HUGHES TELE.COM

Sixth Annual Report 2000-2001

SERVICE EXCELLENCE

We believe our differentiator is not just providing customised telecom solutions - But is Service Excellence.

This has been at the core of our efforts in all spheres. It is the reason we have thousands of satisfied customers.

Whether it is world class technology or customer friendly service centres that work round the clock, or customer centered processes, all our strategies have the goal of not just achieving, but surpassing Customer Satisfaction.

Contents

Board of Directors

BOARD OF DIRECTORS

Mr. Pramod Mittal *(Chairman)*

Mr. Pradman Kaul *(Vice Chairman)*

Mr. Jack Shaw

Mr. Francis X. Frantz

Mr. V.K. Mittal

Mr. James Lucchese

Mr. Pradeep Kaul

Mr. Alok Gupta

Mr. Vijay Dhar

Mr. Vivek Sett

Mr. Arun Kumar *(Alternate to Mr. Jack Shaw)*

Mr. Madhav Joshi *(Alternate to Mr. Pradman Kaul)*

Mr. Sanjay Chaudhary *(Alternate to Mr. Francis X.Frantz)*

Mr. Pranav Roach *(Alternate to Mr. James Lucchese)*

Mr. Partho Banerjee *(Alternate to Mr. Pradeep Kaul)*

PRESIDENT & CHIEF EXECUTIVE OFFICER

Mr. Prakash C. Bajpai

COMPLIANCE OFFICER

Mr. Madhav Joshi

Chief Legal Officer & Company Secretary

STATUTORY AUDITORS

M/s. Deloitte Haskins & Sells

Chartered Accountants

Mafatlal House,

Backbay Reclamation,

Mumbai 400 020.

REGISTRARS & SHARE TRANSFER AGENTS

Computech International Limited

Sri Padmavathi Bhavan, Plot No. 93,

Road No. 16, M.I.D.C.,

Andheri (East), Mumbai 400 093.

REGISTERED OFFICE

Ispat House,

B. G. Kher Marg,

Worli,

Mumbai 400 018.

Members are requested to bring their copies of the Annual Report to the Annual General Meeting.

Members are requested to send their queries, if any, relating to the Accounts of the Company, at least 4 days before the meeting so that the necessary information can be made available at the Annual General Meeting.

Directors' Report

Dear Members,

Your Directors present their Sixth Report together with the Audited Accounts of your Company for the financial year ended 31st March, 2001. This is the first report after the public issue of your Company in September 2000. Your Directors extend a warm welcome to the new shareholders who have joined the Hughes Tele.com family.

Financial Highlights

(Rs. Million)

Particulars	Year ended 31st March, 2001	Previous year ended on 31st March, 2000
Total Income	1,950.16	670.10
Total Expenditure	1,964.10	1,695.21
EBITDA (-)	(13.94)	(1,025.11)
Finance & Treasury Charges	1,284.30	975.50
Depreciation & Miscellaneous Expenditure written off	790.83	700.79
Profit / (Loss) before tax	(2,089.07)	(2,701.40)
Provision for taxation (-)	(1.15)	0.03
Net Profit / (Loss)	**(2,087.92)**	(2,701.43)

Total Income has recorded an impressive growth of 191% clocking Rs.1.95 billion for the current year (previous year Rs. 670 million). Of this, the revenue from provision of telephone services was Rs.1.39 billion (previous year Rs. 0.6 billion). In addition, your Company earned other income of Rs. 558 million (previous year Rs. 32 million).

After taking into account depreciation of Rs. 727 million (previous year Rs. 600 million) and other expenditure, your Company incurred a loss of Rs. 2.09 billion (previous year Rs. 2.70 billion) during this period which is lower than the projection of a loss of Rs. 2.21 billion given at the time of Initial Public Offering (IPO) of shares.

Dividend

Your Directors regret their inability to recommend any dividend for the year under consideration.

Appropriations

No appropriations are proposed to be made for the year under consideration.

PROJECT IMPLEMENTATION

Current Status

Your Company grew at a healthy pace during the year. In the process, it extended its operations to three more pivotal cities. Your Company's services are now offered to customers in Panaji, Nagpur and Nasik in addition to Mumbai, Navi Mumbai and Pune. The subscribers are serviced through 8 telephone exchanges at Turbhe (Navi Mumbai), Worli (Mumbai), Nariman Point (Mumbai), Marol (Mumbai), Pune, Nasik, Panaji and Nagpur. One more exchange is scheduled to be commissioned at Kolhapur shortly.

Your Company expanded its network considerably and added close to 50,000 lines during the year. Your Company currently serves about 75,000 satisfied subscribers through the above telephone exchanges supported by a state-of-the-art telecommunications infrastructure consisting of fixed Wireless in Local Loop (WLL) and fixed wire-line access & transmission facilities to provide basic telecommunications services.

Your Company believes in providing competitive world class telecom services to its valued customers and believes that its strong customer orientation places it in a unique position to maintain and sustain its competitive advantage.

Future Plans

Your Company seeks to expand its product offerings in order to provide its customers with an integrated suite of telecommunications products and services to service their increasingly complex and rapidly changing needs for telecommunications solutions. These services include "last-mile" broadband connections for high-speed data and Internet access services, enhanced value-added services such as pre-paid calling cards, data application services, such as VPN, web hosting and VSAT connectivity. Your Company also plans to enhance its product offerings by activating data centers and providing products such as e-mail, directory & toll-free services.

Your Company continues to expand its state-of-the-art fibre optic cable based network, which is capable of supporting the high-bandwidth applications of its predominantly business subscribers, and the interconnection of all of your Company's existing and new markets with its own fiber optic facilities. Once fully deployed, your Company's fiber optic telecommunications network will significantly enhance your Company's ability to originate its customers' communications traffic over its networks and to deliver your Company's full line of communications services offerings. Your Company also intends to use extensively Digital Subscriber Line ("DSL") technology to deliver bundled voice and data product offerings. This technology will represent another cost-effective, high-bandwidth option to deliver communications services over your Company's own network. Your Company has become the first provider of broadband telecommunication services in the State of Maharashtra.

Your Company plans to expand its coverage in the existing cities and towns and also introduce the services in other major cities and towns in Maharashtra and Goa.

Licence for provision of Internet Services (ISP)

Your Company has recently been awarded a Category A (National) Licence to provide internet access and content services, which will enable it to offer a broad range of Internet-related product offerings well-suited to its customers' needs and expectations and to complement your Company's other product offerings. The preparations are in progress to launch ISP services.

Project Financing

The total project cost for the Project is estimated to be Rs. 38.74 billion and is expected to be completed by March 2004. It is proposed to be funded by way of Equity (Rs.15.53 billion) and debt (Rs. 19.32 billion) and balance by way of internal accruals (including subscribers deposits).

The equity requirement is fully funded consequent to the Public Issue of Rs. 7.49 billion in September 2000. Of the debt portion, Rs. 8.54 billion is underwritten by ICICI Limited. ICICI Limited, together with the Company is syndicating the debt through Indian Financial Institutions & banks and loan sanction letters have been received from ICICI (Rs. 3.50 billion), IDBI (Rs.2.50 billion), UTI (Rs.0.5

billion) and Jammu & Kashmir Bank (Rs.0. 5 billion). Sanction letters from other banks for the balance are expected shortly. Debt of Rs. 10.78 billion is proposed to be financed by way of vendor credit to be provided by your Company's vendors viz. Hughes Network Systems (Rs. 3.15 billion) and Lucent Technologies Hindustan Limited (Rs. 7.63 billion). Your Company is at an advanced stage of negotiations with the vendors in respect of these facilities.

REGULATORY ENVIRONMENT

New Telecom Policy, 1999

The Government of India (GoI), on 26th March, 1999, announced a new National Telecom Policy, 1999 (NTP '99). This was necessitated due to failure of the National Telecom Policy 1994 (NTP 1994) announced in May 1994 in achieving spread of telecom services and the lack of progress in privatisation of telecom services.

The NTP '99 provided for a shift from the fixed licence fee regime to a revenue share regime under a multipoly environment and setting up of Universal Service Obligations (USO) levy fund for achieving coverage of 2.9 lac villages and also other social obligations.

The Department of Telecommunications (DoT) vide its letter of 22nd July, 1999 offered a Package of Migration to all existing private telecom licensees giving them an opportunity to migrate to the NTP '99 regime. Your Company accepted the Package and complied with all the conditions stipulated thereunder. Unfortunately, the NTP '99 and the migration package have not yet been fully implemented by GoI. A new licence agreement incorporating the NTP '99 provisions has still not been finalised for the existing licencees including your Company. Despite recovery of maximum financial penalties provided under the Licence Agreement for non achievement of number of lines and Village Public Telephones (VPTs) stipulated in the licence, DoT is still insisting that VPTs should be deployed by your Company and other fixed service licencees and despite the provisions of NTP '99, no reimbursement of costs would be allowed out of USO fund. The Telecom Regulatory Authority of India (TRAI) has also emphasized the need of reimbursement out of USO fund. Your Board expects that the matter would be resolved soon when TRAI comes out with USO recommendations.

New Licencing Guidelines

- GoI, in January 2001, announced the revised guidelines for issue of new basic telecom service licences. Despite repeated recommendations by TRAI, DoT has fixed a disproportionately lower entry fee for the new entrants without providing for a level playing field for the existing licencees including your Company. DoT has so far issued 48 Letters of Intent (LOI) under the new guidelines which include 4 LOIs for Maharashtra Circle. The new entrants would not have any VPT obligation. Some other terms of the proposed new licences are also more favourable. Your Company and the Association of Basic Telecom Operators (ABTO) had taken up the matter repeatedly with GoI. However as the issue remained unresolved and as LOIs with new terms were issued to 4 applicants for Maharashtra Telecom Circle, your Company had no alternative but to file a petition before Telecom Dispute Settlement Appellate Tribunal (TDSAT) which has been done in May 2001 and its outcome is awaited.

- The licence fee has been fixed @ 12% of revenue (net of interconnect charges) as against the provisional rate of 15%. An additional revenue share of 2% of revenue (net of interconnect charges) from WLL subscribers would also be payable as charge for allocation of spectrum.

Material Developments

- ***Competition in National Long Distance Services Sector***

A major policy shift was brought about in August 2000 with the opening up of the National Long Distance sector to private enterprise. The GoI offered licences in three categories, for provision of National Long Distance Services (NLD Services), for provision of long distance bandwidth (Infrastructure Provider II, IP-II) and for provision of dark fibre and other infrastructure (Infrastructure Provider I, IP-I). NLD Service Operators (NLDOs) are required to enter into arrangements with Basic Service Operators (BSOs) to carry intra-circle long distance traffic. The subscribers would have a choice of selecting the long distance carrier for inter circle calls. To the extent technically possible, subscribers would be provided a choice to select other BSOs to carry their intra-circle calls.

- ***Competition in International Long Distance Services Sector***

In September 2000, the GoI also indicated that Videsh Sanchar Nigam Limited's (VSNL) monopoly on international long distance services will end by 2002 instead of 2004 as envisaged earlier. However, despite the provisions of NTP '99, BSOs (including your Company) have been denied the right of direct connectivity with VSNL which was due in year 2000. Your Company has made representations to GoI to seek redressal.

- ***Limited Mobility***

In January 2001, the GoI permitted your Company and other BSOs to provide limited mobility within a Short Distance Charging Area (SDCA) using the WLL technology while concurrently allowing Cellular Mobile Service providers to offer fixed telecom services by utilizing their GSM networks. This decision has been challenged by Cellular operators before TDSAT. The GoI then referred the issue to the high powered Group on Telecom & IT Convergence (GOT-IT) which inter alia recommended that the BSOs be allowed to provide limited mobility services on certain specified conditions.

- ***ISP Sector***

During the year, the GoI also announced guidelines for ISPs to establish submarine landing stations. ISPs are already allowed to set up their own international gateways subject to security clearance tests to be undertaken by the DoT/GoI.

Directors' Report

Directors' Responsibility Statement

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Board hereby certifies and confirms that:

(i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) the Directors have selected such accounting policies and 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 your Company at the end of the financial year and of the profit or loss of your Company for that period;

(iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

(iv) the Directors have prepared the annual accounts on a going concern basis.

Share Capital

Consequent to the public issue of your Company in September 2000, the paid-up capital of your Company increased from Rs.6,666,600,700/- to Rs. 14,053,266,610/-.

Fixed Deposits

Your Company has not accepted any deposits within the meaning of Section 58A of the Companies Act, 1956 and the rules made thereunder.

Balance Sheet Abstract and Company's General Business Profile

Information pursuant to Department of Company Affairs notification dated 15th May, 1995, relating to the Balance Sheet Abstract and Company's General Business Profile is given in the Annual Report for information of the shareholders.

Directors

Mr. Vinod Shukla resigned from your Company's directorship w.e.f. 10th January 2001. Your Directors place on record their appreciation of the services rendered by him especially during the formative years of your Company's project. The Board appointed Mr. Pradeep Kaul as Director in the casual vacancy arising out of Mr. Shukla's resignation.

During the year, the Board appointed M/s. Partho Banerjee, Arun Kumar and Pranav Roach as Alternate Directors to M/s. Pradeep Kaul, Jack Shaw and James Lucchese respectively.

Further, as a part of the Corporate Governance initiatives, your Company appointed Mr. Alok Gupta as an Additional Director. Mr. Gupta is an Independent Director as regards your Company.

Mr. Gupta will cease to hold office at the ensuing Annual General Meeting. Your Company has received a notice pursuant to Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Mr. Gupta as a candidate for the office of Director. Mr. Gupta is therefore eligible for appointment to the office of Director at the ensuing Annual General Meeting.

Directors' Report

M/s. V. K. Mittal, Francis X. Frantz and Pradman Kaul, Directors retire at this meeting by rotation and being eligible, offer themselves for re-appointment. Your Directors recommend their re-appointment in the interests of your Company.

Auditors

M/s. Deloitte Haskins & Sells, Chartered Accountants, the present statutory auditors retire at this meeting and are eligible for re-appointment. The Audit Committee and your Board recommend their re-appointment.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

The disclosures as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are given below:

(i) Energy Conservation : Not Applicable

(ii) Technology Absorption :

Your Company has not imported technical know-how. Your Company has not yet established separate R & D facilities.

(iii) Foreign Exchange Earnings and Outgo:

	(In Rupees Million)
Earnings	Nil
Outgo	446.763

Insurance

Your Company's assets continue to be fully insured against the risk of fire, riot, earthquake, terrorism etc. and the risk of loss of profits. In addition to this coverage, a Public Liability Insurance Policy has been taken to cover any public liability arising out of the Company's business operations.

Human Resources

Your Company's 750 employees keep your Company going and growing. It's been the commitment of our employees that has built our brand, preserved our quality and kept our customers satisfied. The employees are committed, their morale is high and employee-turnover is amongst the lowest in the Industry. Your Company gives considerable importance to training and employee development, emphasising on technical, behavioural and customer sensitivity/orientation programs.

Consistent with your Company's intent on inculcating a sense of ownership amongst the employees towards your Company and creation of wealth for the employees through Shareholder value, an Employees' Stock Option Plan was introduced during the year and about 415 employees have already been granted warrants under the plan in the first two phases.

The information as required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is annexed hereto as Annexure I and forms part of this report.

Further, the information as required to be disclosed in the Annual Report pursuant to the Securities & Exchange Board of India (Employees' Stock Option Scheme and Employees' Stock