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LEADERSHIP ...



... in India's Telecom Transition





Leading the Indian Market

Deregulation, newly opened market segments, falling tariffs, new technologies and new opportunities. All of these changes are reshaping the contours of India's exploding market for telecommunication services. In the past few years, the government has moved to steadily open up various segments within the telecom market to private participation and competition, including basic domestic, domestic long distance, cellular and Internet-related services. At the same time, it has pushed tariffs down and encouraged a stronger focus on the customer.

At VSNL we believe that we are perfectly placed to seize the opportunities that these changes throw up. We are already India's leading telecommunications company, with state-of-the-art technology, years of experience in the Indian market, an impressive infrastructure, a strong brand name, a large and thriving customer base and a deep financial strength.

Based on those winning strategic advantages, we fully intend to maintain and grow our leadership of the Indian telecommunication market in the future. De-regulation will bring new competition, and a fast-changing market will bring new challenges. In this scenario, what will define a leader? We believe that our leadership will be based on welcoming changes and challenges, reacting quickly and nimbly to new opportunities, setting ourselves bold new benchmarks for growth and prosperity and listening closely to our customers to design a continuous stream of innovative, world-class products and services.

We expect that a re-shaped, more open market will offer us substantial opportunities to grow our existing businesses and enter exciting new ones. As we do that, we will aim to ensure consistent and rapid growth while emphasising the quality of our offerings. We plan to enter exciting new businesses, both in India and overseas. We are carefully selecting those businesses that will offer the maximum synergistic benefits, choosing areas where we can leverage our considerable expertise and our existing infrastructure. To support both new and existing businesses, we will continue to invest heavily in both technology and infrastructure.

We realize that VSNL's prosperity will be built on satisfying all our stakeholders, whether they are customers, employees or investors. We will expand our retail and corporate customer base swiftly, satisfying and delighting all our customers with superior products as well as with a high quality of service. At the same time, we aim to offer a rich and challenging work environment to our employees and superior returns on investment to our investors. We firmly believe that all these strategies, combined with our considerable strengths will allow us to continue to lead the Indian telecom market.



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Mission Statement

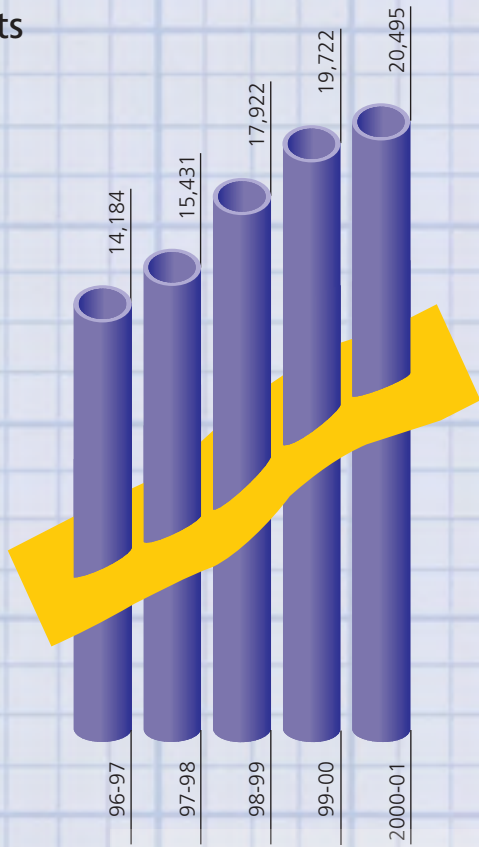
"To create a global and seamless network of Information Super Highways, to connect people and computer's cost effectively and efficiently; anytime, anywhere."

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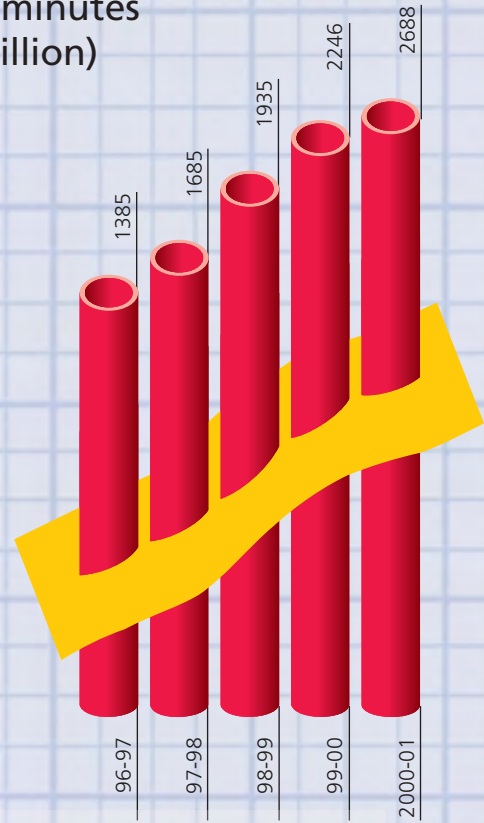


VSNL's vision is to bring the benefits of world-class communications technology to the largest number of people, creating a real and valuable improvement in the way we all live, work and interact with each other. We believe that by investing in state-of-the-art technology, we can continuously delight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

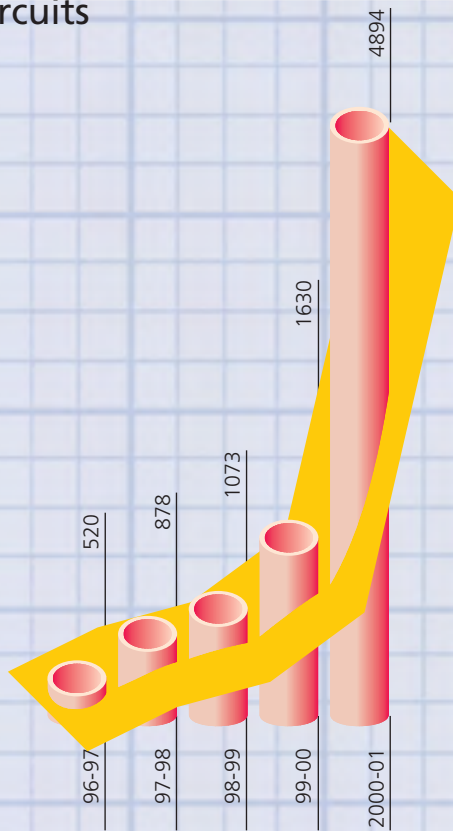
Telephone circuits



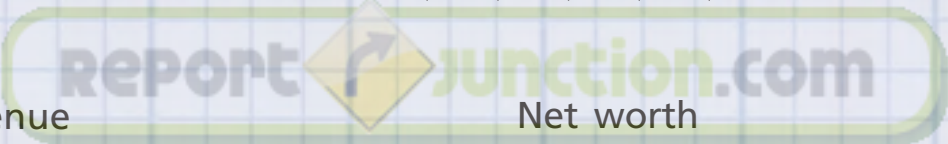
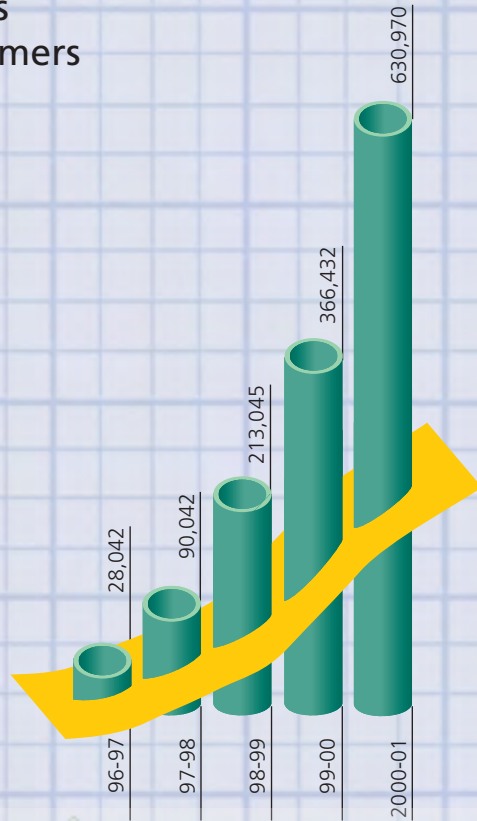
Telephone paid minutes (in million)



High-speed data circuits



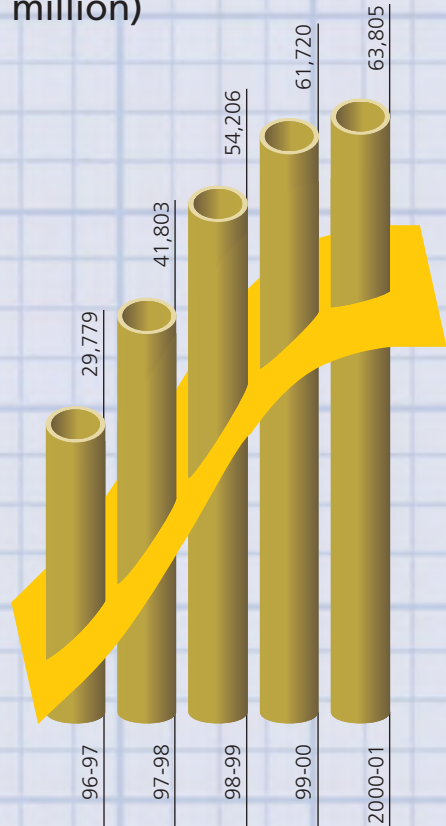
Internet access customers



Total revenue (Rs. in million)



Net worth (Rs. in million)





Chairman's Statement

When we look back at this time from the future, I believe we will view it as one of the most momentous stages in VSNL's history. The Indian telecommunications sector is witnessing rapid new changes, based on government deregulation and new technologies.

INTRODUCTION

It gives me great pleasure to welcome you all to the 15th annual general meeting of your company. When we look back at this time from the future, I believe we will view it as one of the most momentous stages in VSNL's history. The Indian telecommunications sector is witnessing rapid new changes, based on government deregulation and new technologies. VSNL is actively participating in those changes and will, in fact, be driving many of them. We have a number of exciting opportunities, both to enter new businesses and to strengthen our offerings in our existing business lines. We also have new competitors, both existing and anticipated, especially since the government has decided to terminate our monopoly in basic international telephony in April 2002. Another major development is that the government has decided to divest a 25% stake in VSNL to a strategic partner, with the right to management. By the end of this year, your company may be under private management. All these developments add up to a real chance for VSNL to continue to lead the Indian telecommunications market not by default, but by design and merit.

PERFORMANCE REVIEW

VSNL's performance in the last year has been excellent, both operationally and

financially. The volume of international telephone traffic carried by the VSNL network rose by 19.71%, while specialised services recorded a revenue growth of 22.74%. However, tariffs and settlement rates - that govern payments for international telephone services between telecom providers of two different countries - continued their downward trend. Therefore, despite the volume growth, total revenue grew 10.3%, from Rs.72.22 billion to Rs.79.66 billion. Nevertheless, our profit after tax showed an excellent growth of 111.68%, from Rs.8.41 billion to Rs.17.79 billion.

CONTINUING LEADERSHIP

VSNL is currently one of the largest and strongest companies in the Indian telecommunications sector. It compares very favourably with telecom companies in the rest of Asia too. Moving forward, we expect to continue to lead the Indian telecom market not because of a monopoly, but because we are a strong player with a whole range of competitive advantages. We have excellent technology and



infrastructure that represents billions of rupees that we have invested over the last 15 years. We have a strong brand name that we are now building further. We have a large existing customer base. We have skilled and experienced employees. We believe that all these assets will keep us firmly in the top position.

VSNL intends to continue its market leadership through a three-fold strategy. First, in our existing business lines, we will continue to innovate with new products, better services and competitive pricing. Second, to ensure rapid future growth, we are planning a special thrust on some areas, in both existing and new businesses. Third, we will continue to invest in infrastructure to support both new and existing businesses.

Basic services: early termination of monopoly

In September 2000, the Government of India announced that it will terminate VSNL's monopoly in international telephone services from April 1, 2002, two years ahead of schedule. The government plans to compensate VSNL for this early termination with a package including an all-India Internet Service Provider (ISP) license, a license to enter domestic long distance (DLD) services and certain benefits with regard to this DLD license. The government has further said that it would review this compensation package if it is found insufficient in the course of time. The government asked VSNL to place the compensation package before an extraordinary general meeting held in May 2001, at which the package was approved.

Even after the international long distance business is opened up to competition, we fully expect to continue to be the market leader, given the advantages I have outlined earlier. Additionally, since this business calls for high investments, we do not expect a flood of new players. Besides, the Indian telecom market is a developing one and is growing at a rapid pace. More players could well expand the market rather than fighting for market share. We have already seen this to be true in many developing countries. Therefore, we expect a healthy growth in our core business of international telephony services. This business will continue to be the major contributor to our revenues for quite some years to come.

Internet services

At the same time, to drive our future growth, we are planning a special thrust on some areas, in both existing and new businesses. The Internet business is one. Since November 1998, the ISP business has become highly competitive: 437 new private ISPs have been licensed and approximately 98 are already in operation. Despite that, VSNL is the leader in this business with a market share of about 50% in the major cities where we operate. Our subscriber base grew 72.19% during the year to 630,970 in March 2001. This demonstrates our ability to perform in a competitive environment and to attract, retain and delight our customers.

Until last year, we were somewhat restricted in this business because we

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were allowed to operate in only six cities. However, the government has now granted us an all-India ISP license, which will allow us to expand our leadership rapidly. We have already increased our presence to 12 cities and hope to reach a total of 20 cities by March 2002. To support the rapid future growth that we anticipate in this business, VSNL has expanded its Internet bandwidth from 167.1 Mbps in March 2000 to over 754.1 Mbps in March 2001. We plan to increase this to 1344 Mbps by December 2001.

We believe that we will differentiate ourselves in this market because of the quality of our offerings, supported by excellent technology and infrastructure. We have introduced a large number of innovations for both our retail and corporate clients. For corporate customers, we introduced Virtual Private Networks, VMAIL and an enterprise communication system called ALICE. For our retail customers, we have expanded our distribution channels substantially and reduced rates for Internet access. We also allowed online registration for Internet accounts, online credit card payments, global access to accounts, a package to prevent unauthorised access to accounts and many other initiatives. I would like to point out that these world-class innovations were developed entirely in-house. We will continue to innovate with new products and services to offer the best value to all customers.

TV up-linking

In addition to Internet services, we are expanding many of our other existing business lines. For example, since October 1998, VSNL has provided TV up-linking facilities to a dozen regional channels. Since the Indian government liberalised its up-linking policy last year by allowing all satellite channels to up-link from India, VSNL plans to take advantage of liberalisation to grow this business.

NEW BUSINESSES

We are also examining opportunities in brand new businesses. When choosing a new business, we look for a synergistic area that will allow us to leverage our existing infrastructure and expertise, as well as for a high-potential market with room for growth. Thus, all new businesses should help us maintain our leadership. Accordingly, we have zoomed in on domestic long distance services and direct-to-home services as well as international telecom opportunities, for a special thrust. Let me discuss each of these briefly.

Domestic long distance

The Indian government recently opened up the domestic long-distance business to competition. As part of the compensation package for the early termination of VSNL's international telephony monopoly, the government has agreed to give VSNL a DLD licence. We will also receive

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