

## VIDESH SANCHAR NIGAM LIMITED



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## EIGHTEENTH ANNUAL REPORT 2003-04

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Annual General Meeting on Thursday, 2 September 2004, 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

Eighteenth Annual Report 2003-2004

### CORPORATE DETAILS

#### BOARD OF DIRECTORS

(As on 28 July 2004)

Mr. R. N. Tata (Chairman)

Mr. S. K. Gupta (Managing Director)

Mr. N. Srinath (Director Operations)

Mr. Rakesh Kumar (Government Nominee)

Mr. Subodh Bhargava (Independent)

Mr. Suresh Krishna (Independent)

Mr. Ishaat Hussain

Mr. Kishor A. Chaukar

Mr. Vivek Singhal (Independent)

Dr. Ashok Jhunjhunwala (Independent)

Mr. F.A. Vandrevalla

Mr. Pankaj Agrawala (Government Nominee)

Mr. Satish Ranade

Company Secretary & Vice President (Legal)

#### REGISTERED OFFICE

Videsh 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

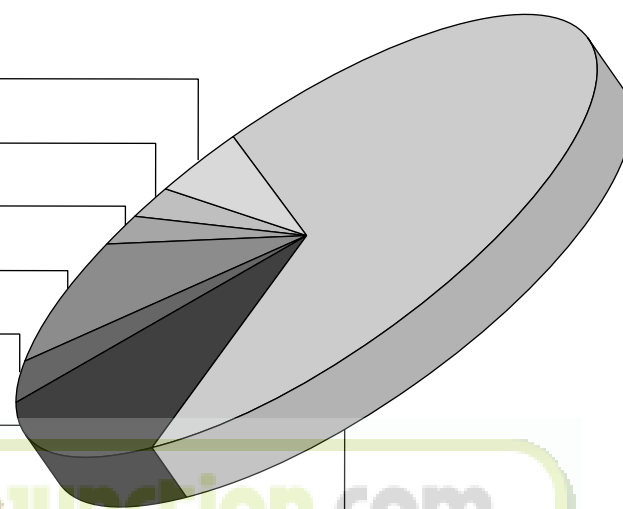
Messrs S.B. Billimoria & Co., Chartered Accountants

#### REGISTRARS & TRANSFER AGENTS

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

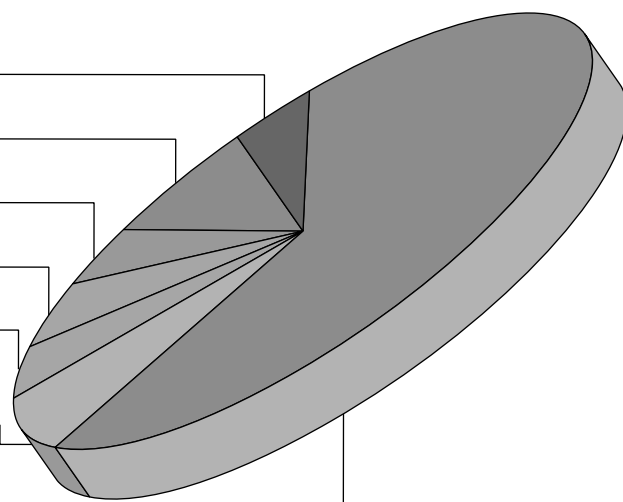
### REVENUE EARNED 2003-04

|                       |     |
|-----------------------|-----|
| Interest              | 4%  |
| Other Income          | 2%  |
| Other Traffic Revenue | 2%  |
| Internet              | 9%  |
| Frame Relay           | 4%  |
| Leased Channel        | 16% |
| Telephone             | 63% |



### DISTRIBUTION OF REVENUE 2003-04

|                            |     |
|----------------------------|-----|
| Staff Cost                 | 4%  |
| Reserve                    | 7%  |
| Dividend                   | 4%  |
| Taxes                      | 5%  |
| Depreciation               | 5%  |
| Operating & Other expenses | 9%  |
| Network Cost               | 66% |



## VIDESH SANCHAR NIGAM LIMITED

### Eighteenth Annual Report 2003-2004

#### NOTICE

NOTICE is hereby given that the Eighteenth Annual General Meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours on Thursday, 2 September 2004, at Birla Matushri Sabhagar, New Marine Lines, Mumbai - 400 020 to transact the following business:

- 1 To receive, consider and adopt the Balance Sheet of the Company as on 31 March 2004, 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 2003-2004.
- 3 To appoint a Director in place of Mr. N. Srinath who retires at this Annual General Meeting and being eligible offers himself for reappointment.
- 4 To appoint a Director in place of Mr. Ishaat Hussain who retires at this Annual General Meeting and being eligible offers himself for reappointment.
- 5 To appoint a Director in place of Mr. Kishor A Chaukar who retires at this Annual General Meeting and being eligible offers himself for reappointment.

#### Special Business

- 6 To consider and, if thought fit, to pass with or without modifications 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 reappointed 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 2004-2005 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 2005) wherever in India or abroad."

By Order of the Board of Directors

Satish Ranade  
Company Secretary  
& Vice President (Legal)

Dated : July 28, 2004  
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 item No. 6 is annexed hereto.
4. This may be taken as notice of declaration of dividend for 2003-2004 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 2004 to 2 September 2004 (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 Wednesday the 8 September 2004:
  - (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 Friday, 13 August 2004.
  - (ii) in respect of shares held in electronic form, to those "deemed members" whose names appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as at the end of business on Friday, 13 August 2004. 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 Friday, 13 August 2004, so as to enable us to despatch the dividend warrants at the correct addresses:
  - i) 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.
  - ii) In case of shares held in demat form to their depository participants (DPs).

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**Annexure to the Notice dated July 28, 2004**

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

**In respect of Item No. 6**

Section 224A of the Companies Act, 1956 provides that the appointment or reappointment of an Auditor or Auditors of the Company at each Annual General Meeting shall be by way of a special resolution if the company is one in which not less than 25% of the subscribed share capital is held singly or in combination thereof by the Central Government, public financial institutions, etc.

The Central Government holds about 26.12% of the subscribed and paid-up capital of the Company; and hence, reappointment of M/s. S. B. Billimoria & Co., Chartered Accountants, the Statutory auditors, is required to be made by way of a Special Resolution. As required under Section 224 of the Act, necessary certificates have been received from them to the effect that their appointment, if made, will be in accordance with the limits specified in Section 224 (1B) of the Act.

The Board commends the resolution for acceptance by the members.

None of the Directors is interested in this resolution.

By Order of the Board of Directors

Satish Ranade  
Company Secretary &  
Vice President (Legal)

Dated : July 28, 2004  
Registered Office :  
Videsh Sanchar Bhavan  
M.G. Road, Mumbai - 400 001.

## DIRECTORS' REPORT

Dear Shareholders,

The directors are pleased to present the annual report and audited accounts for the financial year ended March 31, 2004.

## FINANCIAL PERFORMANCE

During the past year, competitive pressures reduced tariffs and settlement rates in the international telephony business. Further, the introduction in February 2004 of a new interconnection usage charges (IUC) regime, with higher access deficit charges (ADC), caused a major diversion of voice traffic to illegal "grey" routes, thus effectively reducing the growth of the addressable market. Accordingly, VSNL's revenues in this segment declined by 34%, from Rs.41.19 billion to Rs.27.18 billion, while margins were under severe pressure. Nevertheless, the Company succeeded in maintaining traffic volumes at almost the same level as in the previous year.

Meanwhile, revenues in the 'other services' segment, which includes businesses like national long distance (NLD) and Internet services, grew by 6.24% from Rs.4.2 billion to Rs.4.46 billion. Other income was higher than in the previous year, due to profits from the sale of VSNL's shareholding in Inmarsat Ltd., amounting to Rs.941 million. The Company continued to pursue its profit enhancement programme with valuable results, resulting in better cost management and improved debt recovery. Total expenditure for 2003-04 fell from Rs.35.58 billion to Rs.28.19 billion. However, as a result of the pressure on both revenue and margins, the Company's net profits declined 51.58%, from Rs.7.8 billion in 2002-03 to Rs.3.78 billion in 2003-04.

During the year, the Company revised the value of certain fixed assets based on their useful life and carrying value, which will help realign cost structures and improve pricing decisions. VSNL consequently wrote down Rs.9.56 billion of assets and reduced the securities premium account by that amount less deferred tax amounting to Rs.3.43 billion, as approved by the shareholders and the Mumbai High Court in April and May 2004.

TABLE 1

Audited financial results for the year 2003-2004 (Rs. in Million)

| Description                                | 2003-04 | 2002-03 | % Change |
|--|---------|---------|----------|
| International telephony & related services | 27,177  | 41,189  | (34.02)  |
| Other services                             | 4,458   | 4,196   | 6.24     |
| Other income**                             | 2,076   | 2,740   | (24.23)  |
| Total Revenue**                            | 33,711  | 48,125  | (29.95)  |
| EBITDA margins                             | 16.29   | 25.13   | (35.18)  |
| Depreciation                               | 1,717   | 1,467   | 17.04    |
| Prior years adjustment                     | (9)     | 136     | (106.62) |
| Profit before tax***                       | 5,433   | 12,544  | (56.69)  |
| Tax  | 1,656   | 4,743   | (65.09)  |
| Profit after tax                           | 3,777   | 7,801   | (51.58)  |
| Earnings per share (Rs.)                   | 13.25   | 27.37   | (51.59)  |
| Net worth                                  | 49,610  | 53,413  | (7.12)   |
| Dividend per share (Rs.)                   | 4.50    | 8.50    | (47.06)  |

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

\*\* Excluding profit on sale of investment in Inmarsat (Rs.941 million).

\*\*\* After exceptional items.

## Dividend

The directors are pleased to recommend a final dividend at the rate of Rs.4.50 per share on every share of Rs.10 for the financial year ended March 31, 2004. The directors propose that profits be appropriated in the manner as given in Table 2 below:

TABLE 2

(Rs. in Million)

| DESCRIPTION  | Amount   |
|--|----------|
| Amount available for appropriation                           |          |
| - balance carried forward                                    | 5,053.15 |
| - Profit for the year  | 3,776.56 |
| Less:  |          |
| - Dividend @ 45% on the paid-up capital of Rs.2,850 million. | 1,282.50 |
| - Tax on dividend  | 164.32   |
| - Transfer to general reserve                                | 378.00   |
| Surplus carried to balance sheet.                            | 7,004.89 |



## STRATEGIC OVERVIEW

The Company's challenge is to address the significantly increased competition in the 'international telephony and related services' segment. VSNL is de-risking its revenue model by accelerating growth in other business lines and diversifying into related high-potential areas, while improving the voice business with new products and enhanced levels of service. Therefore, while VSNL intends to maintain its current leadership in the international telephony market, this segment will account for a progressively lower share of VSNL's overall revenues due to rapid growth in other businesses. During 2003-04, the share of the 'international telephony and related services' business fell to 86% of VSNL's revenues from 91% in 2002-03, while the share of 'other services' increased from 9% of revenues in the previous year to 14%.

VSNL also benefits greatly by being part of the US\$12 billion Tata group and is fully leveraging synergies with other Tata group companies in the telecom and software sectors, to give customers a broad range of end-to-end solutions. VSNL's services are now provided under the Tata Indicom name, an umbrella brand for the Group's various telecom service offerings. In the past year, VSNL has made significant progress in implementing its overall strategy, as follows:

- VSNL pushed ahead with a rapid rollout of national long distance (NLD) services.
- VSNL introduced both inbound and outbound calling cards.
- The leased channels business grew substantially in both revenue and volume terms and is likely to contribute an increasingly significant share of future revenues.
- VSNL remained a leading Internet service provider, acquired the narrowband and broadband businesses of Dishnet's ISP division through a slump sale, and laid the groundwork for a large play in the retail broadband business.
- In line with the Company's globalisation plans, VSNL began telecom operations in both Nepal and Sri Lanka.
- The Company set up an international business group to sell international bandwidth and drive its international expansion. VSNL also set up subsidiaries in the United States, Singapore, U.K and Hong Kong.
- VSNL is adding to its excellent infrastructure by setting up a submarine Tata Indicom India-Singapore (TIIS) cable landing at Chennai in India.
- The Company has been assigned the crucial role of network administrator and the responsibility for running the network operating centre for the entire SEA-ME-WE4 cable system, in which it is also investing.

## INTERNATIONAL TELEPHONY AND RELATED SERVICES

Under the 'international telephony and related services' segment, VSNL primarily offers international telephony, telex, telegraph, leased channel, frame relay and Inmarsat Services.

### International Telephony

VSNL remains India's top international long distance (ILD) services provider, offering telephone services to 237 international destinations. The Government of India allowed private players into the ILD business from April 1, 2002. Competition intensified during 2003-04, driving down settlement rates and tariffs. During the year, ILD call tariffs across the industry declined by as much as 70% to certain destinations. Both settlement rates (determining ILD services payments between telecom providers of different countries) and interconnect rates (determining VSNL's revenues for international calls passed to or from other domestic telecom networks), also declined. Besides, from February 13, 2004, VSNL ceased to be the preferred carrier for outbound traffic from the public sector incumbent access providers BSNL and MTNL.

One of the Company's biggest challenges in this sector is to improve volumes, revenues and margins. Through the year, VSNL explored and effectively used innovative methods to reduce the cost of carrying traffic and improve margins. Relationships with international carriers have become both vital and significantly more complex. Settlement rates have become finer and are reviewed much more frequently, changing at least monthly against annually before. Settlement rates now vary for each carrier and for different destinations, making it important to structure innovative deals with various carriers. The Company is capitalising on its long-standing relationships with about 80 international carriers, offering them flexible solutions. VSNL has also implemented a multicarrier billing system, which solves interoperability issues and does not require other carriers to install their equipment at VSNL; this reduces both the delays and costs of commencing relationships with new carriers.

During 2003-04, VSNL took advantage of the technology shift to the Voice over Internet Protocol (VoIP) for incoming voice termination, and tied up with ten new generation carriers that use VoIP. VSNL is building its ability to pick up traffic overseas through points of presence in various countries, to offer more attractive packages to international carriers. VSNL has signed interconnect agreements with all domestic cellular service providers and private basic operators for direct termination and pick up of ILD traffic.

During the year, VSNL signed a wholesale carriage agreement with BSNL to share infrastructure and carry BSNL's inbound and outbound traffic. The agreement is effective for one year from February 13, 2004. This agreement provides for VSNL to handle BSNL's incoming and outgoing ILD traffic at a certain

cost per minute of traffic handled. BSNL has not yet started its own ILD service and therefore this agreement is yet to be consummated. In the interim, BSNL floated tenders to handle its outgoing traffic. VSNL was awarded this tender after quoting aggressive rates in competition with other ILD operators.

During the year, the Company launched calling cards, an important avenue to raise call volumes. VSNL established an intelligent network (IN) platform that allows multiple IN services. It launched the inbound U.S card in January 2004, followed by cards for the U.K and the Gulf area. These cards, currently available both online and through a retail distribution channel, target both Indian travellers and ethnic Indian populations overseas. This year, VSNL hopes to cover about 30 more countries with a global inbound card that can be used to call India and other countries. The Company will market the cards for corporate users and may introduce variants like a post-paid option.

VSNL also launched an outbound calling card in April 2004, accessed through a toll-free number. However, these cards can currently be used only from Tata Indicom phones because other local service providers block calls from their network to VSNL's toll-free number. VSNL supports both compulsory access to the IN platforms of all providers and free carrier selection, so that customers can freely choose their own providers. If those regulatory changes are made, outbound cards have a high growth potential. VSNL has also been consistently pressing the DoT and TRAI to implement the carrier access code (CAC) regime. This has already been significantly delayed, and the Company hopes this regime, essential to the survival of stand-alone ILD operators, and a fair entitlement of subscribers seeking competitive service options, will be implemented at the earliest.

Another key regulatory concern is the large illegal market. The TRAI imposes interconnection usage charges (IUCs), which include access deficit charges (ADCs - for a fuller explanation of various regulatory issues, please see Annexure I). These IUCs are presently high, encouraging illegal traffic through operators who offer cheaper services because they avoid paying the appropriate IUCs. Besides, under the current IUC regime, in certain cases, when traffic is exchanged between cellular and ILD operators, the cellular operators must pay BSNL an ADC on such traffic. Consequently, cellular operators could benefit if the ILD operator under-declares the traffic, thus reducing the ADC payable to BSNL, giving an unfair advantage to those ILDOs who are willing to get involved in such an activity.

These and other anomalies have been brought to the notice of TRAI, pointing out that the current ADC regime does not help to discourage grey market operators. TRAI recently issued a paper discussing possible revisions of IUCs. If the

government controls the grey market to ensure a level playing field, then legal ILD traffic volumes could rise, given falling tariffs and increasing telecom penetration.

#### **International Leased Line Circuits**

The leased line market in India has grown at an annualised rate of 60%-70% per year during the last three years. Recognising the high potential of this business, VSNL formed a dedicated unit in March 2002, offering a range of data services across the value chain to all types of customers. These include international private leased circuits (IPLCs), mail and messaging services, virtual private networks (VPNs), managed data centres and website hosting services with security back-up and database management services, network management and various managed applications. A major advantage is VSNL's synergy with other telecom and software companies within the Tata group, which offers customers a strong, end-to-end value proposition for both voice and data and across software, hardware and network services. VSNL's leased line business grew 83% in volume during 2003-04 and the Company expects it to remain a large growth driver.

The IPLC segment is the flagship of the corporate business, offering point-to-point, high-speed, 24-hour connectivity for transmitting integrated applications like voice, data and video. This business is driven by demand from the information technology enabled services (ITES) sector, including business process outsourcing and call centre customers.

To better serve customers, VSNL has launched various important customer initiatives. In April 2003, VSNL joined hands with Tata Teleservices, Tata Internet Services and Tata Net to form the Tata Indicom Enterprise Business Unit (TIEBU). This unit provides specialised sales and marketing coverage to the top 400-500 Indian corporate accounts, focussing on seven industry verticals and offering integrated voice and data solutions under the Tata Indicom brand. TIEBU now brings in over a third of VSNL's leased line revenue. The Company also markets its services through corporate channels, with 67 partners in 19 locations. During the past year, VSNL stepped up direct marketing, holding road shows in six cities as well as seminars.

VSNL has increased both pre-sales technical support and solution development resources to understand and serve customer needs. Apart from sales and marketing efforts, VSNL is assigning separate customer relationship managers to provide additional customer support, and its single sales and marketing customer database escalates customer concerns quickly up the organisation.

#### **OTHER SERVICES**

VSNL is India's leading player in 'other telecommunication services', which are growing fast and also increasing their