



SEVENTEENTH ANNUAL REPORT 2002-03

CONTENTS

Corporate Details	2
Notice	3
Directors' Report	9
Report on Corporate Governance	22
Secretary Responsibility Statement	32
Auditors' Certificate on Corporate Governance	33
Financial Ratios	34
Auditors' Report	35
Balance Sheet	38
Profit & Loss Account	39
Schedules	40
Notes to the Accounts	47
Cash Flow Statement	57
US GAAP Accounts	59
Board of Directors	85

Annual General Meeting on Tuesday, 2 September 2003 at Birla Matushri Sabhagar at 11.00 a.m.
As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting.
Shareholders are requested to kindly bring their copies to the meeting.

CORPORATE DETAILS**BOARD OF DIRECTORS**

(As on 1 August 2003)

Mr. R. N. Tata (Chairman)

Mr. S. K. Gupta (Managing Director)

Mr. N. Srinath (Director Operations)

Mr. Rakesh Kumar

Mr. Y. S. Bhawe

Mr. Subodh Bhargava

Mr. Suresh Krishna

Mr. Ishaat Hussain

Mr. Kishor A. Chaukar

Mr. Vivek Singhal

Dr. Ashok Jhunjhunwala

Mr. F.A. Vandrevalla

Mr. Satish Ranade

ED (Legal) & Company Secretary

REGISTERED OFFICEVidesh Sanchar Bhavan, Mahatma Gandhi Road,
Mumbai – 400 001.**CORPORATE OFFICE**Lokmanya Videsh Sanchar Bhawan
Kashinath Dhuru Marg, Prabhadevi, Mumbai – 400 028.**BANKERS**Indian Overseas Bank
HDFC Bank
Bank of Baroda
Canara Bank
State Bank of India**LEGAL ADVISORS**Messrs Little & Company
Messrs Mulla & Mulla and Craigie Blunt & Caroe
Messrs ANS Law Associates**STATUTORY AUDITORS**

Messrs S.B. Billimoria & Co., Chartered Accountants

**REGISTRARS &
TRANSFER AGENTS**Messrs Sharepro Services
Satam Estate, 3rd Floor,
Above Bank of Baroda, Chakala
Andheri (East), Mumbai - 400 099.

NOTICE

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

Ordinary Business

1. To receive, consider and adopt the Balance Sheet of the Company as on 31 March 2003, the audited Profit and Loss Account for the year ended on that date, the Auditors' Report thereon and the Report of the Board of Directors.
2. To declare dividend for the financial year 2002-2003.
3. To appoint a Director in place of Mr. Ratan N. Tata who retires at this Annual General Meeting and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. Subodh Bhargava who retires at this Annual General Meeting and being eligible offers himself for reappointment.
5. To consider and, if thought fit, to pass with or without modification the following Resolution as a **Special Resolution**:

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

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

Special Business

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

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

VIDESH SANCHAR NIGAM LIMITED

Seventeenth Annual Report 2002-03

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

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

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

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

By Order of the Board of Directors

Satish Ranade
E D (Legal) & Company Secretary

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

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING A PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. Members who hold shares in dematerialized form are requested to bring their DP ID and Client ID numbers for easy identification of attendance at the meeting.
3. The statement of material facts pursuant to Section 173 (2) of the Companies Act, 1956, setting out the material facts in respect of the business under all items except item Nos.1 to 5 is annexed hereto.
4. This may be taken as notice of declaration of dividend for 2002-2003 in accordance with Article 93 of Articles of Association of the Company in respect of dividend for that year when declared.
5. Registers of members and transfer books of the Company shall remain closed from 16 August 2003 to 2 September 2003 (both days inclusive) for the purpose of ascertaining eligibility to dividend.
6. The dividend as recommended by the Board of Directors, if declared at this Annual General Meeting, shall be paid on or after Monday, 8 September 2003.
 - (i) to those shareholders whose names appear on the Company's Register of Members after giving effect to all valid share transfers in physical form lodged with the Registrar & Transfer Agents (R&T Agents) of the Company on or before Thursday, 14 August 2003 (15 August being a public holiday).
 - (ii) in respect of shares held in electronic form, to those "deemed members" whose names appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as at the end of business on Thursday, 14 August 2003 (15 August being a public holiday). In respect of shares held in demat mode, the dividend will be paid on the basis of beneficial ownership as per details to be furnished by NSDL and CDSL for this purpose.
7. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividends for the financial year ended 31 March 1995 and thereafter, which remain unclaimed in the unpaid dividend account for a period of seven years from the date of transfer of the same, will be transferred to the Investor Education and Protection Fund established by the Central Government. Shareholders who have not encashed their dividend warrant(s) so far for the financial year ended 31 March 1995 or any subsequent financial years are requested to make their claim to the R & T Agents of the Company. According to the provisions of the Act, no claims shall lie against the said Fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.
8. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form No. 2B in duplicate (which will be made available on request) to the R & T Agents of the Company.
9. Members are requested to notify any change in their addresses immediately, in any event not later than Thursday, 14 August 2003 (15 August being a public holiday) so as to enable us to despatch the dividend warrants at the correct addresses:
 - a) in case of physical shares to the R & T Agents, M/s Sharepro Services, Satam Estate, 3rd Floor, Above Bank of Baroda, Chakala, Andheri East, Mumbai-400 099.
 - b) in case of shares held in demat form to their depository participants (DPs).

Annexure to the Notice dated 1 August 2003

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

In respect of Item No. 6

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

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

In respect of Item No. 7

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

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

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

2. Subject to the superintendence, control and direction of the Board, the Managing Director shall have the powers for the general conduct and management of the whole of the business and affairs of the Company except for such matters which are specifically required to be done by the Board or the shareholders pursuant to the provisions of the Companies Act, 1956 (the "Act") or by the Articles of Association of the Company, and the Managing Director shall also exercise and perform such powers and duties as the Board may from time-to-time delegate to him, and he shall also do and perform all other acts and things which in the ordinary course of business, he may consider necessary, or proper or in the interest of the Company.
3. Subject to the percentage limits as laid down in sub-section (3) of Section 309 of the Companies Act 1956 and the overall limit as laid down in sub-section (1) of Section 198 of the Companies Act 1956, and further subject to the approvals as may be necessary in terms of Sections 198, 269, 309, 310 and 311 of the Companies Act 1956 and also subject to the approval of the members in a General Meeting, the Company shall not remunerate the Managing Director directly but shall reimburse Tata Services all costs incurred on account of Mr. S.K. Gupta during the period he is deputed to VSNL as its Managing Director.
4. VSNL shall not be liable for compensating and Managing Director shall not be eligible for claiming from VSNL, any compensation for loss of office as Managing Director in VSNL.
5. The Managing Director shall not be paid any sitting fees for attending the meeting of the Board of Directors or any committee thereof from the date of his reappointment.

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

In respect of Item No. 8

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

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

In respect of Item No. 9

Dr. Ashok Jhunjunwala was appointed as Additional Director on the Board with effect from the conclusion of the 16th AGM held on 20 August 2002 under Article 66 B of the Articles of Association of the Company. Under Section 260 of the Companies Act, 1956 and under the said Article, Dr. Ashok Jhunjunwala holds office only up to the date of the forthcoming Annual General Meeting. Dr. Ashok Jhunjunwala is eligible for appointment as a director of the Company and the Company has, pursuant to Section 257 of the Companies Act, 1956,

VIDESH SANCHAR NIGAM LIMITED

Seventeenth Annual Report 2002-03

received a notice in writing proposing his candidature for appointment. If appointed, Dr. Ashok Jhunjunwala will act as a non-executive director liable to retire by rotation. For the purpose of provisions of clause 49 of the Listing Agreement, Dr. Ashok Jhunjunwala would be an independent director.

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

In respect of Item No. 10

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

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

By Order of the Board of Directors

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

Satish Ranade
E D (Legal) & Company Secretary

DIRECTORS' REPORT

Dear Shareholders,

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

OVERVIEW

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

FINANCIAL PERFORMANCE

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

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

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

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

TABLE 1

Audited financial results for the year 2002-2003

(Rs. in Million)

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

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

Dividend

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

TABLE 2

(Rs. in Million)

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

INDUSTRY AND REGULATORY ISSUES

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

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

These high IUCs have inadvertently encouraged grey market ILD services, especially in the larger cities. Illegal routing operators offer cheaper services since they do not pay IUCs; various market estimates put

the volumes as much as 30%-50% share of the incoming long distance traffic into India. These illegitimate operators take away the business of licensed providers and deprive the government of income since licence fees are revenue based.

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

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

STRATEGIC DIRECTION

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

To keep VSNL in the forefront of the Indian telecom sector, the Company's strategy is three-fold. First, given the pressure on its international voice traffic business, which VSNL will make its best efforts to protect, VSNL will also endeavour to enhance its other offerings, increasing value to customers through improved and new services. For example, VSNL has