income Tax Department may seek to claim the 1996, 1997 and 1998 amounts as well. The Income Tax Department's order disallowing the deduction for the fiscal year ended March 31, 1994 is still on appeal before the Income Tax Commissioner of Appeals, Mumbai. If the Company is finally unsuccessful in all of the foregoing disputes and is required to pay the amounts claimed for each of the years in dispute, its aggregate liability for fiscal years 1994 to 1998 will be approximately Rs.12,543 million (US$ 263.90 million), including interest but excluding penalties, measured as of March 31, 2003.

The Indian tax authorities have also taken the position that the Company is not entitled to a tax benefit claimed by it in the fiscal years ended March 31, 1996, 1997, 1998, 1999 and 2000 with respect to certain of its profits which the Company claims as having been generated by an enterprise engaged in telecommunications and therefore entitled to a tax holiday under certain regulations. The tax authorities have not accepted this claim of the Company and have disallowed it in their assessments. They claim that the Company owes approximately Rs.179 million, Rs.491 million, Rs.856 million, Rs.2,183 million and Rs.2,831 million in connection with taxes due (including interest but excluding penalties and measured as of March 31, 2003) on such profits for the years ended March 31, 1996, 1997, 1998, 1999 and 2000, respectively. The Company disputed these assessment orders and appealed to the Income Tax Commissioner of Appeals (Mumbai). For the fiscal years ended March 31, 1996, 1997, 1998, the Commissioner decided against the Company's claims. The Company has gone on further appeal for these three years to the Income Tax Appellate Tribunal. The dispute regarding the fiscal years ended March 31, 1999 and 2000 is still pending before the Income Tax Commissioner of Appeals (Mumbai). If the Company is finally unsuccessful in all of these disputes, its aggregate liability will be approximately Rs.6,540 million (US$ 137.60 million) including interest but excluding penalties, measured as of March 31, 2003.

Furthermore, the Indian tax authorities have taken the position that the Company has not offered for taxation certain reimbursements it had received from the Government during the fiscal year ended March 31, 1994. The tax authorities claim that the Company owes approximately Rs.2,853 million in respect of taxes due (including interest but excluding penalties) in connection with such reimbursements. The Company has already paid the entire amount with respect to this claim, but has appealed to the Income Tax Commissioner of Appeals (Mumbai).

For the fiscal year ended March 31, 2000, the tax authorities have disallowed the company's write off in its books of accounts of its investment in the equity shares of ICO Global Communications Inc. (which filed for bankruptcy protection in the US in 2000), amounting to Rs.5,128 million. The tax demanded in this regard amounts to Rs.1,974 million, which has already been paid by the Company. However, the Company has appealed to the Income Tax Commissioner of Appeals (Mumbai) regarding this claim, and the matter is now pending.

WE MIGHT MAKE SUBSTANTIAL CAPITAL INVESTMENTS IN NEW TELECOMMUNICATIONS PROJECTS, INCLUDING IN CONNECTION WITH TECHNOLOGY UPGRADES AND GEOGRAPHIC EXPANSION, WHICH MAY BE SUBJECT TO EXECUTION RISK AND, IF NOT OFFSET BY ADDITIONAL REVENUE, MIGHT ADVERSELY AFFECT OUR OPERATING RESULTS.

The Company might make substantial additional investments in new telecommunications projects, including in connection with technology upgrades and geographic expansion, which require significant capital expenditures. See "Item 5. Operating and Financial Review and Prospects--Capital Expenditures." Such projects entail engineering, construction, obsolescence and other normal commercial risks, and there can be no assurance that the projects currently contemplated by the Company will not encounter cost overruns or project delays or will be completed or will operate as planned. Furthermore, there can be no assurance that future financing for additional facilities, whether within India or elsewhere, would be available on attractive terms or at all. In addition, the Company's procedures for preparing budgets and appraising and monitoring capital expenditure projects are less precise than those used by comparable private sector companies The Company has introduced the concept of preparation of Annual Operating Plans which outline the operating budgets as well as capital expenditure budgets for the year. Most of the specific projects contemplated by the Company remain subject to further review and approval by the Board of Directors of the Company. Some of such projects may not be possible without further liberalization of or

other changes to the regulatory regime. There can be no assurance that such regulatory changes will be made or that such projects will be implemented as currently planned. Telecommunications technology evolves rapidly and there can be no assurance that any investments in new technology will have a positive impact on our financial results. We have recently established subsidiaries in the US and Sri Lanka with a view to providing telecommunications services involving these countries. However, there can be no assurance that these ventures, or any future expansion in other geographic regions, will not have an adverse impact on our financial results. Furthermore, there can be no assurance that currently contemplated capital expenditures will be incurred as described herein or that if the projects are completed the capital investments made in such projects will be offset by additional revenue.

THE COMPANY MAY ENGAGE IN ACQUISITIONS, STRATEGIC INVESTMENTS, PARTNERSHIPS, ALLIANCES OR OTHER VENTURES THAT MAY NOT BE SUCCESSFUL.

The Company may engage in acquisitions, strategic investments, partnerships, alliances or other ventures in order to expand its business. However, there can be no assurances that such transactions will contribute additional revenues to the Company. Furthermore, such transactions might cause us to incur additional debt or assume contingent liabilities.

ANY SERIOUS DAMAGE TO THE UNDERSEA TELECOMMUNICATIONS CABLE SYSTEMS UTILIZED BY THE COMPANY MIGHT ADVERSELY AFFECT THE COMPANY'S TRAFFIC AND THEREBY THE COMPANY'S REVENUES.

A major part of the Company's international traffic is routed through undersea cable systems landing in India as well as cable systems between different countries. These cables are prone to damage which are normally not serious in nature and during such interruptions the traffic is routed through the other remaining cable systems and satellites. However, serious damage to major cables landing in India could seriously disrupt traffic, leading to losses in revenue.

THE USE OF ILLEGAL CALL BACK SERVICES HAS THE EFFECT OF LOWERING OUR

REVENUE.

The relative levels of incoming call volume from different countries is affected by the practice of "refile" and by "call-back" services. Refile involves the re-routing of calls to India through a third country by carriers in the country of origination of such calls. Refile seeks to take advantage of a lower accounting rate applicable to calls between India and the third country compared to the rate between India and the country of origination. Due to such lower applicable accounting rate, refile has the effect of lowering the revenue of the Company with respect to an incoming call. Call-back services involve access to an international dial tone in a foreign country, usually in the United States, from which a caller in India can originate calls. These calls are billed in foreign exchange in the foreign country and are therefore treated as incoming calls. Call-back services were officially declared illegal by the Ministry of Communications in July 1995. Nevertheless, the volume of international calls made from India through call-back services has continued to grow and has contributed to the increase in recent years in the Company's ratio of incoming to outgoing calls. It is believed that refile and call-back have contributed in particular to the significant increase in recent years in incoming traffic from the United States.

WEAKNESSES IN OUR FINANCIAL AND MANAGEMENT ACCOUNTING AND REPORTING SYSTEMS AND PROCEDURES COULD LEAD TO DIFFICULTIES IN OUR GENERATING TIMELY AND ACCURATE INFORMATION WHICH IS NECESSARY TO MANAGE AND CONTROL OUR BUSINESS EFFICIENTLY.

The Company was established in 1986 by a transfer of all of the assets and employees of the Overseas Communications Service, a department of the Ministry of Communications of the Government of India, to the Company, and the Company remained a PSU until government divestment in early 2002. Consequently, the financial and management accounting and reporting systems of the Company are not as developed as those of certain comparable companies outside India. The Company believes that weaknesses in its financial, management accounting and reporting systems continue. It may experience difficulties in generating timely and accurate information to manage and control its business efficiently. There can be no assurance that the Company will be able to fully remedy the deficiencies in its current systems and

procedures. See "Item 5. Operating and Financial Review and Prospects--Financial and Management Accounting and Reporting Systems."

THE COMPANY'S BUSINESS MAY BE ADVERSELY AFFECTED BY ANY FURTHER SLOWDOWN IN ECONOMIC GROWTH IN INDIA OR THE UNITED STATES.

According to the Reserve Bank of India, the Gross Domestic Product growth of India declined from 5.6 percent for the year 2001-02 to 4.4 percent for the year 2002-03. According to the Reserve Bank of India's annual report for 2000-01, India experienced an estimated real Gross Domestic Product growth of 5.2 percent during the year ended March 31, 2001, compared with 6.4 percent growth during the year ended March 31, 2000. The growth of telecommunications traffic is related to general economic growth and a further slowdown in the Indian economy could result in slower growth rates in telecommunications traffic in India.

A major part of the Company's revenues are derived from calls originating in the United States. During the year ended March 2003, approximately 36.92 percent of the Company's traffic was between India and the United States. The United States is in the midst of an economic slowdown, and if the slowdown continues, it may result in the reduction or postponement of

spending in the IT sector. The IT sector is a major contributor to the telephony and leased channel revenues to the Company and therefore the Company's revenues might be adversely affected.

A SUBSTANTIAL PORTION OF THE COMPANY'S ASSETS AND OPERATIONS ARE LOCATED IN INDIA AND THE OUTSTANDING SHARES ARE LISTED ON THE INDIAN STOCK EXCHANGES. ACCORDINGLY, THE COMPANY'S PERFORMANCE, THE MARKET PRICE AND LIQUIDITY OF THE SHARES AND OF THE ADSS MAY BE AFFECTED BY CHANGES IN EXCHANGE RATES AND CONTROLS, INTEREST RATES, GOVERNMENT POLICY AND TAXATION AND OTHER POLITICAL, ECONOMIC OR SOCIAL DEVELOPMENTS IN OR AFFECTING INDIA.

Since achieving independence in 1947, India has had a mixed economy with a large public sector and extensive regulation of the private sector. Indian central and state governments have in the past imposed controls on prices of a broad range of goods and services, restricted the ability of private sector enterprises to expand capacity, increase production, reduce employment or enter new businesses and imposed controls on the allocation of raw materials and foreign exchange. Since 1991, the Government has significantly relaxed restrictions on the private sector and introduced policies to liberalize the economy. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators remains significant in ways that affect all Indian companies, including the Company.

India held elections for a new Government in October 1999 and the Government changed for the fifth time since 1996. No party won a majority of the seats in the Lok Sabha (the lower house of Parliament) in the elections. The present Government is made up of a multiparty coalition led by the Bharatiya Janata Party ("BJP") with Mr. A. B. Vajpayee as Prime Minister. There can be no assurance that the BJP-led government, which is presently supported by political parties from outside the Government, will continue to receive such support. The next general elections are due to be held in 2004. Political instability could delay the reforms of the Indian economy and could have a material adverse affect on the market for securities of Indian companies, including our shares and ADSs.

The budget and the fiscal policies for the fiscal year ending March 31, 2004 presented by the Government proposed the continuation of policies designed to promote economic deregulation and liberalization. Although we believe that economic liberalization will continue in the future, there is no assurance that this will be so.

In May 1998 India tested five nuclear devices at Pokhran in the State of Rajasthan. In response to the nuclear tests, certain countries, including the United States, announced economic sanctions against India. The United States economic sanctions, among other things, prohibited US banks from extending any loan or providing any credit to the Government, other than for the purchase of food or humanitarian aid, and further prohibited the export from the United States to India (directly or indirectly) of specified goods

and technology which are subject to the export licensing requirements of the US Commerce Department. These sanctions have since been substantially lifted. No assurance can be given, however, that these sanctions would not be reactivated or that additional economic sanctions of this nature will not be imposed by the United States or any other country, or that such sanctions if reimposed, would not have a material adverse effect on the Company's business or the price of the Shares and the ADSs. Although the Company is not listed as a company to which the sanctions would apply, export prohibitions and controls may have an adverse effect on the ability of the Company to import (directly or indirectly) certain types of computer equipment and software from the United States.

TERRORIST ATTACKS AND OTHER ACTS OF VIOLENCE OR WAR INVOLVING INDIA, THE UNITED STATES AND OTHER COUNTRIES COULD ADVERSELY AFFECT THE FINANCIAL MARKETS AND THE COMPANY'S BUSINESS.

Terrorist attacks, such as the ones that occurred in New York and Washington, D.C. on September 11, 2001, New Delhi on December 13, 2001 and Mumbai on August 25, 2003 and other acts of violence or war may negatively affect the Indian markets where the Company's equity shares trade and also adversely affect the world-wide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately adversely affect the Company's business. There can be no assurance that there will not be any further terrorist attacks against India, the United States or any other country.

Also as a result of such events, India, the United States or certain other countries may enter into armed conflict with other countries. For example, in October 2001, the United States and certain other countries commenced military operations against various targets located in Afghanistan and in March 2003, the United States and its allies commenced military operations against the ruling military regime in Iraq. After the December 13, 2001 attack in New Delhi and a terrorist attack on May 14, 2002 in Jammu, India, diplomatic relations between India and Pakistan became strained. This could be repeated in the aftermath of the August 25, 2003 bomb blasts in Mumbai. As a result of these events, the risk of intensified military hostilities between India and Pakistan cannot be ruled out. Military movements continue along both the Line of Control in Kashmir and the border between India and Pakistan, with artillery firing along the Line of Control. The hostilities between India and Pakistan are particularly threatening because both India and Pakistan are nuclear powers. The consequences of any potential armed conflicts are unpredictable. In addition, India has from time to time experienced unrest relating to religious and political differences within India's population, such as the riots in Gujarat in early 2002.

Any increase in regional or international hostilities, terrorist attacks or other acts of violence or war could have a significant adverse impact on international or Indian financial markets or economic conditions or on Indian Government policy, thereby disrupting communications and making travel more difficult. Such political tensions could create a greater perception that investment in Indian companies involve a higher degree of risk and could have an adverse impact on the Company's business, or the market price for the Company's Shares and the ADSs.

CONDITIONS IN THE INDIAN SECURITIES MARKET MAY AFFECT THE PRICE OR LIQUIDITY OF THE SHARES AND THE ADSs.

The Indian securities markets are smaller in terms of trading volume and more volatile than the securities markets in the United States and certain European and other countries. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. There is a lower level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants than in securities markets in the United States and certain European and other countries.

The Indian stock exchanges have experienced problems, including temporary exchange closures, disputes between listed companies and exchanges, broker defaults, settlement delays, custody problems and strikes by brokers. Such problems or similar problems, if they were to recur or continue, could affect the market price and liquidity of the securities of Indian companies, including the Shares and ADSs, in both domestic and international markets. In addition, the governing bodies of the Indian stock exchanges have

from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Similar problems could occur in the future and, if they did, they could affect the market price and liquidity of the Shares and the ADSs.

THERE MAY BE LESS COMPANY INFORMATION AVAILABLE IN INDIAN SECURITIES MARKETS THAN SECURITIES MARKETS IN DEVELOPED COUNTRIES.

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that in markets in the United States and other developed economies.

The Securities and Exchange Board of India ("SEBI") received statutory powers in 1992 to improve disclosure and other regulatory standards for the Indian securities markets. SEBI has prescribed certain regulations and guidelines in relation to disclosure requirements, insider trading and other matters relevant to the Indian securities market. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in the United States and certain European and other countries.

YOU AND THE COMPANY MAY BE SUBJECT TO POTENTIAL LOSSES ARISING OUT OF EXCHANGE RATE RISK ON THE INDIAN RUPEE AND RISKS ASSOCIATED WITH THE CONVERSION OF RUPEE PROCEEDS INTO FOREIGN CURRENCY.

Fluctuations in the exchange rate between the Rupee and the Dollar will affect, among other things, the Dollar equivalents of the price of the Shares in Rupees as quoted on the Indian stock exchanges and, as a result, may affect the market price of the ADSs. Such fluctuations will also affect the Dollar equivalent of any cash dividends in Rupees received on the Shares represented by the ADSs and the Dollar equivalent of the proceeds in Rupees of a sale of Shares in India.

Fluctuations in the exchange rate between the Rupee, the SDR (or "Special Drawing Rights", which are based on a basket of key international currencies and are frequently used in foreign currency payment settlements) and other currencies also affect the Rupee amount of foreign currency settlement payments received by the Company from, and paid by the Company to, foreign telecommunications administrations and therefore the revenue and operating costs of the Company. The Company may as a result be exposed to the risk of fluctuations in the exchange rate between the Rupee and foreign currencies, which has effectively increased the cost in Rupee terms of foreign exchange payments required to be made by the Company, including payments to foreign telecommunications administrations and payments for imported equipment and technology. The Company has started hedging against exchange rate risk; however, there can be no guarantee that the Company will be able to avoid the adverse affects of exchange rate fluctuations.

YOU MAY NOT BE ABLE TO ENFORCE A JUDGMENT OF A FOREIGN COURT AGAINST THE COMPANY.

The Company is a limited liability company organized under the laws of India. All of the directors and officers of the Company and certain other persons named herein are residents of India, and all or a significant portion of the assets of all of the directors and officers and a substantial portion of the assets of the Company are located in India. As a result, it may be difficult for investors to effect service of process upon the Company or such directors or officers outside India or to enforce against them judgments obtained from courts

outside India, including judgments predicated on the civil liability provisions of the United States federal securities laws. The statutory basis for recognition and enforcement of foreign judgments in India is provided in Section 13 of the Code of Civil Procedure 1908 (the "Code") of India, which provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (1) where the judgment has not been pronounced by a court of competent jurisdiction, (2) where the judgment has not been given on the merits of the case, (3) where the judgment appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where such law is applicable, (4) where the proceedings in which the judgment was obtained were opposed to natural justice, (5) where the judgment has been obtained by fraud and (6) where the judgment sustains a claim founded on a breach of any law in force in India. Section 44A of the Code provides that where a

foreign judgement has been rendered by a court in any country or territory outside India which the Government of India has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. The United Kingdom, but not the United States, has been declared by the Government of India to be a reciprocating territory for the purposes of Section 44A. Accordingly, a judgement of a court in the United States may be enforced only by a suit upon the judgment and not by proceedings in execution. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability claim in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval under the Foreign Exchange Management Act, 1999 from the Reserve Bank of India to execute such a judgment or to repatriate any amount recovered. The date of passing of the judgment would be the date for fixing the rate of exchange at which the foreign currency amount should be converted to Rupees.

TRADES OF OUR EQUITY SHARES MAY ADVERSELY AFFECT THE PRICES OF OUR EQUITY SHARES AND ADSs.

Actual or perceived sale of substantial amounts of our equity shares could adversely affect the prevailing market price of our equity shares or the ADSs. The Company may issue new shares or major shareholders may decide to divest their share in the Company. We can make no prediction as to the timing of any such issue or sales or the effect (if any) that future sales of our equity shares will have on the market price prevailing from time to time.

YOU WILL NOT BE ABLE TO VOTE ON YOUR ADSs.

Investors in ADSs will have no voting rights unlike holders of the Equity Shares who will have voting rights. It is contemplated that the Depositary will exercise its right to vote on the Equity Shares represented by the ADSs as directed by the Company's Board of Directors. If you wish, you may withdraw the Equity Shares underlying the ADSs and seek to vote the Equity Shares you obtain from the withdrawal. However, for foreign investors, this withdrawal process may be subject to delays.

THERE IS A LIMITED MARKET FOR THE ADSs.

Even though the ADSs are listed on the New York Stock Exchange, there is no assurance that any trading market for the ADSs will be sustained.

Subsequent to the open/ tender offer by Panatone Finvest Limited, the number of shares represented by ADSs declined from approximately 60 million at March 31, 2002 to approximately 30 million at March 2003, or from 21 percent of outstanding equity to 11 percent, respectively. This may affect the liquidity of the market for the Company's ADSs and the price at which they trade.

YOUR ABILITY TO SELL IN INDIA ANY EQUITY SHARES WITHDRAWN FROM THE DEPOSITARY FACILITY MAY BE SUBJECT TO DELAYS IF SPECIFIC GOVERNMENT APPROVAL IS REQUIRED.

Holders who seek to sell in India any Equity Shares received upon surrender of any ADS, and to convert the Rupee proceeds of such sale into foreign currency and remit such foreign currency outside of India, will require the approval of the Reserve Bank of India for each such transaction. Although such approvals are generally forthcoming, there can be no assurance that any such approval can be obtained in a timely manner or at all.

INDIAN LAW IMPOSES FOREIGN INVESTMENT RESTRICTIONS THAT LIMIT A HOLDER'S ABILITY TO CONVERT EQUITY SHARES INTO ADSS, WHICH MAY CAUSE THE COMPANY'S EQUITY SHARES TO TRADE AT A DISCOUNT OR PREMIUM RELATIVE TO THE MARKET PRICE OF ITS ADSs.

Until recently, under Indian law it was not permitted for a depositary to accept deposits of outstanding equity shares and issue ADSs evidencing such shares. Thus, an investor in ADSs who surrendered an ADS and withdrew equity shares would not be permitted to redeposit those equity shares to

obtain ADSs, nor would an investor who purchased equity shares on the Indian market have been permitted to deposit them in the ADS program. The Government of India has recently permitted two-way fungibility of ADRs. However, this is still subject to sectoral caps and certain conditions, including compliance with the provisions of the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme 1993 and the periodic guidelines issued by the Government and also registration requirements in the United States. Such restrictions on foreign ownership of the underlying equity shares may cause the Company's Equity Shares to trade at a discount or premium to its ADSs. See "Item 10. Additional Information--Exchange Controls and Other Limitations Affecting Security Holders."

ITEM 4. INFORMATION ON THE COMPANY

BUSINESS OVERVIEW

The Company is the leading provider of public international telecommunication services in India, directly and indirectly linking the Indian domestic telecommunications network to approximately 237 territories worldwide. The Company provides international telephone, telex and telegraph services. As of March 31, 2003, the Company operated fourteen international switching and transmission facilities at ten locations ("gateways") in Mumbai, Kolkata, Delhi, Chennai, Ernakulam, Gandhinagar, Jalandhar, Kanpur, Bangalore and Hyderabad, which route international traffic to and from the domestic telecommunications network using a combination of satellite and undersea cable links.

The Company derives the bulk of its revenue from payments by foreign telecommunications administrations/ private carriers for the delivery of international calls to India and payments by BSNL, MTNL and other access providers in India for the delivery of international calls abroad. The Company shares with BSNL, MTNL and other access providers in India the revenue received by the Company from foreign telecommunications administrations and carriers on

incoming international calls terminating in India. The Company also shares revenue received by BSNL, MTNL and other access providers in India from Indian domestic subscribers on outgoing international calls initiated on such network. The sharing of such revenue is pursuant to the terms of interconnect agreements with the relevant access providers. See "--Traffic Revenue and Revenue Sharing Arrangement".

The total number of effective telephone circuits operated by the Company increased from 15,431 at March 31, 1998 to 25,758 circuits at March 31, 2003. In addition, the Company has made significant enhancements to the efficiency of its transmission and switching capabilities, particularly through investment in digital equipment.

The Company believes that there remains significant unsatisfied demand for telecommunication services in India. As per a report of DoT, as of July 2003 the penetration of telephone lines in India was approximately 5.71 lines per 100 inhabitants. This penetration is significantly below that in the Organization for Economic Cooperation and Development ("OECD") member countries and many other developing countries. The Company expects that continued expansion of the domestic network, movement towards cost-based tariffs and private sector participation in local fixed line and mobile telecommunications will significantly increase the level of telephone line penetration and quality of service in India in the future, resulting in growth in demand for its international telecommunication services.

The Company also provides a number of specialized value-added services such as international leased lines, Inmarsat satellite mobile telecommunications, Internet dial-up access in 22 cities, Internet leased lines access throughout India, transmission of standard business information ("electronic data interchange"), connections to business information and applications ("managed data network services"), video conferencing, the transmission of television signals (both video and audio), transmission of data over public data network for customers ("packet switched data transmission"), E-mail services and television uplinking.

Demand for the Company's specialized and value-added services, particularly international leased lines and Internet access, has grown significantly in the past few years. The total leased lines (64 KBPS

equivalent) capacity has grown from 913 as of March 31, 1998, to 31,598 as of March 31, 2003. The Company's subscriber base for Internet access has increased from 90,042 (including BSNL subscribers) as of March 31, 1998 to 701,259 (excluding BSNL subscribers) as of March 31, 2003. According to a TRAI report, the Company still continues to be the leader within the country in terms of subscribers and has approximately 19 percent of the entire market. The Company believes that this growth is consistent with increasing demand for data services worldwide and in India. The Company expects continued growth in its specialized and value-added services so as to build and maintain a base of direct retail customers.

Seasonality does not materially affect the Company's business.

HISTORY AND DEVELOPMENT OF THE COMPANY

The Company, Videsh Sanchar Nigam Limited, was incorporated as a limited liability company under the laws of the Republic of India pursuant to the provisions of the Companies Act on March 19, 1986 and was, at that time, wholly-owned by the Government. On April 1, 1986, the Company assumed control and management of all of the assets and employees of the Overseas Communications

Service, a department of the Ministry of Communications of the Government. In 1992 and 1999, as part of its general policy of gradually reducing its holdings in public sector enterprises, the Government divested a portion of the equity of the Company to certain funds, banks and financial institutions controlled by the Government and the general public. In 1997 and 1999, the Government also sold some of its equity holdings in the Company through the issuance of global depositary receipts.

On February 1, 2001, the Government of India announced its intention to sell shares equivalent to 25 percent of the outstanding equity of the Company to a strategic partner through the competitive bidding route. Following a bidding process, the Government of India made an announcement on February 5, 2002 that Panatone Finvest Limited was selected. as the strategic partner for the sale of 71,250,000 fully paid-up Equity Shares representing 25 percent of the voting capital of the Company at a price of Rs.202 per share. The aggregate purchase price was Rs.14,392.50 million in cash. A share purchase agreement (the "Share Purchase Agreement ") giving effect to the above arrangement was entered into between the Government of India and Panatone Finvest Limited on February 6, 2002. The shareholders in Panatone Finvest Limited - Tata Sons, Tata Power, Tata Steel and Tata Industries - are also signatories to the Share Purchase Agreement though they did not directly purchase any of the Government of India's holding in the Company. The Company is also a party to the Share Purchase Agreement. In connection with the purchase of the shares from the Government of India, Panatone Finvest Limited was required by the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto to launch a tender/open offer for an additional 20 percent of the Equity Shares from other shareholders of the Company. Subsequently, Panatone Finvest Limited purchased an additional 20 percent on June 8, 2002, increasing its stake to 45 percent.

A shareholders' agreement (the "Shareholders' Agreement") was entered into between the Government of India and Panatone Finvest Limited and its shareholders on February 13, 2002. Among other things, the Shareholders' Agreement provides for the nomination of directors by the Government and by Panatone Finvest Limited, places limitations upon the restructuring or retrenchment of employees, specifies certain actions upon which both the Government and Panatone Finvest Limited must agree before such actions can take place, places restrictions upon the transfer of shares, grants tag along rights and rights of first refusal to the Government and Panatone Finvest Limited, and obligates Panatone Finvest Limited and its affiliates to act in the best interests of the Company in the event that Panatone Finvest Limited or its affiliates engages in any activity in competition with the Company.

The Government also simultaneously divested approximately 1.85 percent of the Shares of the Company to its employees, out of a total offer of approximately 1.97 percent. As a result of the sale to Panatone Finvest Limited and this divestment to employees, the Government now owns approximately 26.12 percent of the Company's Equity Shares.

The Company, which had been the exclusive provider of public international telecommunications services in India, had its monopoly terminated on March 31, 2002, pursuant to a notice of early termination

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by the Government. In September 2000, the Government had announced the early termination of the Company's monopoly in international telephony services, ending the Company's monopoly on March 31, 2002 instead of on March 31, 2004, as originally intended. With effect from April 2002, the Government has licensed new operators to provide international telephone services, who now compete against the Company. To offset the likely loss to the Company due to the early

termination of its monopoly, the Government announced a compensation package which included a license to offer domestic long distance services, a Category `A' all India ISP license. The Government also announced that if necessary, additional compensation could be available to the Company based on the Government's review. See "Item 3. Key Information -- Risk Factors --The implementation of the New Telecommunications Policy and other regulatory changes with respect to the telecommunications industry, including the early termination of the Company's monopoly in international telephony services, may continue to adversely affect our results of operations and financial condition."

During fiscal year 2003, the Company acquired a company called VSNL Seamless Services Limited ("VSSL"), incorporated in India, for cash consideration of Rs.1,000. VSSL became a wholly-owned subsidiary of the Company. Subsequent to the acquisition, the Company subscribed for 50,000 equity shares of Rs.10 each issued by VSSL. The intended principal activity of VSSL was the provision of value added services. Subsequent to the fiscal year end, the Board of Directors of the Company proposed liquidation of VSSL. VSSL did not commence operations during fiscal year 2003.

The Company's Internet website address is http://www.vsnl.com. The information on the Company's website is not incorporated into this document. The Company's registered office is located at Mahatma Gandhi Road, Mumbai 400 001 India (+91-22-5657 8765). The Company's process agent for the Company's ADR facility is State Bank of India, New York office, 460 Park Avenue, New York, New York 10022.

Business Strategy

The Company's objectives are to remain the foremost provider of international telecommunication services in India, to diversify its products and services by entering into related areas to offer specialized, value-added related services, and to take advantage of new technologies so as to enhance its position as a leading telecommunications service provider in India. To meet these objectives, the Company plans to continue developing its international telecommunication services in a manner that

- meets the demand of users for such services;
- optimizes the utilization of its facilities and, as a result, the revenue derived from such facilities; and
- positions the Company for significant participation in an increasingly liberalized Indian telecommunications industry.

The Company also seeks to explore opportunities in the international market, particularly in countries neighboring India. Such a strategy is intended to permit the Company to utilize its existing assets and to maximize the Company's share of traffic from those countries. It is also intended to take advantage of the growing internationalization of Indian companies, the growth of business process outsourcing in India and the movement to India of a significant amount of technology functions from foreign companies.

The Company's capital expenditure program is intended to reflect above strategy. The program includes investments in customer access, increasing the amount of bandwidth we can offer to our customers and investments to reduce the unit cost of bandwidth. We have also planned investments in the areas of customer service and IT to address the competitive scenario that the Company, now operates in. Further, the Company proposes to upgrade its technology to provide world class, low-cost service.

The Company intends to implement this strategy as follows:

Business Restructuring and Achieving Synergies with Other Tata Group Companies

Following the acquisition of a strategic stake in the Company by the Tata Group, the Company is restructuring parts of its business so as to maximize competitiveness in the new market environment, and where possible to take advantage of synergies with other Tata Group companies. The Company believes that its strengths complement those of the Tata Group. Synergies with Tata Group companies could include access to their existing subscriber bases and the opportunity to share their infrastructure. In this regard, the Company plans to invest Rs.8,350 million (US$ 175.68 million) in Tata Teleservices ("TTSL") over a period of seven years commencing from fiscal 2003 to provide the Company with access to end customers. The Company is also:

- substantially increasing its emphasis on sales and marketing by creating dedicated teams of trained people to proactively address the corporate and retail markets;

- significantly strengthening its customer services functions by creating dedicated call centers and back office infrastructure to support both corporate and retail customers;

- restructuring some of its technical and service capabilities at both headquarters and in regional offices so as to provide an improved focus, greater role clarity and overall better performance; and

- upgrading its information technology (IT) systems to adequately support its initiatives in other areas through emphasis on systems for customer relationship management (CRM), billing systems for all services, and integrated network management systems.

Increasing Access to Customers through Integrated Marketing

The Company, in association with TTSL, Tata Internet Services and Tata Net, has launched a common marketing platform called Tata Indicom Enterprise Business Unit ("TIEBU"). This unit provides specialized 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. The Company believes that such an integrated marketing approach, together with other synergies with Tata Group companies, will enable it to benefit from the Tata brand name and gain access to high-value end customers.

Improving the Capacity and Quality of its International Telecommunication Services and Facilities

In addition to increasing the number of international circuits to meet growing demand, the Company seeks to use its international telecommunication services and capacity more efficiently by employing advanced technologies. The Company continues to invest in state-of-the art infrastructure to support its businesses. The Company is expanding its bandwidth capability, in particular to support data services. The Company is also seeking to upgrade its switching facilities through the installation of technologically superior switches which enable more efficient transmission of voice and broadband data traffic. See "Item 5. Operating and Financial Review and Prospects--Capital Expenditures--Planned Capital Expenditures."

Leveraging Existing Infrastructure to Provide Specialized and Value-Added Services

The Company has introduced several value-added services in recent years and seeks to increase the share of its revenues derived from such services. These services typically involve the transmission of data rather than only voice traffic. To enhance its ability to offer such services, the Company is expanding and upgrading its infrastructure to support the bandwidth for such services.

Increasing its Range of Service Offerings

Value added services, especially data services, are a fast growing segment worldwide, and the Company believes they offer significant growth potential. The Company intends to strengthen its position in this market by offering a range of improved and new products and services, including virtual private networks, co-location, managed services based on internet data centers and application support services. To retain and enhance its share of the voice market, the Company also intends to introduce new products and services such as prepaid calling cards, toll-free services, etc., through a retail marketing program.

Enhancing Internet Opportunities, including Internet Telephony

The Company was one of the early leaders in developing the Internet market in India and will continue to strive to be a market leader in this area. The Company aims to introduce higher-value Internet services for its customers and benefit from the growing corporate and retail demand for Internet services and the expected demand for value-added services such as web hosting, virtual private networks, video conferencing and numerous broadband applications. The Company has also started offering Internet telephony as a complement to its main business. It is anticipated that the low tariffs in Internet telephony will encourage usage and result in an increase in international call volumes. The Company plans to deploy an integrated Internet telephony infrastructure offering customized solutions, in particular for corporate customers. The Company expects to be able to take advantage of Internet protocol technology and provide high quality voice and value-added services at competitive tariffs.

Developing its NLD Business

The Company believes that the NLD business is a logical backward integration with its ILD business. It will reduce the Company's dependence on other NLD operators for domestic connectivity and allow it to retain a greater share of revenue from international calls. The Company's association with the Tata Group could offer some synergies, including access to their existing captive subscriber bases, the opportunity to share their infrastructure including backbone, space and power, the opportunity to optimize capital and operating expenditures and the ability to engage in integrated marketing efforts.

Cost Reduction

In September 2002, the Company embarked on a major cost reduction exercise. The exercise is part of a broader profit enhancement program that aims to increase efficiency and productivity, cut costs, optimize traffic, equipment and infrastructure, and improve debt recovery and timely collections. The Company is aiming to reduce its costs through a combination of measures. A major focus area is saving bandwidth costs, which contribute a sizeable share of the Company's operating expenses, by maximizing bandwidth capacity utilization through re-grooming cables, surrendering excess bandwidth and identifying

lower-cost alternatives. The Company has also instituted a new revenue assurance function to minimize revenue leakages. Various assets, notably earth station equipment, are also being redeployed for maximum utilization.

Positioning for New International Opportunities

The Company recognizes that in the new competitive environment, there will be continued pressure on both revenue and margins. Simultaneously, a significant proportion of cost will remain fixed. Given these constraints, the Company believes that geographic diversification could assist in achieving

improved revenues and profits. The Company seeks to enter into joint ventures with domestic and foreign companies to develop telecommunications projects both inside and outside India. For example, the Company has entered into bilateral arrangements with foreign telecommunications carriers for the provision of private data transmission services. The Company, along with two other Indian telecom companies, has set up a joint venture with a Nepalese company to provide basic telecom services in Nepal.

In June 2003, VSNL formed VSNL America Inc., a wholly owned US subsidiary initially set up to cater to the needs of Indian customers needing US points of presence through Internet Protocol - Virtual Private Network (IP-VPN). It is expected that this venture will allow end-to-end management of VSNL's Internet bandwidth from India all the way to the US. In the future, VSNL may choose to expand this service in the US, Europe and East Asia depending on available market opportunities in these regions. VSNL America has applied for a FCC 214 telecommunications license which would enable it to provide IP-VPN services in the US.

In June 2003, VSNL Lanka Ltd., a wholly owned subsidiary set up by VSNL in Sri Lanka, received an External Gateway Operator (EGO) license. The EGO license allows VSNL Lanka Ltd., to offer ILD voice and data services in Sri Lanka. The Sri Lankan market, estimated at 400 million ILD minutes annually, offers VSNL a promising opportunity.

SERVICES OF THE COMPANY

The Company's primary business is the provision of public international switched telecommunication services (telephone, telex and telegraph). The Company also provides a variety of specialized and value-added services, such as international leased lines, Inmarsat satellite mobile telecommunications, Internet dial-up access in 22 cities, Internet leased line access throughout India, electronic data interchange, managed data network services, video conferencing, the transmission of television signals, packet switched data transmission and E-mail services. These types of services typically involve greater bandwidth use for the transmission of data rather than voice traffic. The Company has also started offering NLD and Internet Telephony services.

Basic Services

The Company operates the necessary switching and transmission infrastructure to connect the Indian domestic telecommunications network with foreign networks and, in coordination with foreign telecommunications administrations and carriers, to ensure the smooth flow of international traffic between these networks. An outgoing international telephone call from India originates on one of the local Indian telephone exchanges operated by MTNL, BSNL or by private fixed line or cellular network operators, and is transferred to one of the Company's gateways. The call is then switched by the Company's system

to the desired international destination via satellite, undersea cable or both based on a pre-determined routing plan developed by the Company in coordination with the foreign telecommunications administration or carrier. The foreign administration or carrier receiving the call through the international circuit is then responsible for final delivery of the call to the recipient. Similarly, when an international call is received at one of the Company's gateways, the call is switched from the gateway via the Indian domestic network to one of the local exchanges, from which it is transmitted to the recipient. See "-Industry Overview."

International Telephone Services. The Company provides public basic international switched telephone services, including voice, facsimile and data transmission services. The international telephone revenue of the Company constitutes the largest share of the Company's total traffic revenue (approximately 81.16 percent during the year ended March 31, 2003, compared to approximately 88.63 percent and 90.41 percent during the years ended March 31, 2002 and March 31, 2001, respectively) The decline in international telephone revenue as a proportion of total traffic revenue is due to the sharp reductions in tariffs in India and settlement rates with foreign administrations/carriers. In the year ended March 31, 2003, incoming paid minutes of traffic carried by the Company were marginally lower than in the year ended March 31, 2002 whereas outgoing paid minutes were higher. Total paid minutes carried by the Company were marginally lower in the year ended March 31, 2003 compared to the year ended March 31, 2002.

The Company offers International Direct Dialing and Home Country Direct Services and also provides operator assisted international calls. For the year ended March 31, 2003, approximately 99 percent of international calls from India were made using International Direct Dialing.

Other Basic Services. The Company provides international telex services, including automatic direct dial telex service, to approximately 237 territories worldwide and handles on average more than 3,500 international telex calls each day. This service is mainly used by the business community. Advanced telex services offered by the Company include forwarding facsimiles to telex mail boxes, telex to fax transmissions (T-Fax) and transmission from telex to E-mail services.

International telegram service is the oldest of the international telecommunication services provided by the Company. Each day the Company handles on average approximately 600 telegrams.

The volume of telex and telegraph traffic has been declining significantly in recent years, consistent with global trends, as users switch to facsimile and other methods of data transmission. The Company expects this trend to continue, but without any adverse impact on the Company since such methods of data transmission generate limited revenue for the Company.

National Long Distance. 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. The Company received its NLD license as part of the compensation package received from the Government upon the early termination of the Company's monopoly in ILD services. Apart from increasing VSNL's overall revenues, the Company expects the NLD business to help VSNL reduce costs and increase margins by reducing its dependence on other NLD operators for domestic connectivity. In fiscal 2002, the Company rolled out its NLD service in Mumbai, Delhi, Kolkata and Chennai, as well as several other cities, and presently carries the NLD traffic of several basic and cellular service operators. By

August 2003, the Company had received approval from the Department of Telecommunications for 71 national points of presence. The Company eventually plans to have 322 national points of presence across the country. The Company expects that its optical fiber 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. The Company expects the volume of traffic carried by its NLD business to grow in the future, enabling it to compete with BSNL and other NLD operators.

Specialized and Value-Added Services

The Company provides a variety of specialized and value-added services, such as international leased lines, Inmarsat satellite mobile telecommunications, Internet dial-up access, Internet leased line access, electronic data interchange, managed data network services, video conferencing, the transmission of television signals and other value-added services which typically involve the transmission of data or video rather than voice traffic. By offering such value-added services, the Company believes it can benefit from the increasing migration of traffic to these modes and build a direct retail customer base from which it may more effectively compete in a liberalized environment. The Company expects aggregate demand for these services to continue to rise with the continued growth and increasing sophistication of the Indian economy and its increasing integration with the world economy.

International Leased Lines. The Company arranges dedicated point-to-point international leased lines for those customers who need reliable, 24-hour communications from a fixed point in India to a fixed point abroad. International leased lines, the speeds of which range from 64 kpbs per second to 155 megabits per second ("mbps"), are provided through the Company's international gateways, earth stations and cable stations. The Company's earth stations and cable stations communicate with satellites and submarine cable systems respectively for data traffic. The demand for high speed leased lines (64 kbps and above) has increased significantly in recent years, with the number of such lines (64 kbps equivalent) increasing from 913 circuits as of March 31, 1998 to 31,598 as of March 31, 2003. In connection with

providing high speed leased lines, the Company makes all arrangements, in coordination with BSNL, MTNL, other basic service operators and foreign telecommunications administrations or carriers, for connecting the customer through one of the Company's international gateways to the foreign destination via satellite or undersea cable.

Inmarsat Mobile Services. The Company offers satellite mobile telecommunication services via the Inmarsat system (which carries telephone, telex, Duplex High Speed Data on a channel that carries 64 kbps of data, and facsimile traffic).

Gateway Internet Access Services. The Company commenced providing Internet access services in August 1995. The Company is one of the leading Internet service providers in India. With the liberalization of the Government's Internet policies, private Internet service providers were also permitted in November 1998 to provide such services. The Company has also opened state-of-the-art data centers for co-location services in 6 cities.

Managed Data Network Services. The Company introduced managed data network services in January 1997, and now offers such services through the global alliance networks of global partners -AT&T, Cable & Wireless, EQUANT, Global One, Concert and Tele Media International. The Company's managed data network services utilize global frame relay and X.25 access protocols and data transmission speeds from 64 kbps, providing managed private data communications services to corporate customers in India.

Gateway Electronic Data Interchange Service. First offered by the Company in November 1993, this service acts as a clearing house between the computer systems of a subscriber and its trading partners for the electronic transmission and processing of trade documents, such as purchase orders, invoices and other inquiries. The service operates domestically between major metropolitan areas in India and offers connections to major international electronic data interchange networks. These services offer efficient data packaging and transfer through the use of higher bandwidths.

Video Conferencing, Transmission of Television Signals and Other Services. The Company introduced a video conferencing service in 1993 (both domestic and international). The Company also provides international relay of television programs and news services via satellite on a contractual basis and leases satellite transponder capacity owned by the Company to television broadcast companies in India.

Television Uplinking. The Company started providing television uplinking facilities in October 1998. The Company's satellite broadcast operations on the INSAT-2E (APR) satellite are provided through its Standard-A earth station located in Chennai and also through its earth stations located in Delhi and Ernakulam.

Gateway Packet Switched Service. The Company began operation of a packet switched data transmission service in 1988. Subscribers to the service may exchange data with users of other public packet switched data. Subscribers may access this service via dial-up lines or dedicated lines at transmission speeds up to 9,600 bps or 64 kbps, respectively.

Gateway Electronic Mail Service. The Company introduced GEMS.400, an international E-mail and fax forwarding service, in 1991, which was subsequently expanded to cover the domestic market. This E-mail service, permits subscribers to send E-mail both to other subscribers within India and to approximately 242 public E-mail systems in about 74 countries. This service had approximately 3,646 subscribers as of March 31, 2003. No growth in E-mail service is anticipated as its advantages have eroded due to increased Internet access.

Inmarsat Value Added Services. The Company has, in line with its commitment of providing value-for-money telecommunication services to users, begun to offer Inmarsat Value Added Services such as E-mail, Internet browsing, Telex to E-mail, Telex-to-Fax and Voice mail services to its Inmarsat customers.

TRAFFIC REVENUE AND REVENUE SHARING ARRANGEMENTS

The Company's principal source of revenue is traffic revenue from its public international telecommunication services (telephone), which accounted for 90.41 percent, 88.63 percent and 81.16 percent of the Company's traffic revenues for the fiscal years ended March 31, 2001, March 31, 2002 and March 31, 2003, respectively. The Company's traffic revenue has the following sources: foreign administrations and telecommunication carriers, BSNL, MTNL and other Indian private fixed line or cellular network operators. The Company does not receive

any payments directly from the end users of its public international telecommunication services. Approximately 74 percent, 64 percent and 63 percent of the Company's revenues were derived from foreign administrations and telecommunication carriers and approximately 26 percent, 36 percent and 37 percent were derived from Indian telecommunication carriers, respectively, for the years ended March 31, 2001, 2002 and 2003.

Payments to and from Foreign Administrations or Carriers

Arrangements for the provision of international telecommunication services between two countries are normally established between two telecommunications administrations or recognized private operating carriers on a bilateral basis. The Company has operating arrangements with approximately 83 foreign telecommunications administrations or private carriers that govern the rates of payment by the Company to the foreign administrations or carriers for use of their facilities in connecting international calls billed in India, and by the foreign administrations or carriers to the Company for use of its facilities (and the local Indian networks) in connecting international calls billed abroad.

The practice among carriers is for charges due in respect of the use of overseas networks to be recorded, collected and forwarded by the carrier from the country in which the call is billed. Based on the accounting rate negotiated with each foreign telecommunications administration or carrier, the Company makes payments to the administration or carrier for outgoing traffic billed in India and receives payments from such administration or carrier for incoming traffic billed outside India. Settlements between the Company and the major carriers, including US carriers, are made monthly. Settlements between the Company and other carriers are normally made quarterly. Settlements are made on a net basis at the applicable settlement rate.

The Company has in the recent past sought to rationalize its accounting rates by moving towards a system of rates linked to volume commitment. The settlement rates applicable to the Company currently range from approximately US$ 0.011 to US$0.854 per minute. Settlement rates are periodically renegotiated, and negotiations have in the past, in some cases, taken several months to conclude. However, the dynamic environment in international telecommunications, as well as the advent of competition in India, have ensured that rate negotiations are held at shorter intervals.

As is typical in developing countries, the volume of incoming calls to India has historically exceeded the volume of outgoing calls, and as a result the Company has received net settlement payments from most foreign administrations and carriers. The Company expects this situation to continue in the foreseeable future.

In recent years, international organizations such as the International Telecommunications Union and the OECD countries have expressed the need for revision of the international accounting rate system, and certain foreign telecommunications administrations and carriers have sought to reduce applicable accounting rates in bilateral negotiations with the Company. In August 1997, the FCC issued an order (the "Order") establishing FCC benchmarks that US carriers generally must comply with in establishing settlement rates for international calls with non-US telecommunications administrations and carriers. The Order became effective as of January 1, 1998. Pursuant to the Order, the FCC categorizes countries by level of economic development and establishes cost-based benchmark ranges and transition periods for each country category, whereby higher benchmark ranges and longer transition periods would apply to less developed countries. The FCC requires US carriers to negotiate settlement rates falling within the applicable benchmark range with each country during the transition period. As a result, the effective settlement rate between US carriers and the Company for calendar year 1998 of US$0.64 per minute, which

already represented a 10.5 percent decrease of the settlement rate from the prior calendar year, was required to be reduced to no more than US$0.23 per minute by 2002.

The authority of the FCC to issue the Order and the Order itself has been upheld by a United States federal court of appeals. In upholding the Order, the United States federal court of appeals held that the Order was a valid exercise of the FCC's regulatory authority under the United States Communications Act and rejected the argument that the FCC's unilateral establishment of benchmark settlement rates constituted an unlawful assertion of extraterritorial jurisdiction over foreign carriers and foreign telecommunication services. However, the United States federal court of appeals also stated that the Order does not apply to foreign carriers and only permits the FCC to contact responsible foreign government authorities to seek their support in lowering settlement rates. The FCC, acting pursuant to the Order, has forced the US carriers to agree to the benchmark rates, which are lower than the rates in previously effect between the Company and some of its correspondent US carriers. See "Item 3. Key Information--Risk Factors--Delays in reaching agreement with other major carriers regarding rates could cause a significant increase in our working capital needs which in turn could have a material adverse effect on our financial position and results of operations."

The Company and the US carriers agreed to a settlement rate of US$0.34 per minute until March 31, 2002. However, the FCC only approved the filings of US carriers for a settlement rate of US$ 0.34 per minute up to December 2001 and suspended the agreement between the US carriers and the Company for the period from January 2002 until March 2002. The Company, through the Ministry of Communications (Government of India), appealed to the FCC regarding the suspension of the agreement for the period from January 2002 until March 2002. Subsequently, the US carriers have made payments to the Company from January 2002 up to March 2002 as per the FCC directives. Effective April 2002, the settlement rate between the Company and the US carriers was agreed at US$ 0.23 per minute. New settlement rate agreements were entered with US carriers, and became effective from September 2002. These agreements provide for separate settlement rates for incoming and outgoing traffic as opposed to symmetrical divisions of Total Accounting Rates up to August 2002. The settlement rates for incoming traffic are now dependent upon interconnect usage charges payable to basic service providers (BSOs) for terminating traffic in India. The settlement rates are market driven and are subject to change every month or even earlier.

Revenue Sharing Arrangements

Although the Company provides international gateway access out of and into India, all calls must either originate or terminate on or pass through the domestic networks of MTNL, BSNL or any other private fixed line or cellular network operator. Prior to March 31, 2002, the Company had a revenue sharing arrangement with only BSNL. Under this arrangement, BSNL (formerly the DoT) received payments from the Company and other operators and redistributed those payments to the Company or the other operators as appropriate. Subsequent to March 31, 2002, the Company concluded interconnect agreements with every domestic fixed line or mobile operator, including BSNL and MTNL. These interconnect agreements expired on April 30, 2003, and new interconnect agreements in accordance with the Interconnect Usage Charges ("IUC") regulation announced by the TRAI have been concluded with BSNL and MTNL effective May 1, 2003. The commercial terms of the agreements may change based on revisions by the TRAI to the IUC from time to time. The new agreements with several private fixed line and mobile operators have been finalized and those with other

operators are currently being negotiated.

Revenue Sharing Arrangement (April 1, 1997 to March 31,2002, subsequently extended to July 31, 2002). From April 1, 1997 to July 31, 2002, the Company and BSNL (formerly, the DoT) were parties to a revenue sharing arrangement, under which the Company paid to BSNL a charge per minute equal to the "weighted average incoming settlement rate" minus Rs.10 on all incoming international calls, and BSNL in turn paid to the Company a charge per minute equal to the "weighted average outgoing settlement rate" plus Rs.10 on all outgoing international calls, in each of the fiscal years covered by the arrangement. The "weighted average incoming settlement rate" and the "weighted average outgoing settlement rate" for a fiscal year was the average of the various settlement rates in effect as of the beginning of the fiscal year between the Company and foreign administrations and carriers (converted into Rupees at the exchange

rates prevailing as of the beginning of the fiscal year), weighted to reflect the volume of total incoming traffic and total outgoing traffic, respectively, accounted for by each foreign administration or carrier during the immediately preceding fiscal year. This arrangement was intended to result in average gross earnings to the Company of Rs.10 per call minute in each fiscal year (assuming that applicable settlement rates and exchange rates and the composition of incoming and outgoing traffic from and to particular destinations remained constant during the year). In the years ended March 31, 2001 and March 31, 2002 the Company's actual average gross profit per telephone minute were Rs.9.39 and Rs.8.39, respectively.

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

YEAR ENDING MARCH 31,	COMPANY'S SHARE	BSNL'S SHARE
2001	20%	80%
2002	25%	75%

Under this revenue sharing arrangement, the Company was required to pay to the DoT an annual license fee based on the number of its commissioned circuits. The license fee amounted to Rs.250,000 (US$5,119.80) per commissioned circuit, and the number of circuits was calculated as an average of the number of commissioned circuits at the beginning and end of the applicable fiscal year. For the years ended March 31, 2001 and March 31, 2002, the Company paid annual license fees of approximately Rs.5,022 million and Rs.5,393 million, respectively.

The international telecommunications sector in India has been opened up to competition from April 1, 2002. Besides the Company, there are other ILD operators licensed by the Government. Prior to March 31, 2002 and the expiration

of the last revenue sharing arrangement, the Company had a revenue sharing arrangement with BSNL and another operator. Under this arrangement, BSNL received payments from the Company and other operators, and redistributed those payments to the Company or the other domestic carriers as appropriate. Subsequent to March 31, 2002, the Company is required to have revenue sharing agreements (also called "interconnect agreements") with every domestic fixed line or mobile operator, including BSNL and MTNL.

The revenue sharing arrangement which was scheduled to terminate on March 31, 2002, was extended until July 31, 2002 following negotiations among the Company, BSNL and MTNL.

BSNL and MTNL Interconnect Agreements (August 1, 2002 to April 30, 2003). With effect from August 1, 2002, the interconnect agreements with BSNL and MTNL provided for payment of amounts ranging from Rs.6 to Rs.14 per paid minute to the Company depending upon which world region the traffic was terminated. In case of incoming calls, the Company was required to pay BSNL amounts ranging from Rs.4.40 to Rs.13 per paid minute depending upon the distance of the Company's traffic termination from BSNL's nearest designated trunk automated exchange level. In case of MTNL, the Company was required to pay Rs.4.40 per minute for calls terminated in the cities of Mumbai and Delhi. Volume based discounts were allowable in respect of incoming calls and the agreements also provided for a committed volume of traffic. Though the agreements were valid until March 31, 2003, it was agreed that the agreements would be extended until April 30, 2003.

In the years ended March 31, 2001, March 31, 2002 and March 31, 2003, the Company's actual average gross profit per telephone minute were Rs.9.39, Rs.8.39 and Rs.5.69, respectively. The fall in profits over this period has been due to the revision of interconnect/revenue sharing agreements in the face of competition coupled with a decline in international settlement rates.

The Company has also negotiated the terms of the interconnect agreements with BSNL, MTNL and various other access providers for fiscal year 2004. Under these agreements, BSNL and MTNL have agreed to pay the Company amounts ranging from Rs.6 to Rs.14 per paid minute depending on the geographic region where the outgoing call terminates. In the case of incoming calls, the Company is required to pay BSNL and MTNL amounts ranging from Rs.5.70 to Rs.6.60 per paid minute depending upon the distance of the Company's traffic termination from BSNL's or MTNL's nearest designated trunk automated exchange level. Volume discounts are allowable in respect of incoming calls depending upon the volume of traffic.

License Fees

Under the standard license agreement proposed by the Government, the license fee to be paid equals 15 percent of the Adjusted Gross Revenue ("AGR"). The Government defines AGR as gross call revenues minus access charges actually paid to other carriers for carrying of calls minus service and sales taxes actually paid to the Government. The Company has provisioned an amount of Rs.4,037 million (US $ 84.94 million) towards such license fees. The final license agreement is yet to be concluded. See "Government Regulations -- Licenses".

BREAKDOWN OF SALES AND REVENUES

The following table breaks down the Company's revenue by type of service for each of the years in the three year period ended March 31, 2003.

	YEAR ENDED MARCH 31,		
	2001	2002	2003
		(IN MILLIONS)	
Revenues from incoming traffic			
Telephone	Rs.46,674	Rs.41,503	Rs.27,143
Telex	112	70	36
Revenues from outgoing traffic			
Telephone	18,345	16,153	9,656
Telex	112	88	60
Leased circuits	3,140	3,584	4,231
Internet access services	2,980	2,305	2,251
Television relay	184	168	136
Telegraph	29	23	22
Other revenue	340	1,156	1,806
Total revenue	Rs.71,916	Rs.65,050	Rs.45,341

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.

Trends and events affecting the Company's operating revenue are discussed under "Item 5. Operating and Financial Review and Prospects."

INDUSTRY OVERVIEW

The Indian Domestic Telecommunications Network

The Indian domestic telecommunications network has grown rapidly since 1999. As of end December 2002, the Indian telephone system comprised 51 million lines in service consisting of 41 million of the public operators and 10 million by the private sector. In the fiscal year ended March 31, 2002, approximately 9 million new connections (6 million by BSNL and MTNL and 3 million by private

operators) were installed. All subscribers can optionally have access to international telecommunication services.

The penetration of India's domestic telephone network of 5.71 lines in service per 100 inhabitants as of July 31, 2003 remained significantly lower than in OECD countries and many other developing countries. The following table presents, for selected countries, lines in service as of the latest year for which such information is currently available.

	LINES IN SERVICE PER 100 INHABITANTS
India(1)...........................	5.71 (2003)

Pakistan...........................	2.70 (2001)
Indonesia..........................	3.60 (2002)
China..............................	16.69 (2002)
Philippines........................	4.17 (2002)
Thailand...........................	9.87 (2001)
Turkey.............................	28.12 (2002)
Malaysia...........................	19.79 (2001)
Mexico.............................	14.67 (2002)
Korea Republic.....................	48.86 (2002)
United Kingdom.....................	58.74 (2001)
United States......................	65.89 (2002)
Japan..............................	58.58 (2001)

Sources: International Telecommunications Union.

(1) As of July, 2003, lines in service for India -DoT Report.

The existing lines in service in India are concentrated in large urban areas. Of all lines in service, approximately 30 percent are in the four major metropolitan areas of Mumbai, Kolkata, Delhi and Chennai; in these and other major cities, the density of lines in service is considerably higher than in India as a whole.

Cellular mobile service has experienced substantial growth since it was introduced in the end of 1995. By March 2003, there were approximately 13 million cellular subscribers, representing a compound annual growth rate of 108 percent since March 31, 1996 when the number of cellular subscribers was approximately 77,000. According to a TRAI publication, the fiscal year ended March 31, 2003 witnessed an increase of over 97 percent in cellular mobile subscribers compared to the previous fiscal year.

The efficiency of the domestic telecommunications network, as reflected by the ratio of seizure attempts (calls) made on a telephone circuit that result in successful complete calls to the total number of seizure attempts, has been low in India principally because of restricted capacity on the network. However, improvements have recently been made in the quality of the domestic telecommunications network. Improving this ratio permits the Company's network to operate more efficiently as it results in a decrease in the number of circuits used by subscribers attempting to re-dial failed calls. In turn, this reduces the need to invest in additional facilities and infrastructure. As of March 31, 2003, the average answer to seizure ratio for incoming and outgoing international calls in all of India was 33 percent and 39 percent, respectively, compared to 28 percent and 44 percent as of March 31, 1995. However, the average such ratio for calls to and from India remains much lower than that for calls between countries with well-developed and high quality domestic telecommunications networks, which would be at least 60 percent to 65 percent.

History

Until the mid-1980's, the telecommunications sector in India was a monopoly managed by the public sector, and virtually all telecommunication services, both domestic and international, were controlled by the Government of India through the Department of Posts and Telegraphs of the Ministry of Communications. The Indian Telegraph Act, 1885 established the Government's monopoly in the sector

and, together with the Indian Wireless Telegraphy Act of 1933, provided the legal framework for the regulation of the telecommunications industry. Development of the telecommunications sector historically was seen as a relatively low priority and received limited budgetary support from the Government. As a result, the telecommunications infrastructure in India grew at a relatively slow rate.

In the mid-1980s, faced with rapidly increasing demands for telecommunication services and equipment, the Government of India commenced a reorganization of the sector designed to facilitate the rapid introduction of new technology, to stimulate the growth of the telecommunications industry and to tap the resources of the private sector in facilitating such technological innovation and growth. The reorganization included the division of the Department of Posts and Telegraphs into the Department of Telecommunications and the Department of Posts and the establishment of public sector entities for the manufacture of certain telecommunications equipment.

As part of the reorganization, the Company was incorporated on March 19, 1986 as a wholly-owned Government company and on April 1, 1986 assumed control and management of international telecommunication services from the Overseas Communications Service, a department of the Ministry of Communications. MTNL was established at the same time to operate local telephone and telex services in Mumbai and Delhi, two of the largest metropolitan areas in India.

BSNL, formerly part of the DoT, formed in 2000, retained responsibility for providing all other telecommunication services throughout India. The Department of Telecommunications also assumed regulatory authority over the Company, BSNL, MTNL and other public sector enterprises established through the reorganization and was given responsibility for acting on behalf of the Government of India 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 policy decisions and to accelerate the development of all aspects of the telecommunications sector and the implementation of new telecommunications policies.

On February 1, 2001, the Government of India announced its intention to sell from its holding equity shares of the Company equivalent to 25 percent of the outstanding equity of the Company to a strategic partner through competitive bidding. As per the announcement made on February 5, 2002 by the Government of India, Panatone Finvest Limited was selected as the strategic partner for the sale of 71,250,000 fully paid-up Equity Shares representing 25 percent of the voting capital of the Company at a price of Rs.202 per share. The aggregate purchase price was Rs.14,392.50 million in cash. A share purchase agreement (the "Share Purchase Agreement ") giving effect to the above arrangement was entered into between the Government of India and Panatone Finvest Limited on February 6, 2002. The shareholders in Panatone Finvest Limited - Tata Sons, Tata Power, Tata Steel and Tata Industries - are also signatories to the Share Purchase Agreement though they did not directly purchase any of the Government of India's holding in the Company. The Company is also a party to the Share Purchase Agreement. In connection with the purchase of the shares from the Government of India, Panatone Finvest Limited was required under India's Takeover Code and subsequent amendments thereto to launch a open/ tender offer for an additional 20 percent of the Equity Shares from other shareholders of the Company. Subsequently, Panatone Finvest Limited purchased an additional 20 percent on June 8, 2002, increasing its stake to 45 percent. Other Tata Group entities have since made open market purchases of the Company's equity shares, and the consolidated shareholding of the Tata Group in the Company is currently 46.60 percent.

Liberalization Initiatives

Background. In May 1994, the Government of India announced a National

Telecommunications Policy (the "1994 Telecom Policy") which included as its objectives ensuring the availability of telephones on demand as soon as possible, providing basic telecommunication services at affordable prices and introducing value-added services to raise the range and quality of telecommunication services available in India to international levels. The 1994 Telecom Policy recognized that Government financial resources would be insufficient to meet these objectives.

Basic Services. Accordingly, in September 1994, the Government of India announced Guidelines for Private Sector Entry into Basic Telecom Services, which provide for the grant of a license for the

provision of local fixed line services to one new licensee in each of the 21 telecommunications "circles" into which the country has been divided for such purposes. Within each circle, the new licensee would compete with BSNL (or MTNL, in the case of circles that include Delhi or Mumbai). Foreign ownership of each new licensee is restricted under the guidelines to a maximum of 49 percent. The Government initially invited tenders for new licenses in January 1995, in response to which bids were submitted by numerous Indian companies in combination with major global telecommunications companies. Initially, licenses for six states of the Indian union were issued to successful bidders. In all 33 licenses have been issued to seven basic service operators including BSNL and MTNL.

As part of the bidding process, the bidders for the licenses were required to make certain commitments on the build-out of their respective networks by the end of each of the first three years after the issue of the licenses for which they were bidding. The license conditions require the new licensees to meet these commitments. In addition, under the terms of the bid, if by the end of such third year telephone lines are not available on demand in its respective circle, the new licensee will be required to expand the number of lines in its network by at least 15 percent per year until such time as telephone lines become available on demand. A separate license condition also requires new licensees to allocate at least 10 percent of the lines installed in each calendar quarter as village public telephones until there is at least one such telephone in every village within its circle.

Cellular Services. In December 1991, the DoT invited bids from Indian companies with no more than 49 percent foreign ownership for non-exclusive digital cellular mobile licenses in Mumbai, Delhi, Kolkata and Chennai. After protracted litigation arising from the selection process, the Department of Telecommunications finally settled upon two licensees for each of the four metropolitan areas. In January 1995, the Department of Telecommunications invited tenders from Indian companies with no more than 49 percent foreign ownership for non-exclusive licenses to provide digital cellular mobile services in 20 telecommunications circles, excluding those that include the four cities with existing licensees. Two licenses were to be awarded per circle. Subsequently, 34 licenses for 18 telecommunications circles were also issued to 14 companies during 1995 to 1998. MTNL and BSNL were issued licenses for operation of cellular mobile telephone services as a third operator in various parts of the country. In terms of the National Telecom Policy 1999, 17 fresh licenses have been issued to private companies as a fourth cellular operator in September/October, 2001, one each in the 4 metropolitan areas and the 13 telecommunications circles. Cellular licensees earlier had access to the Company's international network only through BSNL but now the licensees can have direct access to the Company's network.

In February 1997, a multilateral agreement on basic telecommunication services was agreed to among member governments of the World Trade Organization.

As part of this agreement, the Government of India has reaffirmed its commitment to further liberalize the Indian telecommunications sector through the licensing of new local fixed line and cellular service providers. The Government of India has also agreed to allow competition in the area of domestic long-distance telephone services and international telephone services.

International Long Distance Services. The Company, until March 31, 2002, was the exclusive provider of public international telecommunication services in India. In September 2000, the Government announced that the Company's monopoly on international long distance services would terminate on March 31, 2002 rather than on March 31, 2004. Effective April 2002, the international long distance sector has been opened up for competition. Subsequent to such opening up, new operators have been licensed to provide international telephony and other services. To offset the likely loss to the Company due to the early termination of its monopoly, the Government announced a compensation package including a license to offer domestic long distance services, a Category `A' all India ISP license which would enable it to provide Internet access at locations across the country, and additional compensation if found to be necessary based on the Government's review. See "Item 3. Key Information -- Risk Factors -- The New Telecommunications Policy and other regulatory changes with respect to the telecommunications industry, including the early termination of the Company's monopoly in international telephony services, may continue to adversely affect our results of operation and financial condition."

Other Services. The Government allowed private sector participation in value-added services such as paging services in 1992. The Government has also announced the opening up of global mobile personal communications by satellite ("GMPCS") and has issued one provisional license. The issuance of licenses to other prospective GMPCS operators is currently under consideration.

Developments

TRAI. In furtherance of the 1994 Telecom Policy, the Government of India in 1994 announced its intention to establish an independent regulatory authority to resolve disputes between service providers, to ensure technical compatibility and effective interconnection between service providers, to regulate tariffs and protect consumer interests, to facilitate competition and to promote efficiency in the operation of telecommunication services so as to facilitate the growth of such services in India. In January 1997, the President of India issued an ordinance providing for the establishment of the TRAI, an autonomous body with quasi-judicial powers to regulate telecommunication services in India. The TRAI was established and became functional in March 1997. See "--Government Regulations--Supervision."

In September 1998, the TRAI initiated a series of nation-wide consultations as part of a process to, among other things, formulate telecommunications pricing policies and set tariffs for a wide variety of telecommunication services. See "--Government Regulations--Rates." One of TRAI's notifications envisages a reduction of approximately 50 percent in STD and ISD charges over the three year period ending March 31, 2002. In conformance with this notification, the DoT issued a tariff order for fiscal 2000 that reduces international long distance rates by approximately 27 percent and further tariff orders effective between October 1, 2000 and March 31, 2002 pursuant to which international long distance tariffs have been further reduced by 16 to 20 percent. The TRAI has also announced its intention to review a number of other policy and regulatory matters, including the quality standards for service provision generally.

Internet Policy. In November 1998, the Government announced a new Internet policy, which aims to increase the usage of the Internet by allowing private ISPs to provide Internet access services in India. Under the policy, private ISPs will be allowed (1) foreign ownership not exceeding 49 percent, (2) a license fee moratorium for the first five years, and a token fee of Rs.1, (3) the autonomy to fix tariffs, (4) direct interconnectivity between any two separate ISPs, (5) to set up international gateways after obtaining the necessary security clearances and (vi) to offer "last mile" linkages within local areas by optical fiber cable communications after obtaining the necessary approvals. The policy has enabled the Company to add a new revenue stream by providing gateway connectivity and bandwidth provisioning to private Internet service providers. The Company has already invested in upgrading its existing infrastructure with a strong Internet backbone. As of March 31, 2003, there were approximately 190 Internet service providers competing with the Company to provide Internet services throughout India. With international gateways being opened up to the private sector, as of March 31, 2002, around 20 Internet service providers were granted provisional commissioning licenses.

New Telecom Policy. The New Telecom Policy came into effect on April 1, 1999. Under this policy, the subject of opening up international telephone services to competition will be reviewed by the year 2004. The policy also provides for direct inter-connectivity between telecom services providers.

New TRAI. In January 2000, the Government amended the TRAI Act and established two independent authorities: the New TRAI and the Appellate Tribunal. See "--Government Regulations--Supervision."

TRAI Directives on implementation of Carrier Selection. In July 2002, the TRAI provided a directive to all access providers - basic service operators, cellular mobile service operators, and the national and international long distance operators - regarding implementation of carrier selection by callers. According to the TRAI directive, customers should have the choice to route their long distance calls through long distance carriers as chosen by them, for both NLD and ILD. The TRAI directive required that in most parts of the country, the carrier selection facility should be implemented by the end of calendar year 2003. At this time, however, it appears that the end-2003 deadline will not be achieved.

"See Item 3. Key Information -- Risk Factors -- Delays in the implementation of the new Carrier Access Code Regime could adversely affect us."

Interconnect Usage Charges Regime. With the ongoing liberalization of the telecom sector and the presence of multiple-operators and rate settlement arrangements, TRAI introduced in January 2003 a cost -based Interconnect Usage Charges regime to establish, harmonize and regulate rates for origination, transit and termination of call traffic. The principle behind this regulation is that in a multi-operator environment, it is necessary that each originating, transiting and terminating network be paid on the principle of "work done" for each call. Thus, an interconnect usage charge is a specified tariff for fixed line calls to be passed on by one service provider to another. In all the cases where a standard tariff has been specified, the consumer is required to pay only the specified tariff. The monthly rental and local call charges for fixed telephones are priced below cost in order to ensure that these remain affordable and attractive to the customers and help attain the objective of higher teledensity in the country. This results in a deficit to the providers, which used to be met by the cost of the long distance calls made. However, with the reduction of tariffs and other recent changes in the telecom environment, even

long distance call revenues cannot make up for the deficit. Hence, the TRAI released a consultation paper on September 23, 2002 addressing the issue of cost based IUC to be paid and received by the service providers. The IUC regulation came into effect on May 1, 2003 and attempts to provide greater flexibility within the tariff regime by providing for alternative tariff packages. The IUC has resulted in increased tariff options available to carriers, and in the reduction in a number of tariffs. The endeavor of the TRAI, as described above, has been to ensure that operators realized the minimum costs of operations. It is expected that the IUC will act as a floor to the tariffs in a situation of free fall in tariffs. In the context of the ILD segment relevant to VSNL, the Revenue Sharing Regulations of 14 December 2001 has prescribed forbearance for revenue sharing between access providers, ILD carrier and international carrier. The IUC Regulations, in addition to fixing an origination and termination charge for the access providers, has also imposed a flat sum of Rs.5 per minute as Access Deficit Charge (ADC) to be paid by the ILD operator to the access provider in case the access provider happens to be a basic services operator. The Company challenged the basis as well as the amount of the ADC before the TDSAT in March 2003 and subsequently the TRAI agreed to review the IUC methodology. Upon the TRAI initiating a comprehensive review of the IUC regime, the Company withdrew the petition filed before the TDSAT. The Company has presented to the TRAI its reasons for seeking further review of the IUC Regime. The decision of the TRAI is awaited.

GOVERNMENT REGULATIONS

GENERAL

The business of the Company is subject to comprehensive regulation by the Ministry of Communications through the Telecom Commission and the Department of Telecommunications pursuant to the provisions of the Indian Telegraph Act of 1885 (the "Telegraph Act") and the terms of the licenses from the Department of Telecommunications under which the Company operates. While the Telegraph Act sets the legal framework for regulation of the telecommunications sector, much of the supervision and regulation of the Company is implemented more informally through the general administrative powers of the Department of Telecommunications, and of other Government agencies.

In October 1999, the Department of Telecommunications, which had performed the role of licensor and policy maker for the Ministry of Communications and operated as India's domestic long distance service provider and fixed-line service provider, except for the areas of Delhi and Mumbai, was bifurcated into two departments: (1) the Department of Telecommunications/Telecom Commission to perform the role of licensor and policy maker and control the Company's Equity Shares held by the Government and (2) the Department of Telecom Services to function as the service provider. With effect from October 1, 2000, the Department of Telecom Services was incorporated and renamed Bharat Sanchar Nigam Limited. The Government has also established an independent Information Technology Ministry to promote the Internet, e-commerce and knowledge-based industries. Licensing functions, however, continue to be with the Department of Telecommunications/Telecom Commission.

The Communication Convergence Bill 2001 was placed in the Parliament in August 2001. If the Communication Convergence Bill 2001 is converted into an Act of the Parliament, the existing Acts, namely, The Indian Telegraph Act, 1885; The Indian Wireless Telegraphy Act, 1933; Telegraph Wire Unlawful Possession Act, 1950; Cable Television Networks (Regulation) Act 1995 and The Telecom Regulatory Authority of India Act, 1997 would stand repealed. The Communication Convergence Bill provides for the formation of an independent authority -The

Communications Commission of India ("CCI")-to regulate the converging sectors of broadcasting, information and telecommunications.

When the Government's shareholding in the Company equaled or exceeded 51 percent, the Company was deemed to be an Indian Government company and subject to laws and regulations generally applicable to public sector enterprises in India. These laws and regulations concern personnel matters, including appointment of key management personnel and the hiring, dismissal and compensation of employees, budgeting and capital expenditures and the generation of funds through the issuance of securities. For example, all persons appointed to the Company's Board of Directors had to first be recommended by the Public Enterprises Selection Board. Disputes between Government enterprises (such as the Company) and Government departments generally had to be referred to a Committee of Secretaries of the Government for mediation before either party could bring a claim in a court of law or tribunal. A single Government ministry or department is designated as the primary supervisor of each public sector enterprise: the Department of Telecommunications had been so designated for the Company. The Company's activities were also subject to scrutiny by India's Parliament, and the Department of Telecommunications had to submit an annual report to Parliament regarding the Company's activities. The Government had granted "Navratna" status to selected public sector enterprises. The Company was one of such selected "Navratna" public sector enterprises. "Navratna" status gave the Company, among other things, enhanced autonomy, a greater degree of administrative efficiency regarding capital expenditures and the ability to make joint venture investments (subject to certain limits). Upon the Government of India's transfer of 25 percent of its stake in the Company to Panatone Finvest Limited in February 2002, the Company ceased to be a PSU.

Supervision

In March 1997, the Government first established the Telecom Regulatory Authority of India ("TRAI"), an independent regulatory authority under the provisions of the TRAI Act.

The TRAI Act was amended in 2000. The amended Act established two independent authorities: the TRAI to regulate telecommunication services and the Telecom Disputes Settlement and Appellate Tribunal (the "TDSAT") to adjudicate disputes, disposal of appeals and to protect the interest of telecommunication service providers and consumers. The regulatory functions of the TRAI fall within two broad categories- (1) recommendatory and (2) mandatory.

The recommendatory functions may be exercised either suo moto or on request from the licensor on the following matters: (1) need and timing for introduction of new service providers; (2) terms and conditions of licenses to service providers; (3) revocation of licenses for non-compliance with the terms and conditions of the license; (4) measures to facilitate competition and promote efficiency in the operation of telecommunication services; (5) technological improvements in the services provided by the service providers; (6) type of equipment to be used by the service providers; (7) measures for the development of telecommunication technology and any other matter related to the telecommunication industry in general; (8) efficient management of the available spectrum.

The mandatory functions of TRAI include the following: (1) ensure compliance of terms and conditions of licenses; (2) fix the terms and conditions of inter-connectivity arrangements between service providers; (3) ensure technical compatibility and effective inter-connection between different service providers; (4) regulate revenue sharing arrangements among service providers; (5) lay down standards of quality of service to be provided by service providers and ensure the quality of service and conduct and periodically survey such service in order to protect the interest of the consumers; (6) lay down and ensure the time period for providing local and long distance circuits between

different service providers; (7) maintain a register of interconnect agreements and of all such other matters as may be provided in the

regulations; (8) keep such register open for inspection; and (9) ensure effective compliance of universal service obligations.

The TRAI also has the authority to levy fees and other charges at such rates and in respect of such services as may be determined by regulations and to perform such other functions including such administrative and financial functions as may be entrusted to it by the Government or as may be necessary to carry out the provisions of the TRAI Act.

The recommendations of the TRAI with respect to the matters referred to above are not binding upon the Government. However, the Government must seek the recommendations of the TRAI in relation to the following matters: (1) need and timing for introduction of new service providers; and (2) terms and conditions of new licenses given to a service provider. The TRAI is required to forward its recommendations with respect to these matters to the Government within a period of 60 days from the date on which such recommendations are sought or such extended time as may be mutually agreed to between the Government and the TRAI.

The TRAI has the authority to request the Government to furnish such information or documents as may be necessary for the purpose of making recommendations and the Government is obliged to furnish such information within seven days of such request from TRAI. In the event that the Government comes to a prima facie conclusion that the recommendations of TRAI with respect to these matters cannot be accepted or need modification, the Government is required to refer the recommendations back to the TRAI for its reconsideration and the TRAI may, within 15 days from the date of receipt of such reference, forward to the Government its recommendations after considering the reference made by the Government and the Government shall make its final decision after receipt of such recommendation from the TRAI.

The TDSAT has jurisdiction to adjudicate any dispute between a licensor and a licensee, between two or more service providers, or between a service provider and a group of consumers. The TDSAT also has the jurisdiction to hear and dispose of appeals against any direction, decision or order of the TRAI.

The Communication Convergence Bill 2001, introduced in the Parliament in August 2001, envisages the creation of the Communications Commission of India ("CCI") which would be an all-encompassing umbrella body to look into licensing, spectrum management, dispute resolution and determination of regulation codes, technical standards, tariffs, rates for licensed services as well as determine the conditions for fair, equitable and non-discriminatory access to network facility and service. It would also have the powers of a civil court under the Code of Civil Procedure, 1908.

Licenses

Pursuant to the Telegraph Act, the provision of any telecommunication services in India requires a license from the Government, obtained through the Department of Telecommunications. The Company currently holds an International Long Distance ("ILD") Operations license issued on 12 January 1999, which is valid until 31 March 2004; a National Long Distance ("NLD") license issued on 8 February 2002, which is valid until 2022; and a Category `A' all India Internet service license issued on 3 May 2002, which is valid until 2014.

The Company operates substantially all its international

telecommunications services under a license (the "ILD License") initially granted by the Department of Telecommunications to the Company upon its establishment in 1986. The ILD License identifies specific services that the Company is permitted to provide, which encompass all of the services currently provided by the Company other than Internet services and NLD services. The ILD License initially granted to the Company was effective for a five-year period ended March 31, 1991. The term of the ILD License was subsequently extended from time to time, first until March 31, 1993, then until March 31, 1994, then until March 31, 1999, and most recently, until March 31, 2004, each time with minor expansions to the scope of services which the Company was permitted to offer. In January 1999 the Company received a letter from the Department of Telecommunications stating that the Company was to be the only entity authorized by Government of India to provide basic international telephony services to and from India until 2004. However, in

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September 2000, the Government announced the early termination of the Company's monopoly in international telephony services. Thus, instead of ending on March 31, 2004, the Company's monopoly ended on March 31, 2002.

In connection with the opening up of the telecommunications sector, the Government has asked the Company to execute a standard license agreement which stipulates terms and conditions of the license to operate ILD services. The Company has requested the Government to agree to certain modifications to the standard license agreement incorporating certain services which the Company already provides, as well as modifications to the methodology of calculating license fees. The Government has notified the Company that it will not permit modifications to the standard license agreement. The Company is evaluating whether to re-submit its proposal to the Government. Until the Company executes the standard license agreement, the services being provided by the Company are provided pursuant to the Company's existing license agreement rather than the proposed standard license agreement. Also see "Item 3. Key Information -- Risk Factors-- The Company currently operates its international long distance business under a license agreement that will expire on March 31, 2004 and has not executed the new standard license agreement required by the Government and thus may be subject to punitive action by the Department of Telecommunications".

The previous ILD License required the Company to share with BSNL revenues from international telecommunication services in the manner specified by the DoT from time to time. In February 1997, the Company and the DoT agreed to a revenue sharing arrangement, which covered the period from April 1, 1997 to March 31, 2002. From 1997 to 1999 the revenue sharing arrangement provided for the retention or receipt by the Company of a fixed amount per call minute, and provided the Company with a degree of protection from adverse changes in settlement rates and exchange rate fluctuations. With effect from October 1, 2000, the effect of decreases in combined international call revenue were shared by the Company and BSNL. New interconnect arrangements are negotiated with BSNL and MTNL on an annual basis.

The Company has also been granted a NLD license, which is valid from February 8, 2003 for a period of twenty years.

The Company began offering Internet access services in August 1995, and the Company operates 22 Internet access nodes. In November 1998, the Government opened the Internet service provider market to private competition, and the Department of Telecommunications instituted a mandatory license requirement for the provision of Internet services. The Company had entered into a license agreement with the Department of Telecommunications on January 25, 1999 with effect from the same day, under which the Company was granted a license to provide Internet services in Delhi, Mumbai, Kolkata, Chennai, Bangalore and Pune

on a non-exclusive basis. The Company has been granted a license from the Department of Telecommunications to provide Internet services on an All-India basis by a communication dated November 22, 2000. The terms of the Company's Internet license are generally consistent with the policy for licensing Internet service providers. The term of the license is 15 years. Thereafter, a fresh license (inclusive of Internet telephony) was issued on May 3, 2002, which is valid from January 25, 1999 to January 24, 2014. The Company is not allowed to assign or transfer its rights under the Internet license without the prior written consent of the Department of Telecommunications. Although under the terms of the Internet license the Company is free to fix the tariff charged to its subscribers, the TRAI as a practice sets the upper ceiling of the tariff for the provision of Internet access services generally. See "--Government Regulations--Rates." License fees have been waived through October 31, 2003, and a nominal license fee of Rs.1 per annum is payable from November 1, 2003.

The Department of Telecommunications retains the right to modify the terms and conditions of the Company's licenses at any time if in its opinion it is necessary or expedient to do so in public interest or in the interest of the security of the state or for proper conduct of telegraphs. The Department of Telecommunications may also terminate the licenses before their scheduled expiration upon breach by the Company of any of its terms. In addition, the Department of Telecommunications retains certain rights under the licenses to receive telecommunication services on a priority or emergency basis. Under the Telegraph Act, the Government and state governments also have the right to take possession and/or control

of the Company's facilities and business in cases of public emergency or in the interest of public safety. The Government also has the power to intercept communications carried by the Company, subject to certain constitutional safeguards.

Rates

The Company did not control the rates charged to end users of its international telecommunication services until March 31, 2002. The rates for such services were established and collected by the relevant foreign telecommunications administrations or carriers for international calls originating (and billed) outside of India and by BSNL for international calls originating (and billed) in India.

The Company and the Department of Telecommunications shared revenues received by each entity from international calls pursuant to a revenue sharing arrangement between the two entities, and the Company received settlement payments with respect to international calls from, or made such payments to, foreign telecommunications administrations and carriers based on applicable accounting rates. See "--Traffic Revenue and Revenue Sharing Arrangement." With effect from April 1, 2002, for outgoing traffic, ILD operators are authorized to prescribe and introduce rates for their international telecommunication services with clearance from the TRAI.

As described in "Industry Overview -- Developments -- Interconnect Usage Charges Regime", as far as revenue sharing with the access provider and international carrier is concerned, under the IUC regime the TRAI has said that it will not fix rates. However, the IUC Regime has adversely impacted the ILD segment and is now being reviewed by the TRAI.

After the opening up of the international long distance services market to competition on April 1, 2002, the Company has been able to set the rates to be charged for outgoing international calls, subject to ceilings prescribed by

the TRAI. In accordance with the ceiling tariff announced by the TRAI with effect from April 1, 2002, there has been a fall of around 16 to 20 percent in the peak tariff. Further, in response to the tariff announced by other private ILD operators in India, the Company further reduced tariffs for international calls from July 20, 2002 by around 41 percent.

The rates for the Company's specialized services, such as leased lines, Inmarsat mobile services, Internet access services, electronic mail and facsimile forwarding services, services through which subscribers may exchange data with users of other data networks and video conferencing can be prescribed by the Company, subject to filing with the TRAI.

The Tariff Order 1999

Effective May 1, 1999, the TRAI implemented the Telecommunication Tariff Order 1999 ("TTO"), which reduced the tariffs that telecommunications service providers may charge with the intended effect of protecting consumers by aligning tariffs that the telecommunications providers may charge with the cost of the applicable service provided while ensuring the commercial viability of the various service providers so as to encourage the expansion of the Indian telecommunications industries. The tariff order reduced the maximum charge per pulse (or metered unit) from Rs.1.40 to Rs.1.20, increased monthly line rental rates for high use subscribers, decreased local call pulse durations (thereby effectively increasing the local call charges) and increased domestic and international call pulse durations (thereby effectively reducing long distance and international call charges). The tariff order allows providers the flexibility to set tariffs below the maximum levels. The tariff order also specifies further reductions in domestic and international long distance and internal call tariffs and other tariff adjustments implemented in the year 2000-2001. Accordingly, the TRAI, for the second phase of tariff re-balancing, has reduced tariffs by 9 to 20 percent for international long distance calls effective from October 1, 2000 to March 31, 2002. Based on the TRAI order, BSNL had revised tariffs for long distance and international call charges effective from October 1, 2000. The TRAI announced further revision of ILD tariff ceilings effective April 2000, coinciding with the opening of the ILD sector to competition. Effective April 1, 2002, the ILD tariffs of VSNL were reduced in accordance with TRAI ceilings. Further reductions in ILD tariffs were announced by VSNL, effective July 20, 2002. In the face of competition, the ILD tariffs fell

below the TRAI ceilings and in January 2003, TRAI announced that it would no longer fix ILD tariff ceilings.

ORGANIZATIONAL STRUCTURE

As of September 1, 2003, approximately 46.60 percent of the outstanding equity of the Company was held by Panatone Finvest Limited in conjunction with other companies of the Tata Group, and approximately 26.12 percent was held by the Government. Panatone Finvest Limited is in turn affiliated with the Tata Group of companies and its shares are held by Tata Sons, Tata Power, Tata Steel and Tata Industries. Panatone acquired this stake as a result of the Government's decision to sell to a strategic partner through a competitive bidding process. See "Item 4. Information on the Company--History and Development of the Company."

The current shareholding of Tata Sons and Tata Power in Panatone Finvest Limited is 59.955 percent and 40 percent, respectively, with Tata Steel and Tata Industries holding the remainder equally.

PROPERTY, PLANTS AND EQUIPMENT

Description of Property

The following table sets forth the principal real properties owned or leased by the Company that were used in its operations as of March 31, 2003.

LOCATION	FUNCTION	AREA (ACRES)
MUMBAI		
Fort VSB	Company's registered office Mumbai gateway	0.3
Prabhadevi LVSB	Undersea cable station Switching facilities	1.8
Vashi	International data center	0.51
NEW DELHI		
VSB Connaught Place	Delhi gateway	1.03
Greater Kailash	Satellite earth station	126.33
Chattarpur	Satellite access node (under construction)	161.93
Dasghara	Repeater station	0.101
Meerut	Repeater station	2.13
JALANDHAR		
JP Nagar	Jalandhar gateway	0.576
KOLKATA		
Hallisahar	Kolkata earth station	82.19
Ultadanga	Switching facilities	1.67
SDF Salt Lake	Switching facilities	1.01
CHENNAI		
Adams Road	Chennai gateway	2.0
Korathur	Earth station	21.69
ERNAKULAM		
Shive	Ernakulam gateway	1.53
PUNE		
Dighi	Pune gateway	774.5
Arvi	Satellite earth station	228.275
BANGALORE	Satellite earth station	0.45

LOCATION	FUNCTION	AREA (ACRES)
ITPL	IT Park	0.12
DEHRADUN		
Ahmed	Satellite earth station	75.4
Purkaji	Repeater station	1.138

Daurala	Repeater station	1.784
Muzaffarnagar	Repeater station	1.5
Roorkee	Repeater station	1.5
Mussoorie	Repeater station	2.487
Guldhar	Repeater station	4.41
KANPUR	Kanpur gateway	2.0
PATNA	Earth Station	0.18
BHUBANESHWAR	Earth Station	0.23
GUWAHATI	Earth Station	0.05
PONDICHERRY		
IT Park	Internet Node	0.02
Mission Street	Internet Node	0.04
COIMBATORE	Internet Services	0.03
COCHIN		
Kokinada	International Gateway	1.53
Parampali Nagar	CR Office	0.08
THIRUANANTHPURAM	VSAT Station	0.02
HYDERABAD		
Saifabad	Gateway Earth Station	0.05
Hitech City	Gateway Earth Station	0.05
Seringapaly	Gateway Earth Station	2.00
GANDHINAGAR	Gateway	0.32
GOA	Internet Node Earth Station	0.05
INDORE	Internet Node Earth Station	0.02

In addition to the above, the Company has staff quarters at the locations wherever it has substantial operations.

None of the above described properties are subject to a major lien or encumbrance. However, under the terms of the Shareholders' Agreement signed at the time of privatization of the Company, Panatone Finvest Limited agreed that the Company would demerge certain lands, mentioned in the above table, that the Company owns at Pune, Kolkata, New Delhi and Chennai into a separate company. No time period was specified in the agreement for such demerger. The Company, Panatone Finvest Limited and the Government are currently discussing various options in connection with the demerger or sale of the land with a view to completing a transaction that is beneficial from a tax and stamp duty perspective. Until such time the demerger takes place, the lands are under the possession and upkeep of the Company. See "Demerger of Surplus Lands" below and "Item 4 -- Key Information -- Risk Factors --The demerger of surplus lands held by the Company may not be completed on satisfactory terms".

Upon the establishment of the Company in 1986, all of the assets and properties of the Overseas Communications Service were transferred to it by an order of the Government of India which contemplated that details of the transfer would be set forth in a transfer deed. A formal transfer deed has not been

executed. While the order of the Government was sufficient to transfer to the Company valid title to all of the non-real estate assets of the Overseas Communication Service, Indian law generally requires that transfers of real estate be evidenced by a formal deed of transfer and registered with a central land registry within a period of four months after the transfer in order to protect the transferee against subsequent claims by third parties. Since the transfer of the real estate from the Overseas Communications Service to the Company has not been executed or registered, the Company has been advised by its Indian counsel that, even if a transfer deed is registered, the Company's title to its real property may be subject to potential claims of third parties in respect of the period prior to the date of registration of the deed. The Company does not anticipate any such claims. In clarifications from the Government, it has been conveyed through a letter in October 2001 that vide provisions of Section 90 of the Registration Act, 1908 there is no need to register any formal transfer deed or deed of sale for such transfer of assets and the letter can be considered as authority for transfer of all the fixed assets of Overseas Communication Services situated in separate states and cities of India to the Company.

Indian law requires payment of stamp duty (at rates which vary among states) on instruments which effect transfer of title to real estate. The formal transfer deed, if executed, may be subject to stamp duty at rates ranging from approximately three to 14 percent of the fair market value of the real estate transferred. Such stamp duty may be payable by the Company.

As of March 31, 2003, the Company operated from fourteen gateway switches located at Mumbai, Kolkata, Delhi, Chennai, Ernakulam, Gandhinagar, Jalandhar, Kanpur, Bangalore and Hyderabad which provide substantially all the connectivity for the Company's services to the international telecommunications network. The Company's international traffic is carried via international satellite links and or by undersea cables.

Description of Plant and Equipment

The following table sets forth, as of March 31, 2003, the major facilities, links and circuits at each main gateway, at the two earth stations at Bangalore one earth station each located near Pune, Hyderabad, Coimbatore and Patna.

			NUMBER OF EFFECTIVE		
GATEWAY	FACILITIES	LINK	VOICE	DATA*	I
MUMBAI	Vikram-1 Satellite Earth Station	Intelsat Atlantic Ocean Region ("AOR") Satellite (359 degrees)(1)	1,343	27	
	Vikram-2 Satellite Earth Station	Intelsat Indian Ocean Region ("IOR") Satellite (60 degrees)(1)	1,043	13	
	Vikram-4 Satellite Earth Station	Intelsat TOR Satellite (66 degrees)(1)	0	0	
	Vikram-5 Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	0	4	

GATEWAY	FACILITIES	LINK	NUMBER OF EFFECTI VOICE	DATA*
	Jawahar Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	0	0
	Arvi Land Earth Station	Immarsat IOR Satellite (64.5 degrees)(1)	120	0
	India-U.A.E. Undersea Cable System (Gulf Cable)	Mumbai-Fujairah (U.A.E.)	1,149	0
	SEA-ME-WE 2 Undersea Optical Fibre Cable System	Singapore, Indonesia, Sri Lanka, India, Djibouti, Saudi Arabia, Egypt, Turkey, Cyprus, Italy, Tunisia, Algeria and France	4,349	800
	Fibre Optic Link Around the Globe Undersea Optical Fibre Cable System	Japan, Korea, China, Hong Kong, Thailand, Malaysia, India, U.A.E., Egypt, Saudi Arabia, Italy, Spain and United Kingdom	4,077	4,501
	SMW-3 Undersea Optical Fibre Cable System	Japan, S. Korea, China, Taiwan, Hong Kong, Philippines, Vietnam, Brunei, Malaysia, Singapore, Thailand, Indonesia, Australia, Sri Lanka, India, Pakistan, UAE, Oman, Saudi Arabia, Egypt, Djibouti, Cyprus, Turkey, Greece, Italy, Portugal, France, UK, Belgium, Germany	3,699	17,779
	SAFE Undersea Optical Fibre Cable System	South Africa, Mauritius, St.Paul, Malaysia, India	422	2,376
HYDERABAD		Intelsat IOR Satellite (66 degrees)(1)	0	31
KOLKATA	Kolkata Satellite Earth Station	Intelsat IOR Satellite (62 degrees)(1)	0	4
	Bose-1 Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	296	67
	Bose-4 Satellite Earth Station	Intelsat IOR Satellite (66 degrees)(1)	120	0
DELHI	Ahmed Satellite Earth Station	Intelsat IOR Satellite (62 degrees)(1)	1,725	101
	Ahmed Satellite Earth Station(2)	Intelsat IOR Satellite (57 degrees)(1)	0	0

GATEWAY	FACILITIES	LINK	NUMBER OF EFF VOICE	DAT
	Greater Kailash Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	268	
	Gurgaon Satellite Earth Station	Intelsat IOR Satellite - 9B (64 degrees)(1)	0	
	Noida, VSAT	Intelsat IOR Satellite (62 degrees)(1)	0	
	New Delhi, VSAT	Intelsat IOR Satellite	0	2
	Coaxial Cable System	The Department of Telecommunications	0	
CHENNAI	Chennai Satellite Earth Station(2)	Intelsat IOR Satellite (66 degrees)(1)	0	
	Thiruvalluvar Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	927	
ERNAKULAM	Ernakulam Satellite Earth Station	Intelsat IOR Satellite (60 degrees)(1)	837	
	SMW-3 Undersea Optical Fibre Cable System	Japan, S. Korea, China, Taiwan, Hong Kong, Philippines, Vietnam, Brunei, Malaysia, Singapore, Thailand, Indonesia, Australia, Sri Lanka, India, Pakistan, UAE, Oman, Saudi Arabia, Egypt, Djibouti, Cyprus, Turkey, Greece, Italy, Portugal, France, UK, Belgium, Germany	3,349	5,0
GANDHINAGAR	Gandhinagar Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	150	
JALANDHAR	Jalandhar Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	1,646	
BANGALORE	Sanjay Nagar Earth Station	Intelsat IOR Satellite (62 degrees)(1)	0	1
	Information Technology Park	Intelsat IOR Satellite (64 degrees)(1)	0	1

Ltd. Satellite
Earth Station

GATEWAY	FACILITIES	LINK	NUMBER OF EFFEC VOICE	DATA*
PUNE	Information Technology Park Ltd. Satellite Earth Station	Intelsat AOR Satellite (359 degrees)(1)	0	6
KANPUR	Kanpur-1 Satellite Earth Station	Intelsat IOR Satellite (64 degrees)(1)	238	0
PATNA	Patna Satellite Earth Station	Intelsat IOR Satellite (60 degrees)(1)	0	0
TOTAL EFFECTIVE CIRCUITS			25,758	31,598

* -Circuits in terms of 64KB (Data & Internet Only)

(1) The satellite degrees referred to in the table denote the degree at which the Company's earth station antenna point at the satellite and at which they transmit and receive communications.

(2) Facilities used exclusively for television broadcasting services.

Circuits

Due to a change in technology and as a part of the Company's cost cutting initiatives, there has been a shift of circuits from satellite to cable during the year ended March 31, 2003. As of March 31, 2003, the Company operated 25,758 effective international voice circuits, of which 8,713 were satellite circuits and 17,045 were cable circuits. The Company operated 31,598 data circuits of which 1,054 were satellite circuits and 30,544 were cable circuits. The Company also operated 11,594 Internet circuits. From April 1, 2002 to March 31, 2003, the Company recorded an average of 432 international paid minutes per day per circuit, compared to an international norm of approximately 300 paid minutes per day per circuit.

Satellites

As of March 31, 2003, the Company operated a total of 8,713 satellite voice circuits and 1,054 satellite data circuits through 13 earth stations at its eight gateway locations, two earthstations located at Bangalore and one each located at Pune and Hyderabad. Satellite capacity is obtained from the International Telecommunications Satellite Organization ("Intelsat") and the International Mobile Satellite Organization ("Inmarsat"), two satellite consortia established by national telecommunications administrations for the purpose of owning and operating satellite communication systems. Intelsat and Inmarsat have since been corporatized.

Undersea Cables

As of March 31, 2003, the Company operated a total of 17,045 effective voice circuits and 30,544 data circuits on undersea cables landing in India. The Company has ownership interests and access to capacity in undersea cables interconnecting the South Asia region, as well as those linking the region with Europe, North America and Asia/Pacific. The Company also holds a 50 percent ownership interest in an analog undersea cable between Mumbai and Fujairah, U.A.E., which has a total capacity of 1,380 circuits, of which 1,149 were being used as of March 31, 2003.

The Company also holds an interest of approximately 10 percent in the South East Asia-Middle East-Western Europe 2 (SEA-ME-WE2) optical fiber cable, which lands in 13 countries between Singapore

and France, including India. This cable, which became fully operational in June 1994, operated 4,349 effective voice and 800 effective data circuits from Mumbai as of March 31, 2003.

The Company entered into a Construction and Maintenance Agreement with other international telecommunications carriers for the construction of the South East Asia-Middle East-Western Europe 3 (SEA-ME-WE 3), a high capacity undersea optical fiber cable extending from Germany to Japan and Australia that lands in a total of 33 countries (including India, with landing points at Mumbai and Cochin). This cable operates at a total of 3,699 effective voice and 17,779 data circuits from Mumbai as also 3,349 effective voice and 5,084 data circuits respectively from Cochin as of March 2003. The Company also operates 4,123 Internet circuits on this cable system from Mumbai and 124 circuits from Cochin.

The Company has in addition purchased 4,650 circuits in the Fibre Optic Link Around the Globe (FLAG-Europe Asia) cable system, a high capacity fiber optic cable with 19 landings in 13 countries (including India) linking Asia and Europe. This cable system was commissioned in December 1997. As of March 31, 2003, the Company operated 4,077 effective voice circuits and 4,501 effective data circuits on this cable system.

The Company has also invested in the South African Telephony-S/West-African Submarine Cable/South Asia Far East (SAT-3/WASC/SAFE) cable. The total length of this link is 27,850 km with a design life of 25 years. As of March 31, 2003, the company operated 422 voice circuits and 2,376 data circuits on this cable system. The Company also utilized 5,859 Internet circuits on this cable.

The Company also has ownership interests in various undersea cables that do not land in India, but which provide connections between various locations served by the Company. These cables include the Trans-Atlantic 12/13 Cable (connecting the United Kingdom, France and the United States), the Trans-Pacific Cable (connecting the United States, Canada and Japan), TAT 14 (connecting United Kingdom, France, Germany and the United states), Japan-US Cable (connecting the United States and Japan), the Asia Pacific Cable (Segment S-J) (connecting Singapore and Japan) and the Columbus 2-America 1 Cable (connecting Italy and the United States). In addition to its direct ownership interests in such undersea cables, the Company has purchased indefeasible rights of use guaranteeing access to other undersea cables in the Atlantic and Pacific Oceans.

Switches

As of March 31, 2003, the Company had the capacity to connect 45,040 international telephone circuits or channels to its switches. Substantially all of the Company's telephone capacity is digital, provided by 17 digital switches installed at the Company's 10 gateway locations. Each gateway is linked to the other gateways via either the Company's own bandwidth or dedicated digital lines leased from BSNL or other bandwidth providers like Gas Authority of India Limited, Power Grid Corporation India Limited and others which permits multiple routing options for each call and provides the system with back-up capability in case of equipment failure or over-crowding at any gateway.

Other Facilities

In addition to the circuits and switches described above, the Company's infrastructure includes various facilities used primarily for its specialized and value-added services. As of March 31, 2003, the Company owned a high capacity underground fiber optic cable between Mumbai and Arvi via Pune, approximately 58 earth stations, terrestrial radio communication wires connecting the Company's international switches at three of its locations with its earth stations and a variety of hardware used for the Company's 22 Internet access nodes.

Review of the Useful Lives and the Consequent Carrying Values of Certain Assets

The Company has initiated a review of the estimated useful lives and the consequent carrying values of certain long-lived assets. As and when such review is completed, it could result in a downward revision in the

useful lives and the consequent carrying values of the assets. The Company is presently unable to quantify the effect, if any, that such review when completed would have on its financial condition and results of operations.

Also see "Item 3. Key Information--Risk Factors--The Company has initiated a review of the useful lives and carrying values of certain long-lived assets which could result in a reduction in the carrying value of such assets."

Demerger of Surplus Land

Under the terms of the Share Purchase Agreement and the Shareholders' Agreement, Panatone Finvest Limited has agreed to cause the Company to hive off or demerge certain land the Company owns at Pune, Kolkata, New Delhi and Chennai (the "Surplus Land") into a separate company (the "Resulting Company") pursuant to a scheme of arrangement. The Surplus Land consists of properties which the Company was not actively using for any business purpose at the time of the Government divestment to Panatone Finvest Limited. The Surplus Land, which is described further in such agreements, consists of the following:

LOCATION	AREA (IN ACRES)
Dighi - Pune	524.00
Halishahar - Kolkata	35.19
Chattarpur - Delhi	58.00
Greater Kailash - Delhi	70.00

Padianallur - Chennai	85.94
Total	773.13

Pursuant to a scheme of arrangement, shares of the Resulting Company would be distributed pro rata to the existing shareholders of the Company. Such a scheme would have to be approved by three-fourths in value of the creditors and of the shareholders of the Company present and voting at a meeting of the creditors and members, respectively. Indian counsel has advised that it generally takes about 4-6 months from the time such a scheme of arrangement is filed before the High Court until the time that a decree of demerger passed by the High Court is filed with the Registrar of Companies.

As part of the consideration for its purchase of a portion of the Government's shares in the Company, Panatone Finvest Limited agreed to transfer to the Government, without further consideration, a portion of the shares of the Resulting Company that it receives, such portion to be proportionate to the number of shares of the Company purchased by Panatone Finvest Limited from the Government. In the event that the demerger does not occur or the Company sells or develops the Surplus Land, Panatone has agreed to pay to the Government a pro rata portion of any benefit accruing to the Company as a result of such sale or development, as determined by an appraiser. In its tender/open offer, Panatone Finvest Limited made similar undertakings to the persons who tendered their shares of the Company and whose shares were accepted for payment.

It is possible that the Company and the Resulting Company may have to pay significant capital gains taxes and stamp taxes if the proposed demerger is found by the Indian courts not to fit within the statutory definition of "demerger" under The Income Tax Act, 1961. The Company believes these taxes could be substantial. To avail of favorable income tax treatment, the Company would have to create a separate realty undertaking comprising the surplus lands. The realty undertaking would then be transferred to the Resulting Company under the scheme of arrangement. Because the Surplus Lands are separately situated and do not generate separate revenues, they may be found not to constitute a "realty undertaking" under the relevant Indian law, and therefore may be found not to be a "demerger" as well. However, a statutory demerger may also include a split or reconstruction according to such conditions as the Government may issue in the Official Gazette. To date, the Government has not issued such conditions

pertaining to the Surplus Lands, and the Company has not requested that the Government do so, though it may in the future so request.

The High Court's decree, if and when passed, will have to be submitted to the stamp authorities for adjudication to ascertain the amount of stamp duty which has to be paid by the Company. Under the Bombay Stamp Act, 1958 the stamp duty shall not exceed an amount equal to 7 percent of the true market value of the immovable property located within the State of Maharashtra transferred by the Company to the Resulting Company or an amount equal to 0.7 percent of the aggregate of the market value of the shares issued by the Resulting Company and the amount of consideration paid for such demerger, whichever is higher. Under the Income-tax Act, the expenditure incurred by the Company wholly and exclusively for the purpose of demerger shall be allowed as a deduction equal to 1/5th of such expenditure for five successive years beginning from the year in which demerger takes place.

No time period is specified in the Shareholders' Agreement or the Share Purchase Agreement for the demerger of the Surplus Lands. The Company cannot

predict if and when the demerger will take place. Until such time as the demerger takes place, the lands are under the possession and upkeep of the Company. See "Item 3. Key Information--Risk Factors--The demerger of surplus land held by the Company may not be completed on satisfactory terms."

CAPITAL EXPENDITURES

See "Item 5. Operating and Financial Review and Prospects -- Capital Expenditures."

INVESTMENTS

See "Item 5. Operating and Financial Review and Prospects -- Investments."

SALES AND MARKETING

The Company has embarked upon the process of creating a sales and solutions organization for the corporate market in India. The team is intended to initially cover the principal cities of India such as Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata, Ernakulam, Jalandhar and Kanpur. In all theses cities the Company intends to have its own sales-force that consists of a direct team and a channel team. The direct team will cover about 500 prime corporate accounts across the country. The Company's sales and marketing effort 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 channel partners will be those that are currently system integrators or IT vendors who already have a presence in the small and medium enterprise (SME) market-place. Due to the convergence of IT and telecommunications and the complexities involved, the Company is also creating a solutions team which will provide support for complex projects. These teams will be supported by Customer Relations Management. The Company is also in the process of differentiating its offerings by providing various service levels among its different offerings. The Company is also a part of the Tata Indicom Enterprise Business Unit ("TIEBU") for focused coverage of large corporate accounts.

LEGAL PROCEEDINGS

The Indian tax authorities have taken the position that the Company is not entitled to tax deductions that it took in the fiscal years ended March 31, 1994, 1995, 1996, 1997 and 1998 for license fees paid by it to the DOT. The Indian tax authorities claim that the Company owes approximately Rs.2,551 million, Rs.2,236 million, Rs.2,693 million, Rs.2,977 million and Rs.2,086 million in respect of the taxes due (including interest but excluding penalties and measured as of March 31, 2003) in connection with the license fees for the fiscal years ended March 31, 1994, 1995, 1996, 1998, respectively. The Income Tax Commissioner of Appeals (Mumbai) has ruled that the Company is entitled to take the license fee deduction for the fiscal years ended March 31, 1996, 1997 and 1998. The Income Tax Department has not appealed against this decision, and the time limit for appeal has expired. The Income Tax Appellate

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Tribunal has ruled that the Company may take the license fee deduction for the fiscal year ended March 31, 1995. The Income Tax Department has appealed to the High Court against this decision. If the Company loses this appeal, there is a risk that the Income Tax Department may seek to claim the 1996, 1997 and 1998 amounts as well. The Income Tax Department's order disallowing the deduction for the fiscal year ended March 31, 1994 is still on appeal before the Income Tax Commissioner of Appeals, Mumbai. The Company, on the advice of counsel, believes

that it has a strong case with respect to these claims. If, however, the Company is finally unsuccessful in all of the foregoing disputes and is required to pay the amounts claimed for each of the years in dispute, its aggregate liability for fiscal years 1994 to 1998 will be approximately Rs.12,543 million (US$ 263.90 million), including interest but excluding penalties, measured as of March 31, 2003.

The Indian tax authorities have also taken the position that the Company is not entitled to a tax benefit claimed by it in the fiscal years ended March 31, 1996, 1997, 1998, 1999 and 2000 with respect to certain of its profits which the Company claims as having been generated by an enterprise engaged in telecommunications and therefore entitled to a tax holiday under certain regulations. The tax authorities have not accepted this claim of the Company and have disallowed it in their assessments. They claim that the Company owes approximately Rs.179 million, Rs.491 million, Rs.856 million, Rs.2,183 million and Rs.2,831 million in connection with taxes due (including interest but excluding penalties and measured as of March 31, 2003) on such profits for the years ended March 31, 1996, 1997, 1998, 1999 and 2000, respectively. The Company disputed these assessment orders and appealed to the Income Tax Commissioner of Appeals (Mumbai). For the fiscal years ended March 31, 1996, 1997, 1998, the Commissioner decided against the Company's claims. The Company has gone on further appeal for these three years to the Income Tax Appellate Tribunal. The dispute regarding the fiscal years ended March 31, 1999 and 2000 is still pending before the Income Tax Commissioner of Appeals (Mumbai). If the Company is finally unsuccessful in all of these disputes, its aggregate liability will be approximately Rs.6,540 million (US$ 137.60 million) including interest but excluding penalties, measured as of March 31, 2003.

Furthermore, the Indian tax authorities have taken the position that the Company has not offered for taxation certain reimbursements it had received from the Government during the fiscal year ended March 31, 1994. The tax authorities claim that the Company owes approximately Rs.2,853 million in respect of taxes due (including interest but excluding penalties) in connection with such reimbursements. The Company has already paid the entire amount with respect to this claim, but has appealed to the Income Tax Commissioner of Appeals (Mumbai).

For the fiscal year ended March 31, 2000, the tax authorities have disallowed the company's write off in its books of accounts of its investment in the equity shares of ICO Global Communications Inc. (which filed for bankruptcy protection in the US in 2000), amounting to Rs.5,128 million. The tax demanded in this regard amounts to Rs.1,974 million, which has already been paid by the Company. However, the Company has appealed to the Income Tax Commissioner of Appeals (Mumbai) regarding this claim, and the matter is now pending.

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of the results of operations and financial condition of the Company for the fiscal years ended March 31, 2001, 2002 and 2003 should be read in conjunction with the financial statements of the Company and the Notes thereto included elsewhere herein. The following discussion is based on the Company's audited financial statements for the fiscal years ended 2001, 2002 and 2003, which have been prepared by the Company in accordance with US GAAP. The Company's fiscal year ends on March 31 of each year, and therefore all references to a particular fiscal year are to the twelve months ended March 31 of that year.

INTRODUCTION AND OVERVIEW

The Company is the leading provider of public international telecommunication services in India, directly and indirectly linking the domestic telecommunications network to approximately 237 territories worldwide. The Company provides international telephone, telex and telegraph services and as of March 31, 2003, operated fourteen international switching and transmission facilities at ten locations ("gateways") - Mumbai, Kolkata, Delhi, Chennai, Ernakulam, Gandhinagar, Jalandhar, Kanpur, Bangalore and Hyderabad, which route international traffic to and from the domestic telecommunications network using a combination of satellite and undersea cable links. The Company is also licensed to provide national long distance service within India and is India's largest internet service provider.

The Company derives the bulk of its revenue from payments from foreign telecommunications administrations and private carriers for the delivery of international calls to India and from payments from BSNL, MTNL and other access providers in India for the delivery of international calls abroad. The Company shares with BSNL, MTNL and other access providers revenue received by it from foreign telecommunications administrations and carriers on incoming international calls terminating on India's domestic network, and also revenue received by BSNL, MTNL and other access providers from Indian domestic subscribers on outgoing international calls initiated on such network, in accordance with interconnect agreements between the Company, BSNL, MTNL and the other access providers. The Company also derives revenues from other services such as national long distance services and Internet services.

The Company's traffic revenues are affected by the volume of voice and data traffic between India and other countries and the number of circuits it leases to customers, as well as the prices it sells these services at. Prices for voice and data traffic are based on tariffs the Company's agrees bilaterally with foreign administrations and on interconnect agreements the Company enters into with domestic fixed line and cellular operators. Over the last several years, the Indian communications market has experienced a significant increase in traffic volumes in all categories, significant growth in tele-density and high growth rates in the number of cellular subscribers. Consistent with global trends, the Indian market has also experienced a significant decrease in communications prices over the last several years, primarily driven by competition, regulatory pressures in India and abroad and overcapacity. The Company expects both these trends to continue for the foreseeable future.

The Company's principal expenses consist of network and transmission costs, other operating costs that include staff costs, depreciation and administration expenses and the license fee the Company pays to the Government.

The Company's network and transmission expenses consist of payments it makes to foreign administrations for terminating calls from India and payments it makes to BSNL, MTNL and other fixed line and cellular operators for calls that originate abroad and that are terminated in India, together with the costs of leasing satellite and undersea cable circuits that connect India to other countries. Payments that the Company makes to foreign administrations and to Indian fixed line and cellular operators are covered by the same agreements the Company has for revenue tariffs, and are subject to the identical trends as its revenues.

The Company's financial condition and results of operations are affected by general economic conditions prevailing in India and the extent to which India's economy continues to modernize and further integrate with the global economy.

Critical Accounting Policies adopted in preparing Financial Statements

The Company's financial statements included in this annual report are prepared in accordance with US GAAP. US GAAP differs in certain material ways from the Company's general purpose financial statements which have been prepared in accordance with Indian accounting standards and laws. The Company's critical accounting policies under which the US GAAP financial statements included in this annual report have been prepared are as follows:

a. 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 debts and other receivables and the valuation of unlisted investments.

b. 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.

c. 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 carriers 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.

d. 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.

e. 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.

f. IMPAIRMENT AND DISPOSAL OF LONG LIVED ASSETS

The Company periodically 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. However, see "Item 3. Key Information--Risk Factors--The Company has initiated a review of the useful lives and the consequent carrying values of certain long-lived assets which could result in a reduction in the carrying value of such assets."

g. OPERATING LEASES

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

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h. RETIREMENT BENEFITS

Gratuity

In accordance with Indian law, the Company provides for gratuity, which is 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, which is 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 Overseas Communications Service 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, which is a defined contribution plan. The employee and employer each make monthly contributions to the plan equal to 12 percent 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 percent 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.

i. 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 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.

j. 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 and other fixed and cellular operators in India 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) to the financial statements included in this Form 20-F, 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, such as salaries, depreciation and other overheads.

k. 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.

l. 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.

m. 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, respectively. 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.

n. 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.

o. 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.

p. 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 to the financial statements.

OPERATING RESULTS

The following table sets forth information regarding the Company's operating revenue for the fiscal years ended March 31, 2001, 2002 and 2003.

	YEARS ENDED MARCH 31,		
	2001	2002	2003
		(RS. IN MILLIONS)	
OPERATING REVENUE			
Incoming telephone	46,674	41,503	27,143
Incoming telex	112	70	36
Outgoing telephone	18,345	16,153	9,656
Outgoing telex	112	88	60
Leased circuits	3,140	3,584	4,231
Internet access services	2,980	2,305	2,251
Other revenue	553	1,347	1,964
Total traffic revenue	71,916	65,050	45,341

Revenue

The principal components of the Company's revenue are (1) payments from foreign telecommunications administrations and carriers for incoming traffic (prior to deducting amounts payable by the Company for outgoing traffic), which are typically denominated mostly in Special Drawing Rights ("SDRs") or US Dollars, and (2) payments from domestic operators for outgoing traffic (prior to deducting amounts payable by the Company for incoming traffic), which are denominated in Rupees. The major factors influencing revenue include traffic volume and its composition in terms of incoming and outgoing calls and country of origination and destination, the interconnection agreements with BSNL/MTNL and other private basic and cellular operators, settlement rates negotiated with foreign administrations and the Rupee/SDR and the Rupee/Dollar exchange rates. See "Item 4. Information on the Company--Traffic Revenue and Revenue Sharing Arrangement."

Telephone Revenue. Revenue from telephone traffic historically has constituted the most substantial component of the Company's revenue, accounting for 90.41, 88.63 percent and 81.16 percent of revenue for the fiscal years, 2001, 2002 and 2003, respectively. The decline in telephone traffic revenue as a percentage of total revenue is due primarily to a significant decline in the settlement rates and to the increasing revenue contribution from specialized and value-added services such as Internet access and international leased lines.

Telephone revenue decreased by 36.17 percent during fiscal 2003 as against the 11.32 percent decrease during fiscal 2002. The Company made its best effort to protect and maintain its volume of ILD traffic at almost the same level as in the previous year; it was greatly assisted in this by the continued flow

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of traffic from BSNL and MTNL based on the Government's directive to them to route calls through the Company as a "Most Favored Customer" for a fixed period. In fiscal 2003, incoming paid minutes of traffic carried by the Company were marginally lower than in fiscal 2002 whereas outgoing paid minutes were higher. Total paid minutes carried by the Company were marginally lower in fiscal 2003 compared to fiscal 2002. The Government allowed private players into the ILD business from April 1, 2002 and by July 2002, VSNL had two competitors in this business, Data Access and Bharti Tele-ventures Limited. The immediate effect of competition was that international call tariffs fell by about 50 percent during the next six months. This came on top of the Company's earlier tariff reductions effective April 1, 2002, with a peak rate reduction of around 15 percent. At the same time, settlement rates for incoming ILD traffic fell, reducing the Company's revenue retention per minute for incoming traffic.

Incoming call revenues decreased by 34.60 percent during fiscal 2003 as against the 11.07 percent decrease during fiscal 2002. The decrease in revenue is attributable partly to a reduction in settlement rates and partly to the opening up of the sector to competition, which among other things resulted in a decline in the incoming paid minutes of traffic carried by the Company in fiscal 2003 compared to fiscal 2002. The average settlement rate received from foreign administrations and carriers in respect of incoming telephone traffic for fiscal 2001, 2002 and 2003 decreased in US Dollar terms from US$0.46, to US$0.33 and to US$ 0.23 per minute, respectively as a result of decreases in settlement rates applicable to the Company. The Company is facing further declines in international settlement rates for incoming traffic, particularly with US carriers. See "Item 4. Information on the Company--Traffic Revenue and Revenue Sharing Arrangements--Payments to and from Foreign Administrations or Carriers."

Outgoing call revenue decreased by 40.22 percent in fiscal 2003 as against the 11.95 percent decrease during fiscal 2002 primarily due to the significant fall in the tariffs in fiscal 2003. Declines in tariff rates for telephone services offered by the Company, including reduction in peak international call tariffs for fiscal 2000 by about 27 percent and fiscal 2001 by 20 percent approximately, was mandated by the TRAI. The TRAI had mandated a further 23 percent reduction in peak international call tariffs for fiscal 2002. The TRAI has since mandated a further reduction in tariffs of 16 to 20 percent for international long distance calls. Such tariff reductions occurred between October 1, 2000 and March 31, 2002. These declines in tariffs have been a major factor in adversely affecting revenues and have not been outweighed by the slight increase in the outgoing paid minutes of traffic carried by the Company in fiscal 2003 compared to fiscal 2002. Subsequently, in January 2003, the TRAI announced that the operators could fix the tariffs after taking its approval. See "Item 3. Key Information--Risk Factors--The Government's new tariff regime and competition could have a material adverse effect on our results of operations and financial condition." While further declines in tariff rates can be expected to increase traffic volumes, there can be no assurance that lower tariff rates will not lead to unfavorable revisions to the interconnect agreements with BSNL or MTNL or otherwise adversely affect the Company's business and prospects.

Telex Revenue. Total revenue from telex services decreased from Rs.224 million in fiscal 2001, to Rs.158 million in fiscal 2002 and to Rs.96 million (US$ 2.02 million) in fiscal 2003. Such decreases are attributable principally

to a switchover of customers from telex services to other forms of communication such as facsimile, telephone and E-mail. Telex revenue accounted for 0.31 percent of total traffic revenues in fiscal 2001, 0.24 percent in fiscal 2002 and 0.21 percent in fiscal 2003.

Leased Circuits Revenue. Revenue from leased circuits increased by 14.14 percent during fiscal 2002 and by 18.05 percent during fiscal 2003, which is primarily attributable to an increase in transmission capacity.

Internet Access Services Revenue. Internet access services were first introduced by the Company in India in August 1995. Revenues from Internet services were Rs.2,980 million, Rs.2,305 million and Rs.2,251 million (US$ 47.36 million) during fiscal 2001, fiscal 2002 and fiscal 2003, respectively, a decrease of 22.65 percent and 2.34 percent during fiscal 2002 and fiscal 2003, respectively. The decrease in Internet revenues is due to the significant reduction in tariffs over the period. The Company was initially the sole provider of Internet services in India. However, the Government announced a new Internet policy in November 1998 which allowed the entry of private Internet service providers. As of March 31, 2003, there were approximately 190 licensed Internet service providers in India. See "Item 4. Information on the Company--Industry Overview--Developments."

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In late 1998, the Department of Telecommunications instituted a mandatory license requirement for the provision of Internet services. The Company and the DoT entered into a license agreement effective January 25, 1999, under which the Company was granted a license to provide Internet access service in six cities on a non-exclusive basis. Subsequently, as a part of the compensation package for the removal of monopoly two years ahead of schedule, an all-India license was provided.

Other Traffic Revenue. Other traffic revenues include revenues from services such as the transmission of television signals, telegraph services, electronic mail, frame relay and facsimile forwarding services, services through which subscribers may exchange data with users of other data networks, electronic data interchange and video conferencing. Revenue from these sources accounted for 0.77 percent of revenues in fiscal 2001, 2.07 percent in fiscal 2002 and 4.33 percent in fiscal 2003.

Income from Satellite Consortia. Following the corporatization of Intelsat during July 2001 and Inmarsat during April 1999, any income we receive from Intelsat and Inmarsat would be in the form of dividends and no such income has been received either during fiscal 2002 or during fiscal 2003. Prior to its corporatization, Intelsat used to periodically distribute a portion of the surplus generated to its shareholders in proportion to their holdings.

Operating Costs

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

The following table sets forth certain information regarding the components of the Company's operating costs for the fiscal years ended March 31, 2001, 2002 and 2003.

	YEARS ENDED MARCH 31,			
	2001	2002 (RS. IN MILLIONS)	2003	2003 (US $ IN MILLIONS)
Network and transmission costs				
Transmission costs to Domestic Operators(1)	27,341	23,050	13,528	285
Transmission costs to foreign administrations(2)	13,866	10,721	6,741	142
Other transmission costs	3,943	5,806	5,775	121
Total	45,150	39,577	26,044	548
Other operating costs including depreciation	4,752	6,701	6,076	128
Government levy/license fee	5,022	5,393	4,037	85
Total operating costs	54,924	51,671	36,157	761

(1) Out of such amounts, payments in respect of incoming telephone calls amounted to Rs.27,079 million, Rs.21,699 and Rs.12,805 million (US$ 269.41 million) for the fiscal years ended March 31, 2001, 2002 and 2003, respectively.

(2) Of such amounts, payments in respect of outgoing telephone calls amounted to Rs.12,578 million, Rs.9,684 and Rs.6,270 million (US$ 131.92 million) for the fiscal years ended March 31, 2001, 2002 and 2003, respectively.

Network and Transmission Costs. Network and transmission costs include transmission costs to BSNL, MTNL and other access providers for incoming traffic and to foreign administrations and carriers for outgoing traffic (See "Item 4. Information on the Company--Traffic Revenue and Revenue Sharing

Arrangement"), as well as the cost of leasing certain transmission facilities, including lines from BSNL and other private providers as well as satellite circuits from Intelsat, Inmarsat and New Skies Satellites, NV.

Transmission costs to domestic operators for incoming traffic decreased by 15.69 percent and 41.31 percent during fiscal 2002 and fiscal 2003 respectively, principally due to the decrease in interconnect charges. Payments to foreign administrations and carriers for outgoing traffic decreased by 22.68 percent and 37.12 percent in fiscal 2002 and fiscal 2003 respectively. This decrease was primarily as a result of decreases in settlement rates for outgoing traffic. The average settlement rate paid to foreign administrations and carriers decreased in US Dollar terms from US$0.51 per minute to US$0.34 per minute and to US$0.19 per minute for the fiscal years ending March 31, 2001, 2002 and 2003 respectively.

The cost of leasing transmission facilities increased by 47.25 percent and decreased by 0.53 percent during fiscal 2002 and fiscal 2003 respectively. The increase in fiscal 2002 is primarily attributable to the increased cost of providing domestic connectivity to various services while the decrease in fiscal

2003 is primarily attributable to the surrender of satellite capacity.

Other Operating Costs. Other operating costs consist of staff costs, depreciation, energy costs and other costs, including for repairs, maintenance and marketing. During fiscal 2002 other operating costs increased by 41.01 percent and decreased by 9.33 percent during fiscal 2003. The increase in fiscal 2002 is primarily attributable to the higher staff cost due to accounting of compensation cost of the Company's Employee Stock Purchase Scheme and higher provision for bad & doubtful debts relating to certain foreign carriers, such as MCI Worldcom and Teleglobe Canada (both of which filed for bankruptcy protection). These unusual items were not applicable in fiscal 2003, contributing to the lower operating costs.

License Fee. As per the new standard license agreement proposed by the Government, license fees payable to the DoT amount to 15 percent of adjusted gross revenues (which the Government defines as gross call revenues minus access charges actually paid to other carriers for carrying of calls minus service and sales taxes actually paid to the Government), whereas in fiscal years 2002 and 2001, the Company paid to DoT a license fee of Rs.0.25 million per annum on average circuits commissioned under the revenue sharing agreement with DoT/BSNL. The change in the basis of computation led to a decrease of 25.14 percent in license fee cost during fiscal 2003.

Operating Profit

The following table sets forth certain information regarding the Company's gross telephone and operating profits for the fiscal years ended March 31, 2001, 2002 and 2003.

	YEARS ENDED MARCH 31,			
	2001	2002 RS. (IN MILLIONS)	2003	2003 US $ (IN MILLIONS)
Gross profit on telephone services (1)	Rs.25,362	Rs.26,273	Rs.17,724	373
Operating profit	18,152	13,379	9,184	193

(1) Telephone revenue net of interconnect charges paid to the domestic operators for incoming telephone calls and settlement charges paid to foreign administrations and carriers for outgoing telephone calls after prior year adjustments.

Gross profit on telephone services increased 4.05 percent and decreased 32.54 percent in fiscal 2002 and fiscal 2003 respectively. 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. (See "Item 4. Information on the Company--Traffic Revenue and Revenue Sharing Arrangement").

Investment and Other Income

The following table sets forth certain information regarding the components of the Company's investment and other income for the fiscal years ended March 31, 2001, 2002 and 2003.

	YEARS ENDED MARCH 31,			
	2001	2002 RS. (IN MILLIONS)	2003	2003 (US $ IN MILLIONS)
Revenue from Intelsat	1,160	-	-	-
Profit / (loss) on sale of investments	(5)	(2)	1	-
Exchange gains (Net)	2,878	939	167	4
Interest Income (Net)	3,963	4,380	2,368	50
Other income	185	434	257	5
Share of Loss in Affiliates	-	-	(143)	(3)
Total	8,181	5,751	2,650	56

The principal components of investment and other income are net foreign exchange gains (comprised mainly of net gains arising from period-end retranslations of settlement payments owed by foreign administrations and carriers, as well as net gains realized upon receipt of such settlement payments, and net gains arising from the retranslation of period-end cash balances) and revenues from Intelsat and Inmarsat.

As of March 31, 2003, the Company held 9,015,314 ordinary shares, par value US$3.00 per share, of Intelsat, Ltd., a company incorporated under the laws of Bermuda. These shares represent 5.42 percent of the issued and outstanding ordinary shares of Intelsat. Intelsat has over 200 shareholders, including public and private communications companies and national governments from around the world. Intelsat is a leading provider of satellite communications services worldwide, supplying voice, data, video and Internet backbone connectivity in over 200 countries and territories. Intelsat's satellite network includes 24 satellites in orbit and leased capacity on 2 additional satellites owned by strategic partners in the Asia-Pacific region.

In March 2000, the US Congress passed the Open-market Reorganization for the Betterment of International Telecommunications Act, referred to as the ORBIT Act, the stated purpose of which is "to promote a fully competitive global market for satellite communication services for the benefit of consumers and providers of satellite services and equipment" by fully privatizing the intergovernmental satellite organizations, including Intelsat and its spin-off company, New Skies Satellite ("NSS"). The ORBIT Act, as amended in October 2002, requires Intelsat to conduct an initial public offering of its equity securities by December 31, 2003, which may be extended by the U.S. Federal Communications Commission to June 30, 2004. Depending upon stock market conditions at the time, existing shareholders might have the opportunity to participate in the offering. However, there is no certainty about the timing of such offering.

During 1998-99, Intelsat as part of its restructuring process incorporated NSS as a corporation with limited liability under the laws of Netherlands and transferred certain assets and liabilities to NSS accounted for at historic book values. In return, NSS issued 10,000,000 shares of common stock

of par value Dutch Guilder 1 each to Intelsat. Intelsat distributed 9,000,000 shares of NSS in the year 1998-99 and

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1,000,000 shares of NSS in 1999-2000 in proportion to the investment share 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. NSS announced a 10: 1 stock split prior to its initial public offer (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 par value 0.05 Euros each. The market value per share as of March 31, 2003 was US $ 4.17 per share.

Inmarsat, previously an inter-governmental organization, was privatized on April 15, 1999. The Company's shareholding in Inmarsat Ventures plc, (formerly Inmarsat Holdings Limited) is in proportion to its investment share upon privatization which represents 2.02 percent of the issued share capital of Inmarsat Ventures plc. The Company has been informed that in order to satisfy the provisions of the US ORBIT Act, Inmarsat may be required to undertake an initial public offering of its shares, which may, depending upon the stock market circumstances at the time, include the opportunity for existing shareholders to participate in the secondary offering. However, there is no certainty about the timing of such offering.

TVCL is a joint venture between the Company, Telstra-Australia and Infrastructure Leasing & Financial Services Ltd., initially formed with 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 a 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 cash compensation of Rs.20 million to the Company and IL&FS in the aggregate.

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.

Net Interest

Net interest represents the net interest amount receivable or payable by the Company on its bank and other deposits and borrowings under its overdraft facilities. Net interest income increased to Rs.4,380 million during fiscal 2002 from Rs.3,963 million in fiscal 2001. During fiscal 2003, interest income receivable decreased to Rs.2,368 million (US$ 49.82 million), which includes the interest on income tax refund of Rs.535 million (US$ 11.26 million). The decrease in other interest income is primarily due to decrease in the interest rates and in average bank deposits.

Income before Taxation

As a result of the above factors, income before taxation decreased by 24.01 percent from Rs.25,173 in fiscal 2001 to Rs.19,130 million in fiscal 2002. It further decreased by 38.14 percent to Rs.11,834 million (US$ 248.98 million) during fiscal 2003.

Income Tax Expense

The Company's effective income tax rates (including dividend tax of Rs.105 million, Rs.3,634 million and Rs.Nil million respectively) were 38.74 percent, 50.15 percent and 37.10 percent for fiscal 2001, fiscal 2002 and fiscal 2003, respectively. The effective income tax rates excluding dividend tax were 38.32 percent, 31.15 percent and 37.10 percent respectively compared to the effective statutory income tax rate of 39.55, 35.70 and 36.75 percent for all such fiscal years. The differences between the effective income tax rates and the effective statutory income tax rates were attributable to things such as exchange gains treated as capital receipts for income tax provision and writedowns in the value of our investments that are not allowed for tax and income tax exempt under tax holiday.

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

(a) expenditure on license fees for the fiscal years 1994-98 disallowed by the revenue authorities;

(b) deductions claimed under Section 80-IA of the Income Tax Act for the fiscal years 1996-2000 disallowed by the revenue authorities; and

(c) reimbursement by DoT of income tax paid by the Company on the DoT levy during fiscal year 1993-94, which has been taxed by the revenue authorities.

The Company has contested these claims, which are in various stages of appeal. For a description of these claims and the amounts involved, see "Item 4. Information on the Company -- Legal Proceedings."

Net Income

As a result of the above factors, net income decreased by 38.16 percent in fiscal 2002 to Rs.9,537 million from Rs.15,422 in fiscal 2001. It further decreased by 21.95 percent in fiscal 2003 to Rs.7,444 million (US$ 156.62 million).

Recent 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

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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, which is the effective date of Interpretation 34.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal capital resources are primarily generated from its operations. In addition, the Company borrows funds for short term requirements from time to time in order to meet temporary working capital needs. The Company believes that its cash and cash equivalents and ability to borrow will be sufficient to meet its liquidity requirements in the near future.

The Company generated Rs. 23,075 million, Rs. 9,485 million and Rs. 9,861 million (US$ 207.47 million) in cash flows from its operations for fiscal 2001, 2002 and 2003, respectively. Net cash provided by operations consisted primarily of net income as increased by depreciation, reduction in trade and other receivables and accrued expenses and other liabilities, which is partly offset by a decrease in trade payables.

The Company used Rs. 41,416 million, generated Rs. 26,068 million and used Rs. 11,697 million (US$ 246.10 million) of its cash flows for its investing

activities for fiscal 2001, 2002 and 2003, respectively. Net cash used in investing activities that involved the acquisition of additional property, plant and equipment was Rs. 4,238 million, Rs. 2,509 million and Rs. 2,868 million (US$ 60.34 million) for fiscal 2001, 2002 and 2003, respectively. In fiscal 2001, the Company invested Rs. 37,272 million in short term deposits whereas in fiscal 2002 there was a net withdrawal of Rs. 28,581 million from short term deposits for making the dividend payment of Rs. 35,625 million. In fiscal 2003, there was an increase in short term deposits of Rs. 5,845 million (US$ 122.97 million) due to additional deposits with maturities exceeding 90 days. During fiscal 2003, the Company made investments of Rs. 2,987 million (US$ 62.84 million) in TTSL and UTL.

The Company used Rs. 760 million, Rs. 29,874 million and Rs. 5,774 million (US$ 121.48 million) of its cash flows for its financing activities for fiscal 2001, 2002 and 2003, respectively. This primarily consisted of net proceeds of short term borrowings of Rs. 5,751 million in fiscal 2002 and repayment of short term borrowings of Rs. 2,211 million (US$ 46.52 million) in fiscal 2003, together with the regular dividend paid of Rs. 760 million, Rs. 2,850 million and Rs. 3,563 million (US$ 74.96 million) during fiscal 2001, 2002 and 2003, respectively. In fiscal 2002, in anticipation of the Company's privatization, the Company paid an additional Rs. 32,775 million (US$ 689.56 million) as a special dividend.

As of March 31, 2003, the Company's cash and cash equivalents were Rs. 272 million (US$ 5.72 million) as against Rs. 7,881 million as of March 31, 2002, reflecting a decrease of Rs. 7,609 million (US$ 160.08 million) mainly because during the year the Company kept its funds in deposits with a maturity of more than 90 days as against deposits with a maturity of less than 90 days kept during the previous year. This was because the Company did not anticipate any significant short term funding requirements during the year. Deposits with a maturity of more than 90 days appear as short term investments rather than cash and cash equivalents in the Company's financial statements. This reduced the cash and cash equivalents as on March 31, 2003 compared to March 31, 2002 but increased short term investments from Rs. 10,361 million (US$ 217.99 million) as on March 31, 2002 to 17,052 million (US$ 358.76 million) as on March 31, 2003. Also see Notes 3 and 4 to the financial statements appearing in this annual report.

The Company's working capital, which the Company defines as the excess of current assets (including short term investments) over current liabilities, increased from Rs. 28,056 million as of March 31, 2002 to Rs. 28,428 million (US$ 598.11 million) as of March 31, 2003. This increase is primarily due to the following reasons:

a) Increase in short-term investments from Rs. 17,469 million as on March 31, 2002 to Rs. 23,314 million (US$ 490.51 million) as on March 31, 2003.

b) During fiscal 2003, the Company made short term borrowings of Rs. 3,540 million (US$ 74.48 million) to pay for income tax demands to enable the Company to keep its surplus funds in short-term investments yielding higher interest rates. In comparison, short term borrowings in fiscal 2002 were Rs. 5,751 million.

c) Trade payables decreased from Rs. 5,728 million as on March 31, 2002 to Rs. 2,422 million (US$ 50.96 million) as on March 31, 2003 due mainly to a reduction in settlement rates with respect to basic telephony.

d) Increase in other assets (comprising payment of advance tax-net of provisions for tax, advance paid for capital goods, prepaid expenses and inventories) from Rs. 8,293 million as on March 31, 2002 to Rs. 12,803 million (US$ 269.37 million) as on March 31, 2003.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet financing arrangements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The Company had the following contractual and commercial commitments as of March 31, 2003:

CONTRACTUAL OBLIGATIONS

	PAYMENTS DUE BY PERIOD (RS.MILLION)				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Purchase obligations	1,314	1,309	5	Nil	Nil
Other long term liabilities reflected on the issuer's balance sheet under GAAP	11,063	2,829	4,138	3,096	1,000
Total	12,377	4,138	4,143	3,096	1,000

The Company is not involved in any trading activities.

CAPITAL EXPENDITURES

Process of the Company's Capital Investment Plans

Indian government agencies and public sector companies are required to implement capital expenditure programs through a series of five year plans. Prior to February 2002, when the Company was a public sector company, its five year plans were typically subject to mid-term review, which historically led to material changes in the Company's estimates of both the amount and the types of capital expenditures on specific projects. The materiality of these changes was compounded by the Company's weaknesses in preparing budgets and appraising and monitoring capital expenditure projects. In addition, the aggregate capital expenditures under any five year plan were often revised upward or downward as was necessitated by changes in the telecommunications market and the evolving needs of the Company.

Subsequent to the privatization of the Company in February 2002, the Company is no longer required to follow the Governmental system of five year plans. Hence, the Tenth Five-Year Plan prepared earlier under Government guidelines has been abandoned.

As a result of privatization as well as the deregulation of the industry, the Company's capital expenditure opportunities have also changed. Prior to privatization, the Company was significantly

constrained in its ability to plan and undertake capital investments. Following its privatization, the Company's opportunities have expanded, and the Company is in the process of reviewing and crystallizing its business plan and capital expenditures.

The Company henceforth intends to prepare and modify as necessary annual capital expenditure plans to reflect the changing competitive market. The Company hopes to achieve topline growth in its existing voice and data business, and Internet dial up services, while simultaneously backward integrating by entering into the NLD market. The Company also expects to introduce newer technologies such as Asynchronous Transfer Mode, In-Platform, Voice Over Internet Protocol and Service Level Agreement Enablement in its network. The Company also expects to equip its infrastructure to provide new value added services like Bandwidth on Demand, Virtual Private Network services, and Broadband Services.

Planned Capital Expenditure

The capital expenditure intended for use on expansion of ILD switch capacity, ATM network, NLD network and upgradation of IT facilities was partly spent in 2002-03. The efforts in these directions will continue in 2003-04, in the major areas described below:

The Company has planned the following projects, to increase revenues from its existing service portfolio and to generate new revenue streams. These plans are subject to ongoing review and modification by the Company's Board of Directors in light of changing competitive conditions and the Company's financial condition and results of operations.

	PROJECT OUTLAY DURING 2003-04	
SCHEME	RS. MILLION	US$ MILLION
International Long Distance (ILD)- Voice	356	7
National Long Distance (NLD)- Voice	2,450	51
Corporate Data	312	7
Retail -Internet Services	415	9
Network Management System	335	7
Others	387	8
New Cable Acquisition	4,700	99
Investment/Diversification	2,310	49
TOTAL	11,230	236

Some significant areas of capital expenditure and investment planned for the year 2003-04 are as follows:

Centralized Network Management System ("CNMS"):

The implementation of CNMS is with a view to effectively manage the Company's ILD and NLD services by establishing a network management system framework. The objectives of CNMS are to improve the quality of the Company's services and the Company's responsiveness to customers. To this end, the CNMS framework is intended to reduce the average time taken by the Company to identify and correct network faults, and to enhance the procedures by which the

Company maintains its systems and network. The capital expenditure planned for CNMS is Rs.335.30 million (US$ 7.05 million) for 2003-04.

ITMC Redesign

The International Transmission Maintenance Centre is the backbone of the Company's network, and the Company plans to achieve a network availability level of 99.99 percent. The project involves the expansion and upgradation of existing network elements, phasing out old equipment and simplifying the network's architecture. The Company hopes that this project will result in high circuit uptimes (i.e., times

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when the circuit is functional) for our customers and enable us to achieve an overall improvement in operational effectiveness. The project cost is estimated Rs. 140.8 million (US$ 2.96 million).

New Cable Acquisitions

In order to meet customers' bandwidth demands, the Company plans to acquire additional international bandwidth capacity. VSNL has planned to invest Rs.4,700 million (US$ 98.88 million) in international cable capacity in fiscal 2003-04. A major bandwidth acquisition will be capacity on the SEA-ME-WE4 cable.

Expansion of Switching Facilities in New Delhi and VOIP Gateways:

Expansion of switching facilities is necessitated due to the increase in the traffic in New Delhi and due to the fact that the existing switches in New Delhi have become obsolete. The planned capital expenditure for this expansion is Rs.31.60 million (US$ 0.66 million) in fiscal 2003-04.

The Company anticipates significant growth in "voice over internet protocol" ("VOIP") traffic in the coming years. In order to equip itself adequately to carry the increasing VOIP traffic the Company plans to install two advanced VOIP gateways in New Delhi and Jallandhar during fiscal 2003-04. The capital expenditure for the installation of the gateways is estimated to be Rs.9.6 million (US$ 0.66 million).

SLA Verification System

Responding to market needs, VSNL needs to provide SLA (Service Level Agreement) facilities to Corporate Data customers. This envisages the setting up a fail-proof Internet system infrastructure, which means that each critical equipment in the system would have both online and offline equipment and would switch between one another in case of failure. The capital expenditure planned is Rs. 80 million (US$ 1.68 million) spread over two years.

IN Platform and ATM Expansion

The IN platform provides the ability to offer several new services. ATM expansion can reduce bandwidth used. ATM is a high speed, low delay, multiplexing and switching technology that can support many types of user traffic including voice, data, and video applications. ATM is a flexible service that can be used by customers that require international point to point connectivity, point to multi-point connectivity and multi-point to multi-point connectivity. The IN-platform and ATM Expansion were commissioned in March 2003, though the payments will be effected in 2003-04. The cash outflow is expected to be Rs.202 million (US$ 4.25 million) in 2003-04.

National Long Distance Services Rollout

The Company has been given a license to operate NLD services as part of the compensation for the early termination of its ILD monopoly. The Company plans to cover the area for which it has been granted a NLD license with a fiber optic backbone, which will be used by the Company to provide advanced voice, video and data transmission services. The Company was required to provide a performance bank guarantee for Rs.4,000 million (US$ 81.92 million) against its obligations under the NLD license agreement. Under the license agreement, the Company is committed to roll out its network by establishing points of presence in 322 national points of presence or Long Distance Charging Areas ("LDCA",) across the country in a phased manner as stipulated below:

Phase	Time Period (from February 8, 2002)	Cumulative percentage of national coverage at LDCA level where point of presence has to be established	Cumulative percent coverage of uneconremote areas
I	2 years	15	2
II	3 years	40	4
III	4 years	80	7
IV	7 years	100	All (43)

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Each phase listed above is considered an independent obligation and upon completion of each phase, Rs. 1000 million (US$21.04 million) will be released from the Company's performance bank guarantee. The Company has built a part of its own NLD fiber optic backbone and further investment is envisaged over the next three years, which the Company expects will meet its obligations under the NLD license.

Accordingly, the Company has plans to lay a fiber optic backbone connecting an estimated 260 LDCAs in fiscal years 2003-04, 2004-05 and 2005-06. As of March 31, 2003, 60 LDCAs had been completed. The Company plans to complete an additional 115 LDCAs by March 31, 2004. For coverage of all 322 LDCAs in a phased manner over the seven-year time frame ending February 7, 2010, the Company plans to invest an estimated Rs. 7220 million (US$ 151.90 million).

In fiscal 2003-04, the Company plans to invest Rs. 2,450 million (US$ 51.55 million) in developing this network.

Information Technology Facilities

The Company plans to upgrade and implement state of the art systems such as internet data centre facilities, billing mediation systems, customer relationship management systems, least cost routing systems and enterprise resource planning facilities. The proposed capital expenditure provisioned for these systems is Rs. 648.70 million (US$ 13.65 million) for fiscal 2003-04.

Prior Period Capital Expenditures

The following table sets forth the actual capital expenditures of the Company under the revised Ninth Five Year Plan, covering the period April 1997 to March 2002, by type of investment for the periods indicated. Subsequent to

the privatization of the Company, the capital expenditures for the fiscal year 2003 were under the purview of the Company's annual operating plan for the year rather than the Five Year Plan.

	YEAR ENDED MARCH 31,				
	1998	1999	2000	2001	2002
			(MILLIONS OF RUPEES)		
Transmission	1,062	3,513	1,464	1,620	1,279
Switching	294	202	50	11	245
Specialized and value-added Services	323	662	659	609	225
Satellite mobile services	521	62	6	0	0
Restoration/replacement	29	41	36	58	15
Technical and office equipment	247	330	153	300	108
Buildings and civil works	180	163	582	529	42
Capital contributions to Intelsat/Inmarsat and IRUs	786	671	922	309	66
NLD Projects	0	0	0	0	0
Other projects and investments	1,135	1,972	442	36	22
Total	4,577	7,616	4,314	3,472	2,002

INVESTMENTS

United Telecom Limited (UTL)

The Company, along with Telecommunication Consultants of India Limited, MTNL and Nepal Ventures Private Limited, has formed a joint venture company called "United Telecom Limited" to provide basic services in Nepal through the use of wireless in local loop technology. UTL started providing services in September 2003.

The Company has an equity stake of 26.66 percent in UTL. The Company invested Rs.183.325 million (US$ 3.85 million) towards contributions to equity in UTL in fiscal 2003 and plans to invest a further Rs.133 million (US$ 2.80 million) in the current fiscal year 2003-04. Therefore, the total investment of the Company in UTL will be Rs.333 million (US$ 7.01 million) for 26.66 percent of the total equity.

ICO Global Communications (Holdings) Limited

ICO, a company registered in Bermuda, was incorporated in January 1995 to provide Global Mobile Personal Communications Services. ICO was listed on NASDAQ in July 1998. The Company has invested a sum of US$150 million in ICO.

As of March 31, 1999, the Company's investment in ICO stood at Rs.5,471 million (US$ 115.11 million). On August 27, 1999, ICO filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court in the District of Delaware. In May 2000, ICO emerged from bankruptcy protection with a plan to reduce the equity stake of the existing investors to 1 percent. The Company had, therefore, made a provision for a loss of 99 percent of its investment in ICO in its financial statements

for the fiscal year ended March 31, 1999. The Company recognized a charge of Rs.5,416 million (US$ 113.95 million) and Rs.54 million (US$ 1.14 million) as permanent impairment in the fiscal years ended 1999 and 2000, respectively. Subsequent to March 31, 2000, the Company has been allotted 180,053 shares of New ICO, representing 0.65 percent of the total equity of New ICO. In addition, the Company has been allotted 975,398 warrants, each convertible into two Equity Shares of New ICO upon the payment of US$90 per warrant. Such warrants are exercisable until May 15, 2006.

Intelsat, Ltd.

The International Telecommunications Satellite Organization, was created on an interim basis in 1964 as an intergovernmental organization in order to establish and operate a global satellite system. Intelsat was formally established in February 1973 upon entry into force of an international treaty. On July 18, 2001, Intelsat converted into a private limited company incorporated in Bermuda, called Intelsat, Ltd. As of March 31, 2003, the Company held 9,015,314 ordinary shares, par value US$3.00 per share, of Intelsat. These shares represent 5.42 percent of the issued and outstanding ordinary shares of Intelsat.

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.

The ORBIT Act, as amended in October 2002, requires Intelsat to conduct an initial public offering of its equity securities by December 31, 2003, which may be extended by the U.S. Federal Communications Commission to June 30, 2004. Shareholders of Intelsat might be given the opportunity to participate in any such offering.

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New Skies Satellite NV ("NSS")

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

NSS announced a 10:1 stock split prior to its initial public offering in October 2000 and redesignated its shares from Guilders to Euros. The Company's total holding in NSS as of March 31, 2003 stood 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.

International Maritime Satellite Organization ("Inmarsat")

Inmarsat was an intergovernmental organization with membership from 88 countries providing satellite mobile communications in air, on land and at sea. Inmarsat converted to a private limited company incorporated in England and Wales effective April 15, 1999. Upon corporatization, the Company's investment in the holding company, Inmarsat Holdings Limited, stood at 202,219 shares representing approximately 2.02 percent of the paid up capital. Subsequently,

there was a 10:1 stock split in March 2001. The Company now holds 2,022,190 shares of 10 pence each in Inmarsat Ventures plc.

The Company plans to invest Rs.79 million (US$ 1.66 million) in Inmarsat for the fiscal year 2003-04.

TVC India Private Limited (formerly 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 investment equity in the ratio of 40:40:20. Currently, VSNL holds Rs.92 million (US$ 1.94 million) out of the Company's total paid up capital of Rs.314 million (US$ 6.61 million). TVCL undertakes turnkey VSAT projects for large organizations 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 reorganization 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 (US$ 1.94 million) during 2002-03.

Tata Teleservices Limited ("TTSL")

TTSL is a company of the Tata Group, which along with its subsidiaries is licensed to provide basic telephony in the Indian states of Andhra Pradesh, Delhi, Gujarat, Karnataka and Tamil Nadu and has an equity interest in Maharashtra (including Mumbai) and is assessing Kerala, Punjab, Haryana and Uttar Pradesh. Since the Company has no direct access to voice customers, the investment in TTSL could give the Company substantial access to end users.

The VSNL board constituted a committee to examine the modalities of the investment in TTSL and reviewed the findings at its meeting on October 21, 2002. The committee decided that VSNL would invest up to Rs.8,350 million (US$ 175.68 million) 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.2,804 million (US $ 58.99 million) in exchange for 19.9 percent of TTSL's equity.

A further investment is planned in the current fiscal year 2003-04 of Rs.1,873 million (US$ 39.41 million) inclusive of a spillover payment of Rs.380 million (US$ 7.99 million) from fiscal year 2002-03.

VSNL America Inc.

Subsequent to the end of fiscal 2003, the Company invested US$ 750,000 in its newly formed, wholly owned subsidiary VSNL America Inc. The main purpose of this investment is to expand the Company's International Virtual Private Network business in the US. International Virtual Private Network services is a rapidly growing business, serving the global needs of Indian IT services companies and as well as other large corporations.

VSNL Lanka Ltd.

The Telecommunications Regulatory Commission of Sri Lanka has opened Sri Lanka's ILD sector for outside providers to provide External Gateway Services in Sri Lanka. The international long distance market in Sri Lanka opened up in August 2002. Subsequent to the end of fiscal 2003, the Company

acquired an External Gateway Services license against a license fee of US$60,000, which allows the Company to offer ILD voice and data services in Sri Lanka. The Sri Lankan market is estimated at 400 million ILD minutes annually. The Company has plans to invest Rs. 90 million (US$ 1.89 million) in VSNL Lanka in the current fiscal year.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The Company conducts its own internal research activity in order to achieve its strategic goals and to participate in current technological advancements. The Company plans to invest in internal research and development. The main focus of the Company's internal research and development activity is software development for communications applications and the development of telecommunications equipment for specific requirements of the Company. The research and development of the Company with respect to communications applications has focused, in recent years, on web based electronic data interchange, store and forward fax applications and graphic user interface terminals for Internet applications.

In accordance with the accounting policy on research and development adopted by the Company in fiscal year 2000, all costs incurred on research and development by the Company are charged to the income statement under the relevant line items. In addition, costs incurred with respect to the purchase of capital equipment for research and development are capitalized.

REVIEW OF USEFUL LIVES AND THE CONSEQUENT CARRYING VALUES OF CERTAIN ASSETS

The Company has initiated a review of the estimated useful lives and the consequent carrying values of certain long-lived assets. As and when such review is completed, it could result in a downward revision in the useful lives and the consequent carrying values of the assets. The Company is presently unable to quantify the effect, if any, that such review when completed would have on its financial condition and results of operations. Also see "Item 3. Information on the Company--Risk Factors--The Company has initiated a review of the useful lives and the consequent carrying values of certain long lived assets which could result in a reduction in the carrying value of such assets."

TREND INFORMATION

While the Company currently continues to generate most of its revenues from its ILD telephony business, there is no certainty that this could be so in the future. This is because the opening of this business to competition from April 2002 has continued to result in increased competitive pressure for volumes. Simultaneously, prices have also dropped steeply over the last twelve months because inbound carriers now have the choice of sending traffic through several operators. The Company's "most favored customer" status over traffic from BSNL, which controls nearly over 85 percent of outgoing traffic, comes

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to an end in February 2004. There is no certainty that BSNL or MTNL will continue to route their traffic through the Company after February, 2004. In the event of this happening, the Company's outgoing traffic could be substantially affected.

The Company, however, has certain new initiatives in place including an association with Mobile First (an alliance of private operators) for carrying their outgoing international traffic. The Company believes that such initiatives will enable it to compete better in the current environment.

The Company's success in the ILD and NLD business also depends on the ability to access retail customers who choose the Company's service. A key element in this process is the implementation of the Carrier Access Code system, which will enable customers to choose the ILD and NLD operators of their choice. The speed of implementation of the Carrier Access Code depends on Government policy, which is currently unclear.

The BPO and ITS markets in India have been growing rapidly, which could result in significant speedy growth in the Company's Corporate Data transmission business. However, the presence of new competitors with large amounts of bandwidth is reducing prices for these services. The Company hopes that the introduction of innovative pricing, differentiated packages and diverse offerings will enable it to compete effectively in these businesses.

The Company is the largest Internet service provider in the country. However, the growth in subscribers may not result in revenue growth because in our experience, new subscribers tend to be less active users. It is possible that the market may move towards other bandwidth intensive applications, such as video on demand, gaming, interactive education etc. Many of the Company's competitors, such as Bharti Tele-ventures, have acquired large amounts of bandwidth, and the Company might have to reposition itself to compete effectively in bandwidth intensive businesses.

The Company has initiated a review of the estimated useful lives and the consequent carrying values of certain long-lived assets. As and when such review is completed, it could result in a downward revision in the useful lives and the consequent carrying values of the assets. The Company is presently unable to quantify the effect, if any, that such review when completed would have on its financial condition and results of operations.

BUSINESS OUTLOOK FOR FISCAL 2004

Based on currently available information, the Company expects its business outlook for the fiscal year ending March 31, 2004 to be as follows:

> Under the Company's annual operating plan, gross revenue for the fiscal year ending March 31, 2004 is expected to be in the range of Rs. 34,000 million (US$ 715.34 million). Of this amount, the Company has achieved approximately Rs. 8,403 million (US$ 176.79 million) in gross revenue for the first quarter ending June 30, 2003 as measured in accordance with Indian GAAP.

The above mentioned expectations and projections regarding trends and our future performance are forward-looking statements. These expectations and projections are based on currently available economic and financial information along with our operating plans and are subject to future uncertainties that could cause actual results to differ materially from those that may be indicated by these statements. We do not undertake to update any forward-looking statement that may be made from time to time by or on our behalf.

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FINANCIAL AND MANAGEMENT ACCOUNTING AND REPORTING SYSTEMS

The Company, which remained wholly owned by the Government until late 1992, continued to be subject to various laws and Government policies in respect of public sector enterprises and to follow procedures appropriate for a public sector entity until the recent privatization. Consequently, the Company's financial and management accounting and reporting systems are not as developed as those of certain comparable companies outside India. In addition, the Company's procedures for preparing budgets and appraising and monitoring capital

expenditure projects are less precise than those used by comparable private sector companies. In order to address certain of these deficiencies, the Company continues to improve data input for its traffic accounts, has increased the number and quality of its financial and accounting personnel, and is in the process of installing new systems and procedures, including an integrated financial accounting and budgeting system.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND OFFICERS OF THE COMPANY

The Company's Articles of Association ("Articles") provide for a Board of not less than three and not more than twelve Directors. The Company's Board of Directors has ultimate responsibility for the administration and management of the affairs of the Company. The Articles of Association of the Company were extensively amended at the 16th Annual General Meeting held on August 20, 2002, to be in consonance with the provisions of the Shareholders' Agreement and Share Purchase Agreement. The amended Articles prescribe the rights of the Government of India and Panatone Finvest Limited as agreed under Shareholders' Agreement to be exercised through their nominee directors on the board, if at the Board meeting, or through its authorized representative, if at the shareholders meeting as described in "Item 10. Additional Information--Memorandum and Articles of Association".

On February 13, 2002 the Government of India ("GOI"), Panatone Finvest Limited ("Strategic Partner"), Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited and Tata Industries Limited ("Principals") signed a Shareholders' Agreement ("SHA") as per the provisions of which the GOI transferred 7,12,50,000 Equity Shares owned by the Government, representing 25 percent of the aggregate number of the issued and outstanding Equity Shares of the Company which were sold to the Strategic Partner pursuant to the terms and subject to the conditions set forth in the Share Purchase Agreement ("SPA"). As per the provisions of the SPA and SHA, the composition of the Board of Directors of the Company is determined as given below.

(a) On the closing the Board shall comprise 12 directors.

(b) As long as the Government holds at least 10 percent of the voting equity share capital of the Company the composition of the Board shall be as follows:

   (i) Four out of twelve directors shall be permanent or non-retiring directors, of which the Government and Panatone Finvest Limited shall be entitled to appoint two directors each.

   (ii) The remaining eight directors shall be liable to retire by rotation. Of the retiring directors, four directors shall be independent directors on the Board.

   (iii) Of the four independent directors Panatone Finvest Limited and the Government shall be entitled to nominate and recommend names of two independent directors each.

   (iv) The composition of the remaining four directors i.e. the retiring and non independent directors shall be determined by the following:

      i. As long as Panatone Finvest Limited together with its

Affiliates holds 25 percent of the voting equity share capital of the Company, two directors shall be nominated each by the Government and Panatone Finvest Limited.

ii. As soon as Panatone Finvest Limited acquires and holds more than 25 percent but less than 30 percent of the voting equity share capital of the Company, Panatone Finvest Limited shall have the right to appoint three directors on the Board and the Government shall have the right to appoint one Director on the Board.

iii. As soon as Panatone Finvest Limited acquires and holds more than 30 percent of the voting equity share capital of the Company, Panatone Finvest Limited shall have the right to appoint all the four directors.

(a) Notwithstanding anything to the contrary contained in the SPA and SHA (i) the Government shall have the right to appoint two non retiring Directors so long as the Government holds at least 10 percent of the voting equity share capital of the Company and (ii) the Government shall be entitled to appoint one non retiring director on the Board so long as the Government is a shareholder in the Company.

(b) Subject to the provisions of sub clauses (c) above and (e) below, if a Person, other than a Party to the SHA ("Party"), to whom the Government, Panatone Finvest Limited or a party to the SHA ("Shareholder") as the party to the SHA has transferred its Shares (or any equity rights or interests therein) or renounced the Right pursuant to the SHA, requests the right to nominate one or more directors, and at the time of such request, such request complies with the requirements of the Act, the right to nominate one or more directors (depending on the percentage of the equity share holding in the Company held by the Shareholder who has transferred the Shares or renounced the Right, as the case may be) shall be taken from such Shareholder who has transferred the Shares or renounced the Right, as the case may be and not from the other Shareholders and such request shall not be fulfilled by increasing the total number of directors constituting the Board. For the purpose of clarity and removal of doubt, if at any time after the expiry of three years from the Closing, Panatone Finvest Limited, together with its Affiliates, holds less than 25 percent of the voting equity share capital of the Company, the composition of the Board shall be suitably changed in accordance with the provisions of the Act.

(c) Notwithstanding the foregoing, at least three-fourths of the total number of directors on the Board shall, at all times, be Indian Nationals.

(d) For purposes of clarity and avoidance of doubt, the Government and Panatone Finvest Limited agree that if additional independent directors are required to be appointed to the Board to comply with any Laws or regulation or to comply with the provisions of any listing agreement, then, by mutual agreement between the Government and Panatone Finvest Limited, either the strength of the Board shall be increased to the extent required or the number of directors that each of the Government and Panatone Finvest Limited shall be entitled to appoint under paragraphs (a) and (b) above shall be proportionately reduced.

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(e) The proportion of representation of the Parties to the SHA on any committees or sub-committees of the Board shall be the same as that of the Parties on the Board.

(f) In the event that the Board constitutes a share transfer committee for the purpose of effecting the transfer of the Shares, such share transfer committee shall include one nominee of Panatone Finvest Limited and the Government each.

(g) Panatone Finvest Limited, Principal(s) and the Government shall cause the Company to take all and any steps as may be required under the Act to effect the appointment of the directors. Each of the Government and Panatone Finvest Limited shall be entitled to remove and replace its nominees (except the independent directors) from time to time as provided in Article 5.3 of the SHA. Both the Government and Panatone Finvest Limited shall vote the Equity Shares held by them to elect the directors nominated/appointed in accordance with this Agreement. As long as Panatone Finvest Limited holds 25 percent of the then-outstanding Equity Shares, one of the directors nominated by Panatone Finvest Limited shall be the Managing Director of the Company.

(h) If any director is reasonably expected to be or is absent for a period of not less than three (3) calendar months from India where the registered office of the Company is located, the Board may, at a meeting of the Board or by circulation of a written resolution of the Board in accordance with

applicable Law, appoint an alternate director. The alternate director shall be an individual nominated by the director in whose place such alternate director is being appointed, and the Shareholders shall cause their nominees on the Board to approve the appointment of such individual as an alternate director.

(i) Each Shareholder shall be entitled to remove any director appointed by it to the Board by Notice to such director and the other Parties. Any vacancy occurring on the Board by reason of retirement, death, disqualification, resignation, removal or the inability to act of any director for any reason whatsoever shall be filled only by another nominee of the party whose nominee was so affected so as to maintain a Board consisting of the number of nominees specified above. Retirement of any director shall also be subject to any applicable provisions in the Articles of Association.

On February 13, 2002 as per the provisions of the SPA and SHA the Board was reconstituted. As of September 2, 2003, the Board of Directors of the Company consists of twelve directors with four independent directors, two directors nominated by the GOI as non-retiring directors and the remaining six being nominated by Panatone Finvest Limited. The Managing Director is a non-retiring director so long as he holds the office as such. At the 16th Annual General Meeting of the Company held on August 20, 2002, the appointment of Mr. S.K. Gupta and Mr. N. Srinath as the Managing Director and the Whole time director respectively was approved by the shareholders. Mr. S.K. Gupta was appointed as the Managing Director of the Company until the date of his superannuation, September 30, 2002. Mr. Srinath was appointed as the Whole time director for a period of five years from the date of his appointment, February 13, 2002.

In respect of the re-appointment of Mr. Gupta beyond September 30, 2002, the Board at its meeting held on August 20, 2002 noted that Mr. Gupta will be employed as a senior executive with Tatas with effect from October 1, 2002 on a five years' contract basis, and will be deputed in the Company as the

Managing Director of the Company for a period of up to two years with effect from October 1, 2002, and the Board approved the appointment as the Managing Director of the Company on deputation from Tatas with effect from October 1, 2002 for a period of up to two years from that date. At the 17th Annual General Meeting on September 2, 2003, the appointment of Mr.S.K Gupta for a period of up to two years from October 1, 2002, was approved by the shareholders.

The business address of each of the directors is the registered office of the Company. The current directors and their positions are as follows:

Name	Age	Position	Term
Ratan N Tata..................	65	Chairman	Liable to retire by rotation

Shailendra Kumar Gupta........	61	Managing Director	Reappointed by the Board for a further period of up to two years from October 1, 2002. Not liable to retire by rotation so long as he holds office as Managing Director
Srinath Narasimhan............	41	Director (Operations)	Up to February 2007
Rakesh Kumar (1)..............	55	Government Nominee	Non-retiring Director
Y. S Bhave (1)................	53	Government Nominee	Non-retiring Director
Subodh Bhargava (2)...........	61	External Director	Liable to retire by rotation
Suresh Krishna (2)............	67	External Director	Liable to retire by rotation
Ishaat Hussain................	56	External Director	Liable to retire by rotation
Kishor A Chaukar..............	55	External Director	Liable to retire by rotation
Vivek Singhal (2).............	63	External Director	Liable to retire by rotation
Ashok Jhunjhunwala (2)........	49	External Director	Liable to retire by rotation
Firdose A. Vandrevala.........	52	External Director	Liable to retire by rotation

(1) Typically, nominee directors continue on the Board of the Company for so long as the nomination is not changed by the Government.

(2) Independent directors liable to retire by rotation.

OTHER PRINCIPAL OFFICERS

The following individuals are the principal executive officers of the Company in addition to those officers who are members of the Board of Directors:

NAME	AGE	POSITION	OFFICE
Amitabh Khanna	46	Chief Financial Officer (Deputed from the Tata Group)	June

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S.G. Ranade	50	Company Secretary & Vice President (Legal)	Janua
K.P. Tiwari	53	Vice President (Operations)	Janua
Arun Gupta	46	Vice President (Finance)	Janua

Set forth below is selected biographical information for certain of the Company's directors and officers:

Mr. Ratan N. Tata (Chairman) was born in Mumbai on December 28, 1937. He received a Bachelor of Science degree in architecture from Cornell University in 1962, and completed an Advanced Management Program conducted by Harvard University in 1974-75. Mr. Tata joined the Tata Group in 1962. He was appointed director-in-charge of National Radio & Electronics Company Limited (NELCO) in 1971. He was named chairman of Tata Industries Limited in 1981. In 1991, Mr. Tata was appointed chairman of Tata Sons Limited. He also currently holds the chairmanship of several major Tata companies including Tata Steel, Tata Engineering, Tata Power and Indian Hotels. Besides his directorships on the boards of various Tata companies, Mr. Tata is the chairman of two of the largest private sector-promoted philanthropic undertakings in India. He serves as a member of the central board of the Reserve Bank of India (RBI) as well as of the Prime Minister's Council on Trade and Industry. His foreign affiliations include memberships of the international advisory boards of J.P. Morgan Chase, Booz-Allen and Hamilton Inc. and the American International Group; of the board of governors of the East-West Center; and of the board of trustees of the Ford Foundation. In 1999, he was appointed to serve on the International Investment Council set up by the President of the Republic of South Africa. Mr. Tata has been appointed as a member of the Asia Pacific advisory committee to the board of directors of the New York Stock Exchange.

Mr. Shailendra Kumar Gupta (Managing Director) was born on September 9, 1942. He earned a Bachelor of Science degree from Lucknow University and a degree in electrical engineering from Roorkee University, graduating with a gold medal in 1964. He thereon became a lecturer in electrical engineering at Roorkee University. Mr. Gupta joined the Indian Telecom Service in September 1965 and held various positions in the Department of Telecommunications and Mahanagar Telephone Nigam Limited. Mr. Gupta became chairman and managing director of the Company in September 1999. After the Tata Group acquisition of the Company in February 2002, Mr. Gupta continues as the Company's managing director. During his career, he was deputed through the United Nations to Malawi, Africa as a switching telecom expert during 1982-83. He also trained in Japan in C-400 cross bar systems and at the University of Essex, U.K., in computer software engineering. In July 2001, he was elected as a director to the board of the privatized INTELSAT. Mr. Gupta, with effect from October 1, 2002, has been deputed to the Company from Tata Services Limited.

Mr. Srinath Narasimhan (Director -Operations) was born on July 8, 1962. He received a degree in mechanical engineering from IIT (Madras) and completed his management degree from IIM (Calcutta), specializing in marketing and systems. Joining the Tata Administrative Services in 1986, 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 was a project executive in Tata Honeywell from 1987 to 1988. He then moved to Tata Industries as executive assistant to the chairman until 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. 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. 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 the Company as director (operations).

Mr. Rakesh Kumar (Director), Senior Deputy Director General (SU), DoT, is a graduate in science from the University of Allahabad. He also has a degree in mechanical engineering with honors from Varanasi and holds an MBA (marketing) from the Faculty of Management Studies, Delhi University. Mr. Rakesh Kumar is a fellow of the Institute of Engineers; fellow of the Institute of Electronics and Telecom Engineers; and director, Quality Circle Forum of India, besides being a board member and trustee of

several other organizations. He is also on the advisory panel of the Union Public Service Commission (UPSC) and a regular visiting faculty at a training centre of the Department of Telecommunications at Ghaziabad.

Mr. Y.S. Bhave (Director) 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. Mr. Bhave has held positions including chief executive officer of the Maharashtra Industrial Development Corporation; managing director, Maharashtra Small-Scale Industries Development Corporation; managing director, Maharashtra State Finance Corporation; development commissioner (industries) and secretary (industries), Government of Maharashtra; chairman, Maharashtra State Electricity Board; and president and chief executive officer, Indian Institute of Software Engineering, amongst others. During 1989-90 he obtained a degree of Master in Public Administration from Harvard University.

Mr. Subodh Bhargava (Director) was born in Agra in 1942, and holds a degree in mechanical engineering from the University of Roorkee. He started his career with Balmer Lawrie & Co., Calcutta before joining the Eicher Group of Companies in Delhi in 1975. On March 31, 2000, he retired as the group chairman and chief executive and is currently an advisor to the group. He is the past president of the Confederation of Indian Industry (CII) and the Association of Indian Automobile Manufacturers; and the vice president of the Tractor Manufacturers Association. He is a member of the Insurance Tariff Advisory Committee, the Economic Development Board of the government of Rajasthan and the board of governors of the Centre for Policy Research. He is the chairman of the National Accreditation Board for Certifying Bodies (NABCB) under the aegis of the Quality Council of India (QCI). He is currently on the board of IIM, Indore; the Indian Institute of Foreign Trade, New Delhi; and the Entrepreneurship Development Institute of India, Ahmedabad. He is on the boards of governors of other institutions for graduate engineering and bachelors and masters degree programs in business management.

Mr. Suresh Krishna, (Director) 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 at the University of Munich, Germany. Mr. Krishna is the chairman and managing director of Sundaram Fasteners Limited. He has been involved in several other public bodies set up from time to time by the central as well as the state governments. Among other things, he has been appointed as a director on the central board of the Reserve Bank of India.

Mr. Ishaat Hussain, (Director) joined the Board of Tata Sons as an executive director on July 1, 1999, and became the finance director of Tata Sons Ltd. with effect from July 28, 2000, a position he continues to hold. Prior to joining Tata Sons he was the senior vice president and executive director - finance, in Tata Steel for almost ten years. Mr Hussain completed his schooling from the Doon School in 1963 and joined St. Stephens College, Delhi to graduate in economics. A chartered accountant from England and Wales, Mr Hussain joined the board of The Indian Tube Company (a Tata Steel associate company) in 1979. He moved to Tata Steel in 1981 after Indian Tube was merged with Tata Steel. Besides being on the board of Tata Sons Limited, he is the chairman of Tata SSL Limited and Voltas Limited. He is also on the boards of several Tata companies, including Tata Steel, Tata Industries, Tata Teleservices, Titan Industries Limited.

Mr. Kishor A. Chaukar, (Director) currently the managing director of

Tata Industries Limited (TIL), holds a post-graduate degree in management from IIM, Ahmedabad. Mr. Chaukar is also a member of the Tata Group executive office, which is engaged in strategy formulation at the House of Tata. Mr. Chaukar was previously the managing director of ICICI Securities & Finance Company Limited (July 1993 to October 1998), and a member of the board of directors of ICICI Limited from February 1995. His other experiences include stints in Godrej Soaps Limited and in the Bhartiya Agro Industries Foundation

Mr. Vivek Singhal (Director) is the Chairman of the Electronics & Software Export Corporation and has joined the Company as an Additional Director (Independent) on the Board of the Company with effect from the conclusion of the 16th Annual General Meeting held on 20 August 2002. Mr. Singhal

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started his own company, Computronics India, in 1971. Mr. Singhal is a Member on the Government Body/Advisory Council of the Department of Science & Technology and Ministry of Information Technology, Government of India. He is also on the Board of Directors of Bharat Yantra Nigam Limited, Government of India, Bharat Sanchar Nigam Limited (BSNL), Indraprastha Mahavidyalaya, Delhi, and the Department of Electronics Accreditation Computer Courses (DOEACC) Society, under the Ministry of Information Technology, Government of India. He is the Chairman of Electronics & Computer Software Export Promotion Council (ESC) and Chairman (Northern Region) of Federation of Indian Export Organizations (FIEO). He is President of Computronics International Ltd. and Biotech International Ltd.

Prof. Ashok Jhunjhunwala (Director) is the Professor & Head of the Department of Electrical Engineering of the Indian Institute of Technology and joined the Company as an Additional Director (Independent) on the Board of the Company with effect from the conclusion of 16th Annual General Meeting held on 20 August 2002.

Mr. F.A. Vandrevala (Director) is the managing director of 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 and in August 2003 became the Non-Executive Chairman of Tata Teleservices. 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. 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.

Mr. Amitabh Khanna, Chief Financial Officer, is a senior finance professional with more than 19 years of operational finance and business strategy experience with various multinational telecommunications companies including Nortel Networks, Ericsson and British Telecommunications. He received his bachelor in commerce from the Sri Ram college of Commerce, Delhi University and qualified as a Chartered Accountant with Price Waterhouse. He latter went on to receive a Masters in Business Administration from the International Institute of Management Development, University of Geneva. He is a fellow member of the Institute of Chartered Accountants of India and associate member of the Institute of Company Secretaries of India. He has been deputed to the Company as Chief Financial Officer from Tata Services Limited.

Mr. S.G. Ranade, Company Secretary and Vice President (Legal), has been with the Company since 1987. Prior to joining the Company, Mr. Ranade was Deputy Secretary of Maharashtra Elektrosmelt Limited, Mumbai. He is a member of the institute of Company Secretaries of India. Mr. Ranade holds degrees in commerce and law from the University of Mumbai.

Mr. K.P. Tiwari, Vice President (Operations) joined the Overseas

Communications Services in 1976 and has been employed by the Company since its establishment. Prior to joining the Overseas Communications Services, Mr. Tiwari worked for the Indian Post and Telegraph Department for 4 years. Mr. K.P. Tiwari holds a Master of Science Degree in Electronics from Kanpur University.

Mr. Arun Gupta, Vice President (Finance), joined the Company in 1998. Prior to joining the Company, Mr. Gupta worked in finance for 18 years in various capacities at Sikkim Industrial Development & Investment Corporation Ltd., Pradeshiya Industrial & Investment Corporation of UP Ltd., and Risk Capital & Technology Finance Corporation Ltd. (a subsidiary of Industrial Finance Corporation of India Ltd.). He also officiated as Managing Director at IFCI Ventures. He held the office of Chief Financial Officer of the Company between February 2002 and June 2003. Mr. Gupta holds a Bachelor of Science degree from University of Delhi, a Master of Business Administration degree with a concentration on finance from A.M. University and a Bachelor of Law degree from the University of Delhi.

No director or officer of the Company has any family relationship with any other officer or director of the Company.

Other than as described above, there are no arrangements or understandings among any director or any officer and any other person regarding their election to their post with the Company.

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COMPENSATION OF DIRECTORS AND OFFICERS

The directors, other than the full-time directors and the Government nominee directors, of the Company received a sitting fee not exceeding Rs.5,000 (US$105.20) for attending each Board and Committee meeting. In fiscal 2003, Rs.255,000 (US$5,365.03) was paid towards sitting fees. The directors are also reimbursed for travel and out-of-pocket expenses in connection with their attendance at Board and Committee meetings.

For the fiscal year ended March 31, 2003, the aggregate amount of compensation paid by the Company to all directors and principal officers of the Company was approximately Rs.13.87 million (US$0.29 million). The functional directors, Mr. S.K Gupta was paid an aggregate compensation of Rs.4.86 million (US $ 0.10 million) and Mr. Srinath was paid an aggregate of Rs.3.75 million (US $ 0.08 million). No other principal officer received remuneration from the Company (salary, bonus, housing allowance, perks and benefits, etc.) in excess of Rs.2 million (US$ 0.04 million) for fiscal year 2003.

Subsequent to the Panatone Finvest Limited takeover, certain officers and employees have been deputed to the Company from other Tata Group companies. The total payments made by the Company to these companies towards the cost of the deputed officers was approximately Rs.11.35 million (US$ 0.24 million) in fiscal 2003.

For the fiscal year ended March 31, 2003, the aggregate amount set aside or accrued by the Company to provide pension, retirement or similar benefits for principal officers and directors of the Company was approximately Rs.4.49 million (US$0.09 million).

A performance reward scheme is in place that is applicable to all employees and functional directors of the Company. This performance reward is based on the improvement of the Company's overall performance during the financial year under consideration. The performance of the Company is evaluated in relation to the previous year's performance based on several pre-defined parameters. Depending upon the degree of improvement in the overall performance

of the Company all employees are entitled to receive rewards as per their salary scale. During the fiscal year 2003, a total of Rs.0.87 million (US$ 0.02 million) was paid to the functional Directors and other principal officers based on the overall performance for fiscal year 2002. During fiscal 2001, the employees had received 33.67 percent of their annual basic pay as a reward, which was paid out during fiscal 2002. The functional directors and other principal officers had received a total of Rs.1.07 million under this scheme during the fiscal year 2002.

OPTIONS TO PURCHASE SECURITIES FROM THE COMPANY.

EMPLOYEE STOCK PURCHASE SCHEME ("ESPS")

As part of the process of disinvestment, the Government on various dates transferred 5,661,546 Equity Shares (approximately 1.85 percent of the Company's equity capital) to the employees of the Company at a price significantly lower than the fair value on the date of transfer. The transfer issuance 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. Accordingly, Rs.896 million has been charged to compensation cost for the year ended March 31, 2002.

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

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BOARD COMMITTEES

Audit Committee

The committee has five members. The committee is chaired by independent director Mr. Subodh Bhargava. Other independent directors, Mr. Vivek Singhal and Dr. Ashok Jhunjhunwala, along with Mr. Y.S Bhave and Mr. Ishaat Hussain, who are non-official, part-time directors are also members. The broad powers and scope of the committee is as follows:

Powers:

i) to investigate any activity within its scope of work

ii) to seek information from any employee.

iii) to obtain outside legal or other professional advice.

iv) to secure attendance of outsiders with relevant expertise, if considered necessary.

Scope of work :

i) oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

ii) recommending the appointment and removal of external auditors, fixation of audit fee and also approval for

payment for any other services, as may be applicable in case of the Company.

iii) reviewing with management the annual financial statements before submission to the board, focusing primarily on

- any changes in accounting policies and practices.
- major accounting entries based on exercise of judgement by management.
- qualifications in draft audit report.
- significant adjustments arising out of audit.
- the going concern assumption.
- compliance with accounting standards.
- compliance with stock exchange and legal requirements concerning financial statements.
- any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

iv) reviewing with the management, external and internal auditors, the adequacy of internal control systems.

v) reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

vi) discussion with internal auditors any significant findings and follow up thereon.

vii) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

viii) discussions with external auditors before the audit commences nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.

ix) reviewing the Company's financial and risk management policies.

x) to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

Remuneration Committee

The Board, at its meeting held on July 29, 2002, constituted the Remuneration Committee of the Board to include Mr. Suresh Krishna, independent director, as its Chairman, Mr. Ratan N. Tata and Mr. Subodh Bhargava as its members, and the Secretary of the Company as its convener. The Remuneration Committee determines the Company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment. The first meeting of the Remuneration Committee was held on May 29, 2003 and decided the remuneration of the whole-time directors for the fiscal year 2002-03.

EMPLOYEES

As of March 31, 2003, the Company had 2,752 employees, of whom 1,081 were executive employees (technical employees and other employees with the rank of officer or higher, including fulltime directors of the Company) and 1,671 were non-executive employees. As of March 31, 2002, and March 31, 2001, the Company had 2,880 employees and 2,991 employees, respectively. Upon its establishment in 1986, the Company assumed responsibility for all the 3,148 employees of the Overseas Communications Service (690 executives and 2,458 non-executives). Since then, the Company has gradually rationalized its work force, both reducing the total number of employees and increasing the proportion of employees who are engineers or otherwise highly skilled. The Company seeks to improve employee productivity through continuing education and training and by emphasizing the importance of quality of service and customer satisfaction. There are also about 26 employees deputed from the Tata Group.

All non-executive employees of the Company are members of local unions organized at each Company site, which are affiliated as the Federation of the Videsh Sanchar Nigam Limited Employees Unions (the "Federation"). The Federation is a Company-wide union and is not affiliated with any larger industry-wide or national union. Executive officers of the Company meet with the Federation regularly to discuss and resolve concerns that non-executive employees have and also negotiate collective bargaining agreements to govern the terms and conditions of non-executive employees. Employee concerns are resolved through regular meetings/ discussions with the Federation.

Most executive employees (other than directors) of the Company are members of a similarly organized Officers' Association, which acts as an informal consultative mechanism for conveying the officers' views regarding personnel policies to the Company's management.

During the current fiscal year, the Company has stepped up its internal communication and training activities. The Company has also introduced a new performance management system for its executive employees.

In order to rationalize its manpower with its business needs, the Company announced a Voluntary Retirement Scheme on May 9, 2003. The scheme commenced on May 15, 2003 and was open to employees who were 40 years of age or above with 10 years of service. Approximately 1,675 employees (575 executives and 1,100 non-executives) were eligible to participate. The scheme closed on July 14, 2003 and a total of 953 employees opted to retire voluntarily, which included 246 executives (23 percent of the total executive workforce) and 707 non-executives (44 percent of the total non-executive workforce). An amount of approximately Rs.950 million (US $ 19.99 million) has been paid towards the VRS

compensation i.e. on an average Rs.1 million (US $ 0.02 million) per employee was paid to the retiring employees.

As of August 15, 2003, the members of the Board of Directors and the executive officers of the Company as a group, owned an aggregate of 10,725 Shares, representing 0.003 percent of the Company's Shares issued and outstanding at such date.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

As of September 1, 2003, approximately 46.60 percent of the outstanding equity of the Company was held by Panatone Finvest Limited in conjunction with other companies of the Tata Group, and approximately 26.12 percent was held by the Government. See "Item 4. Information on the Company--History and Development of the Company," "Item 4. Information on the Company--Organizational Structure," and "Item 6. Directors, Senior Management, and Employees--Directors and Officers of the Company."

The following table sets forth certain information regarding the beneficial ownership of the Equity Shares at September 1, 2003, including the beneficial ownership of Shares of each person or group known by the Company to own beneficially 5 percent or more of the outstanding Shares, as reported by such persons.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED(1)	PERCENTAGE
Panatone Finvest Limited......................	128,250,000	45.00
Government of India (2).......................	74,446,885	26.12

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(1) Number of shares and percentage ownership is based on 285,000,000 Equity Shares outstanding as of September 1, 2003. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. Shares subject to options that are currently exercisable or exercisable within 60 days of September 1, 2003 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, the Company believes that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable.

(2) The Shares owned by the Government are registered in the name of the President of India or his nominees in the register of shareholders of the Company.

The Company's ADSs are listed on the New York Stock Exchange. Each ADS represents two Equity Shares. As of June 30, 2003, approximately 31,028,010 Equity Shares (10.89 percent of the total Equity Shares outstanding as of such date) were held by the custodian, ICICI Limited (the "Custodian"), for The Bank of New York, as depositary for the Company's ADSs. The Company is unable to estimate the percentage of ADSs or Equity Shares held in the United States or the number of record holders in the United States.

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 provisioning 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) of the Financial Statements.

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 4 percent. The loans are secured by the 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, and are included in trade and other receivables. Interest free short term advances made to employees aggregated Rs.8 million and Rs.10 million as of March 31, 2002 and 2003, respectively.

The Company also grants an interest subsidy in excess of 4 percent of the interest rate for loans taken by the employees for the purchase of property. The cost of the 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.

ITEM 8. FINANCIAL INFORMATION

We have elected to provide financial statements pursuant to Item 18 of this Form 20-F. There have not been any significant changes in the Company's financial condition, other than those stated in the financial statements attached to this annual report and as otherwise described in this annual report, since the date of the attached annual financial statements.

ITEM 9. THE OFFER AND LISTING

TRADING MARKETS

GENERAL

The Company's shares are currently listed on stock exchanges at Kolkata, Delhi, Chennai, Mumbai and the National Stock Exchange in India. There has recently been negligible trading of the Company's shares on the Chennai, Delhi and Kolkata stock exchanges. Therefore, at the Company's Annual General Meeting on September 2, 2003, the shareholders of the Company approved a proposal to delist the Company's shares from these stock exchanges. Accordingly, the Company will delist the shares from the Chennai, Delhi and Kolkata stock exchanges.

The Company's American Depositary Shares (ADSs) represented by American Depositary Receipts (ADRs) are listed on the New York Stock Exchange and on September 23, 2003, the last reported sale price was US$ 5.29 per ADS on the New York Stock Exchange. Each ADS represents two Shares. The ADSs were issued by The Bank of New York (the "Depositary"), pursuant to a Deposit Agreement.

The number of outstanding Shares of the Company as of June 30, 2003 was 285,000,000. As of June 30, 2003, there were 89,287 record holders of the Shares

listed and traded on the Indian Stock Exchanges. As of June 30, 2003, there were approximately 15,514,005 of the Company's ADRs (equivalent to 31,028,010 Shares).

PRICE HISTORY

PRINCIPAL MARKET FOR THE COMPANY'S ADSs

The table below sets forth, for the periods indicated, the high and low sales prices on the New York Stock Exchange for the ADSs since August 15,2000, the original date of listing of the ADSs.

	ADS PRICE	
	HIGH	LOW
	(IN US DOLLARS)	
Yearly Period:		
Fiscal 2001 (beginning August 15, 2000).......	18.75	9.50(1)
Fiscal 2002	15.74	5.55
Fiscal 2003	8.08	3.10
Quarterly Periods:		
Fiscal 2002		
First Quarter............................	15.74	11.40
Second Quarter	13.87	7.09(2)
Third Quarter............................	10.50	8.27
Fourth Quarter...........................	9.60	5.55(3)
Fiscal 2003		
First Quarter............................	8.08	6.00
Second Quarter	6.40	4.54(4)
Third Quarter............................	4.61	3.53
Fourth Quarter...........................	4.08	3.10
Fiscal 2003 March...........................	3.70	3.10
Fiscal 2004 Monthly Periods:		
April	3.40	2.95
May.....................................	4.00	3.20
June....................................	5.49	4.03
July....................................	6.25	4.55
August..................................	5.62	4.81(5)
September (through September 23)...........	5.61	5.00

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(1) - Stock split 3:4 in December 2000

(2) - Cash dividend of US$2.09 paid in September 2001

(3) - Cash dividend US$3.11 paid in January 2002

(4) - Cash Dividend of US$0.51 on July, 2002

(5) - Cash Dividend of US$0.37 paid in September 2003.

On September 23, 2003, the closing price of the Company's ADSs on the New York Stock Exchange was US$ 5.29.

Source: Yahoo Finance

The table below sets forth, for the periods indicated, the high, low and closing sales prices for the Shares on the BSE.

THE STOCK EXCHANGE, MUMBAI

PERIOD	PRICE PER SHARE (in Indian Rupees) HIGH	LOW
Yearly Periods:		
Fiscal 1998	1300	700
Fiscal 1999	970	660
Fiscal 2000	3250	565
Fiscal 2001	1938.6	198.35(1)
Fiscal 2002	402	134.65
Fiscal 2003	202	71.50
Quarterly Periods:		
Fiscal 2002		
First Quarter	402.00	272.00
Second Quarter	345.00	160.75(2)
Third Quarter	259.00	201.00
Fourth Quarter	228.00	134.65(3)
Fiscal 2003		
First Quarter	202.00	146.65
Second Quarter	154.90	107.15(4)
Third Quarter	114.90	88.30
Fourth Quarter	100.25	71.50
Fiscal 2003 March	90.70	71.50
Fiscal 2004 Monthly Periods:		
April	78.90	68.00
May	92.15	75.05
June	131.40	91.00
July	142.00	109.05
August	133.35	112.00(5)
September (through September 23)	127.50	113.40

On September 23, 2003 the closing price of a Share on the BSE was Rs. 119.15

(1) Post-Bonus price - A bonus of 2:1 was declared and became effective during November 2000.

(2) Stock Price adjustment of Rs.50 per share subsequent to the Company's dividend of 500 percent for the year 2001 took place on September 3, 2001

(3) Stock Price adjustment of Rs.75 per share subsequent to the Company's dividend of 750 percent for the year 2002 took place on January 16, 2002

(4) Stock Price adjustment of Rs.12.50 per share subsequent to the Company's final dividend of 125 percent for the year 2002 took place on July 26, 2002

(5) Stock Price adjustment of Rs.8.50 per share subsequent to the Company's final dividend of 85 percent for the year 2003 took place on August 12, 2003

Source: The Stock Exchange, Mumbai

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The table below sets forth, for the periods indicated, the high, low and closing sales prices and the average daily trading volume for the Shares on the NSE.

NATIONAL STOCK EXCHANGE

PERIOD	PRICE PER SHARE (in Indian Rupees)	
	HIGH	LOW
Yearly Periods:		
Fiscal 1998	1300	715
Fiscal 1999	995	640
Fiscal 2000	3298	561
Fiscal 2001	1990	210(1)
Fiscal 2002	400	134.70
Quarterly Periods:		
Fiscal 2002		
First Quarter	400.00	270.00
Second Quarter	340.10	160.90(2)
Third Quarter	258.95	198.00
Fourth Quarter	235.00	134.70(3)
Fiscal 2003		
First Quarter	197.40	146.25
Second Quarter	156.00	108.00(4)
Third Quarter	115.00	88.40
Fourth Quarter	100.00	71.20
Fiscal 2003 March	90.75	71.20
2003 Monthly Periods:		
April	78.90	68.50
May	93.30	74.90

June......................................	131.40	91.50
July......................................	142.10	109.00
August....................................	135.50	113.20(5)
September (through September 23)...........	126.9	112.00

On September 23, 2003, the closing price of a Share on the National Stock Exchange was Rs 119.20.

(1) Post-Bonus price - A bonus of 2:1 was declared and became effective during November 2000.

(2) Stock Price adjustment of Rs.50 per share subsequent to the Company's dividend of 500 percent for the year 2001 took place on September 3, 2001

(3) Stock Price adjustment of Rs.75 per share subsequent to the Company's dividend of 750 percent for the year 2002 took place on January 16, 2002

(4) Stock Price adjustment of Rs.12.50 per share subsequent to the Company's final dividend of 125 percent for the year 2002 took place on July 26, 2002

(5) Stock Price adjustment of Rs.8.50 per share subsequent to the Company's final dividend of 85 percent for the year 2003 took place on August 12, 2003

Source: The National Stock Exchange

In August 1996, the Indian Parliament enacted the Depositaries Act, 1996 which provides a legal framework for the establishment of depositaries to record ownership details and effectuate transfers in book-entry form. In May 1996, the Securities and Exchange Board of India ("SEBI") passed the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 which provides for the formation of such depositaries, the registration of participants as well as the rights and obligations of the depositaries, participants and the issuers. Every depositary is required to be registered with SEBI. The depositary system is expected eventually to improve significantly the operations of the Indian securities markets. Pursuant to the Depositaries Act, the National Securities Depositary Limited was established by the Unit Trust of India, the Industrial Development Bank of India and the NSE in 1996 to provide electronic depositary facilities for trading in equity and debt securities. The National Securities Depositary Limited, which commenced operations in November 1996, was the first depositary in India. The BSE announced plans to establish another depositary, and has accordingly incorporated the Central Depositary Services Limited, which commenced operations on July 15, 1999. The depositary system has significantly improved the operations of India's securities market.

Trading of securities in book-entry form commenced in December 1996 and is available for securities of about 5,000 companies at September 2003. In order to encourage "dematerialization" of securities, SEBI has set up a working group on dematerialization of securities comprising Foreign Institutional Investors, custodians, stock exchanges, mutual funds and the National Securities Depositary Limited to review the progress of securities and trading in dematerialized form and to recommend scrips for compulsory dematerialized trading in a phased manner. Accordingly, commencing January 1998, SEBI has notified scrips of various companies for compulsory dematerialized trading by certain categories of investors such as foreign and other institutional investors and has also notified compulsory dematerialized trading in specified scrips for all retail

investors. SEBI proposes to increase the number of scrips in which dematerialized trading is compulsory for all investors significantly in the near future. SEBI has also provided that the issue and allotment of shares in public, rights or offer for sale after a specified date (to be notified to SEBI) shall only be in dematerialized form and an investor shall be compulsorily required to open a depositary account with a participant.

However, even in case of scrips notified for compulsory dematerialized trading, investors, other than institutional investors, are permitted to trade in physical shares on transactions outside the stock exchange where there are no requirements of reporting such transactions to the stock exchange and transactions on the stock exchange involving lots less than 500 securities.

Under the Takeover Code, upon the acquisition of more than 5 percent of the outstanding shares of a public Indian Company, a purchaser is required to notify the Company and all the stock exchanges on which the shares of the Company are listed. Upon the acquisition of 15 percent or more of such shares or a change in control of the Company, the purchaser is required to make an open offer to the other shareholders offering to purchase at least 20 percent of all the outstanding shares of the Company at a minimum offer price as determined pursuant to the rules of the Takeover Code. Upon conversion of ADSs into Equity Shares, an ADS holder will be subject to the Takeover Code. Open market purchases of securities of Indian companies in India by Foreign Direct Investors or investments by Non-Resident Indians, Overseas Corporate Bodies and Foreign Institutional Investors above the ownership levels set forth above require approval of the Government of India on a case-by-case basis.

ITEM 10. ADDITIONAL INFORMATION

SHARE CAPITAL

Not Applicable.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is information relating to the share capital of the Company, including certain provisions of its Articles and the Companies Act, 1956 (the "Companies Act"). The Company is registered under the Companies Act with the Registrar of Companies, Mumbai, India with Company No. 39266. The

following description of the Company's Articles of Association and Memorandum of Association does purport to be complete and are qualified in their entirety by the Company's Articles of Association and Memorandum of Association that are included as exhibits to this Annual Report on Form 20-F, incorporated herein by reference.

The Memorandum and Articles of Association of the Company were drafted and adopted by the company in the year 1986 when the Company was formed as a wholly owned Government Company, and were designed to provide necessary authority to The President of India (the then majority shareholder) in terms of appointment of Directors, powers of the Board and other operational aspects subject to applicable statutory provisions. The Memorandum and Articles of Association were amended several times since 1986 to suit the changing business activities and structure of the Company as it changed from a wholly owned Government Company due to disinvestments from time to time. Since the Objects Clause contained in the Memorandum of Association and the Articles of Association were framed in year 1986 and were largely based on the activities of the erstwhile Overseas Communications Service at the time of its conversion into a company, as a result of privatization it needed to be suitably amended. Over

the years from 1986 to 2002, the shareholding of Government of India was reduced to 52.97 percent, and the Company continued to be a Government Company, and accordingly the restrictive provisions appropriate to a Government Company in the Memorandum and Articles of Association of the Company were implemented.

On 13 February, 2002, a 25 percent stake of the Company was transferred to Panatone Finvest Limited by the Government pursuant to the Share Purchase Agreement ("SPA"), the transfer of 1.85 percent stake to the employees through Employee Stock Purchase Scheme and thus the stake held by Government of India in Company stood reduced to 26.12 percent.

The shareholders, by way of postal ballot approved the amendment to the Memorandum of Association of the Company and by way of a special resolution at their meeting held on 20th August, 2002 approved the amendments to the Articles of Association of the company. See "Item 6. Directors, Senior Management and Employees--Directors and Officers of the Company."

GENERAL

The Company's authorized share capital is Rs.3,000,000,000, divided into 300,000,000 Shares with a face value of Rs.10 each. At the date hereof, 285,000,000 Shares were issued and fully paid. SEBI has allowed Indian companies to split the par value of their Equity Shares into denominations lower than Rs.10 per share. All Share and per Share amounts appearing in the financial data presented elsewhere herein have been retroactively restated to reflect this bonus issue.

The Shares are in registered form. The Shares are the only class of share capital of the Company currently in existence. There are no convertible debentures or warrants of the Company currently in existence.

Under our Memorandum of Association, the main objects of the Company include:

- Managing, controlling and maintaining the operations of the Overseas Communications Service of the Department of Telecommunication, Ministry of Communications, Government of India, with all its assets and liabilities including contractual rights and obligations on such terms and conditions as may be prescribed by the Government of India from time to time.

- Planning, establishing, developing, providing, operating and maintaining all types of international telecommunication networks, systems and services including, Telephone, Telex, Message Relay, Data transmission, Facsimile, Television, Telematics, value Added Network Services, New Business Services, Audio and Video Services, Maritime and Aeronautical Communication Services and other international telecommunications services as are in use elsewhere or to be developed in future.

- Planning, establishing, developing, providing, operating and maintaining telecommunications systems and networks within India as are found necessary for international telecommunications.

- Providing and maintaining international leased telecommunication services.

- Designing, developing, installing, maintaining and operating long distance domestic and international basic and value added

telecommunications, global mobile telecommunications, electronic mail services, globally managed data networks, data telecom networks, video conferencing, international gateway networks and satellite networks in and outside India.

DIRECTORS

Pursuant to Article 5.1 of the Shareholders' Agreement, the board of directors of VSNL has been reconstituted and shall consist of up to twelve directors. Four of the directors shall be permanent and non-retiring directors, of which the Government and Panatone Finvest Limited are entitled to nominate two each. Four of the directors shall be retiring and independent directors, of which the Government and Panatone Finvest Limited are entitled to nominate and recommend two each. Four of the directors shall be retiring and non-independent directors, of which the Government and Panatone Finvest Limited are entitled to nominate two each, unless Panatone Finvest Limited owns (a) more than 25.0 percent but less than 30.0 percent of the Shares, in which case Panatone Finvest Limited will be entitled to nominate three of the four directors and the Government will be entitled to nominate one of the four directors, or (b) more than 30.0 percent of the Shares, in which case Panatone Finvest Limited will be entitled to nominate all four directors. In addition, Panatone Finvest Limited has the right to designate one of the directors nominated by it as the managing director of the Company so long as it owns at least 25.0 percent of the Shares.

The remaining directors of the Company are liable to retire by rotation, and one-third of such directors are elected by the shareholders each year at the Company's Annual General Meeting. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day shall be determined by lot unless they otherwise agree between themselves. The retiring directors shall be eligible for re-election.

See "Item 6. Directors, Senior Management and Employees--Directors and Officers of the Company."

Compensation. The fulltime directors are entitled to receive compensation for their service to the Company. The external directors are entitled to receive a sitting fee for each meeting of the Board or a committee thereof that they attend. The fee for attending any meeting may be determined by the Board from time to time but must be within the maximum limit prescribed under the Companies Act. Subject to any provisions of the Companies Act, directors may be entitled to additional remuneration, if the director is called upon to perform an extraordinary service in behalf of the Company. In addition, directors may be reimbursed for reasonable traveling and other related expenses in connection with attending any meetings of the Board or a committee thereof.

Borrowing Powers. Subject to the provisions of the Company Act, the Board may pass a resolution at a meeting of the Board from time to time to borrow and/or secure the payment of any sum or sums of money for the purposes of the Company. The Board has the power, in its discretion, to determine the terms and conditions of such borrowing, including issuing bonds, debentures or any mortgage, charge or other security on the undertaking of any property of the Company.

Qualification; Retirement. A director need not hold any of the Company's Shares to qualify as a director. There is no age limit requirement for a director's retirement.

DIVIDENDS

The Company's shareholders, acting at the Annual General Meeting, may declare a dividend upon the recommendation of the Board of Directors. The amount of the dividend so declared may not exceed the amount recommended by the Board although a lesser amount may be declared. Dividends are distributed and paid within 30 days of the declaration by the shareholders. The Company's Board also is authorized under the Articles to declare and pay interim dividends to shareholders. It is customary in India to pay to holders of shares issued in any fiscal year a pro rata portion of the annual dividend for the portion of the year such shares were issued.

Dividends are payable only in cash to registered holders on a record date fixed prior to the relevant General Meeting.

Dividends may be paid only out of profits of the Company for the relevant year, after transfer to the reserves of the Company of a percentage of its profits for that year of not less then 2.5 percent if the dividend is in excess of 10 percent. The Companies Act further provides that, in the event of inadequacy or absence of profits in any year, a dividend may be declared for such year out of the Company's accumulated profits, subject to certain limitations.

Under the Companies Act, the dividend amount is required to be maintained in a separate bank account within five days of declaration of such dividend.

The Board of Directors of the Company recommended a dividend of Rs.8.50 on every share of Rs.10 for the financial year ended March 31, 2003, and the same has been approved at the Annual General Meeting held on September 2, 2003. See "Item 3. Key Information -Dividends."

VOTING RIGHTS

At any general meeting, voting is by show of hands (where each shareholder has one vote) unless a poll is demanded by at least ten percent of those entitled to vote on the resolution or those holding Shares with a paid-up value of at least Rs.50,000. Upon a poll, every shareholder entitled to vote and present in person or by proxy has one vote for every Share held by the shareholder. The Chairman has a deciding vote in the case of any tie.

Any shareholder of the Company may appoint a proxy. The instrument appointing a proxy must be lodged with the Company at least 48 hours before the time of the meeting. A corporate shareholder may appoint an authorized representative who may vote in all respects as if a shareholder, both on a show of hands and upon a poll.

Ordinary resolutions may be passed by simple majority of those present and voting at any General Meeting for which the required period of notice has been given. However, certain resolutions, such as alteration of the Articles, commencement of a new line of business, issuance of further Shares without preemptive rights and reduction of share capital, require that the votes cast in favor of the resolution (whether by show of hands or upon a poll) be not less than three times the number of votes, if any, cast against the resolution.

BONUS SHARES

In addition to permitting dividends to be paid out of current or retained earnings, the Companies Act permits the Company to distribute bonus Shares to shareholders. Upon any such distribution an amount equal to the face value of such bonus Shares is transferred from the general reserve or share premium account to share capital. Such bonus Shares must be distributed to shareholders in proportion to the number of Shares owned by them.

PREEMPTIVE RIGHTS AND ISSUE OF ADDITIONAL SHARES

The Company may by ordinary resolution increase its share capital by the issue of new Shares or create a new class of shares. In addition, the rights attached to the shares of any class may be varied with the consent of shareholders holding not less than three-fourths of the issued shares of that class. The Companies Act gives shareholders the right to subscribe for new Shares in proportion to their existing shareholdings unless otherwise determined by special resolution to that effect adopted at an Annual General Meeting of shareholders. Under the Companies Act, in the event of an issuance of securities, subject to the limitations the Company must first offer such Shares to existing shareholders by notice specifying (1) the number of Shares offered and the date, within 30 days from the date of offer, by which the offer must be accepted and (2) the right, exercisable by the shareholder, to renounce the shares offered in favor of any other person. The Board is entitled to distribute the Shares in respect of which preemptive rights have not been exercised in the manner that it deems most beneficial to the Company in accordance with the Articles.

GENERAL MEETING OF SHAREHOLDERS

The Company is required to convene an Annual General Meeting of its shareholders within six months after the end of each fiscal year and may convene an Extraordinary General Meeting of shareholders when necessary or at the request of a shareholder or shareholders holding not less than ten percent of the paid-up capital of the Company on the date of the request. The Annual General Meeting of the shareholders is generally convened by the Company Secretary in accordance with a resolution of the Board. Written notice setting out the agenda of the meeting must be given at least 21 days (excluding the day of service) prior to the date of the General Meeting to the shareholders whose names are on the register at the record date. Those shareholders who are registered as shareholders on the date of the General Meeting are entitled to attend or vote at such meeting.

The Annual General Meeting of shareholders must be held at the registered office of the Company or at such other place within the city in which the registered office is located; meetings other than the Annual General Meeting may be held at any other place if so determined by the Board.

The Articles provide that a quorum for a General Meeting is the presence of at least five shareholders, including a representative of the President of India and Panatone Finvest Limited.

REGISTER OF SHAREHOLDERS; RECORD DATES; TRANSFER OF SHARES

The Company's share transfer agent maintains a register of shareholders of the Company. For the purpose of determining Shares entitled to annual dividends the register is closed for a specified period prior to the Annual General Meeting. The Companies Act and the Company's listing agreement with the BSE (and the other Indian Stock Exchanges) permit the Company, pursuant to a resolution of the Board and upon at least 30 days' advance notice to the BSE (and such stock exchanges), to set the record date and upon seven days' public notice to close the register of shareholders for not more than 30 days at a time, and not more than 45 days in a year, in order for the Company to determine which shareholders are entitled to certain rights pertaining to the Shares. Trading of Shares may, however, continue while the register of shareholders is closed.

Following introduction of the Depositories Act, 1996, and the repeal of Section 22A of the Securities Contracts (Regulation) Act, 1956, which enabled companies to refuse to register transfers of shares in certain circumstances, the shares of a company are freely transferable, subject only to the provisions of Section 111A of the Companies Act. Pursuant to Section 111A, if the transfer of shares is in contravention of any of the provisions of the Securities and Exchange Board of India Act, 1992, or the regulations issued thereunder or the Sick Industrial Companies (Special Provisions) Act, 1985, the Company Law Board (a statutory body which administers various laws affecting companies in India) may, on application made by an investor, SEBI or certain other parties, direct the rectification of the register of records. The Company Law Board may, in its discretion, issue an interim order suspending the voting rights attached to the relevant shares, before making or completing its inquiry into the alleged

contravention. Pending such inquiry, the rights of a holder to transfer the shares would not be restricted, although the voting rights attached to the shares may remain suspended if the Company Law Board so orders.

Transfer of Shares of the Company is effected by an instrument of transfer in the form prescribed by the Government of India coupled with delivery of the share certificates. The transfer agent of the Company is M/s. Sharepro Services, located in Mumbai.

The above procedure is not applicable where the Shares are dematerialized and transferred electronically. To encourage "dematerialization" of securities in India, SEBI has required certain types of securities of certain Indian companies to be traded and settled in book-entry form. The Shares of the Company have been designated as one of such securities. To effect transfer of Shares in book-entry form, the seller and purchaser must establish accounts with a depositary participant appointed by the National Securities Depositary Limited or Central Securities Depositary Limited, a depositary established pursuant to the Depositories Act, 1996,. Charges for opening an account with an Securities Depositary Limited participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the business practice of each Securities Depositary Limited participant. Upon delivery, the Shares purchased will be registered in the name of the Securities Depositary Limited participant and held by such Securities Depositary Limited participant for the account of the purchaser. So long as the Shares are traded through the book-entry system of Securities Depositary Limited, ownership of beneficial interest in the Shares will be shown on, and transfer of such ownership will be effected only through, records maintained by Securities Depositary Limited participants.

The requirement for dematerialization of the Shares may apply to the ADR holders when the underlying Shares are withdrawn from the depositary facility upon surrender of the ADRs. In order to trade the underlying Shares in the Indian market, the withdrawing ADR holder will be required to hold such Shares in book-entry form and to comply with the Securities Depositary Limited procedures described above. If dematerialization of any underlying Shares is requested by an ADR holder, the cost incurred by the Depositary therefor will be borne by the withdrawing ADR holder. Transfer of Shares in book-entry form is not subject to any Indian transfer tax. See "Taxation--Indian Taxation."

DISCLOSURE OF OWNERSHIP INTEREST

Section 187C of the Companies Act generally requires beneficial owners of shares of Indian companies who are not holders of record to declare to the company details of the holder of record and holders of record to declare details of the beneficial owner. While it is unclear whether Section 187C applies to

holders of ADRs of a company, investors who exchange ADRs for shares are subject to this Section. Failure to comply with Section 187C would not affect the obligation of a company to register a transfer of shares or to pay any dividends to the registered holder of any shares in respect of which such declaration has not been made, but any person who fails to make the required declaration may be liable for a fine of up to Rs.1,000 for each day such failure continues. Furthermore, any charge, promissory note or any other collateral agreement created, executed or entered into by the registered owner of any share in respect of which a declaration required under Section 187C has not been made is not enforceable by the beneficial owner or any person claiming through him.

AUDIT AND ANNUAL REPORT

At least 21 days before the Annual General Meeting of shareholders, the Company must circulate a detailed version of the Company's audited balance sheet and profit and loss account and the reports of the Board of Directors and the auditors thereon. The Company also is required under the Companies Act to make available upon request of any shareholder a complete balance sheet and profit and loss account of the Company in the case of circulation of abridged accounts.

Under the Companies Act, the Company must file with the Registrar of Companies the balance sheet and annual profit and loss account presented to the shareholders within 30 days of the conclusion of the Annual General Meeting and an annual return within 60 days of the conclusion of the meeting.

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RIGHTS OF THE GOVERNMENT OF INDIA UNDER THE SHAREHOLDERS' AGREEMENT ("SHA") TO BE EXERCISED THROUGH ITS NOMINEE DIRECTORS ON THE BOARD

Approval of Matters

(a) The property, business and affairs of the Company shall be managed exclusively by and be under the direction of the Board. The Board may exercise all such powers of the Company and have such authority and do all such lawful acts and things as are permitted by applicable Law and the Memorandum of Association and Articles of Association. Subject to (b) below, all decisions, actions and resolutions of the Board shall be adopted by the affirmative vote of a simple majority of the members of Board.

(b) Notwithstanding any other provision of SHA or otherwise permitted or provided under the Act, no obligation of the Company or any of its subsidiaries shall be entered into, no decision shall be made and no action shall be taken by or with respect to the Company or any of its subsidiaries in relation to the following matters unless such obligation, decision or action as the case may be, is approved if, at any meeting of the Company's shareholders, duly called for the purpose of considering such obligation, decision or action, by an affirmative vote of the one authorized representative of both the Government and Panatone Finvest Limited, and if at the meeting of the Board by an affirmative vote of, at least one nominee director of each of the Government and Panatone Finvest Limited:

(i) Any change in the Memorandum of Association and Articles of Association;

(ii) The granting of any security or the creation of any Encumbrance on the assets of the Company or the incurrence of any indebtedness or guaranteeing the debts of any Person which in the aggregate at any time exceeds the net worth of the

Company;

(iii) The taking of any steps to wind-up or terminate the corporate existence of the Company or any of its Affiliates or entering into any arrangement with the creditors of the Company in relation to all or substantial part of the assets of the Company;

(iv) Any one or a series of transactions which causes a sale, lease, exchange or disposition of land and building of the Company or its subsidiary which are acquired by the Company at any time prior to the Closing (as defined in the SHA);

(v) Subject to (xv) hereunder, any sale, lease, exchange or disposition of any property, assets or equipments (other than land and building) of the Company or its subsidiary which are acquired by the Company at any time prior to the Closing,

(vi) The making, directly or indirectly, of loans or advances in excess of Rs.500 million to any Person other than in the ordinary course of business of the Company;

(vii) The entering into of an amalgamation, merger or consolidation with any other company or body corporate;

(viii) Any change in the number of directors of the Company from that provided in this Agreement;

(ix) Any agreement with or commitment to any Shareholder or its Principal(s) or their respective Affiliates, except where, and to the extent, (a) such agreement or commitment between the Company or any of its Affiliates on the one hand and the Government or any Government Authority on the other is required under applicable Law or (b) such agreement is on an arms' length basis and in good faith;

(x) Establishment of any subsidiary or associated company by Company;

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(xi) Transfer of any rights or interest in Affiliates of the Company including, without limitation, Transfer of Relevant Interests in securities of such Affiliates held by the Company;

(xii) Any agreement, license or permission in respect of the use of the name and/or logo of the Company (except where such agreement, license or permission is for the purpose of, or in connection with, advertising or promotional activities only by the Company);

(xiii) the delegation by the Board to any Person of the Board's authority to approve or authorize any matter described in this article (b);

(xiv) change directly or indirectly in the use of land and building of the Company other than for the purposes of the main objects of the Company as defined in the Memorandum of Association of the Company;

(xv) Any one or a series of transactions, which causes a sale, lease, exchange or disposition of obsolete equipments or equipments not in use, of the Company or its subsidiary having an aggregate value exceeding 25 percent of the total value of the net fixed assets of the Company as specified in the Audited Financial Statement ;

(xvi) Any commitment or agreement to do any of the foregoing.

(c) Notwithstanding anything to the contrary contained in the SHA in the event any of the aforesaid items of business mentioned in (b) above is not approved by the Board or Shareholders at a meeting or otherwise then such non-approved items shall not be implemented by the Company and the Strategic Partner and the Government (Parties to SHA) shall not directly or indirectly take any steps to cause the Company to implement such items of business. The non-approval of the aforesaid items of business at a meeting or otherwise of the Board or the Shareholders shall not be considered as subject matter of dispute, difference, disagreement or the like between the Government and the Strategic Partner and the non approval of such item of business will not be referred to Arbitration under SHA.

ACQUISITION BY THE COMPANY OF ITS OWN SHARES

Until 1999, the Companies Act did not permit a company to acquire its own equity shares because of the resulting reduction in the company's capital. However, the Government amended the Indian Companies Act and consequently this reduction in capital is now permitted in certain circumstances. The reduction of capital requires compliance with specific buy-back guidelines specified in the Indian Companies (Amendment) Act, 1999, and by SEBI.

ADR holders will not be eligible to participate in a buyback in case of tender offers, odd lots and open market purchases unless they surrender their ADSs and receive delivery of the underlying Shares. ADR holders should note that Shares withdrawn from the depositary facility may not be redeposited into such depositary facility.

There can be no assurance that the underlying Shares offered by the ADR holders in any buyback of Shares by the Company will be accepted by the Company. The regulations relating to the buyback of securities have only been introduced recently and there is very limited experience in the interpretation of such regulations. ADR Holders are advised to consult their Indian legal advisers prior to participating in any buyback by the Company, including in relation to any tax issues relating to such buyback.

Foreign Institutional Investors should note that in the event of a buyback by the Company, the prescribed threshold limit for shareholdings by Foreign Institutional Investors may be exceeded by default regardless of any participation or non-participation by them in the buyback. The treatment of the Foreign Institutional Investors threshold limits in the buyback context is uncertain, and Foreign Institutional Investors are advised to consult their Indian legal advisers in this regard.

LIQUIDATION RIGHTS

Subject to the rights of creditors, employees and of the holders of any other shares entitled by their terms to preferential repayment over the Shares, in the event of winding up of the Company, the holders of the Shares are entitled to be repaid the amounts of capital paid up or credited as paid up on

such Shares. All surplus assets after payments due to the holders of any preference shares belong to the holders of the Shares in proportion to the amount paid up or credited as paid up on such Shares, respectively, at the commencement of the winding up.

TAKEOVER CODE

Disclosure and mandatory bid obligations under Indian law are governed by the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (the "Takeover Code"), which prescribes certain thresholds or trigger points that give rise to these obligations. The Takeover Code is under constant review by SEBI and was recently amended.

The most important features of the Takeover Code, as amended, are as follows:

- Any acquirer (meaning a person who, directly or indirectly, acquires or agrees to acquire shares or voting rights in a company, either by himself or with any person acting in concert) who acquires shares or voting rights that would entitle him to more than 5 percent or 10 percent or 14 percent of the shares or voting rights in a company is required to disclose at every stage, the aggregate of his shareholding or voting rights to the company (which in turn is required to disclose the same to each of the stock exchanges on which the company's shares are listed within two working days of (a) the receipt of allotment information or (b) the acquisition of shares or voting rights, as the case may be.

- A person who holds more than 15 percent of the shares or voting rights in any company is required to make annual disclosure of his holdings to that company (which in turn is required to disclose the same to each of the stock exchanges on which the company's shares are listed).

- Promoters or persons in control of a company are also required to make annual disclosure in respect of their holdings in the same manner.

With respect to takeovers (other than bail-out takeovers) of listed companies, the Takeover Code, as amended, provides for mandatory bid and open offer requirements, summarized below:

- An acquiror cannot acquire shares or voting rights which (taken together with existing shares or voting rights, if any, held by him or by persons acting in concert with him) would entitle such acquiror to exercise 15 percent or more of the voting rights in a company, unless such acquiror makes a public announcement offering to acquire an additional 20 percent of the shares of the company.

- An acquiror who, together with persons acting in concert with him, holds between 15 percent and 75 percent cannot acquire additional shares or voting rights that would entitle him to exercise more than 5 percent of the voting rights in any financial year ending on 31 March unless such acquirer makes a public announcement offering to acquire an additional 20 percent of the shares of the company.

- Any further acquisition of shares or voting rights by an acquiror who holds 75 percent of the shares or voting rights in a company triggers the same public announcement requirements.

- In addition, regardless of whether there has been any acquisition of shares or voting rights in a company, an acquiror acting in concert cannot directly or indirectly acquire control over a company (for example, by way of acquiring the right to appoint a majority of the directors or

to control the management or the policy decisions of the company) unless such acquiror makes a public announcement offering to acquire a minimum of 20 percent of the shares of the company.

The Takeover Code sets out the contents of the required public announcements as well as the minimum offer price.

The Takeover Code, as amended, permits conditional offers as well as the acquisition and subsequent delisting of all shares of a company and provides specific guidelines for the gradual acquisition of shares or voting rights. Specific obligations of the acquiror and of the board of directors of the target company in the offer process have also been set out. Acquirors making a public offer will be required to deposit in an escrow account 25 percent of the total consideration (if the total consideration is Rs.1.0 billion (US$ 21.04 million) or less) up to and including Rs.1 billion and 10 percent for the excess over Rs.1 billion, which amount will be forfeited in the event that the acquiror does not fulfill his obligations. In addition, the Takeover Code introduces the "chain principle" whereby the acquisition of a holding company will obligate the acquiror to make a public offer to the shareholders of each of the publicly listed companies acquired through the acquisition of the holding company.

The general requirements to make such a public announcement do not, however, apply entirely to bail-out takeovers when a promoter (i.e., person or persons in control of the company, persons named in any offer document as promoters and certain specified corporate bodies and individuals) is taking over a financially weak company (but not a "sick industrial company") pursuant to a rehabilitation scheme approved by a public financial institution or a scheduled bank. A "financially weak company" is a company which has, at the end of the previous fiscal year, accumulated losses resulting in erosion of more than 50 percent (but less than 100 percent) of the total sum of its paid-up capital and free reserves at the end of the previous fiscal year. A "sick industrial company" is a company registered for more than five years which has, at the end of any fiscal year, accumulated losses equal to or exceeding its entire net worth.

The Takeover Code does not apply to certain specified acquisitions including the acquisition of shares (1) by allotment in a public issue, (2) pursuant to an underwriting agreement, (3) by registered stockbrokers in the ordinary course of business on behalf of clients, (4) in unlisted companies, (5) pursuant to a scheme of reconstruction or amalgamation or (6) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 (7) Allotment pursuant to an application made by a shareholder for rights issue. (8) Interse Transfer of shares among group companies, relatives, Indian Promoters and foreign collaborators who are shareholders (9) Acquisition of shares by way of transmission, succession or inheritance (10) Acquisition by Government Company (11) Transfer of shares from venture capital funds or foreign venture capital investors registered with Securities Exchange Board Of India (SEBI) to promoters of venture capital undertaking or venture capital undertaking pursuant to an agreement between them.

In addition, the Takeover Code does not apply to shares represented by ADSs so long as such shares remain in the ADR depositary facility.

The Company has entered into a listing agreement with each of the other Indian Stock Exchanges on which the Shares are listed. Clause 40A of the listing agreements provides that if an acquisition of a listed company's equity shares results in the acquirer and its associates holding 5 percent or more of the company's outstanding equity shares, the acquirer must report its holding to the relevant stock exchange(s). If an acquisition could result in the acquirer and its associates holding equity shares which carry 10 percent or more of the voting rights, then the acquirer must notify the relevant stock exchange(s). If such acquisition is deemed a takeover, the acquirer must, before acquiring such shares, offer (in accordance with Clause 40B of the listing agreements) on a uniform basis to all remaining shareholders of the company to acquire a minimum of a further 20 percent of the total shares of the company at a prescribed price. The acquisition of shares of a company listed on an Indian stock exchange beyond certain threshold amounts is subject to regulations governing takeovers of Indian companies. Clauses 40A and 40B and such regulations will not apply to shares so long as they are represented by ADRs.

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MATERIAL CONTRACTS

The Company's material contracts are entered into in the ordinary course of business and include rate sharing agreements and interconnect agreements with international and domestic telecommunication providers. Certain of these agreements are attached as exhibits to this annual report.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

RESTRICTION ON CONVERSION OF RUPEES

There are restrictions on the conversion of Rupees into US Dollars. Before February 29, 1992, the Reserve Bank of India determined the official value of the Rupee in relation to a weighted basket of currencies of India's major trading partners. In the February 1992 budget, a new dual exchange rate mechanism was introduced by allowing conversion of 60 percent of the foreign exchange received on the trade or current account at a market-determined rate and the remaining 40 percent at the official rate. All importers were, however, required to buy foreign exchange at the market rate except for importers of certain specified priority imports. In March 1993, the exchange rate was unified and allowed to float and made convertible on the revenue account. In February 1994 and again in August 1994, the Reserve Bank of India announced relaxations in payment restrictions for a number of transactions. Since August 1994, the Government of India has substantially complied with its obligations owed to the International Monetary Fund, under which India is committed to refrain from using exchange restrictions on current international transactions as an instrument in managing the balance of payments. Effective July 1999, the process of current account convertibility was advanced by relaxing restrictions on foreign exchange for various purposes, such as foreign travel and medical treatment.

RESTRICTIONS ON SALE OF THE EQUITY SHARES UNDERLYING THE COMPANY'S AMERICAN DEPOSITARY RECEIPTS AND FOR REPATRIATION OF SALE PROCEEDS

American Depositary Receipts issued by Indian companies to non-residents have free transferability outside India. Until recently, under Indian law it was not permitted for a depositary to accept deposits of outstanding equity shares and issue ADSs evidencing such shares. Thus, an investor in ADSs who surrendered an ADS and withdrew equity shares would not be permitted to redeposit those equity shares to obtain ADSs, nor would an investor who purchased equity shares on the Indian market have been permitted to deposit

them in the ADS program. The Government of India has recently permitted two-way fungibility of ADRs. However, this is still subject to sectoral caps and certain conditions, including compliance with the provisions of the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme 1993 and the periodic guidelines issued by the Government. Such restrictions on foreign ownership of the underlying equity shares may cause the Company's Equity Shares to trade at a discount or premium to its ADSs.

In February 2002, the RBI issued a circular stating that the terms of Regulations 4A of the Reserve Bank of India Notification FEMA 20/2000-RB dated May 3, 2000, as amended by Notification No. FEMA 41/2001-RB dated March 2, 2001, allow a registered broker to purchase shares of an Indian company on behalf of a person resident outside of India for the purpose of converting those shares into ADSs/GDSs. However, such conversion is subject to compliance with the provisions of the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme 1993 and the periodic guidelines issued by the Central Government. This would mean that ADSs converted into Indian shares may be converted back into ADSs, subject to the limits of sectoral caps.

The Operative Guidelines for the limited two-way fungibility under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme 1993 has also been approved by the Government of India.

These guidelines provide that a re-issuance of ADSs/GDSs are permitted to the extent that ADSs/GDSs have been redeemed for underlying shares and sold in the domestic market. The re-issuance must be within specified limits. The conditions to be satisfied in this regard are: (i) the shares are purchased on a recognized stock exchange; (ii) the Indian company has issued ADS/GDS; (iii) the shares

are purchased with the permission of the custodian of the ADSs/GDSs of the Indian company and are deposited with the custodian; and (iv) the number of shares so purchased shall not exceed the number of ADSs/GDSs converted into underlying shares.

The procedure for conversion of shares into ADSs/GDSs is as follows: (i) on request by the overseas investor for the acquisition of shares for re-issuance of ADSs/GDSs, the SEBI registered broker will purchase shares from a stock exchange after verifying with the custodian as to the availability of "Head Room" (i.e. the number of ADSs/GDSs originally issued minus the number of ADSs/GDSs outstanding further adjusted for ADSs/GDSs redeemed into underlying shares and registered in the name of the non-resident investor(s)); (ii) an Indian broker purchases the shares in the name of the overseas depositary; (iii) after the purchase, the Indian broker places the domestic shares with the Custodian; (iv) the Custodian advises the overseas depositary on the custody of domestic shares and to issue corresponding ADSs/GDSs to the investor; and (v) the overseas depositary issues ADSs/GDSs to the investor.

Holders who seek to sell in India any Equity Shares received upon surrender of any ADS, and to convert the Rupee proceeds of such sale into foreign currency and remit such foreign currency outside of India, will require the approval of the Reserve Bank of India for each such transaction. Although such approvals are generally forthcoming, there can be no assurance that any such approval can be obtained in a timely manner or at all.

GENERAL

Shares of Indian companies represented by ADSs may be approved for

issuance to foreign investors by the Government of India under the Issue of Foreign Currency Convertible Bonds and Equity Shares (through Depositary Receipt Mechanism) Scheme, 1993 (the "1993 Regulation"), as modified from time to time, promulgated by the Government. The 1993 Regulation is distinct from other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the 1993 Regulation also affords to holders of the ADSs the benefits of Section 115AC of the Indian Income Tax Act, 1961 for purposes of the application of Indian tax law.

FOREIGN DIRECT INVESTMENT

In July 1991, the Government raised the limit on foreign equity holdings in Indian companies from 40 percent to 51 percent in certain high priority industries. The Reserve Bank of India gives automatic approval for such foreign equity holdings. The Foreign Investment Promotion Board, currently under the Ministry of Industry, was thereafter formed to negotiate with large foreign companies wishing to make long-term investments in India. Foreign equity participation in excess of 51 percent in such high priority industries or in any other industries up to Rupees six billion is currently allowed only with the approval of the Foreign Investment Promotion Board. Proposals in excess of Rupees six billion require the approval of the Cabinet committee on Foreign Investment. Proposals involving the public sector and other sensitive areas require the approval of Cabinet Committee on Economic Affairs. These facilities are designed for direct foreign investments by non-residents of India who do not qualify as Non-Resident Indians, Overseas Corporate Bodies or Foreign Institutional Investors (as each term is defined below) ("Foreign Direct Investors"). The Department of Industrial Policy and Promotion, a part of the Ministry of Industry, issued detailed guidelines in January 1997 for consideration of foreign direct investment proposals by the Foreign Investment Promotion Board (the "Guidelines"). Under the Guidelines, sector specific guidelines for foreign direct investment and the levels of permitted equity participation have been established. In January 1998, the Reserve Bank of India issued a notification that foreign ownership of up to 50 percent, 51 percent, 74 percent or 100 percent depending on the category of industry, would be allowed without prior permission of the Reserve Bank of India. The issues to be considered by the Foreign Investment Promotion Board, and the Foreign Investment Promotion Board's areas of priority in granting approvals are also set out in the Guidelines. The basic objective of the Guidelines is to improve the transparency and objectivity of the Foreign Investment Promotion Board's consideration of proposals. However, because the Guidelines are administrative guidelines and have not been codified as either law or regulations, they are not legally binding with respect to any recommendation made by the Foreign Investment Promotion Board or with respect to any decision taken by the Government of India in cases involving foreign direct investment.

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In May 1994, the Government announced that purchases by foreign investors of ADSs as evidenced by ADRs and foreign currency convertible bonds of Indian companies will be treated as direct foreign investment in the equity issued by Indian companies for such offerings. Therefore, offerings that involve the issuance of equity that results in Foreign Direct Investors holding more than the stipulated percentage of direct foreign investments (which depends on the category of industry) would require approval from the Foreign Investment Promotion Board. In addition, in connection with offerings of any such securities to foreign investors, approval of the Foreign Investment Promotion Board is required for Indian companies whether or not the stipulated percentage limit would be reached, if the proceeds there from are to be used for investment in non-high priority industries. With respect to the activities of the Company, Foreign Investment Promotion Board approval is required for any direct foreign

investment in the Company which exceeds 51 percent of the total issued share capital of the Company.

In July 1997, the Government issued guidelines to the effect that foreign investment in preferred shares will be considered as part of the share capital of a company and will be processed through the automatic Reserve Bank of India route or will require the approval of the Foreign Investment Promotion Board, as the case may be. Investments in preferred shares are included as foreign direct investment for the purposes of sectoral caps on foreign equity, if such preferred shares carry a conversion option. If the preferred shares are structured without a conversion option, they would fall outside the foreign direct investment limit but would be treated as debt and would be subject to special Government of India guidelines and approvals.

Foreign direct investment is now freely allowed in all sectors including the services sector, except where the existing and notified sectoral policy does not permit foreign direct investment beyond a ceiling. Foreign direct investment for virtually all items/activities can be brought in through the automatic route under powers delegated to the Reserve Bank of India and for the remaining items/activities through Government Approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board.

INVESTMENT BY NON-RESIDENT INDIANS, PERSONS OF INDIAN ORIGIN AND OVERSEAS CORPORATE BODIES

A variety of special facilities for making investments in India in shares of Indian companies are available to individuals of Indian nationality or origin residing outside India, persons of Indian origin and to overseas corporate bodies ("OCBs"), at least 60 percent owned by such persons. These facilities permit Non-Resident Indians, Persons of Indian Origin and OCBs to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. These facilities are different and distinct from investments by Foreign Direct Investors described above.

INVESTMENT BY FOREIGN INSTITUTIONAL INVESTORS

In September 1992, the Government issued guidelines which enable Foreign Institutional Investors, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all the securities traded on the primary and secondary markets in India. Under the guidelines, Foreign Institutional Investors are required to obtain an initial registration from SEBI and a general permission from the Reserve Bank of India to engage in transactions regulated under the Foreign Exchange Management Act of 1999. Foreign Institutional Investors must also comply with the provisions of the SEBI Foreign Institutional Investors Regulations, 1995. When it receives the initial registration, Foreign Institutional Investors also obtain general permission from the Reserve Bank of India to engage in transactions regulated under the Foreign Exchange Management Act of 1999. Together, the initial registration and the Reserve Bank of India's general permission enable registered Foreign Institutional Investors to buy (subject to the ownership restrictions discussed below) and sell freely securities issued by Indian companies, to realize capital gains on investments made through the initial amount invested in India, to subscribe or renounce rights offerings for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, and income received by way of interest and any compensation received towards sale or renunciation of rights offerings of shares.

OWNERSHIP RESTRICTIONS

SEBI and the Reserve Bank of India regulations restrict investments in Indian companies by Foreign Direct Investors. Under current SEBI regulations applicable to the Company, Foreign Direct Investors in aggregate may hold no more than 40 percent of the Company's Equity Shares, excluding the Equity Shares underlying the ADSs, and Non-Resident Indians and Overseas Corporate Bodies in aggregate may hold no more than 10 percent of the Company's Equity Shares, excluding the Equity Shares underlying the ADSs. Furthermore, SEBI regulations provide that no single Foreign Institutional Investor may hold more than 10 percent of the Company's total Equity Shares and no single Non-Resident Indian or OCB may hold more than 5 percent of the Company's total Equity Shares.

Foreign Institutional Investors may only purchase securities of public Indian companies (other than ADSs) through a procedure known as a "preferential allotment of shares," which is subject to certain restrictions. These restrictions will not apply to Equity Shares issued as stock dividends or in connection with rights offerings applicable to the Equity Shares underlying ADSs. There is uncertainty under Indian law about the tax regime applicable to Foreign Institutional Investors which hold and trade ADSs. Foreign Institutional Investors are urged to consult with their Indian legal and tax advisers about the relationship between the Foreign Institutional Investors guidelines and the ADSs and any Equity Shares withdrawn upon surrender of ADSs.

More detailed provisions relating to Foreign Institutional Investors investment have been introduced by the SEBI with the introduction of the SEBI Foreign Institutional Investors Regulations, 1995. These provisions relate to the registration of Foreign Institutional Investors, their general obligations and responsibilities, and certain investment conditions and restrictions. One such restriction is that the total investment in equity and equity-related instruments should not be less than 70 percent of the aggregate of all investments of the Foreign Institutional Investors in India. The SEBI has also permitted private placements of shares by listed companies with Foreign Institutional Investors, subject to the prior approval of the Reserve Bank of India under the Foreign Exchange Regulation Act of 1973. Such private placement must be at the average of the weekly highs and lows of the closing price over the preceding six months of the preceding two weeks, whichever is higher.

VOTING RIGHTS

Holders of the Company's ADSs will not be entitled to instruct the Depositary how to vote the Shares underlying the ADSs. Rather, each holder, by accepting an ADR, authorized and directed the Depositary to vote as set forth below.

The Depositary will vote the deposited Shares as instructed by the Company's Board of Directors or give a proxy or power of attorney to vote the deposited Shares to a person designated by the Board of Directors. However, the Depositary will only do this upon the Company's legal counsel issuing an opinion to the Depositary stating that it is legal for the Depositary to do so and that doing so will not expose the Depositary to legal liability. If the Company does not provide the legal opinion referred to above, the Depositary will not vote the deposited Shares or give a proxy or power of attorney to anyone else to vote the deposited Shares.

TAXATION

INDIAN TAXATION

General. The following summary is based on the provisions of the Income Tax Act, 1961 (the "Indian Tax Act"), including the special tax regime contained in Section 115AC (the "Section 115AC Regime") and the 1993 Regulation. The

Indian Tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of the Section 115 AC Regime may be amended or changed by future amendments of the Indian Tax Act.

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The summary set forth below is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders under Indian law for the acquisition, ownership and sale of ADSs and Equity Shares by non-resident holders. Personal tax consequences of an investment may vary for investors in various circumstances and potential investors should therefore consult their own tax advisers on the tax consequences of such acquisition, ownership and sale, including specifically the tax consequences under the law of the jurisdiction of their residence and any tax treaty between India and their country of residence.

RESIDENCE

For purposes of the Indian Tax Act, an individual is considered to be a resident of India during any fiscal year if he or she:

- is in India in that year for a period or periods amounting to 182 days or more; or

- is in India in that year for 60 days or more and, in case of a citizen of India or a person of Indian origin, who, being outside India, comes on a visit to India, is in India for more than 182 days in each case within the four preceding years has been in India for a period or periods amounting to 365 days or more.

A company is resident in India if it is registered in India or the control and management of its affairs is situated wholly in India.

TAXATION OF DISTRIBUTIONS

Pursuant to the Finance Act, 2003, withholding tax on dividends is applied at the rate of 12.8125 percent. In case of foreign institutional investors the applicable withholding is 20.10 percent. Henceforth, no tax is required to be paid by the Company on dividend distributions.

TAXATION ON SURRENDER OF ADSs

The acquisition by a non-resident holder of Shares upon surrender of ADSs does not constitute a taxable event for Indian income tax purposes. Such exchange will, however, give rise to stamp duty as described below under "Stamp Duty and Transfer Tax."

TAXATION OF CAPITAL GAINS

Any gain realized on the sale of ADSs or Equity Shares by a non-resident holder to another non-resident holder outside India is not subject to Indian capital gains tax. However, as Rights are not expressly covered by the Indian Tax Act, it is unclear, as to whether capital gain derived from the sale of Rights by a non-resident holder (not entitled to an exemption under a tax treaty) to another non-resident holder outside India will be subject to Indian capital gains tax. If such Rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such Rights will be subject to customary Indian taxation as discussed below.

Since the issuance of the ADSs has been approved by the Government of India under the Section 115AC Regime, Non-resident Holders of the ADSs will have

the benefit of tax concessions available under the Section 115AC Regime. The Section 115AC Regime provides that if the Equity Shares are sold on an Indian Stock Exchange against payment in Indian rupees, they will no longer be eligible for such concessional tax treatment. However, the Section 115AC Regime is unclear, as to whether such tax treatment is available to a non-resident who acquires Equity Shares outside India from a non-resident holder of Equity Shares after receipt of the Equity Shares upon surrender of the ADSs. If concessional tax treatment is not available, gains realized on the sale of such Equity Shares will be subject to customary Indian taxations discussed below.

Subject to any relief provided pursuant to an applicable tax treaty, any gain realized on the sale of Equity Shares to an Indian resident or inside India generally will be subject to Indian capital gains tax. For the purpose of computing capital gains tax, the cost of acquisition of Equity Shares received in exchange for ADSs will be determined on the basis of the prevailing price of the shares on any of the Indian stock exchanges on the date that the Depositary instructs the custodian to deliver Equity Shares in exchange for ADSs. A non-resident holder's holding period (for purpose of determining the applicable Indian capital gains tax rate) in respect of Equity Shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depositary to the Custodian. The Indo-US Treaty does not provide an exemption from the imposition of Indian capital gains tax.

Taxable gain realized on Equity Shares (calculated in the manner set forth in the prior paragraph) held for more than 12 months (long-term gain) is subject to tax at the rate of 10 percent. Taxable gain realized on Equity Shares held for 12 months for less (short-term gain) is subject to tax at variable rates with a maximum rate of 48 percent. The actual rate of tax on short-term gain depends on a number of factors, including the legal status of the Non-resident and the type of income chargeable in India.

STAMP DUTY AND TRANSFER TAX

Upon issuance of the Equity Shares, the Company is required to pay a stamp duty of 0.1 percent per share of the issue price of the underlying Equity Shares. A transfer of ADSs is not subject to the Indian stamp duty. However, upon the acquisition of Equity Shares from the Depositary in exchange for ADSs, the holder will be liable for Indian stamp duty at the rate of 0.5 percent of the market value of the ADSs or Equity Shares exchanged. A sale of Equity Shares by a registered holder will also be subject to Indian stamp duty at the rate of 0.5 percent of the market value of the Equity Shares on the trade date, although customarily such tax is borne by the transferee. However, in case of Equity Shares held with the Depositary in electronic mode, there will not be any incidence of stamp duty.

GIFT AND WEALTH TAX

ADSs held by non-resident holders and the underlying Equity Shares held by the Depositary and the transfer of ADSs between non-resident holders and the Depositary will be exempt from Indian gift tax and Indian wealth tax.

ESTATE DUTY

Under current Indian law, there is no estate duty applicable to a non-resident holder of ADSs or Equity Shares.

UNITED STATES FEDERAL TAXATION

The following summary describes the material United States federal

income tax consequences of ownership of Shares and ADSs as of the date hereof. The discussion set forth below is applicable to US Holders (as defined below). Except where noted, it deals only with Shares and ADSs held as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, financial institutions, tax-exempt entities, life insurance companies, persons holding Shares or ADSs as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, corporations that accumulate earnings to avoid US federal income tax, persons owning 10 percent or more of the voting stock of the Company, or persons whose "functional currency" is not the United States dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions there under as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the Depositary to the Company and assumes that the Deposit Agreement, and all other related agreements, will be performed in accordance with their terms. Persons considering the

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purchase, ownership or disposition of Shares or ADSs should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, the term "US Holder" means a beneficial holder of a Share or ADS that is (1) a citizen or resident of the United States, (2) a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate the income of which is subject to United States federal income taxation regardless of its source or (4) a trust (X) which is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Code or (Y) that has a valid election in effect under applicable US Treasury regulations to be treated as a United States person.

If a partnership holds our Shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner, and the activities of the partnership. If you are a partner of a partnership holding our Shares or ADSs, you should consult your tax advisor.

OWNERSHIP OF ADSs

In general, for United States federal income tax purposes, US holders of ADSs will be treated as the owners of the underlying Shares that are represented by such ADSs. Deposits or withdrawal of Shares by US Holders for ADSs will not be subject to United States federal income tax.

TAXATION OF DIVIDENDS

To the extent that distributions paid by us with respect to our Shares or ADSs do note exceed our earnings and profits, as calculated for United States federal income tax purposes, such distributions will be taxed as dividends. If these dividends constitute qualified dividend income ("QDI"), individual U.S. holders of our Shares or ADSs will generally pay tax on such dividends at rates applicable to net capital gains (see "Taxation of Capital Gains") provided that certain holding period requirements are satisfied. Dividends paid by us will be QDI if we are a qualified foreign corporation ("QFC") at the time the dividends are paid. We believe that we are currently, and will continue to be, a QFC so as to allow all dividends paid by us to be QDI for United States federal income tax

purposes. Corporate holders receiving dividends paid by us will not benefit from the reduced tax rate on dividends available to individual holders. In addition, dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

The amount of any dividend paid in Indian Rupees will equal the United States dollar value of the Indian Rupees received calculated by reference to the exchange rate in effect on the date the dividend is received by the US Holder, in the case of Shares, or by the Depositary, in the case of ADSs, regardless of whether the Indian Rupees are converted into United States dollars. If the Indian Rupees received as a dividend are not converted into United States dollars on the date of receipt, a US Holder will have a basis in the Indian Rupees equal to their United States dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Indian Rupees will be treated as ordinary income or loss.

A US Holder will not be eligible for a foreign tax credit against its United States federal income tax liability for Indian taxes paid by the Company and deemed under Indian law to have been paid by the shareholders of the Company, unless it is a US Company holding at least 10 percent of the Indian Company paying the dividends. Dividends paid on the Shares or ADSs will be treated as income from sources outside the United States and will generally constitute "passive income" or, in the case of certain US Holders, "financial services income."

To the extent that the amount of any distribution by the Company exceeds the Company's current and accumulated earnings and profits as determined under United States federal income tax principles for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the

adjusted basis of the Shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the US Holder on a subsequent disposition of the Shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of the Company's current and accumulated earnings and profits would not give rise to foreign source income.

Distributions of Shares or rights to subscribe for Shares that are received as part of a pro rata distribution to all shareholders of the Company in certain circumstances should not be subject to United States federal income tax. The basis of the new Shares or rights so received will be determined by allocating the US Holder's basis in the old Shares between the old Shares and the new Shares or rights received, based on their relative fair market values on the date of distribution. However, the basis of the rights will be zero if (1) the fair market of the rights is less than 15 percent of the fair market value of the old Shares at the time of distribution or (2) the rights are not exercised and thus expire.

PASSIVE FOREIGN INVESTMENT COMPANY

Based on the composition of its income and valuation of its assets, including goodwill, the Company does not expect to be passive foreign investment company ("PFIC") for fiscal year 2003 and does not expect to become one in the future, although there can be no assurance in this regard.

In general, a company is considered a PFIC for any taxable year if either:

- at least 75 percent of its gross income is passive income, or

- at least 50 percent of the value of its assets is attributable to assets that produce or are held for the production of passive income.

The 50 percent of value test is based on the average of the value of the Company's assets for each quarter during the taxable year. If the Company owns at least 25 percent, by value, of another company's stock, it will be treated, for purposes of the PFIC rules, as owning its proportionate share of the assets and receiving its proportionate share of the income of that company.

In determining that the Company is not a PFIC, the Company is relying on its projected capital expenditure plans for the current year and for future years. In addition, the determination is based on a current valuation of the Company's assets, including goodwill. In calculating goodwill, the Company has valued its total assets based on the market value of its Shares or ADSs, which is subject to change. In addition, the Company has made a number of assumptions regarding the amount of this value allocable to goodwill. The Company believes its valuation approach is reasonable. However, it is possible that the Internal Revenue Service ("IRS") will challenge the valuation of the Company's goodwill, which may also result in the Company being classified as a PFIC.

In addition, the determination of whether the Company is a PFIC is made annually. Accordingly, it is possible that the Company may be a PFIC in the current or any future taxable year due to changes in the Company's asset or income composition or if the Company's projections are not accurate. Because the Company has valued its goodwill based on the anticipated market value of its Shares or ADSs immediately following the offering, a decrease in the price of the Company's Shares or ADSs may also result in its becoming a PFIC.

If the Company were a PFIC for any taxable year during which a US Holder holds Shares or ADSs, unless such holder makes the mark-to-market election discussed below, such holder will be subject to special tax rules with respect to any "excess distribution" that such holder receives and any gain such holder realizes from a sale or other disposition (including a pledge) of the Shares or ADSs. These special tax rules generally will apply even if the Company ceases to be a PFIC in subsequent years. Distributions a US Holder receives in a taxable year that are greater than 125 percent of the average annual distributions

such holder received during the shorter of the three preceding taxable years or such holder's holding period for the Shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over such holder's holding period for the Shares or ADSs,

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company was a PFIC, will be treated as ordinary income, and

- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If a US Holder holds Shares or ADSs in any year in which the Company is a PFIC, such holder will be required to file IRS Form 8621.

As long as the Shares or ADSs are regularly traded on a national securities exchange, a US Holder can avoid the special PFIC rules discussed above by making an election to mark such holder's Shares or ADSs to market. It is intended that the ADSs will be listed on the New York Stock Exchange which is a national securities exchange for purposes of the mark-to-market election, although there can be no assurance that the ADSs will be "regularly traded", and it should be noted that only the ADSs and not the Shares will be traded on the New York Stock Exchange. The Shares will not be listed in the United States but will continue to be listed on the Indian Stock Exchanges.

If a US Holder makes an effective mark-to-market election, such holder will include in income each year as ordinary income (rather than capital gain) the excess, if any, of the fair market value of such holder's PFIC Shares or ADSs at the end of the taxable year over the adjusted basis in the Shares or ADSs and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of such Shares or ADSs over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark to market election. A US Holder's basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the Shares or ADSs will be ordinary income or loss, except that such loss will be ordinary loss only to the extent of the previously included net mark to market gain.

If a US Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Shares or ADSs are no longer regularly traded on a national securities exchange or the IRS consents to the revocation of the election. US Holders are urged to consult their own tax advisors about the availability of the mark-to-market election, and the desirability of making such an election under their particular circumstances.

Alternatively, a US Holder of Shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the Company as a "qualified electing fund" under section 1295 of the Code. This option is not available to US Holders of the Shares or ADSs because the Company does not intend to comply with the requirements necessary to permit such holders to make this election.

Persons considering the purchase, ownership or disposition of Shares or ADSs should consult their own tax advisors concerning the United States federal income tax consequences of holding the Shares or ADSs if the Company were considered a PFIC in any taxable year.

TAXATION OF CAPITAL GAINS

For United States federal income tax purposes, a US Holder will recognize taxable gain or loss on the sale or exchange of a right, Share or ADS in an amount equal to the difference between the amount realized for the right, Share or ADS and the US Holder's tax basis in the right, Share or ADS. Such gain or loss will be capital gain or loss. Under current law, capital gains realized by corporate and individual

taxpayers are generally subject to United States federal income tax at the same rate as ordinary income, except that long-term capital gains realized by individuals are subject to federal income tax at a maximum rate of 15 percent for taxable years beginning before January 1, 2009 (20 percent thereafter). Any gain or loss recognized by a US holder will generally be treated as United States source gain or loss.

ESTATE TAXATION

An individual shareholder who is a citizen or resident of the United States for United States federal estate tax purposes will have the value of the equity Shares or ADSs owned by such holder included in his or her gross estate for United States federal estate tax purposes.

INFORMATION REPORTING AND BACKUP WITHHOLDING

In general, information reporting requirements will apply to dividends in respect of the Shares or ADSs or the proceeds received on the sale, exchange, or redemption of the Shares or ADSs paid within the United States (and in certain cases, outside of the United States) to US Holders other than certain exempt recipients (such as corporations), and a 28 percent backup withholding may apply to such amounts if the US Holder fails to provide an accurate taxpayer identification number to the Company or its payment agent or to report interest and dividends required to be shown on its federal income tax returns. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the US Holder's United States federal income tax liability.

DOCUMENTS ON DISPLAY

This report and other information filed or to be filed by the Company can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at:

Judiciary Plaza
450 Fifth Avenue N.W.
Room 1024
Washington, D.C. 20529

Northwestern Atrium Center
500 West Madison Street
Suite 1400
Chicago, IL 60661-2511

Copies of these materials can also be obtained from the Public Reference Section of the SEC, 450th Street, N.W. , Washington, DC 20549, at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. We intend to continue to make our future SEC filings available over the Internet.

Additionally, documents referred to in this Form 20-F may be inspected at our corporate offices which are located at Videsh Sanchar Bhavan, Mahatma Gandhi Road, Mumbai 400001, India.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company does not face material interest rate, commodity price or equity price market risks. The Company is exposed to market risk from changes in foreign currency exchange rates because its costs and revenues are denominated in several different currencies (primarily Rupees, SDRs and US Dollars). Fluctuations in the exchange rate between the Rupee, SDRs, US Dollars and other currencies affect the Rupee amount of foreign currency settlement payments received by the Company from, and paid by the Company to, foreign telecommunications administrations, the revenues and operating costs of the Company and payments for imported equipment and technology. As of March 31,

2003, the Company had significant amounts of foreign currency denominated receivables (Rs.6,302 million or US$ 132.59 million) and payables (Rs.1,354 million or US$ 28.49 million), which expose the Company to foreign exchange risks.

The following table sets forth the Company's operating revenues, operating costs and gross profit for fiscal 2003 in different currencies:

(AMOUNTS IN MILLIONS)

CURRENCY	OPERATING REVENUES		OPERATING COSTS		GROSS PROFIT	
	FOREIGN CURRENCY	RUPEES	FOREIGN CURRENCY	RUPEES	FOREIGN CURRENCY	RUPEES
US Dollars	277	13,382	108	5,178	169	8,20
Special Drawing Rights ("SDRs")	237	15,079	72	4,549	165	10,53
Golden Francs* converted to Rupees through SDRs	2	38	1	13	1	2
Euro			0	8	(0)	(
Hong Kong Dollars			2	11	(2)	(1
TOTAL		28,499		9,759		18,74

*Golden francs are a notional currency converted into either US Dollars or SDRs at the time of settlement. Golden Francs are used in international telecommunications payment settlements and are recognized by the International Telecommunications Union.

A 1% strengthening or weakening of the rupee against the foreign currencies shown above would have had an aggregate adverse or beneficial impact of Rs. 187 million, respectively, on our income from operations for the fiscal year ended March 31, 2003.

We also have significant exposure on account of trade receivables and trade payables. The following table sets forth the Company's trade receivables and trade payables as of March 31, 2003:

(AMOUNTS IN MILLIONS)

CURRENCY	TRADE RECEIVABLES	TRADE PAYABLES	NET EXPOSURE

	FOREIGN CURRENCY	RUPEES	FOREIGN CURRENCY	RUPEES	FOREIGN CURRENCY	RUPEES
US Dollars	41	1,923	(29)	(1,357)	12	566
SDRs	64	4,085	0	4	64	4,089
Golden Francs converted to INR through SDR	16	300	0	(1)	16	299
Hong Kong Dollar	(1)	(6)	(0)	(0)	(1)	(6
TOTAL		6,302		(1,354)		4,948

A 1% strengthening or weakening of the rupee against the foreign currencies shown above would have had an aggregate adverse or beneficial impact of Rs. 49 million on our income statement, respectively, for the fiscal year ended March 31, 2003.

As on March 31, 2003, the Company did not use derivative instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, nor did it hold or issue derivative or other financial instruments for trading purposes. In the current fiscal year 2003-04, the Company has started investing in mutual funds (primarily debt funds) which are subject to interest rate risks, and is examining the benefits of entering into derivative contracts as a means of mitigating its market risks. The Company does not have any loans denominated in foreign currencies.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

ITEM 15. DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company conducted an evaluation (under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer), pursuant to Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that as of the end of the period covered by this report such

disclosure controls and procedures were reasonably designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

ITEM 16. RESERVED

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has elected to provide financial statements pursuant to Item 18 of Form 20-F.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements comprising of balance sheets of the Company as of March 31, 2001, March 31, 2002 and March 31, 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 prepared in accordance with US GAAP have been audited by Deloitte Haskins & Sells, independent auditors, in accordance with auditing standards generally accepted in the United States ("US GAAS"). The financial statement pages appear on pages F-1 through F-30.

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1*	Certificate of Incorporation of Videsh Sanchar Nigam Limited, dated March 19, 1986 and as currently in effect.
1.2****	Articles of Association of Videsh Sanchar Nigam Limited, dated August 20, 2002 and as currently in effect.
1.3****	Memorandum of Association of Videsh Sanchar Nigam Limited, dated August 20, 2002 and as currently in effect.
1.4*	Certificate for Commencement of Business, dated March 21, 1986 and as currently in effect.
1.5*	Specimen Certificate for Equity Shares of Videsh Sanchar Nigam Limited.
2.1*	Form of Deposit Agreement, among Videsh Sanchar Nigam Limited, The Bank of New York, as Depositary and owners and beneficial owners of American Depositary Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt).
2.2**	Amendment No. 1 to Deposit Agreement, among Videsh Sanchar Nigam

	Limited, The Bank of New York, as Depositary and owners and beneficial owners of American Depositary Receipts issued thereunder (including as an exhibit the form of American Depositary Receipt).
2.3***	Shareholders' Agreement among the President of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, and Tata Industries Limited, dated 13 February 2002.
2.4***	Share Purchase Agreement among the Government of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, and Tata Industries Limited and the Company dated 6 February 2002.
4.1+	Interconnect Agreement between Videsh Sanchar Nigam Limited and Bharat Sanchar Nigam Limited, dated May 8, 2003.
4.2+	Interconnect Agreement between Videsh Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited, dated May 27, 2003.
4.3+	Memorandum of Agreement regarding Settlement Rates of International Telecommunication Services between Videsh Sanchar Nigam Limited and AT&T Corp., dated June 10, 2003.
4.4+	Memorandum of Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and MCI International Inc., dated August 28, 2003.
4.5+	Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Emirates Telecommunication Corporation, dated June 24, 2003.
4.6+	Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Oman Telecommunications Company, dated June 2, 2003.
4.7+	Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Saudi Telecom , dated July 8, 2003.

4.8****	License Agreement for national long distance services between the President of India and the Company, dated February 8, 2002.
4.9****	License Agreement for Provision of Internet Service (Including Internet Telephony) between the President of India and the Company, dated May 3, 2002.
10.3*	License granted under the Indian Telegraph Act, 1885 to Videsh Sanchar Nigam Limited, dated January 22, 1999 by the Department of Telecommunications.
10.4**	Letter from the Ministry of Communications, Department of Telecommunications regarding termination of the monopoly granted to Videsh Sanchar Nigam Limited, dated September 7, 2000.
12.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Registrant has requested confidential treatment pursuant to Rule 406 for a portion of the referenced exhibit and has separately filed such exhibit with the Commission.

* Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration Statement No. 001-15118) filed with the Commission on October 13, 2000 and incorporated herein by reference.

** Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration No. 001-15118) filed with the Commission on October 1, 2001 and incorporated herein by reference.

*** Previously filed as an exhibit to the Schedule 13D filed on February 15, 2002, by Panatone Finvest Limited and Tata Sons Limited relating to the purchase of shares of the Company.

**** Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration No. 001-15118) filed with the Commission on September 27, 2002 and incorporated herein by reference.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

September 29, 2003

VIDESH SANCHAR NIGAM LIMITED

By: /s/ Shailendra Kumar Gupta

Name: Shailendra Kumar Gupta
Title: Managing Director

By /s/ Amitabh Khanna

Name: Amitabh Khanna
Title: Chief Financial Officer

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VIDESH SANCHAR NIGAM LIMITED

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Notes to Financial Statements...

2. 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

VIDESH SANCHAR NIGAM LIMITED
BALANCE SHEETS
AS OF MARCH 31, 2002 AND 2003

AS OF MARCH 3

	2002	2003
	(IN MILLIONS, EXCEPT PAR V OF SHARES)	
ASSETS:		
Cash and cash equivalents	Rs. 7,881	Rs. 272
Short term investments	17,469	23,314
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
Investments	3,985	3,674
Investments in Affiliates/Joint Venture	-	2,870
Property, plant and equipment	18,058	20,653
Capital work-in-progress	2,943	1,120
Other assets	8,293	12,803
TOTAL ASSETS	Rs. 74,846	Rs. 73,297
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES		
Short-term borrowings	Rs. 5,751	Rs. 3,540
Trade payables	5,728	2,422
Accrued expenses and other liabilities	7,962	8,118
Deferred taxation	2,363	2,472
TOTAL LIABILITIES	21,804	16,552
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
Additional paid in capital	15,377	15,377
Retained earnings	34,554	38,435
Accumulated other comprehensive income	261	83
TOTAL SHAREHOLDERS' EQUITY	53,042	56,745
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	Rs. 74,846	Rs. 73,297

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

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VIDESH SANCHAR NIGAM LIMITED
STATEMENTS OF INCOME
FOR EACH OF THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

	YEARS ENDED M	
	2001	2002
	(IN MILLIONS, EXCEPT SHARE, A ADS AMOUN	
OPERATING REVENUE:		
Traffic revenues	Rs. 71,916	Rs. 65,050
Income from satellite consortia	1,160	-
TOTAL OPERATING REVENUE	73,076	65,050
COST OF REVENUE:		
Network and transmission costs	45,150	39,577
License fee paid to DoT	5,022	5,393
TOTAL COST OF REVENUE	50,172	44,970
GROSS PROFIT	22,904	20,080
OTHER OPERATING COSTS		
Depreciation and amortization	1,729	1,898
Other operating costs	3,023	4,803
TOTAL OTHER OPERATING COSTS	4,752	6,701
OPERATING INCOME	18,152	13,379
OTHER INCOME (EXPENSE), NET:		
Non-operating income	3,058	1,371
Interest income	3,964	4,607
Interest expense	(1)	(227)
Share in loss of affiliates	-	-
TOTAL OTHER INCOME (EXPENSE), NET	7,021	5,751
INCOME BEFORE INCOME TAX	25,173	19,130
Income tax expense	(9,646)	(5,959)
Dividend tax	(105)	(3,634)
NET INCOME	Rs. 15,422	Rs. 9,537
PER SHARE INFORMATION:		
Earnings per equity share - basic and diluted	Rs. 54.11	Rs. 33.46
Weighted number of equity shares outstanding	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

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

VIDESH SANCHAR NIGAM LIMITED

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
			(IN MILLIONS, EXCEPT NUMBER OF EQUITY SHA		
BALANCE AT APRIL 1, 2000	95,000,000	RS. 950	RS. 14,481	RS. 47,880	-
Issue of stock dividends	190,000,000	1,900		(1,900)	
Net income				15,422	
Dividends				(760)	
Unrealized gain on available for sale securities, net				-	412
COMPREHENSIVE INCOME					
BALANCE AT MARCH 31, 2001	285,000,000	2,850	14,481	60,642	412
Stock based compensation expense (See Note 20)			896		
Net income				9,537	
Dividends				(35,625)	
Unrealized loss on available for sale securities, net					(151)
COMPREHENSIVE INCOME					
BALANCE AT MARCH 31, 2002	285,000,000	RS.2,850	RS. 15,377	RS. 34,554	RS. 261
Net income				7,444	
Dividends				(3,563)	
Unrealized loss on available for sale securities, net					(184)
Foreign exchange reserve on translation of investment in joint venture					6
COMPREHENSIVE INCOME					
COMPREHENSIVE INCOME					
BALANCE AT MARCH 31, 2003	285,000,000	RS.2,850	RS. 15,377	RS. 38,435	RS. 83
BALANCE AT MARCH 31, 2003	285,000,000	US$ 60	US$ 323	US$ 809	US$ 2

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

VIDESH SANCHAR NIGAM LIMITED
STATEMENTS OF CASH FLOWS
FOR EACH OF THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

	YEARS ENDED MARCH 31,		
	2001	2002	2003
		(IN MILLIONS)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	Rs. 15,422	Rs. 9,537	Rs. 7,4
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,729	1,898	2,0
Stock based compensation	-	896	
Impairment of property, plant and equipment	-	30	1
Allowance for doubtful debts	112	675	
Deferred income tax expense / (benefit)	1,759	(702)	2
Unrealized exchange gain	(526)	(206)	
(Profit)/loss on sale of fixed assets	5	2	
Share of loss from affiliate/joint venture	-	-	1
Investments written off	-	-	
Net change in:			
Trade and other receivables	5,865	3,067	7,5
Other assets	(1,400)	(515)	(4,5
Trade payables	(2,225)	(5,611)	(3,3
Accrued expenses and other liabilities	2,334	414	
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,075	9,485	9,8
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(4,238)	(2,509)	(2,8
(Purchase)/sale of investments	92	(7)	
Purchase of investments in affiliate/joint venture	-	-	(2,9
Short-term investments in term deposits	(37,272)	28,581	(5,8
Proceeds from sales of property, plant and equipment	2	3	
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(41,416)	26,068	(11,6
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds/(Repayment) of short-term borrowings (net)	-	5,751	(2,2
Dividends paid	(760)	(35,625)	(3,5
NET CASH USED BY FINANCING ACTIVITIES	(760)	(29,874)	(5,7
Unrealized exchange gain on cash and cash equivalents	455	2	
NET CHANGE IN CASH FLOWS	(18,646)	5,681	(7,6
Cash and cash equivalents, beginning of year	Rs. 20,846	Rs. 2,200	Rs. 7,8

CASH AND CASH EQUIVALENTS, END OF YEAR	Rs. 2,200	Rs. 7,881	Rs. 2
	==========	==========	========
SUPPLEMENTARY CASH FLOW INFORMATION:			
Interest paid	Rs. 1	Rs. 227	Rs.
Interest received	Rs. 2,121	Rs. 5,034	Rs. 2,3
Income taxes paid	Rs. 9,597	Rs. 10,594	Rs. 9,1

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

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VIDESH SANCHAR NIGAM LIMITED
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 the 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 up to 57,000,000 equity shares (including equity shares underlying the American Depositary 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 in to 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 up to 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 license 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, 2003 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 up to 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 provided fund beyond its contribution, which is expensed when incurred.

j. REVENUE RECOGNITION

Revenues for long distance telephone services are recognized at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased circuits are recognized based upon contracted 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.

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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
Term 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, 200		
	ORIGINAL COST	GROSS UNREALIZED GAINS	CARRYING VALUE	ORIGINAL COST	GROSS UNREALIZED GAINS	C
				(IN MILLIONS)		
Investment carried at fair value:						
Satellite company	Rs. 562	Rs. 412	Rs. 974	Rs. 562	Rs. 120	R
Investment carried at cost:						
Telecommunication			8,481			

companies		
Less: Permanent impairment	(5,470)	
	---------	-
TOTAL	Rs. 3,985	R
	=========	=
TOTAL		U
		=

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 Organization 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 privatization 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 Reorganization 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 Organization (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
Advances 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 accrued but not due	11	1	-
Other payables and accrued expenses	6,189	5,078	107
TOTAL	Rs. 7,962	Rs. 8,118	US$ 171

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14. INCOME TAX

The income tax expense comprises the following:

	YEARS ENDED MARCH 31,			
	2001	2002	2003	2
		(IN MILLIONS)		
Current income tax expense	Rs. 7,887	Rs. 6,661	Rs. 4,176	US$
Deferred income tax expense (benefit)	1,759	(702)	214	
INCOME TAX EXPENSE	Rs. 9,646	Rs. 5,959	Rs. 4,390	US$

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	2
		(IN MILLIONS)		
Net income before taxes	Rs. 25,173	Rs. 19,130	Rs. 11,834	US$
Effective statutory income tax rate	39.55%	35.70%	36.75%	
Expected income tax expense	9,956	6,829	4,349	
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	
Others, net	775	(110)	42	
Effect of change in statutory tax rate	31	(206)	(53)	
INCOME TAX EXPENSE	Rs. 9,646	Rs. 5,959	Rs. 4,390	US$

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	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

Traffic revenues comprise the following:

	YEARS ENDED MARCH 31,			
	2001	2002	2003	2
		(IN MILLIONS)		
Revenues from foreign Administrations:				
Telephone	Rs. 46,674	Rs. 41,503	Rs. 27,143	US$
Others	112	70	36	
Revenues from domestic operators:				
Telephone	18,345	16,153	9,656	
Leased circuits	3,140	3,584	4,231	
Telegraph, television and others	3,645	3,740	4,275	
TOTAL	Rs. 71,916	Rs. 65,050	Rs. 45,341	US$

16. NETWORK COSTS

Network and transmission costs comprise the following:

	YEARS ENDED MARCH 31,			
	2001	2002	2003	2
		(IN MILLIONS)		
Payment for traffic costs to:				
Domestic operators	Rs. 27,341	Rs. 23,050	Rs. 13,528	US$
Foreign administrations	13,866	10,721	6,741	
Rent of land lines	1,037	2,914	3,319	
Other transmission facilities	2,906	2,892	2,456	
TOTAL	Rs. 45,150	Rs. 39,577	Rs. 26,044	US$

17. OTHER OPERATING COSTS

Other operating costs comprise the following:

	YEARS ENDED MARCH 31,			
	2001	2002	2003	2
	(IN MILLIONS)			
Staff costs:				
Salaries and wages	Rs. 1,400	Rs. 2,134	Rs. 1,302	US$
Social security contributions	132	391	264	
Energy costs	271	286	302	
Advertising	116	35	89	
Repairs, maintenance, marketing and other costs	1,104	1,957	2,033	
TOTAL	Rs. 3,023	Rs. 4,803	Rs. 3,990	US$

18. NON-OPERATING INCOME

Non-operating income comprise the following:

	YEARS ENDED MARCH 31,			
	2001	2002	2003	2
	(IN MILLIONS)			
Foreign exchange gains, net	Rs. 2,878	Rs. 939	Rs. 167	US$
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	
TOTAL	Rs. 3,058	Rs. 1,371	Rs. 425	US$

19. INTEREST INCOME

Included under interest income is an amount of Rs. 535 million relating to interest on income tax refunds. Consequent to the favorable outcome of appeals before the Commissioner of Income Tax (Appeals) relating to the allowability of license 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 recognized 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:

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	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	2
	(IN MILLIONS)		

CHANGE IN BENEFIT OBLIGATION:			
Projected benefit obligation, beginning of the year	Rs. 232	Rs. 288	US$
Service cost	16	21	
Interest cost	23	27	
Actuarial loss	39	33	
Benefits paid	(22)	(12)	
PROJECTED BENEFIT OBLIGATION, END OF THE YEAR	288	357	
CHANGE IN PLAN ASSETS:			
Fair value of plan assets, beginning of the year	127	288	
Actual return on plan assets	11	28	
Employer contributions	-	52	
Benefits paid	(22)	(12)	
Gain on plan assets	-	1	
FAIR VALUE OF PLAN ASSETS, END OF THE YEAR	116	357	
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	2
		(IN MILLIONS)		
Service cost	Rs. 8	Rs. 16	Rs. 21	US$
Interest cost	16	23	27	
Net transitional liability recognized	-	13	-	
Net actuarial loss recognized	-	105	31	
Amortization of unrecognized transitional obligation	5	-	-	
Actual investment return	(10)	(11)	(27)	
NET GRATUITY COST	Rs. 19	Rs. 146	Rs. 52	US$

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	2
		(%)	
Discount rate	10.5	10.0	
Rate of increase in compensation levels of covered employees	6.0	6.0	
Rate of return on plan assets	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' 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:

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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 license 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 favorable 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 favor. Tax expense and interest on the license fee disallowed amounts to Rs. 3,680 million.

(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. 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		
	INTERNATIONAL TELEPHONY	OTHERS	INTERNATIONAL TELEPHONY	OTHERS	INTERNATIONAL TELEPHONY
			(IN MILLIONS)		
Traffic revenues	Rs. 65,019	Rs. 6,897	Rs. 57,656	Rs. 7,394	Rs. 36,799
Income from satellite consortia	-	1,160	-	-	-
OPERATING REVENUE	65,019	8,057	57,656	7,394	36,799
Network and transmission costs	41,861	3,289	33,858	5,719	24,200
License fee	5,022	-	5,393	-	2,707
SEGMENT OPERATING PROFIT	18,136	4,768	18,405	1,675	9,892
TOTAL SEGMENT OPERATING PROFIT		22,904		20,080	
Less: Unallocable operating costs		4,752		6,701	
OPERATING PROFIT, AS REPORTED		Rs. 18,152		Rs. 13,379	

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	200
	(IN MILLIONS, EXCEPT PERCENTAGES)				
India	Rs. 18,346	Rs. 23,527	Rs. 16,912	US$ 356	
United States of America	23,297	19,436	10,774	227	
United Arab Emirates	7,222	6,720	5,468	115	
Saudi Arabia	4,185	3,802	3,199	67	
Rest of the world	18,866	11,565	8,988	189	
TOTAL	Rs. 71,916	Rs. 65,050	Rs. 45,341	US$ 954	

Revenues from major customers are as follows:

	YEARS ENDED MARCH 31,				
	2001	2002	2003	2003	200
	(IN MILLIONS, EXCEPT PERCENTAGES)				
Domestic Carriers	Rs. 18,346	Rs. 23,527	11,504	242	
MCI WorldCom	10,916	9,513	5,588	118	
Concert AT&T	9,639	6,987	3,854	81	
Etisalat	7,222	6,720	5,599	118	
Others	25,793	18,303	18,796	395	
TOTAL	Rs. 71,916	Rs. 65,050	Rs. 45,341	US$ 954	10

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	200
	(IN MILLIONS, EXCEPT PERCENTAGES)			

MCI WorldCom	Rs. 5,612	493	10	
Concert AT&T	1,668	740	16	
United Arab Emirates	2,366	1,015	21	
Saudi Arabia	1,659	1,444	30	
Others	3,603	4,185	88	
TOTAL	Rs. 14,908	Rs. 7,877	US$ 165	

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.

EXHIBIT INDEX

Exhibit Number	Description
1.1*	Certificate of Incorporation of Videsh Sanchar Nigam Limited, dated March 19, 1986 and as currently in effect.
1.2****	Articles of Association of Videsh Sanchar Nigam Limited, dated August 20, 2002 and as currently in effect.
1.3****	Memorandum of Association of Videsh Sanchar Nigam Limited, dated August 20, 2002 and as currently in effect.
1.4*	Certificate for Commencement of Business, dated March 21, 1986 and as currently in effect.
1.5*	Specimen Certificate for Equity Shares of Videsh Sanchar Nigam Limited.
2.1*	Form of Deposit Agreement, among Videsh Sanchar Nigam Limited, The Bank of New York, as Depositary and owners and beneficial owners of American

Depositary Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt).

2.2** Amendment No. 1 to Deposit Agreement, among Videsh Sanchar Nigam Limited, The Bank of New York, as Depositary and owners and beneficial owners of American Depositary Receipts issued thereunder (including as an exhibit the form of American Depositary Receipt).

2.3*** Shareholders' Agreement among the President of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, and Tata Industries Limited, dated 13 February 2002.

2.4*** Share Purchase Agreement among the Government of India, Panatone Finvest Limited, Tata Sons Limited, Tata Power Company Limited, Tata Iron and Steel Company Limited, and Tata Industries Limited and the Company dated 6 February 2002.

4.1+ Interconnect Agreement between Videsh Sanchar Nigam Limited and Bharat Sanchar Nigam Limited, dated May 8, 2003.

4.2+ Interconnect Agreement between Videsh Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited, dated May 27, 2003.

4.3+ Memorandum of Agreement regarding Settlement Rates of International Telecommunication Services between Videsh Sanchar Nigam Limited and AT&T Corp., dated June 10, 2003.

4.4+ Memorandum of Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and MCI International Inc., dated August 28, 2003.

4.5+ Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Emirates Telecommunication Corporation, dated June 24, 2003.

4.6+ Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Oman Telecommunications Company, dated June 2, 2003.

4.7+ Agreement regarding Settlement Rates between Videsh Sanchar Nigam Limited and Saudi Telecom, dated July 8, 2003.

4.8**** License Agreement for national long distance services between the President of India and the Company, dated February 8, 2002.

4.9**** License Agreement for Provision of Internet Service (Including Internet Telephony) between the President of India and the Company, dated May 3, 2002.

10.3* License granted under the Indian Telegraph Act, 1885 to Videsh Sanchar Nigam Limited, dated January 22, 1999 by the Department of Telecommunications.

10.4** Letter from the Ministry of Communications, Department of Telecommunications regarding termination of the monopoly granted to Videsh Sanchar Nigam Limited, dated September 7, 2000.

12.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Registrant has requested confidential treatment pursuant to Rule 406 for a portion of the referenced exhibit and has separately filed such exhibit with the Commission.

* Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration Statement No. 001-15118) filed with the Commission on October 13, 2000 and incorporated herein by reference.

** Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration No. 001-15118) filed with the Commission on October 1, 2001 and incorporated herein by reference.

*** Previously filed as an exhibit to the Schedule 13D filed on February 15, 2002, by Panatone Finvest Limited and Tata Sons Limited relating to the purchase of shares of the Company.

**** Previously filed as an exhibit to the Company's Annual Statement on Form 20-F (Registration No. 001-15118) filed with the Commission on September 27, 2002 and incorporated herein by reference.