



VIDESH SANCHAR NIGAM LIMITED

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19th Annual Report
2004 - 2005

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NINETEENTH ANNUAL REPORT 2004-05

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Annual General Meeting on Wednesday, September 14, 2005, 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.

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CORPORATE DETAILS

BOARD OF DIRECTORS

(As on 10th August 2005)

Mr. Subodh Bhargava (Chairman) (Independent)

Mr. N. Srinath (Director Operations)

Mr. Suresh Krishna (Independent)

Mr. Ishaat Hussain (Panatone Nominee)

Mr. Kishor A. Chaukar (Panatone Nominee)

Mr. Vivek Singhal (Independent)

Dr. Ashok Jhunjhunwala (Independent)

Mr. F.A. Vandrevala (Panatone Nominee)

Mr. Pankaj Agrawala (Government Nominee)

Dr. Mukund Rajan (Panatone 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

Citibank Inc.
HDFC Bank
ICICI Bank Ltd.
Indian Overseas Bank
State Bank of India

LEGAL ADVISORS

Messrs ANS Law Associates
Messrs Little & Company
Messrs Mulla & Mulla and Craigie Blunt & Caroe

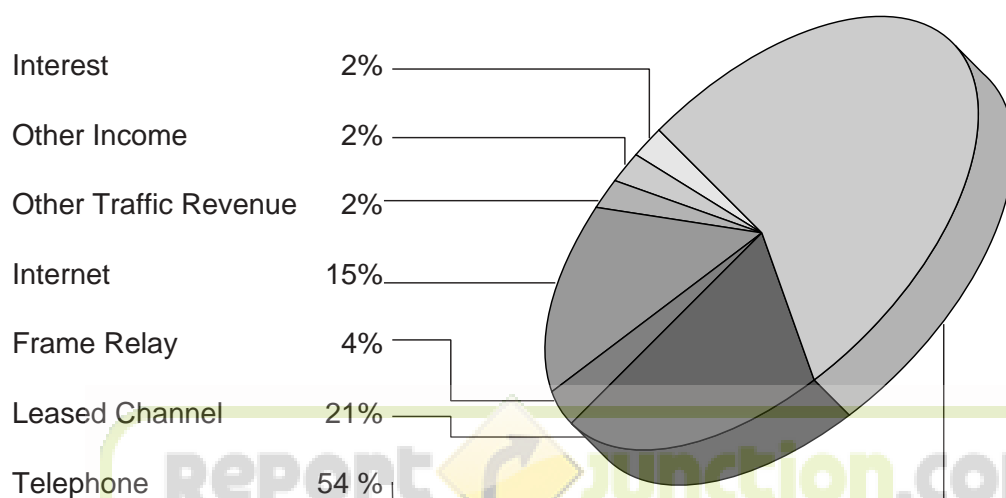
STATUTORY AUDITORS

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

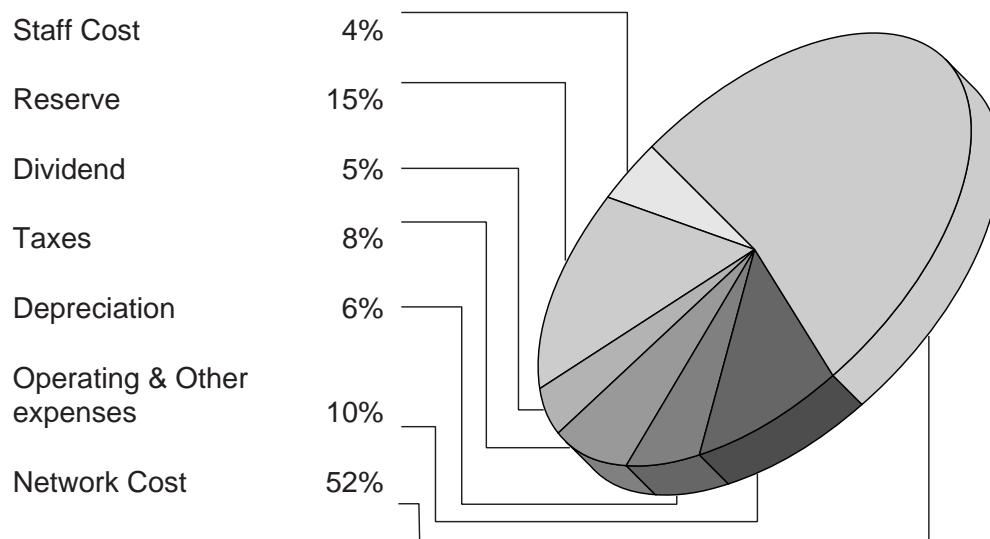
REGISTRARS & TRANSFER AGENTS

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

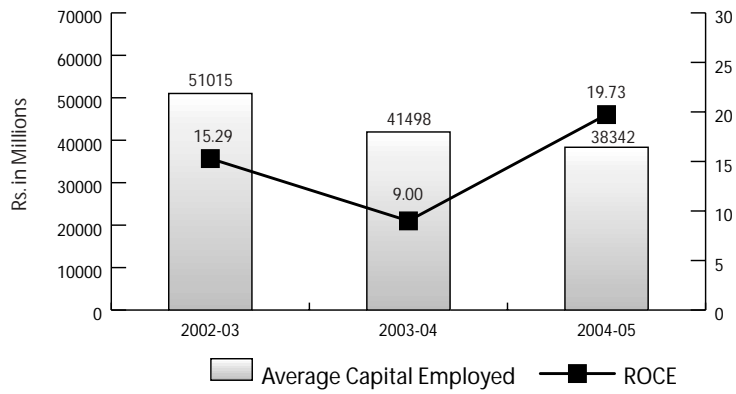
REVENUE EARNED 2004-05



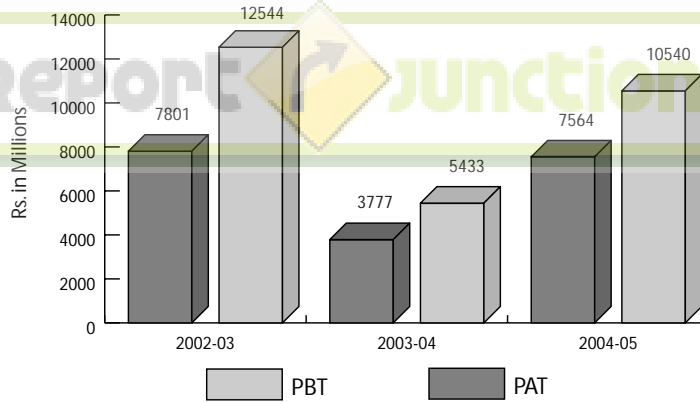
DISTRIBUTION OF REVENUE 2004-05



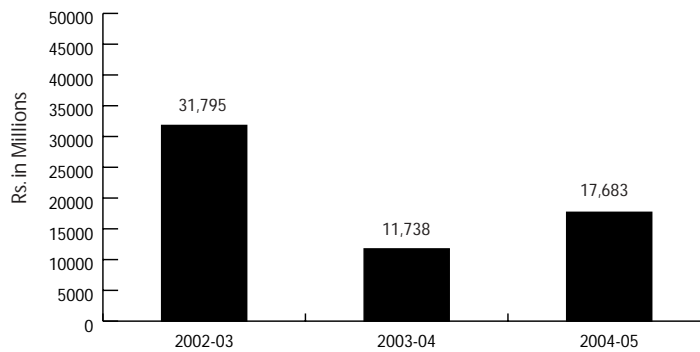
AVG. CAPITAL EMPLOYED AND ROCE



PROFITS



NET WORKING CAPITAL



NOTICE

NOTICE is hereby given that the Nineteenth Annual General Meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours on Wednesday, September 14, 2005, at Birla Matushri Sabhagar, New Marine Lines, Mumbai - 400020 to transact the following business:

- 1 To receive, consider and adopt the Balance Sheet of the Company as on March 31, 2005, 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 2004-2005.
- 3 To appoint a Director in place of Mr. Suresh Krishna 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 appoint a Director in place of Mr. Vivek Singhal 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 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 2005-2006 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 March 31, 2006) wherever in India or abroad."

By Order of the Board of Directors

Satish Ranade
Company Secretary
& Vice President (Legal)

Dated : August 10, 2005

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 at item No. 6 is annexed hereto.
4. This may be taken as notice of declaration of dividend for 2004-2005 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 September 1, 2005 to September 14, 2005 (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, September 19, 2005.
 - (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 Wednesday, August 31, 2005.
 - (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 Wednesday, August 31, 2005. 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 March 31, 1995 and thereafter, which remain unclaimed in the unpaid dividend account for a period of seven years

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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 March 31, 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. The summary of the unpaid dividend for the past years and the date on which the outstanding amount shall be transferred to Investor Education and Protection Fund as given in the table below.

Year	Dividend	Balance as on 30 June 2005	Transfer to Investor Education & Protection Fund
1997-98	Final Dividend	800.00	8 November 2005
1998-99	Final Dividend	40,498.50	17 November 2006
1999-00	Interim Dividend	558,475.20	14 May 2007
1999-00	Final Dividend	349,260.00	17 November 2007
2000-01	Final Dividend	2,831,500.00	14 November 2008
2001-02	Interim Dividend	3,596,559.30	19 March 2009
2001-02	Final Dividend	1,713,581.00	7 October 2009
2002-03	Final Dividend	1,460,551.00	20 October 2010
2003-04	Final Dividend	964,647.00	20 October 2011
	Total	11,497,822.00	

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 Monday, August 29, 2005, 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 (India) Pvt. Ltd., 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).

Annexure to the Notice dated August 10, 2005

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 : August 10, 2005
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, 2005.

FINANCIAL PERFORMANCE

The Company succeeded in maintaining international telephony traffic volumes at almost the same level as in the previous year with revenue in this segment growing by 5.26%, from Rs. 30.78 billion to Rs. 32.40 billion. Settlement rates remained stable with continued pressures on margins. Revenues in the 'other services' segment, which includes TV uplinking, transponder leasing services etc., declined by 33.33% from Rs. 0.9 billion to Rs.0.6 billion. Other income for the year included profit of Rs. 4.83 billion from the sale of VSNL's shareholding in Intelsat and Rs. 0.68 billion from New Skies Satellite Ltd. The Company continued to pursue its profit enhancement programme through better cost management and improved recovery. Total expenditure for 2004-05 declined marginally from Rs. 28.05 billion to Rs. 27.78 billion.

During the year 2003-04, the Company revised the value of certain fixed assets based on their useful life and carrying value, enabling realigning cost structures and improved 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 2004-2005 (Rs. in Million)

Description	2004-05	2003-04	% Change
Telephony & related services	32,400	30,775	5.28
Other services	630	867	-27.34
Other income\$	1,074	2,069	-48.09
Total Revenue\$	34,104	33,711	1.17
EBITDA margins#	23.28	16.76	38.90
Depreciation	2,440	1,725	41.45
Prior years adjustment	0	(16)	-100
Profit before tax@	10,540	5,433	94
Tax	2,976	1,656	79.71
Profit after tax	7,564	3,777	100.26
Earnings per share (Rs.)	26.54	13.25	100.30
Net worth	55,220	49,610	11.31
Dividend per share (Rs.) ~	6.00	4.50	33.33

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

\$ Excluding profit on sale of investment in Intelsat and NSS (5.51billion)

Before exceptional items

@After exceptional items

~ Including one time special dividend.

Dividend

The directors are pleased to recommend a normal dividend of Rs. 4.50 per share and a one-time special dividend of Rs. 1.50 per share on account of extraordinary income, amounting to a total of Rs. 6.00 per share on every share of Rs.10/- for the financial year ended March 31, 2005. 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	7,004.89
- Profit for the year	7,563.67
	14,568.56
Less:	
- Dividend (including one time special dividend) @60% on the paid-up capital of Rs.2,850 million.	1,710.00
- Tax on total dividend	243.11
- Transfer to general reserve	756.37
Surplus carried to balance sheet.	11,859.08

STRATEGIC OVERVIEW

Your Company offers a range of 'telephony and related services', which include international telephony, leased channels, dial-up internet, broadband, net telephony, national long distance, enterprise data, frame relay and Inmarsat services. Your Company also offers a number of 'other services', including TV uplinking services, transponder leasing services, etc.

Over the last three years, the international telephony market has witnessed increased competition, falling rates and lower margins. Simultaneously, the growth and deregulation of telecom sector has opened up large new opportunities for your company to diversify and grow while leveraging its telecom expertise. Therefore, your Company's strategy remains to:

- Diversify and de-risk its business model by growing high-potential newer businesses like enterprise data and broadband services.

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- Maintain its leadership in its traditional international services with new products and enhanced service levels.
- Leverage its expertise by expanding into overseas markets that are deregulating or opening up, through greenfield ventures or acquisitions.
- Support all its businesses by selective and strategic expansions of its already-excellent infrastructure network.
- Fully leverage 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 provided under the Tata Indicom name, an umbrella brand for the Tata Group's various telecom service offerings.
- Continuously raise efficiency and customer satisfaction through internal initiatives such as quality, cost rationalisation and profit enhancement.

OPERATIONAL REVIEW

During 2004-05, VSNL's various businesses performed as follows.

International Telephony

VSNL remains India's top ILN services provider, offering telephone services to 236 international destinations. Competition intensified during 2004-05. While settlement rates (determining ILN services payments between telecom providers of different countries) remained more or less stable, both tariffs and interconnect rates (determining VSNL's revenues for international calls passed to or from other domestic telecom networks), declined resulting in sustained pressure on the margins.

During 2004-05, the Telecom Regulatory Authority of India (TRAI-the telecom regulator) reduced the access deficit charge (ADC) on incoming ILN calls from Rs. 4.25 to Rs. 3.25 and from Rs. 4.25 to Rs. 2.50 on outgoing ILN calls. According to the TRAI, during 2004-05 tariffs on ILN calls to the U.S, Canada and Europe across the industry declined by 25%. From February 13, 2004, VSNL ceased to be the preferred carrier for outbound traffic from the public sector access providers Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL). Despite this, during 2004-05, outgoing traffic volumes rose 31%, while volumes of incoming traffic stayed about the same as in the previous year.

Given increased competition and falling rates and margins in this business, VSNL's focus is on increasing volumes, revenues and rationalising costs to improve margins. The Company is capitalising on its long-standing relationships

with about 90 international carriers, offering them flexible solutions. During 2004-05, VSNL implemented IP-based solutions for faster connectivity with overseas carriers, and improved its IP network, for example by upgrading IP gateways, to increase the number of carriers the Company can interconnect with. VSNL also focused sharply on realizing old dues and recovered about Rs. 1.2 billion in past debts from overseas carriers.

During 2004-05, VSNL also set up two points of presence (PoPs) in the US and one in the UK. VSNL has signed interconnect agreements/arrangements with all domestic cellular service providers and private basic operators for direct termination and pick up of ILN traffic.

A key concern in the ILN voice business is the large illegal market (please see Management Discussion and Analysis for a discussion of regulatory issues). During the year, VSNL undertook a major initiative to combat grey traffic, which included collecting data on grey calls, submitting data to the TRAI and the Department of Telecommunications (DoT-the telecom licensor) and issuing advertisements to increase consumer awareness. With the help of VSNL and other operators, the authorities have begun tracking such illegal operators, confiscating their equipment and shutting them down. These efforts, if consistently enforced, will help to curb the grey market.

National Long Distance (NLD)

In September 2002, VSNL entered the NLD services market as a logical extension of its telephony expertise. NLD services now account for a significant component of VSNL's voice services, and volumes in this segment increased from 240 million minutes in 2003-04 to 1.5 billion minutes in 2004-05. From February 1, 2005, the TRAI set the access deficit charge (ADC) on all NLD calls at a uniform 30 paise per call, against the previous distance-based slab system of 20 paise to 80 paise. The reduction has contributed to a substantial increase in call volumes.

Your Company now has a robust national network infrastructure. VSNL has interconnect agreements in place with all basic and cellular mobile service operators in the country to carry NLD traffic to their networks. In line with VSNL's investment in Tata Teleservices Ltd., it now offers its NLD services to all of TTSL's subscriber base, filling an important gap in VSNL's access to end customers. (Please see Management Discussion and Analysis for details.)

Calling Cards

In 2004, the Company launched its calling cards, an important offering to own the customer as also to raise call volumes. VSNL first launched the country-specific 'India-on-call' cards for the U.S, UK and Gulf region starting in January