



SIXTEENTH ANNUAL REPORT 2001-02

CONTENTS

Corporate Details	2
Directors' Report	3
Report on Corporate Governance	13
Secretary Responsibility Statement	25
Auditors' Certificate on Corporate Governance	26
Financial Ratios	27
Five Years at a Glance	28
Auditors' Report	29
Balance Sheet	32
Profit & Loss Account	33
Schedules	34
Notes to the Accounts	42
Cash Flow Statement	53
Addendum 1 to Directors' Report	55
US GAAP Accounts	56
Board of Directors	81

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

VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

CORPORATE DETAILS

BOARD OF DIRECTORS

(As on 1st July, 2002)

Mr. R. N. Tata (Chairman)

Mr. S. K. Gupta (Managing Director)

Mr. N. Srinath (Director Operations)

Mr. Rakesh Kumar

Mr. Y. S. Bhawe

Mr. Subodh Bhargava

Mr. Suresh Krishna

Mr. Ishaat Hussain

Mr. Kishor A. Chaukar

Mr. Satish Ranade

ED (Legal) & Company Secretary

REGISTERED OFFICE

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

CORPORATE OFFICE

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

BANKERS

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

LEGAL ADVISORS

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

JOINT STATUTORY AUDITORS

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

BRANCH AUDITORS

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

REGISTRARS & TRANSFER AGENTS

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

DIRECTORS' REPORT

Dear Shareholders,

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

FINANCIAL PERFORMANCE

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

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

TABLE 1

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

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

VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

Dividend

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

TABLE 2

Figures in Rs. million

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

CHANGE OF CONTROL

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

STRATEGIC DIRECTION

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

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

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

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

Business Restructuring

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

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

INTERNATIONAL LONG DISTANCE (ILD) TELEPHONY

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

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

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

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

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

Termination of Monopoly and Compensation

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

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

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

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

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

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

VALUE ADDED SERVICES

VSNL is India's leading player in a range of value-added services, which accounted for 11.60% of traffic revenues in 2001-02 against 9.73% in the previous year. These include services in the areas of Inmarsat satellite mobile telecommunications, electronic data interchanges, managed data network services, video conferencing, television relay services, packet switched data transmission, e-mail services and

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

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

Internet-related Services

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

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

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

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

TV Up-linking and Direct-to-Home

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

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

NEW BUSINESS INITIATIVES

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

National Long Distance (NLD)

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

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

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

Internet Telephony

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

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

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

VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

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

INTERNATIONAL INITIATIVES

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

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

INVESTING IN INFRASTRUCTURE

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

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

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

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

FIXED DEPOSITS

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

HUMAN RESOURCES

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

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

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

INDUSTRIAL RELATIONS

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

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

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

STATUTORY INFORMATION AND DISCLOSURES

During the year, no employee was in receipt of remuneration in excess of the limits set under the provisions of Section 217 (2A) of the Companies Act, 1956, and read with Companies (Particulars of the Employees) Amendment Rules 1988. There are no particulars to be disclosed pertaining to the year under review, in respect of R&D, technology absorption and so on as required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988. For the purpose of Form 'C' under the said rules, foreign exchange earnings were equivalent to Rs. 41,780 million and foreign exchange outgo was equivalent to Rs. 13,890 million.

THE BOARD OF DIRECTORS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

VIDESH SANCHAR NIGAM LIMITED

Sixteenth Annual Report 2001-02

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

ACKNOWLEDGMENTS

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

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

On behalf of the Board of Directors

Ratan N Tata
Chairman

Dated 17th July, 2002

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

ANNEXURE 1 : ADDITIONAL MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY BACKGROUND AND PROSPECTS

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

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

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

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