



VIDESH SANCHAR NIGAM LIMITED

19th Annual Report
2004 - 2005



DISCOVER THE INFINITE POSSIBILITIES OF THE INTERNET.

Now a lot more is possible with high-speed internet
from Tata Indicom Broadband.



Education

Entertainment

Gaming

Communication

Business

- ENTERTAINING AND INFORMATIVE CONTENT
- SUPERFAST SPEEDS UP TO 512 KBPS
- ALWAYS ONLINE
- NO TELEPHONE CHARGES
- TRUE BROADBAND - VOICE, DATA AND VIDEO ENABLED



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.

VIDESH SANCHAR NIGAM LIMITED

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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

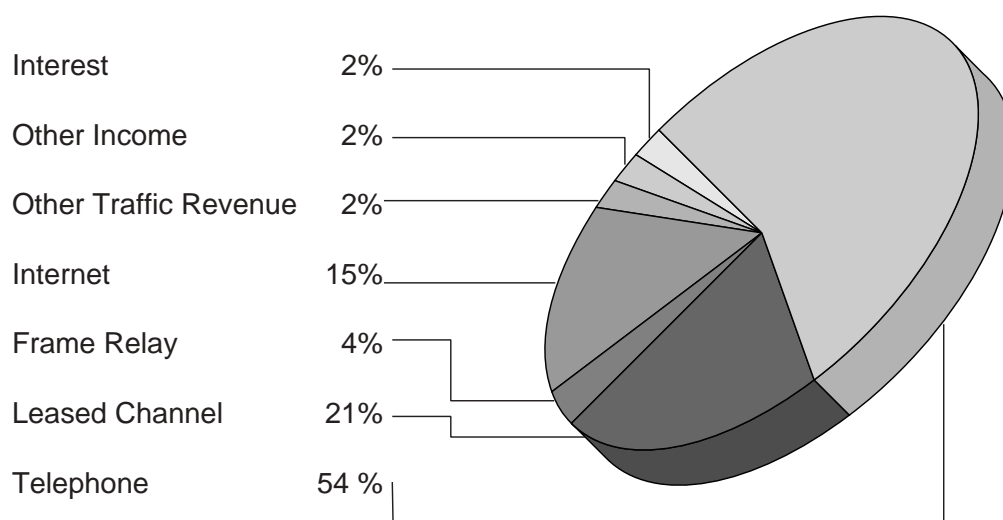
STATUTORY AUDITORS

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

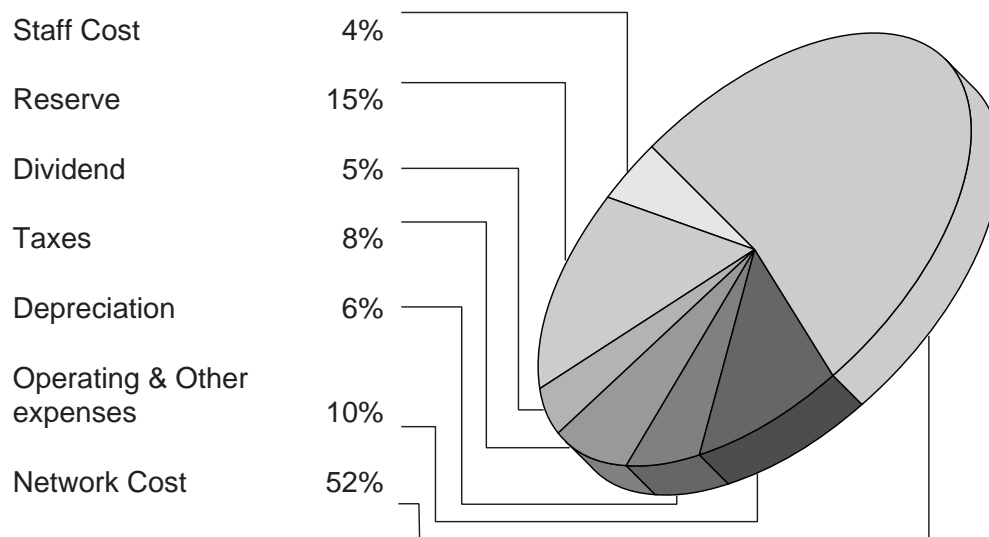
REGISTRARS & TRANSFER AGENTS

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

REVENUE EARNED 2004-05



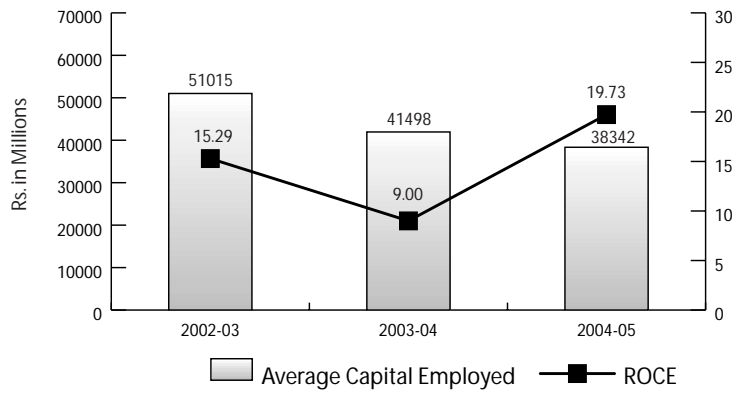
DISTRIBUTION OF REVENUE 2004-05



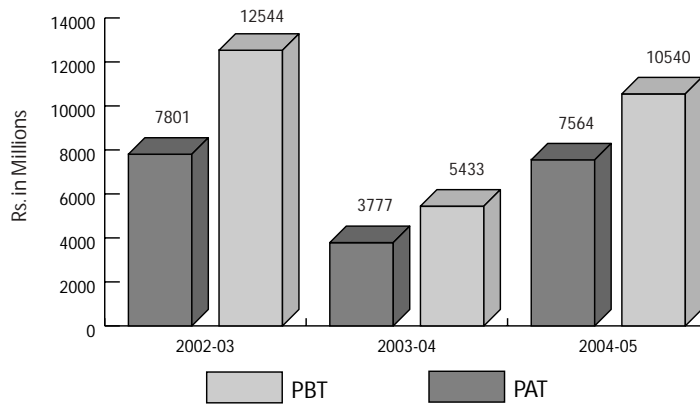
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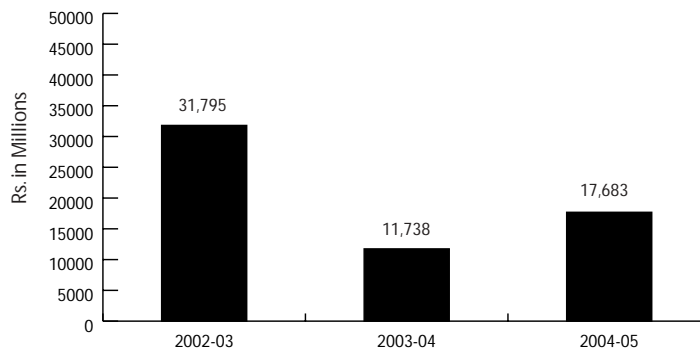
AVG. CAPITAL EMPLOYED AND ROCE



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 ILD services provider, offering telephone services to 236 international destinations. Competition intensified during 2004-05. While settlement rates (determining ILD 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 ILD calls from Rs. 4.25 to Rs. 3.25 and from Rs. 4.25 to Rs. 2.50 on outgoing ILD calls. According to the TRAI, during 2004-05 tariffs on ILD 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 ILD traffic.

A key concern in the ILD 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

2004. In September 2004, VSNL launched the 'Global Calling Card', an inbound card that can be used to make international calls from over 20 countries. These cards target both Indian travellers and ethnic populations overseas.

VSNL had also launched an outbound calling card branded 'Hello Duniya' in April 2004, accessed through a toll-free number, which had to be stopped in March, 2005 after TRAI directed VSNL to do so. TRAI's directive was on the grounds that only access providers are entitled to provide such services. VSNL had provided numerous clarifications and legal explanations to TRAI to show that VSNL's calling cards are clearly in consonance with the conditions of the Company's licence. VSNL has filed an appeal with the TDSAT, where the matter is pending.

VSNL supports both compulsory access to the IN platforms of all providers and free carrier selection, so that customers can freely choose their own service providers.

Internet Services

VSNL remains a leading Internet Service Provider (ISP), with an all-India ISP (including Internet telephony) licence, serving 650,000 customers in 300 towns and cities. Since December 2003, VSNL's 'Tata Indicom Total Internet' packs (denominated in rupees, not hours), allow customers to use the same user ID and password for multiple services like Internet access, net telephony and value-added email services. The packs are available in prepaid hourly and prepaid unlimited options with denominations ranging from Rs. 100 to Rs. 3,000, across over 8,000 retail outlets in nearly 300 cities in India. Customers can also buy or refill their accounts through the Internet or through ICICI Bank ATMs across the country.

Internet Telephony

Effective April 2002, the Government of India permitted Internet Service Providers to offer voice telephony over the Internet using the Voice over Internet Protocol (VoIP). VSNL has deployed its unique fully owned Internet telephony infrastructure. This self-managed network allows VSNL to offer enhanced features, flexibility in billing and plans and superior voice quality. VSNL offers both corporate and retail net telephony services, complementing its voice business. Low tariffs in Internet telephony could encourage usage and increase international call volumes.

Broadband Business

In March 2004, VSNL took over the narrowband and broadband businesses of Dishnet's ISP division, giving VSNL ready broadband infrastructure, expertise and a new base of both corporate and retail customers. During 2004-05, VSNL smoothly completed the integration of Dishnet.

India's sunrise broadband opportunity is a major thrust area for VSNL. The government's recent estimates indicate that India will have 20 million broadband subscribers by the end of the year 2010. VSNL plans to be a significant, large-volume, triple-play broadband player, offering integrated voice, data and video services. After integrating Dishnet's operations, VSNL now offers broadband Internet access in 43 cities, serving an expanded subscriber base. In addition to the erstwhile Dishnet's post-paid, DSL technology-based broadband offering, VSNL now also offers prepaid and ethernet-based connections. During 2004-05, VSNL substantially reduced the entry barriers for new customers by slashing installation charges. VSNL currently offers its broadband customers a content site with varied services such as movies, Internet radio, live temple darshans, yoga and fashion videos. The Company is now rolling out the infrastructure that will permit it to extend a range of information, entertainment, education and telecom services. VSNL is also investing in building a local, Metropolitan Area Network (MAN) in key cities.

Other Retail Initiatives

In October 2004, VSNL and AMD launched the Personal Internet Communication (PIC) a high-quality, affordable and easy-to-use consumer device that helps provide managed Internet access to first-time users. Based on AMD technology, the PIC is offered to Tata Indicom Broadband customers as part of a bundled Internet service including all necessary hardware and software. This helps VSNL offer broadband services to a wider range of customers, who can access a variety of communication and productivity tools such as an Internet browser, e-mail, word processing, spreadsheet applications and a presentation viewer.

During 2004-05, VSNL partnered Tata Teleservices to open 1,100 'True Value Shoppes', which are exclusive retail outlets for Tata Indicom products and services including mobile, landline, Internet or broadband connections. VSNL and Tata Teleservices also launched several 'Tata Indicom Truevalue Hubs' in different cities. These function as retail outlets and are also one-stop points for experiencing and demonstrating Tata Indicom products, and offer additional services such as browsing and videoconferencing. Going forward, these Hubs will also serve as demonstration points for novel broadband offerings like video on demand that customers have not experienced before.

Enterprise Data Services

Corporate or enterprise customers represent a large and still-growing opportunity for VSNL. Given the convergence between voice, data and video services, and the expansion of Indian companies operations worldwide, these companies increasingly seek a provider that can serve them

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across products and geographies. The enterprise data market in India has grown at an annualised rate of 60%-70% per year during the last four 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. VSNL's enterprise data services include international and national private leased circuits (IPLCs and NPLCs), Internet leased lines, virtual private networks, mail and messaging services, video conferencing, Internet telephony, managed data centres and website hosting services with security back-up and database management services, network management and various managed applications.

The International and National Private Leased Circuits segment provides 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 (IT) and information technology enabled services (ITES) sectors, including business process outsourcing companies.

Another focus area is IP-based virtual private network (VPN) services, which provide the security and dedicated capacity of a private network without the associated cost. VSNL offers customised IP-VPN services to Indian enterprise customers and was India's first VPN vendor to provide international IP connectivity in November 2002. VSNL continues to extend its reach through the main global markets to provide IP-VPN services. After VSNL's July 2003 takeover of the assets and network of U.S.-based Gemplex, a global provider of business-networking services, the Company also provides IP-VPN services through this network. Following VSNL's takeover of Tyco Global Network (discussed a little later) VSNL has the capability to provide services in the countries covered by Tyco's network.

VSNL partners global companies to provide managed services through joint offerings that ride on each others' networks. In May 2004, VSNL and NTT Communications Corporation launched NTT's MPLS-based 'Arcstar Global' IP-VPN service in India with a point of presence (PoP) in Mumbai. VSNL and NTT set up another PoP at Bangalore in January 2005 to serve the increased demand from IT and ITES customers in that region.

VSNL's aim is to serve customers across the value chain and simultaneously provide higher value-added services such as managed telecom services. The synergy with other Tata Group telecom and software companies is a major advantage, offering customers a strong, end-to-end value proposition for both voice and data and across software, hardware and network services. Accordingly, in April 2003, VSNL joined hands with Tata Teleservices, Tata Internet

Services and Tata Net to form the Tata Indicom Enterprise Business Unit (TIEBU). In April 2004, this unit was merged with VSNL. It now provides specialised sales and marketing coverage to major Indian corporate accounts, offering integrated voice and data solutions under the Tata Indicom brand. TIEBU has a special focus on eight industry verticals with specialized needs, such as IT and ITES, media and entertainment, manufacturing and education. TIEBU also developed industry-specific applications for the automobile and banking sectors during 2004-05.

To further strengthen the value proposition for customers, VSNL now partners with the Tata group software companies TCS and CMC to make integrated joint product and service offerings. The Company also markets its services through corporate channels. VSNL offers customers a single point pre and post-sales support, and its single sales and marketing customer database escalates customer concerns quickly up the organisation.

VSNL is creating new products based on extensive customer research and feedback. For example, in May 2004, VSNL introduced an innovative new product for the first time in India, called Tata Indicom Bandwidth-on-Demand. Designed to meet short-term urgent additional bandwidth requirements, it sells bandwidth on contracts as short as seven days. It enables Tata Indicom's Internet leased line customers to almost double their bandwidth capacity within 48 hours through a fully automated online process. VSNL already has four managed data centres and plans to put up a few more.

In order to provide an integrated service offering, it is crucial for VSNL to be able to cover the last mile and reach customers directly. VSNL supports non-discriminatory access to, and unbundling of, the last mile. In the meanwhile, to address this issue, VSNL is also establishing multi-mode distribution system (MMDS) radio networks, through which VSNL offers international leased lines and IP-VPN/MPLS services. VSNL was the first operator to be awarded spectrum within the new MMDS band. By May 2005, VSNL had rolled out MMDS in 19 cities and MPLS in 119 cities, to provide integrated services across India. This will help retain VSNL's customers and provide connectivity to otherwise uneconomic routes.

During 2004-05, the TRAI sought to regulate prices of some enterprise data products. The TRAI issued an order in March 2005 that aimed to regulate IPLC pricing and cut prices by 40%-70%. The TDSAT subsequently set aside this order on an appeal by VSNL. The TRAI has approached the Honourable Supreme Court on the matter. The Honourable Court has refused to grant any interim order and admitted the petition for regular hearing. The TRAI has also issued a notification regulating domestic bandwidth prices which is

applicable with effect from May 1, 2005. VSNL believes that regulatory interventions on pricing may not be appropriate in Indian market, given that competition is high and that market consists of well-informed corporate customers with negotiating skills and capacity. Further the cost of bandwidth is a small portion of overall operating costs.

INTERNATIONAL INITIATIVES

VSNL is globalising its operations and capitalising on the liberalisation of emerging telecom markets. To drive the Company's international expansion, VSNL set up an international business group (IBG) on April 1, 2004, headquartered in Singapore. The Company currently has a direct operating presence in the U.S, U.K, Hong Kong and Singapore. In addition to promoting VSNL's offerings such as the new TIIS cable (discussed a little later) to both enterprise and carrier customers who require connectivity to India, the IBG supports the establishment of IP-based data and voice services in select countries. It enables VSNL to provide extended relationship support to Indian and international enterprise customers

Given VSNL's long expertise in telecom services, the Company aims to expand into countries that are liberalising and opening up their telecom markets. VSNL already operates telecom services in Nepal and Sri Lanka. In February 2005, based on a selection process, the South African government selected VSNL as the strategic investor in the country's proposed second national operator and decided to allot an effective 26% equity stake in this new company to VSNL. The other equity partners are state-owned Eskom and Transnet (15% each) Nexus (19%) and two private consortia. This new venture will be allowed to provide all services including domestic and international voice and data services, except mobile services. The Shareholders' Agreement for this company is nearing completion and the company is expected to launch its commercial rollout in the later part of 2005-06.

United Telecom Limited (UTL)

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 began offering CDMA-based basic services in Nepal in October 2003 and has also started operating ILD services. UTL is also allowed to operate NLD services. Mr. S.K Gupta represents VSNL on the board of UTL.

VSNL Lanka Limited (VLL)

In June 2003, VSNL Lanka Ltd., a wholly owned subsidiary set up by VSNL in Sri Lanka, received an External Gateway Operator (EGO) licence. The EGO licence allows VLL to offer ILD voice and data services, which it began providing in

February 2004. The Sri Lankan market, growing at an estimated 20%-25%, allows VSNL to increase its sub-continental presence and extend clubbed offerings in the region to international carriers. VLL has been permitted to offer Internet services under the same licence. Mr. S.K. Gupta is VLL's chairman and Mr. Satish Ranade, Mr. V. Govindasamy, Mr. K.P. Tiwari, Mr. Arun Gupta and Mr. Sandeep Mathur are directors on VLL's board.

VSNL America Inc. (VAI)

In June 2003, VSNL formed VSNL America Inc., a wholly owned subsidiary in the U.S., to provide IP-VPN solutions. This venture allows end-to-end management of VSNL's Internet bandwidth from India all the way to the U.S., providing improved service to its Internet, data and IP-VPN customers. On May 24, 2004, VSNL signed security agreements with U.S security agencies, which are a pre-requisite for obtaining section 214 authorisation under the US Communications Act of 1934, to provide telecom services out of the U.S. VSNL has received this authorisation on 26 August 2004. Mr. Satish Ranade is the president of VAI's board and Mr. Vinod Kumar is a director.

VSNL UK Limited (VUL)

VSNL UK Ltd., was formed a subsidiary of VSNL America Inc. in July 2003, to provide telecom and value added services to the UK and European markets. Mr. Satish Ranade is the chairman of VUL's board and Mr. Vinod Kumar is a director. In March 2005, VSNL UK Ltd. launched a wholesale voice offering.

VSNL UK Ltd. is focused on providing the services to European carriers seeking Indian termination service. VSNL UK has interconnected with a number of leading regional and alternative telecom operators across Europe to terminate their India-bound traffic. Through a strategic partnership with Interoute, VSNL can provide next-generation voice services using TDM or VoIP for interconnection.

VSNL Singapore Pte. Ltd. (VSPL)

VSNL set up VSPL in January 2004 as a wholly owned subsidiary. VSPL owns and maintains the landing station for the TIIS cable that VSNL has set up (as discussed a little later.) The Company also acquires and sells other cable capacity through the Asia Pacific region and serves as the headquarters for VSNL's international expansion. VSPL has obtained the required FBO license from the Singapore authorities to own and operate facilities used in the provision of telecom services. VSPL has commenced marketing and sales activities in the Singapore market. Mr. Subodh Bhargava is the chairman of VSPL's board and Mr. Girija Prasad Pande, Mr. N. Srinath, Mr. Satish Ranade, Mr. Govind Sankaranarayanan and Mr. Vinod Kumar are directors.

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VSNL Hong Kong Limited (VHKL)

VSNL Hong Kong Ltd., a subsidiary of VSNL Singapore Pte. Ltd., was formed in July 2004 to provide telecom and value added services in that region. Mr. Satish Ranade is the chairman of VHL's board and Mr. Vinod Kumar is a director.

Teleglobe International Holdings Limited

On July 25, 2005, VSNL agreed to acquire Teleglobe International Holdings Ltd., a leading provider of wholesale voice, data, IP and mobile signaling services. The acquisition, which remains subject to Teleglobe shareholder approval and government consents in various countries, would give VSNL access to an extensive global network that reaches more than 240 countries and territories with advanced voice, data and signaling capabilities and ownership interests or capacity in more than 80 subsea and terrestrial cables. VSNL would also access more than 200 direct and bilateral agreements with leading voice carriers, many of which are the incumbent carriers within their countries or large international wireless service providers.

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.

INFRASTRUCTURE

VSNL has a robust network built up over many decades and the unique advantage of diversity and multiple connectivity options internationally. The Company operates 11 international gateway switches at seven locations in India, 14 ILD PoP-cum-NLD switches and 6 NLD switches, a total of 31 switches. VSNL has 57 earth stations, has been a founder signatory to six submarine cable systems and presently holds bandwidth on a number of additional submarine cable systems globally. VSNL presently has over 10 GBPs of bandwidth on its four operational submarine cable systems that include SAT3/WASC/SAFE, SEA-ME-WE3, SEA-ME-WE2 and FLAG. Over and above this, VSNL has built Tata Indicom India Singapore Cable System and acquired Tyco Global Network.

VSNL is upgrading its network to haul large bandwidth capacities domestically and internationally. Therefore, it has introduced network equipment that seeks to improve network availability and operational effectiveness by employing cutting-edge transmission technologies. VSNL continues with a substantial capital expenditure programme to drive both inorganic and organic growth.

Tata Indicom India Singapore Cable System (TIIS Cable):

In November 2003, VSNL began setting up a 3,100 km submarine cable system between Chennai and Singapore. VSNL completed the construction of the cable in September 2004 and the cable became commercially operational in March 2005, making it one of the fastest cable build-outs.

The state-of-the-art system is VSNL's first self-owned undersea cable with an initial capacity of 320 GBPs that can be ultimately scaled up to 5.12 terabits. With an estimated life of 25 years, the new cable significantly enhances India's connectivity into the Asia-Pacific region and the U.S. via the Pacific. Singapore is a strong telecom hub for traffic across the world, which readily offers extension to U. S. and other significant geographies at highly competitive costs. This cable extends VSNL's bandwidth infrastructure significantly and, along with VSNL's NLD backbone, enables the Company to offer excellent service at reasonable tariffs to customers in India and abroad.

Tyco Global Network: In November 2004, VSNL agreed to acquire Tyco Global Network, a state-of-the-art undersea cable network that spans 60,000 kms (37,280 miles) and the continents of North America, Europe and Asia, for US\$130 million. With the required government approvals obtained in the U.S, India and other countries, VSNL completed the acquisition of the Tyco Global Network on July 1, 2005 through formation of subsidiaries in various countries as required. With the acquisition of TGN, VSNL is now one of the world's largest providers of submarine cable bandwidth.

NLD Backbone: In April 2004, VSNL signed a Right to Use agreement with Bharti for 23,000 route kilometres capacity on an existing advanced fibre optic domestic long distance backbone countrywide. This captive bandwidth eliminates the cost of leasing additional domestic bandwidth and supports growth in the voice, corporate data and upcoming broadband businesses. A self-managed domestic backbone also gives VSNL greater control on quality, reliability and uptime of services. Today, VSNL has about 36,000 kilometers of NLD network running across the country.

SEA-ME-WE4: VSNL is one of the founding members of SEA-ME-WE4, a consortium of 16 parties that is setting up a cable system between France and Singapore with India as one of the landing points. The cable has a system capability of 1.28 terabits. VSNL has been assigned the crucial responsibility of network administration and the running of the network operating centre for the entire system. Cable laying for the system commenced in February 2005, and the system is scheduled to be operational by the end of 2005.

INTERNAL INITIATIVES

Your Company continues with various internal initiatives such as organisation restructuring, profit enhancement, cost optimisation, quality, customer care and information technology initiatives to compete effectively, improve organisational flexibility and respond quickly to customers. Some important initiatives are:

Quality

Your Company has been re-inventing its business model and transforming itself in tandem with the business and

regulatory changes. To help drive the transformation, VSNL is implementing the Tata Business Excellence Model (TBEM), a framework that lays down best practices for the Group companies in the areas like strategy, planning, customer service and social responsibility.

During the past year, VSNL has made rapid progress in implementing TBEM. The Company has hundreds of continuous improvement projects underway, with extensive employee participation. VSNL also appointed three consultants to drive six sigma efforts across the Company, leading to a significant monetary savings and several non-monetary improvements such as reduction in customer complaints and improvements in key operational parameters.

In April 2004, VSNL became the world's first telecom service provider to achieve TL 9000 – Quality Management System Certification. TL 9000 is a set of quality system requirements and metrics designed specifically for the telecom industry, encompassing ISO 9001 and other best practices. VSNL also became India's first telecom service provider to make its data centres SunTone standards compliant.

Revenue Assurance and Cost Reduction

VSNL continues with major cost reduction exercise that began in September 2002. The exercise is part of a profit enhancement programme that aims to increase efficiency and productivity; cut costs; optimise traffic, equipment and infrastructure; and improve debt recovery and timely collections. The Company is attacking its cost base. Major savings have been achieved in bandwidth charges by optimising the capacity utilisation through re-grooming cables, surrendering excess bandwidth, closing costly microwave links and identifying lower-cost suppliers. Various assets, notably earth station equipment, are also being redeployed for maximum utilisation. VSNL is now shifting its satellite operations including INMARSAT from Arvi to Pune.

The Revenue Assurance (RA) function was established in 2003 to proactively prevent any leakages. RA processes now monitor the entire chain from the point of service provisioning right up to billing.

Customer Care

VSNL is becoming a customer-focused organisation with emphasis on customer centricity across all functions. Complete customer life cycle management, which was implemented in the previous year, has been further customised.

VSNL has established a centralised 24/7 call centre for enterprise data customers and two other call centres for retail and broadband customers.

A dedicated central team caters to data analysis, action plans, quality audit, processes, project implementation and service strategy. The Company's entire decision-making process is now based on customer feedback and extensive data analysis. All business processes have been remapped according to emerging market requirements and are now being geared up to meet the requirements of international customers.

Over the last year, stringent quality adherence norms and international best practice benchmarks were adopted. The back end support infrastructure too has been improved.

FIXED DEPOSITS

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

HUMAN RESOURCES

VSNL employed 2,479 people as on March 31, 2005 as against 1,736 on March 31, 2004. Of these, 1,786 are executives and 693 are non-executives. The increase in manpower was mainly due to the acquisition of the broadband business of Dishnet and the merger of the Tata Indicom Enterprise Business Unit with VSNL. During the year, VSNL inducted fresh resources to strengthen the areas of customer service, sales, networks and finance.

The Company enlisted the Gallup Organization to conduct an Employee Satisfaction survey. The results indicated that a significant percentage of the employees are satisfied with the Company's policies and practices. The Company subsequently constituted cross-functional teams for specific action plans on various issues, which are currently being implemented.

During the year, the Company conducted in-house training programmes with the help of external faculty, covering functional, behavioural and technical areas. To facilitate communication among employees, members of the senior management team periodically interact with employees through videoconferencing.

EMPLOYEE RELATIONS

VSNL has Employee Relations Committees at all major locations, to proactively handle employee concerns. During the year, harmonious relationships were maintained.

VOLUNTARY DELISTING FROM CERTAIN STOCK EXCHANGES

The ordinary shares of the Company have been delisted from the Stock Exchanges of New Delhi, Kolkata and Chennai. The shares of the Company are compulsorily traded in dematerialised form in the Mumbai Stock Exchange and the National Stock Exchange in India.

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STATUTORY INFORMATION AND DISCLOSURES

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, regarding employees is given in Annexure 'II' to the Directors' Report.

There are no particulars to be disclosed pertaining to the year under review, in respect of R&D, technology absorption 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. 19,517 million and foreign exchange outgo was equivalent to Rs. 7,548 million.

There are no qualifications contained in the report of the statutory auditors for the year 2004-05.

SUBSIDIARIES

The Statement pursuant to section 212 of the Companies Act, 1956 containing details of the Company's subsidiaries is attached. The Consolidated Financial Statements of the Company and its subsidiaries, prepared in accordance with Accounting Standard 21 prescribed by The Institute of Chartered Accountants of India, form part of the Annual Report and Accounts.

The Company has made an application to the Central Government seeking exemption from attaching the accounts, etc., of its subsidiary companies with the Balance Sheet of the parent company. If in terms of the approval granted by the Central Government, the accounts, etc., of the subsidiary companies are not required to be attached with the Balance Sheet of the parent company, these documents will be submitted on request to any shareholder wishing to have a copy, on receipt of such request by the Deputy Company Secretary at the Registered Office of the Company. These documents will also be available for inspection by any shareholder at the Registered Office of the Company.

THE BOARD OF DIRECTORS

The VSNL Board presently consists of ten Directors. On September 30, 2004 the tenure of Mr. S.K. Gupta as Managing Director of VSNL expired: on April 11, 2005 Mr. Ratan Tata resigned as a Director of VSNL and on August 10, 2005 Mr. Rakesh Kumar, government nominee director, resigned as Director of VSNL; they accordingly ceased to be Directors on the Board of VSNL from the respective dates. Mr. Subodh Bhargava took over as Chairman of VSNL with effect from April 11, 2005. Dr. Mukund Rajan joined the Board of VSNL on May 6, 2005. For details about the directors, please refer to Point 2 of the Report on Corporate Governance below. The Board placed on record its appreciation for the services rendered by the outgoing Directors.

Your Board would like to take this opportunity to acknowledge the leadership and guidance provided by Mr. Tata to VSNL in difficult times of emerging competition in the telecom sector. The Board placed on record its deep appreciation for Mr. Tata's personal contribution and leadership and accepted with gratitude his offer of continued support for the company's growth plans. The Board firmly believes that it was under the able Chairmanship of Mr. Tata that the Company managed to significantly stem the trend of drastic fall in revenues from the traditional ILD business due to increasing competition and also earlier due to the premature termination of VSNL's monopoly, as also explore new businesses and markets. It was under the leadership of Mr. Tata that the Company transformed itself from a traditional monopolistic business orientation to an agile customer focussed organisation entering new businesses in a highly competitive environment. Through his visionary leadership and global focus, VSNL today is on the global map, setting up subsidiaries across the globe and making significant global acquisitions.

In accordance with the provisions of the Companies Act, 1956 and the Companies Articles of Association, Mr. Suresh Krishna, Mr. Subodh Bhargava and Mr. Vivek Singhal retire by rotation at the ensuing annual general meeting and being eligible, offer themselves for reappointment.

None of the Company's directors 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.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the listing agreements with the stock exchanges, a Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the annual report.

CORPORATE SUSTAINABILITY INITIATIVES

As a member of the Tata family, VSNL is committed to the Group's philosophy of improving the quality of life in the communities we serve. To institutionalise corporate sustainability initiatives at VSNL and to synchronise them with those of the Tata Group, VSNL declared its Corporate Social Responsibility (CSR) Policy on November 18, 2003.

VSNL joined the Tata Council for Community Initiatives (TCCI) in 2003-04. Since then the Company has been taking steps to foster an internal culture of volunteerism. The CSR establishment is driving the managerial and technical competency of employees, for the socio-economic development of the communities the Company operates in.

VSNL sponsors street children for computer education, gives financial assistance to physically handicapped persons and to non-governmental organisations (NGOs) working for leprosy education, rehabilitation and treatment. It is engaged in creating health awareness against cancer in partnership with NGOs like the Cancer Patients Aid Association (CCPA). VSNL has promoted the cause of reputed NGOs like Child Relief and You (CRY) by buying their products and by encouraging employees to participate in their ventures. VSNL employees are always encouraged to participate in blood donations. VSNL has given generous financial grants to employees residents associations for celebrating national festivals like Independence Day and Republic Day and has been maintaining public gardens and bus-stop shades across India. As a part of quality month celebrations, CSR Day, christened as Corporate Citizenship Day, was celebrated all over VSNL on November 22, 2004.

To address CSR as a sustainable business activity, VSNL has formalised an annual CSR action plan for 2005-06. As a Tata Company, VSNL is also proactive in addressing environmental, ecological and biodiversity concerns arising out of its operations, integrated with its social responsibility approach. Towards that end, VSNL has also become the first telecom service providing company in India to obtain ISO 14001 Certification.

MANAGEMENT OF BUSINESS ETHICS (MBE)

Consistent with the Group's policy, VSNL is systematically implementing the Tata Code of Conduct. VSNL has put in place an organizational structure and a process to implement and improve ethical standards and practices and began implementing the Tata Code of Conduct in 2003-04. VSNL conducts regular seminars, quiz competitions and workshops to sustain the momentum and to strengthen ethical values and practices among various stakeholders. VSNL also carries out ethics awareness campaigns in a continuous and systematic manner to further improve and refine the MBE process.

October 2004, celebrated as Ethics Month, started with the administration of an Ethics Pledge to all VSNL employees. Ethics Awareness programmes were conducted for the external partners like retail distributors, channel partners and suppliers. Spouses Meets were conducted in various staff quarters throughout VSNL to disseminate the TATA Code of Conduct, and Ethics quizzes were conducted among all employees. As part of Quality Month Celebration, VSNL

Ethics Day, christened as Naitikata Divas, was observed on October 17, 2004.

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 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;
- 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 Government of India and the DoT.

The directors are also 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

Subodh Bhargava
Chairman

Dated: August 10, 2005
Registered Office
Videsh Sanchar Bhavan
M. G. Road,
Mumbai - 400 001.

ANNEXURE 1: MANAGEMENT DISCUSSION AND ANALYSIS**INDUSTRY BACKGROUND**

Until the mid-1980s, India's telecommunications services segment was a public sector monopoly controlled by the Government of India (GoI) through the Department of Posts and Telegraphs of the Ministry of Communications. In the mid-1980s, the Government of India began reorganising the sector to bring in new technology and stimulate growth. Accordingly, 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 responsibility and management of all international telecommunication services from the Overseas Communications Service, a department of the Ministry of Communications. The DoT assumed regulatory authority over VSNL and other public sector enterprises and acted on the Government of India's behalf as the sole shareholder in such entities.

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

INDUSTRY PROSPECTS

The Indian telecom industry has changed significantly over the last decade as all its segments have now been opened up to competition. This market is now highly competitive, complex and evolving rapidly, with numerous service offerings of different kinds, including fixed-line, cellular and wireless-in-local-loop (WLL) etc., operating in different combinations of service segments such as local, NLD and ILD services.

India's currently under-served telecom market is growing rapidly. By 2006, telecom is expected to be a Rs. 660 billion sector, contributing 5.4% to India's GDP. According to the latest figures from the TRAI, during 2004-05, the mobile subscriber base increased 55%, from 33.6 million to over 52.1 million, while the fixed subscriber base increased 8% from 42.58 million to 45.9 million. During the year, the subscriber base for Internet services grew 25%, from 4.55 million to 5.65 million. Broadband subscribers exceeded 100,000 for the year. Tariffs in most segments fell substantially: international long distance tariffs to the U.S, Canada and Europe by 25%, STD charges for distances beyond 200 kms by 33%, international private leased circuit

charges by between 35-70%, and broadband tariffs by 40-50%. The rapid growth in this market, combined with falling tariffs, offers great potential demand for various services of VSNL.

PREMATURE TERMINATION OF MONOPOLY AND COMPENSATION

The Government of India (GoI) allowed private players into the ILD business from April 1, 2002, terminating VSNL's exclusivity two years ahead of schedule, and compensated VSNL with a package of benefits. The GoI had given assurance prior to disinvestment that GoI would consider additional compensation if found necessary on a detailed review, when undertaken. However, prior to disinvestment of VSNL in February 2002, GoI granted a dispensation as full and final settlement of every sort of claim against preponing of ILD de-monopolisation of VSNL by two years.

VSNL had been pursuing the GoI for considering additional compensation and since legalities warranted the filing of a plaint with the High Court within the stipulated time to ensure that the claim is not barred by limitation, VSNL filed a claim in the Mumbai High Court. The further required steps in the proceedings are being taken.

DEMERGER OF SURPLUS LAND

Under the terms of the share purchase and shareholders' agreements signed between the parties at the time of privatisation it was agreed that certain lands would be demerged into a separate company. It was further agreed that if for any reason the Company cannot hive off or demerge the land into separate entity, alternative courses as stipulated in the share purchase and shareholders' agreement would be explored. VSNL has presented a draft scheme of demerger to its Board, and the legality and feasibility of implementing the same is currently being examined by the parties.

IMPORTANT HISTORICAL EVENTS AT VSNL**Disinvestment**

VSNL ceased to be a government Company on February 13, 2002 when the Government of India, which owned 52.97% of VSNL's equity, divested 25% stake to the Tata Group as a strategic partner along with the right to manage the Company. Following its subsequent open offer for a further 20% of VSNL's equity, the Tata Group is the Company's biggest shareholder with a holding of over 46%, while the GoI is VSNL's second-largest shareholder with a 26.12% stake.

Investment in TTSL

For voice and enterprise data services, VSNL was entirely dependent on the public sector incumbent access providers and other cellular and basic service providers to route their traffic through VSNL. It became imperative for VSNL to acquire an end-customer base of its own. The VSNL board accordingly decided to invest in Tata Teleservices Ltd. (TTSL), which is not in conflict with VSNL's business interests. At the

time the investment was approved, TTSL was present in crucial telecom circles across India that yielded over 65% of the country's telecom revenues. TTSL has subsequently taken additional licences that will give it nation-wide coverage. VSNL's investment in TTSL now gives the Company substantial access to attractive end customers across the entire country.

A committee constituted by the VSNL Board decided that VSNL would invest up to Rs. 8.35 billion in TTSL's equity at par. Accordingly, during 2002-03, VSNL invested Rs. 2.80 billion and picked up 19.9% of TTSL's equity. VSNL's total investment in TTSL's equity as on March 31, 2005 stood at Rs. 8.35 billion. Recently TTSL issued preference shares to Tata Sons Limited and resultantly the effective holding of VSNL in TTSL now stands at 16.57%.

STATUS OF JOINT VENTURES AND ASSOCIATED COMPANIES

Intelsat

VSNL was a founder member of Intelsat, a consortium formed in 1964 that owns and operates satellite communication systems. When Intelsat was privatised on July 18, 2001, VSNL was allotted a shareholding of about 5.42% in Intelsat Limited. Intelsat vide their press release dated 16 August 2004 had announced the signing of a definitive agreement that provided for the amalgamation under Bermuda law of Intelsat and a subsidiary of Zeus Holdings Limited ("Zeus"), a company formed by a consortium of funds. At closing, Zeus acquired Intelsat, and Intelsat's shareholders were entitled to receive USD 18.75 for each Intelsat share issued and outstanding immediately prior to closing. Accordingly, VSNL received USD 169 million.

TVC India Private Limited (TVCL)

TVCL is a joint venture company formed by VSNL, IL&FS and Telstra, with investment equity in the ratio of 40:40:20 at the time of formation. Currently, VSNL holds Rs. 92 million out of the Company's total paid up capital of Rs. 314 million. TVCL undertakes turnkey VSAT projects for large organisations besides providing consultancy and facility management services. As a result of Telstra's exit from the joint venture, the company is being restructured and a new partner, Essel Shyam, has been inducted. As a part of the reorganisation of TVCL, VSNL is to receive shares of Essel Shyam Limited in lieu of its holding in TVCL. However, in view of the difficult financial position of TVCL, VSNL wrote off Rs. 92 million during 2002-03 and is in the process of exiting completely from this Company.

New Skies Satellite N.V. (NSS)

A Netherlands-based spin-off company called New Skies Satellites N.V. was carved out of Intelsat in 1998 with a number of Intelsat satellites transferred to NSS. VSNL's total holding in NSS was 3,442,150 ordinary shares out of a total of 130,570,241 shares issued and outstanding, a percentage holding of 2.6%. NSS offered its existing shareholders the chance to dispose of their shares at the rate of USD 7.96. Accordingly, VSNL received USD 27 million.

VSNL Seamless Services Limited (VSSL)

VSSL is currently under voluntary liquidation. The official liquidator has almost completed the winding up process and this company is expected to receive the final order for winding up soon.

RISKS AND CONCERNS

Like all companies, VSNL is exposed to certain risks and concerns in the course of its business:

End Customer Ownership

An important concern for the Company was VSNL's lack of direct access to end customers. VSNL is dependent on cellular and basic telecommunication service providers to route the national long distance and international calls of their customers through VSNL. Some of these operators are also competitors of VSNL. It would be a serious disadvantage to VSNL not to have access to a large base of customers in order to protect its business. VSNL has now ensured such access through its investment in TTSL, as discussed above.

VSNL has also been consistently pressing the DoT and TRAI to implement the Carrier Access Code (CAC, which allows subscribers to choose their long distance provider) regime, which has already been delayed significantly. 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.

Regulatory Environment and Tariffs

Most of VSNL's services including ILD services are operated under a licence from the DoT that came into effect from April 1, 2002, and the Company is subject to the terms and conditions included therein.

As India continues to liberalise its telecom sector and the regulatory regime keeps pace with the changing telecom scenario, it is possible that there may be interpretational differences on the guidelines, licence conditions etc. leading to the need for VSNL to defend its position in case of any notice etc. from the Regulator/Licensors.

The TRAI has recommended norms for a Unified Licensing Regime (ULR), which the DoT is considering. If implemented, these norms may increase competitive pressures.

The tariffs charged by telecommunications service providers in India including VSNL are subject to TRAI regulations. Therefore, in these areas VSNL does not have complete freedom.

VSNL periodically renegotiates interconnect agreements with various domestic mobile service operators and basic telecom service providers; and settlement rates with international carriers. The consequent revisions could have a material effect on VSNL's operations and financial condition.

Exchange Rate Parity

A significant portion of Company's revenues are received in foreign exchange. Similarly, a large portion of its costs

are incurred in foreign exchange. Hence, the parity of rupee to US dollar and SDR to US dollar can have significant impact on the Company's revenues. Therefore, the Company partially hedges its foreign exchange risk.

The grey market and the IUC regime

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 and 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.

High IUCs had inadvertently encouraged grey market ILD services, especially in the larger cities. Illegal international route operators offer cheaper services since they do not pay IUCs. According to various market estimates these operators take a share of as much as 30%-40% of the incoming international 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.

However, during 2004-05 the TRAI reduced the ADCs on incoming ILD calls from Rs. 4.25 to Rs. 3.25 and from Rs. 4.25 to Rs. 2.50 on outgoing ILD calls, and may further reduce ADCs. From February 1, 2005 the ADC on all NLD calls was set at a uniform 30 paise per call, against the previous distance-based slab system of 20 paise to 80 paise. These reductions should help to curb illegal operations to some extent and would raise legal traffic volumes.

VSNL has suggested to the TRAI that the ADC applicable to cities should be low enough to ensure that illegal operators have no advantage or arbitrage opportunity and should be phased out at the earliest.

Delay in Implementation of CAC Regime

The carrier access code (CAC) regime was 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. Carrier selection gives 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 making a call. Customers can then freely choose their long distance carrier based on competitiveness and quality, rather than the choice being made by access operators, as is the case at present. However, implementation of the CAC regime has been delayed due to technical and other reasons.

BSNL and MTNL are the two principal customers for VSNL's international voice telephony business. With 'most favoured customer' status having expired in February 2004, early implementation of the CAC regime is required for VSNL to

be able to develop its own customer base. The delay in implementation of the CAC regime is a serious cause of concern for VSNL.

Increased Competition

The de-regulation of the Indian telecom market exposes the Company to increased competition:

- Since April 1, 2002, VSNL no longer has a monopoly in ILD services and new players have entered the business.
- The Internet Service Provider (ISP) business is intensely competitive and has a large number of players.
- ISPs are allowed to provide Internet telephony calls overseas, and now compete with VSNL's ILD business and the Company's own Internet telephony services.
- VSNL has entered new businesses such as the national long distance and broadband businesses, where there are several potential and existing competitors.

Economic Conditions

Downturns in the Indian, regional and global economies could have a material adverse effect on the Company's short-term business and prospects. Given the overall downturn in telecom businesses worldwide, VSNL's operations could be affected by adverse developments in the operations of some of its key overseas associates.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

VSNL has a well-developed internal control system and has also implemented the SAP system for accounting. Financial powers of various executives are clearly defined in the delegation of powers. Technical and financial operations are controlled by state-of-the-art technology. The accounts of the Company are subjected to statutory audit.

CAUTIONARY STATEMENT

Statements in the directors' report and management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ substantially or materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in government regulations, policies, tax laws and other incidental factors. Further, the Company retains the flexibility to respond to fast-changing market conditions and business imperatives. Therefore, the Company may need to change any of the plans and projections that have been outlined in this report, depending on market conditions.



REPORT ON CORPORATE GOVERNANCE FOR THE YEAR 2004-05

(In accordance with clause 49 of the listing agreement with Indian stock exchanges)

Corporate Governance deals with laws, practices and implicit rules that determine a Company's ability to take informed managerial decisions vis-a-vis its claimants - in particular, its shareholders, creditors, customers, the state and employees. It is about achievement of the corporate vision and goals through commitment to ethical business practices and values. It can be said to be a means to maximise the long-term shareholder value in a legal and ethical manner, ensuring fairness, courtesy and dignity in all transactions of the company.

1. CORPORATE GOVERNANCE PHILOSOPHY AND PRACTICE

VSNL has transformed itself from a fledgling government department, to a wholly owned government company, to its present status as an NYSE-listed, widely-held and professionally managed Company having its direct and indirect subsidiaries across the globe and adding new private and international shareholders along the way. That internal transformation was mirrored externally as India's telecom industry moved from a highly regulated and closed environment to an era of significantly enhanced competition and new emerging technologies. As an established international telecom company, VSNL has always held itself to high standards of accountability, auditing, disclosure and reporting.

Through these transformations, VSNL's corporate governance philosophy has been consistent and transparent. The Company believes that total business risk elimination is never possible but can be minimized by consistently developing and following the best practices of Corporate Governance. To this end, the Company focuses on developing and implementing higher standards of accountability to enable optimum returns to all stakeholders. The company is installing new state-of-the art systems including integrated financial accounting and budgeting systems and through a systematic process of training and development has increased the quality of its personnel.

Fairness in words, actions and deeds with all stakeholders are the pillars of corporate governance philosophy of the Company. Corporate Governance in substance rather than form is what the Company believes in and actively implements. To ensure this, a high level Corporate Governance Council has been formed to ensure that the best practices of Corporate Governance are adopted.

VSNL's operations and accounts are audited at three levels: an internal audit; a statutory audit by Indian accounting firms under Indian accounting requirements and their restatement by an internationally recognised accounting firm according to US GAAP. The Company communicates regularly with its shareholders through bulletins, presentations and meetings with analysts and investors.

2. BOARD OF DIRECTORS

The Company is managed exclusively by and under the directions of the Board. The composition of the Board is governed by the applicable laws and regulations as well as the Articles of Association of the Company. The powers delegated by the Board to the Managing Director and by the Managing Director to the sub-ordinate officers are documented in the Delegation of Powers (DoP). The DoP is revised periodically.

Nine out of Ten directors are non-executive directors, forming 90% of the total number of directors. VSNL has four independent directors and one executive director.

None of the directors hold directorships in more than the permissible number of companies under the applicable provisions. Similarly, none of the directors on the board's sub-committees hold membership of more than ten committees of boards, nor is any director a chairman of more than five committees of boards.

The names and categories of the directors on the board, their attendance at board meetings during the year and at the last annual general meeting, and the number of directorships and committee memberships held by them in other companies as of March 31, 2005 (with Directorships updated as of August 10, 2005) are given below:

Name	Category	Board Meetings during the tenure		Attendance at the last AGM (02.09.2004)	No. of Directorships in other Public Companies Including VSNL		No. of Committee Positions held in other Public Companies Including VSNL	
		Held	Attended		Chairman	Member	Chairman	Member
Directors in Office								
Mr. Subodh Bhargava [Chairman : w.e.f. 11 May 2005]	Independent Non Executive	8	8	Yes	2	9	3	8
Mr. N. Srinath	Not Independent Executive	8	7	Yes	NIL	3	NIL	NIL
Mr. Suresh Krishna	Independent Non Executive	8	3	No	6	3	2	3

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Name	Category	Board Meetings during the tenure		Attendance at the last AGM (02.09.2004)	No. of Directorships in other Public Companies Including VSNL		No. of Committee Positions held in other Public Companies Including VSNL	
		Held	Attended		Chairman	Member	Chairman	Member
Directors in Office								
Mr. Ishaat Hussain	Not Independent Non Executive	8	7	Yes	2	13	3	7
Mr. Kishore A. Chaukar	Not Independent Non Executive	8	8	Yes	NIL	13	4	4
Mr. Vivek .Singhal	Independent Non Executive	8	5	Yes	NIL	6	1	1
Dr. Ashok Jhunjhunwala	Independent Non Executive	8	8	Yes	NIL	8	NIL	8
Mr. F.A. Vandrevala	Not Independent Non Executive	8	8	Yes	2	13	NIL	2
Mr. Pankaj Agrawala ¹	Not Independent Non Executive	8	6	No	NIL	1	1	NIL
Dr. Mukund Rajan [w.e.f. 6-05-05].	Not Independent Non Executive	NIL	NIL	Not Applicable	NIL	2	NIL	NIL
Directors served during the year								
Mr. R.N. Tata [Ceased to be Director w.e.f 11-04- 05]	Not Independent Non Executive	8	6	Yes	12	2	NIL	8
Mr. S.K. Gupta [Ceased to be Director w.e.f. 1-10- 04]	Not Independent Executive	4	4	Yes	NIL	2	NIL	NIL
Mr. Rakesh Kumar ¹ [Ceased to be Director w.e.f. 10-08-05]	Not Independent Non Executive	8	7	Yes	NIL	NIL	NIL	NIL

¹ Nominee director of the Government of India.

Notes :

- None of the directors is related to any other director.
- None of the directors has any business relationship with the company.
- None of the directors received any loans and advances from the company during the year.
- The information as required under annexure I to clause 49 is being made available to the board.
- The company did not have any pecuniary relationship or transactions with non-executive directors during 2004-05.
- The detailed resume of each director is published in a separate section in the annual report.
- The gap between two board meetings did not exceed four months. The dates on which the 8 board meetings were held are as follows:

2 April 2004	22 June 2004	30 July 2004	2 September 2004
26 October 2004	17 December 2004	7 January 2005	17 January 2005

3. AUDIT COMMITTEE

The audit committee of the board was first constituted on December 15, 1998. It was subsequently reconstituted

several times in accordance with the changing legal and other requirements. The present audit committee consists of five members. The Chairman of the committee is

Mr. Subodh Bhargava, an independent director, who earlier served as the Chairman and Managing Director of Eicher Motors and has necessary and sufficient financial and accounting background.

The other members of the committee are Mr. Ishaat Hussain, Director (Finance), Tata Sons Limited, Mr. Vivek Singhal, Chairman, Electronic & Software Export Corporation, Dr. Ashok Jhunjunwala, Professor, Electrical Engineering Department, IIT Madras, and Head, Telecommunications and Computer Networks (TeNeT) Group and Mr. Pankaj Agrawala, government nominee director. Mr. Satish Ranade, Company Secretary and VP (Legal) is the audit committee's Secretary.

At the Annual General Meeting held on September 2, 2004, the Chairman of the Audit Committee, Mr. Subodh Bhargava was present. During the last financial year, the Audit Committee held six meetings.

The audit committee has adequate powers and detailed terms of reference to play an effective role as required under the provisions of the Companies Act, 1956 and clause 49 of VSNL's listing agreement with the stock exchanges.

Attendance at the Audit Committee Meetings

Name	No. of Audit Committee Meetings during 2004-05	
	Held	Attended
Subodh Bhargava	6	6
Mr. Vivek Singhal	6	4
Mr. Ishaat Hussain	6	5
Dr. Ashok Jhunjunwala	6	6
Mr. Pankaj Agrawala	6	4

4. REMUNERATION COMMITTEE

The Remuneration Committee consists of three members. The Chairman of the Committee is Mr. Suresh Krishna, Independent Director who is the Chairman and Managing Director of Sundram Fasteners Limited. The other members are Mr. Subodh Bhargava and Mr. Kishor Chaukar. Mr. Kishor Chaukar joined the Remuneration Committee on 9 June 2005. Mr Ratan Tata ceased to be a member of the Committee w.e.f. the date of his resignation. Mr. Satish Ranade, Company Secretary and VP (Legal) is the Remuneration Committee's Convenor. One meeting of the Remuneration Committee was held on June 9, 2005.

The details of remuneration to the whole-time directors during the year 2004-05 is as follows:

(Amount in Rs.)

Name	Salary	Perquisites & Allowances	Commission*
Mr. S.K. Gupta**	1,246,615	449,520	800,000
Mr. N. Srinath	2,609,873	942,000	1,700,000
Total	3,856,488	1,391,520	2,500,000

* Commission payable will be paid only after the date of the Annual general Meeting.

** The term of Mr. S.K. Gupta expired w.e.f. 1 October 2004.

1. An agreement was entered into with Mr. S.K. Gupta as managing director for a period from February 13, 2002 valid till September 30, 2002. Thereafter Mr. S.K. Gupta was reappointed as the MD of the Company on deputation to VSNL from Tata Services Limited for a period of up to two years with effect from 1 October 2002. Accordingly, a new agreement was signed under the applicable provisions of the Companies Act, 1956. This agreement was valid up to 30 September 2004.
2. Either party, giving the other party six months' notice or the company paying six months' salary in lieu thereof, may terminate the agreements with the whole-time directors.
3. Severance fees for Mr. S.K. Gupta and Mr. N. Srinath under the contracts is NIL.
4. The Renumeration Committee decided to re-designate Mr. Srinath as Executive Director for the remaining period of his term. This re-designation is to be effective from April 1, 2005 on execution of the propose Deed of Amendment to the Agreement dated June 12, 2002 executed with Mr. Srinath. This may be treated as an intimation under section 302 of the Companies Act, 1956.
5. The company pays sitting fees of Rs.5,000 for every board and committee meeting to all non-executive directors, except the nominee directors of Government of India.

5. INVESTOR GRIEVANCE COMMITTEE

The committee consists of three members. The Chairman of the Committee is Mr. Kishor A. Chaukar who is the Managing Director of Tata Industries Limited. The other members are Dr. Ashok Jhunjunwala, Professor, Electrical Engineering Department, IIT Madras, and Head, Telecommunications and Computer Networks (TeNeT) Group, Chennai and Mr. Pankaj Agrawala, nominee Director of the Government. Mr. Satish Ranade, Company Secretary and VP (Legal) is the Investor Grievance Committee's secretary. During the last financial year, the Committee held three meetings. All the meetings were attended by all the members.

The details of grievances received from the shareholders during the year and their status on March 31, 2005 is given below:

Sr. No.	Nature of Complaints	No. of Complaints	
		Received	Pending
1.	SEBI/Stock Exchange Complaint	7	Nil
2.	Direct/Miscellaneous/ Other Complaint	192	Nil
TOTAL		199	Nil

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This committee has been delegated the powers to approve the issue of Duplicate Share Certificates and approve transfer/transmission of shares exceeding 500 shares per folio. The Registrar and Transfer Agents have been authorised to issue Duplicate Share Certificates and approve transfer/transmission up to a maximum of 500 shares per folio, limited only to routine day-to-day work. As the shares of the company are under compulsory dematerialized trading for all investors, this delegation is considered adequate. All the shares received for transfer till March 31, 2005 have been duly processed.

6. ETHICS AND COMPLIANCE COMMITTEE

In accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended, the Board of Directors of the Company adopted the "VSNL Code Of Conduct For Prevention of Insider Trading and Code of Corporate Disclosure Practices" to be followed by "Directors," "Designated Employees," "Designated Persons" and "Insiders". The code is based on the principle that Directors, Designated Employees, Designated Persons and Insiders should not have undue advantage over other shareholders, in their personal security transactions, due to their possible advance knowledge of Price Sensitive Information. The code, therefore, seeks to ensure timely and adequate disclosure of Price Sensitive Information to the investor community by the Company to enable them to take informed investment decisions with regard to the Company's securities.

In terms of the said code, an Ethics and Compliance Committee was constituted in 2003. The present committee consists of three members. The Chairman of the committee is Mr. Kishor A. Chaukar, who is the Managing Director of Tata Industries Limited, Dr. Ashok Jhunjunwala, Professor, Electrical Engineering Department, IIT Madras, and Head, Telecommunications and Computer Networks (TeNeT) Group, Chennai and Mr. Pankaj Agrawala, government nominee director are the members. Mr. Satish Ranade, Company Secretary and VP (Legal) is the convener of the Committee.

Three meetings of the committee were held during the year 2004-05. All the members were attended by all the members.

7. COMMITTEE OF THE BOARD

VSNL Board at its 137th Meeting held on December 1, 2003 had advised that it was necessary to ensure focus on new projects and initiatives that were necessary to increase the revenue and profitability of the Company. The Board then felt it advisable to appoint a Committee of the Board to go

through the detailed plans and make recommendations to the Board. Accordingly a Committee of the Board was formed ("Committee of the Board") to go through the detailed plans of the projects undertaken and make recommendations to the Board.

During the year Mr. S.K. Gupta who was member of the Committee of the Board ceased to be Director and therefore ceased to be member of the Committee of the Board. Mr. Ratan Tata resigned from the Board on April 11, 2005 and hence ceased to be member of the Committee w.e.f. that date.

The committee now consists of four members. The Chairman of the Committee is Mr. Subodh Bhargava. The other members are Mr. Kishor A. Chaukar, Dr. Ashok Jhunjunwala and Mr. F.A. Vandrevala. Mr. Satish Ranade, Company Secretary and VP (Legal) acts as the Secretary of the Committee.

During the last financial year, the Committee held 6 meetings.

Attendance at the Committee of the Board Meetings

Name	No. of Committee of the Board Meetings during 2004-05	
	Held during the tenure	Attended
Mr. Subodh Bhargava	6	4
Mr. Kishor A. Chaukar	6	6
Dr. Ashok Jhunjunwala	6	5
Mr. F.A. Vandrevala	6	5
Mr. R. N. Tata [Ceased to be Director w.e.f 11-04-05]	6	6
Mr. S.K. Gupta [Ceased to be Director w.e.f. 1-10-04]	4	2

8. GENERAL BODY MEETINGS

The location and time at the last four general body meetings are as follows:

Meeting Date	Location, Description and Type of Resolutions	Voting
2 September 2004	The 18 th Annual General Meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai 400020. There were Six resolutions (1 special and 5 ordinary).	All the resolutions were put to vote by show of hands and were carried unanimously.
2 April 2004	An Extraordinary General Meeting was held at 1500 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai 400020. There were two resolutions, both of which were Special.	Both the resolutions were put to vote by show of hands and were carried unanimously.
2 September 2003	The 17 th Annual General Meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai 400020. There were ten resolutions (2 special and 8 ordinary).	All the resolutions were put to vote by show of hands and were carried unanimously.
20 August 2002	The 16 th Annual General Meeting was held at 1100 hours at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020. There were 14 resolutions (3 special 11 ordinary). Out of three special resolutions one was passed through Postal Ballot result of which was declared at the AGM.	All the resolutions were put to vote by show of hands. Thirteen resolutions were carried out unanimously and one through Postal Ballot was passed with the requisite majority.

9. DISCLOSURES

There were no significant related-party transactions of the company with its promoters, directors or management, their subsidiaries or relatives that may have potential conflict with the interest of the company at large. Note number B.14 of the Notes on Accounts may also be referred to in this respect. No non-compliance notice has been issued and no penalties or strictures have been imposed on the company by SEBI, any stock exchange or any statutory authority on any matter related to capital markets during the last three years.

10. SECRETARIAL AUDIT

A qualified practicing Company Secretary carried out quarterly secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The audits confirm that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

11. REGULATORY AUDIT

Though not required under any statutory obligations but in the interest of better Corporate Governance and

benchmarking, VSNL is undergoing a voluntary Regulatory Audit. The Audit is being carried out by M/s. Ernst and Young Pvt. Ltd., an independent external agency.

12. MEANS OF COMMUNICATION

VSNL's quarterly results are published in the Indian Express and Loksatta among others, and are also hosted on VSNL's website: www.vsnl.com. The company's press releases, details of significant developments and investor updates are also made available on the website. VSNL's website has recently been revamped to make it more user friendly. The company generally holds a press conference/investors' meet after the half-yearly results are taken on record by the board relating to the period ending September 30th and March 31st every year.

The management discussion and analysis forms part of the directors' report and is included in the annual report for the year 2004-05. Segmental information may be referred to in Note number B.13 of the Notes on Accounts.

13. SHAREHOLDER INFORMATION

DATE AND VENUE OF THE AGM

The nineteenth annual general meeting of Videsh Sanchar Nigam Limited will be held at 1100 hours on September 14, 2005,

at Birla Matushri Sabhagar, New Marine Lines, Mumbai – 400020.

FINANCIAL CALENDAR

Fiscal year ending : March 31, 2005
Annual General Meeting : September 14, 2005

KEY FINANCIAL REPORTING DATES FOR THE FINANCIAL YEAR 2005-06

First quarter ending : On July 28, 2005
June 30, 2005
Second quarter ending : On or before October 31, 2005
Sept 30, 2005
Third quarter ending : On or before January 31, 2006
Dec. 31, 2005
Fourth quarter ending : On or before April 30, 2006 or if
March 31, 2006 audited, on or before
June 30, 2006.

BOOK CLOSURE DATES FOR THE PURPOSE OF DIVIDEND

VSNL's register of members and share transfer books will remain closed from September 1, 2005 to September 14, 2005 (both days inclusive), to determine the entitlement of shareholders to receive the final dividend as may be declared for the year ended March 31, 2005.

DIVIDEND PAYMENT

Dividend on equity shares as recommended by the directors for the year ended March 31, 2005, when declared at the meeting, will be paid on or after 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 Registrar & Transfer Agents (R&T Agent) 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.

BANK DETAILS

In order to provide protection against fraudulent encashment of dividend warrants, members are requested to provide, if they have not already provided, their bank account numbers, bank account type and names and addresses of bank branches, quoting folio numbers, to the R&T agents (in case of physical shareholding) to enable them to incorporate the same on the dividend warrants. In case

of dematerialised holding the bank account details should be intimated and updated with the shareholder's Depository Participant.

LISTING ON STOCK EXCHANGES IN INDIA AND LISTING FEES

The company's shares are listed on the stock exchanges at Mumbai (BSE) and National Stock Exchange (NSE) in India. Annual listing fees as due to each of the above stock exchanges for 2005-2006 have been paid.

LISTING ON STOCK EXCHANGE OUTSIDE INDIA

The Company's ADRs are listed on the New York Stock Exchange (NYSE) and have been traded on the NYSE since August 15, 2000. The annual listing fee payable to the NYSE is being paid regularly.

DEPOSITORY BANK FOR ADR HOLDERS

The Bank of New York, 101, Barclays Street, 22nd Floor West, New York, NY 10286, Telephone: +1 (212) 815 8365, Facsimile: +1 (212) 571 3050

Local Address : The Bank of New York, Express Towers, 12th Floor, Nariman Point, Mumbai 400 021, Telephone: (022) 2204 4941/43, Facsimile: (022) 2204 4942.

CUSTODIAN FOR THE DEPOSITORY IN INDIA

ICICI Bank Limited, Securities Markets Services, 1st Floor, Empire Complex, 414 Senapati Bapat Mrg, Lower Parel, Mumbai – 400013. Telephone: 91-22-5667 2030 Facsimile: 91-22-5667 2779/40.

STOCK CODE

Bombay Stock Exchange : 500483
National Stock Exchange : VSNL
New York Stock Exchange : VSL
ISIN No. for equity shares : INE151A01013
ISIN No. for ADRs : US92659G6008
CUSIP No. for ADRs : 92659G600

Reuters Codes

VSNL.BO (BSE)
VSNL.NS (NSE)
VSNLq.L (LSE).

SHARE TRANSFER SYSTEM

Share transfers in physical form can be lodged with M/s. Sharepro Services, the R&T agents of VSNL. The transfers are normally processed within 15 days from the date of receipt if the documents are complete in all respects. The Investor Grievances Committee is empowered to approve the share transfers beyond 500 shares per folio. Upto 500 shares per folio the R&T Agents have been empowered to approve the share transfer.

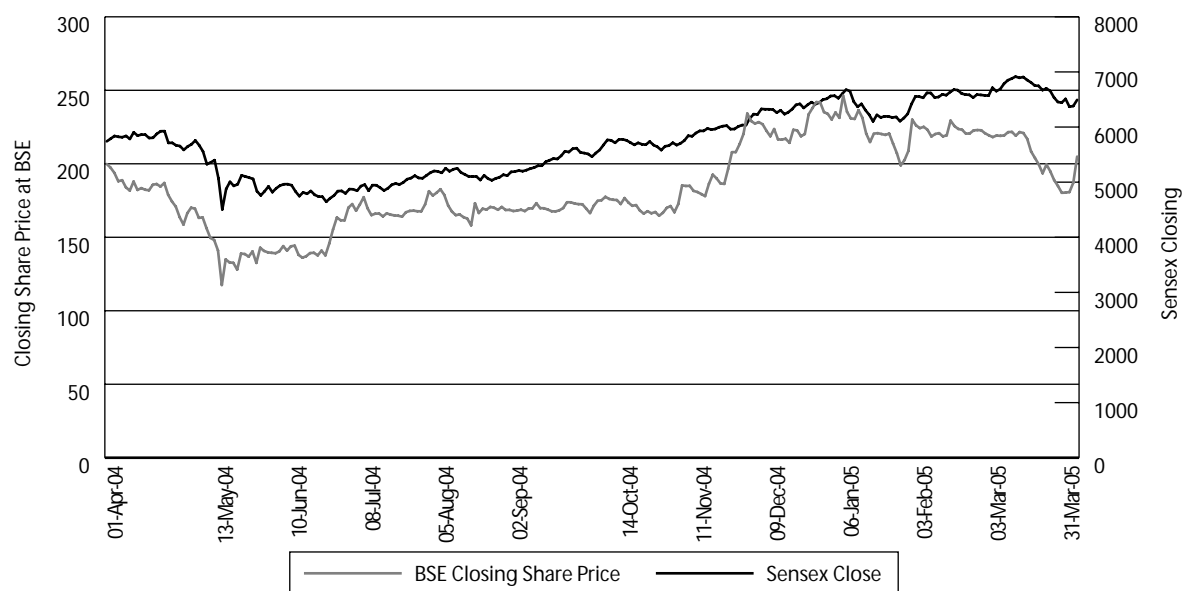
STOCK MARKET DATA RELATING TO SHARES LISTED IN INDIA

Monthly high and low quotations and volume of shares traded at BSE & NSE and ADRs traded at NYSE for 2004-2005 are:

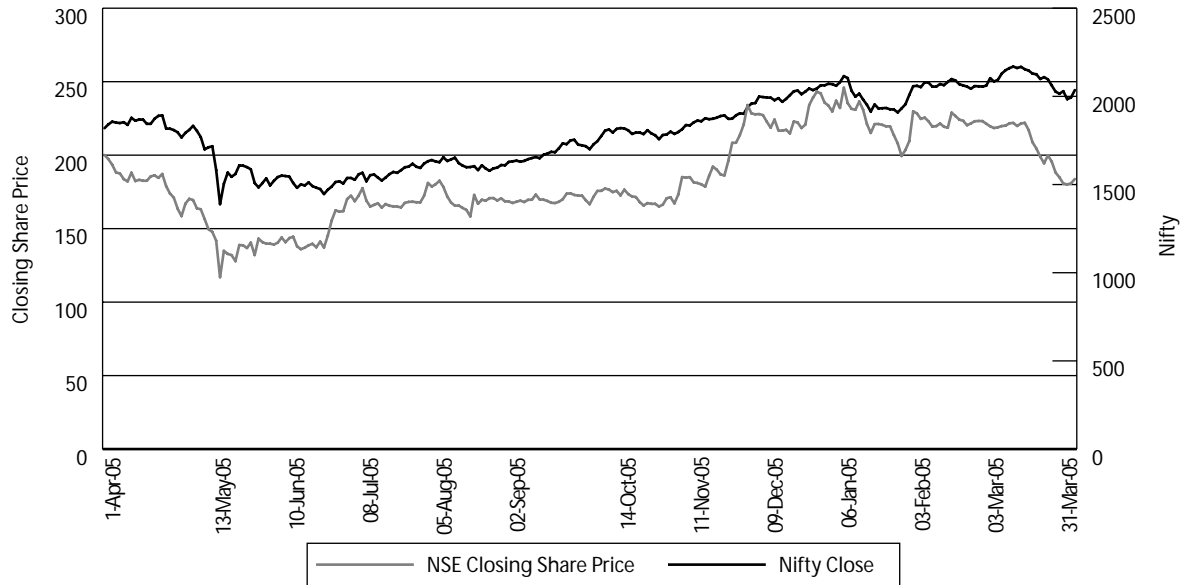
Month	BSE Share Price (Rs.)			NSE Share Price (Rs.)			NYSE ADR Price (USD)		
	High	Low	Volume	High	Low	Volume	High	Low	Volume
Apr'04	210.00	163.00	1146150	209.90	162.40	3080242	9.39	6.85	2978900
May'04	174.00	115.00	1680231	173.00	110.05	4320306	7.32	5.46	3117700
Jun'04	165.40	131.00	1193140	165.00	123.80	3491084	7.50	6.05	3017200
Jul'04	188.00	161.70	1129181	188.85	155.00	3897142	7.97	7.10	1893000
Aug'04	186.00	157.10	1489748	195.00	157.00	4711592	8.24	6.80	1676900
Sep'04	177.75	166.00	923869	177.50	166.00	2682432	7.62	7.10	799800
Oct'04	181.10	163.00	670846	181.10	163.30	1789844	7.68	7.05	1731800
Nov'04	238.00	166.50	3365296	237.90	166.15	7994054	10.32	7.55	4927300
Dec'04	247.90	210.00	2484888	249.00	211.25	6860993	10.71	9.15	3033800
Jan'05	252.60	198.00	2349496	252.00	198.00	5587598	11.15	9.11	2022900
Feb'05	246.00	216.05	2024462	247.00	215.05	5807975	10.30	9.72	1302900
Mar'05	227.40	175.70	1992857	226.95	175.80	4933919	10.04	7.83	1668100
Total	20450164			55157181			28170300		
Percentage of volume traded on BSE & NSE to shares available in Indian Market								150.51%**	

** Out of the total 285 million outstanding shares, the number of shares available in Indian markets, as of March 31, 2005, has been considered to be 50231258 only, which has been arrived at after deducting 128250000 shares held by the strategic partner M/s. Panatone Finvest Limited, 74446885 shares held by the Government of India and 32069134 shares as underlying shares for ADRs.

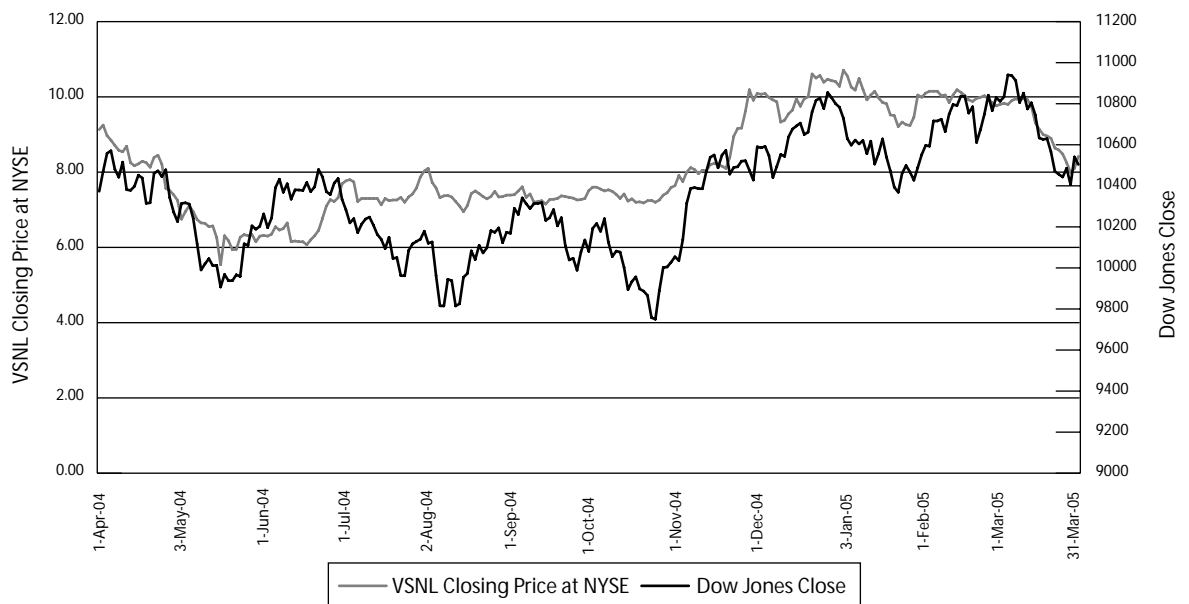
Closing Price at BSE V/S Sensex Close



VSNL Closing Share Price at NSE V/S Nifty Close



Closing Price at NYSE V/S DOW Index



DISTRIBUTION OF SHAREHOLDING

	Number of Shareholders	
	31.03.2005	31.03.2004
Number of ordinary shares held		
1 to 500	59450	62020
501 to 1000	1751	1568
1001 to 10000	2154	2171
Over 10000	115	75
Total	63470	65834

CATEGORIES OF SHAREHOLDERS AS OF 31 MARCH

Category	Number of		Voting Strength Shareholders		Number of Shares Held (Percentage)	
	2005	2004	2005	2004	2005	2004
Panatone Finvest Limited	2	2	45.00	45.00	128250000	128250000
Central Government including Nominees of President of India	1	1	26.12	26.12	74446885	74446885
Tata Sons Limited	2	2	1.58	1.58	4494497	4494497
Tata Investment Corporation Ltd.	2	2	0.02	0.02	56000	56000
Indian Public Financial Institutions	47	29	9.13	9.44	26010736	26909110
Indian nationalised banks	9	7	0.16	0.02	466485	67030
Foreign Financial Institutions	34	23	2.35	1.01	6699052	2891817
Foreign companies (shares held by The Bank of New York as depository for ADRs)	2	2	11.25	12.91	32069134	36799554
Non-resident individuals / Overseas Corporate Bodies	393	267	0.06	0.04	178508	134855
Other Indian Bodies Corporate	1418	1410	0.72	0.40	2045892	1064783
Others	61559	64088	3.61	3.46	10280576	9883234
In transit demat shares	1	1	0.00	0.00	2235	2235
Total	63470	65834	100	100	285000000	285000000

Dematerialisation of Shares and Liquidity

Approx 99.88% of the company's share capital available in the market is dematerialised as on March 31, 2005. The company's shares are regularly traded on the Stock Exchange Mumbai and the National Stock Exchange, as is evident from the table containing stock market data.

Outstanding ADRs

32069134 ADRs (each representing two ordinary share of the company) are outstanding as of March 31, 2005. In respect of these ADRs, the option to convert into shares is alive.

VIDESH SANCHAR NIGAM LIMITED

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SHARE CAPITAL HISTORY

Details of share capital history since incorporation is as follows:

Dates	Particulars of Issue	Number of Shares	Total Number of Shares	Nominal Value of Shares (Rs.)
19.3.86	Allotted as Purchase consideration for assets & liabilities of OCS	126	126	126,000
1.4.86	Allotted as Purchase consideration for assets & liabilities of OCS	+599,874	600,000	600,000,000
March'91	Shares of Rs.1000/- each subdivided into shares of Rs.10/- each	NIL	60,000,000	600,000,000
06.02.92	Bonus of 1:3 issued to Government of India.	+20,000,000	80,000,000	800,000,000
Jan-Feb 92	12 million shares disinvested in favour of Indian Financial Institutions by GOI @ Rs.123/- per share	NIL	80,000,000	800,000,000
1994-95	2,382,529 Shares transferred to disinvested parties as bonus shares	NIL	80,000,000	800,000,000
27.03.97	VSNL raised its share capital by way of GDR Issue, and also GOI Divested 39 lakh shares in GDR markets@ US\$13.93 per GDR equivalent to Rs.1000 per share.	+12,165,000	92,165,000	921,650,000
04.04.97	VSNL raised its capital by way of GDR Issue Green Shoe option @ US\$13.93 per GDR equivalent to Rs.1000 per share.	+2,835,000	95,000,000	950,000,000
Feb. 1999	10 million shares divested by GOI in GDR markets @ US\$9.25 per GDR equivalent to Rs.786.25 per share.	NIL	95,000,000	950,000,000
May 1999	396,991 shares Divested by GOI by way of offer of shares to employees of VSNL @ Rs.294 per share locked in for a period of 3 years.	NIL	95,000,000	950,000,000
Sept'99	1 million shares Divested by GOI in domestic markets @ Rs.750 per share.	NIL	95,000,000	950,000,000
15.08.00	Listing of ADRs on New York Stock Exchange	NIL	95,000,000	950,000,000
24.11.00	Bonus shares in the ratio of 2:1.	+190,000,000	285,000,000	2,850,000,000
27.9.01	VSNL declares dividend @ 500% i.e. Rs.50/- per share at 15 AGM.	NIL	285,000,000	2,850,000,000
Jan. '02	VSNL pays special interim Dividend of 750% i.e. Rs.75/- per share	NIL	285,000,000	2,850,000,000
13.02.02	25% of VSNL Stake transferred to Tata Group's investment vehicle Panatone Finvest Ltd. Govt holdings reduced to 27.97% from 52.97%. VSNL ceases to be a Government of India Enterprise	NIL	285,000,000	2,850,000,000

Dates	Particulars of Issue	Number of Shares	Total Number of Shares	Nominal Value of Shares (Rs.)
21.02.2002	5264555 shares Divested by GOI by way of offer of shares to employees of VSNL @ Rs.47.85 per share locked in for a period of 1 year.	NIL	285,000,000	2,850,000,000
10.04.02	Open Offer by Panatone Finvest Limited in accordance with SEBI guidelines to acquire upto 57 million shares @ Rs.202/- per share	NIL	285,000,000	2,850,000,000
08.06.02	Open offer complete with Panatone holding total of 128249910 shares including 57 million shares as above.	NIL	285,000,000	2,850,000,000

Locations of Other Offices

Regional Offices : Mumbai, Chennai, Kolkata and New Delhi.

Branches : Ambattur, Arvi, Bangalore, Bhubaneswar, Chandigarh, Coimbatore, Dehradun, Ernakulam, Gandhinagar, Goa, Guwahati, Hyderabad, Indore, Jaipur, Jalandhar, Kanpur, Patna, Pondicherry, Pune, Thiruvananthapuram.

Address for Correspondence

Registered Office

Videsh Sanchar Bhavan (VSB)
Mahatma Gandhi Road,
Mumbai - 400 001.
Tel : +91 22 5657 8765
Fax : +9122 5639 5162
Email : help@vsnl.com
Website : www.vsnl.in
Website : www.internet.vsnl.in

Corporate Office

Lokmanya Videsh Sanchar Bhavan (LVSB)
Kashinath Dhuru Marg
Prabhadevi Mumbai – 400 028.
Tel : +91 22 5657 8765
Fax : +9122 5639 5162
Email : help@vsnl.com
Website : www.vsnl.in
Website : www.internet.vsnl.in

Compliance Officer

Mr. Satish Ranade
Company Secretary & Vice President (Legal)
Videsh Sanchar Nigam Limited
M. G. Road,
Mumbai - 400 001.
Tel : +91 22 5657 8765 Extn.1963
Fax : +91 22 5659 1962
Email : satish.ranade@vsnl.co.in

Any shareholder complaints/queries may be addressed to:

Registrar and Transfer Agents

M/s. Sharepro Services (India) Pvt. Ltd.
Unit : Videsh Sanchar Nigam Limited
Satam Estate, 3rd Floor, Above Bank of Baroda,
Chakala, Andheri (East), Mumbai - 400 099.
Tel : (022) 2821 5168
Fax : (022) 2837 5646
E-mail : sharepro@vsnl.com

Any queries relating to financial statements of the Company may be addressed to:

Investor Relations Cell
Videsh Sanchar Nigam Limited
Lokmanya Videsh Sanchar Bhavan
Kashinath Dhuru Marg, Opposite Kirti College,
Prabhadevi, Mumbai - 400 028.
Tel : +91 (22) 2432 0621
Fax: +91 (22) 2432 0283
Email: invrelhq@vsnl.com;
investor.relations@vsnl.co.in

SECRETARY RESPONSIBILITY STATEMENT

The Company Secretary & Vice President (Legal) confirms that the Company has:

- (i) maintained all the books of account and statutory registers required under the Companies Act, 1956 ("the Act") and the rules made thereunder;
- (ii) filled all the forms and returns and furnished all the necessary particulars to the Registrar of Companies and/or authorities as required by the Act;
- (iii) issued all notices required to be given for convening of board meetings and the general meeting, within the time limit prescribed by law;
- (iv) conducted the board meetings and annual general meeting as per the Act;
- (v) complied with all the requirements relating to the minutes of the proceedings of the meetings of the directors and the shareholders;
- (vi) made due disclosures required under the Act including those required in pursuance of the disclosures made by the directors;
- (vii) obtained all the necessary approvals of directors, shareholders, the Central Government and other authorities as per the requirements;
- (viii) effected share transfers and dispatched the certificates within the statutory time limit;
- (ix) paid dividend amounts to the shareholders and transferred unpaid dividend amounts, if applicable, to the general revenue account of the central government or the investor education and protection fund within the time limit prescribed;
- (x) complied with the requirements of the listing agreement entered into with the stock exchanges in India and the requirements of the New York Stock Exchange.

The Company has also complied with other statutory requirements under the Companies Act, 1956 and other related statutes in force.

Satish Ranade
Company Secretary
& Vice President (Legal)

**AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF
CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENTS**

To the Members of

VIDESH SANCHAR NIGAM LIMITED

We have examined the compliance of conditions of corporate governance by VIDESH SANCHAR NIGAM LIMITED, for the year ended on March 31, 2005, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that while the Shareholder/ Investor Grievance Committee has not maintained records to show the investor grievance pending for a period exceeding one month against the Company, the Registrars of the Company have maintained the records of investor grievances and certified that as at March 31, 2005 there were no investor grievances remaining unattended/pending for more than 30 days.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For S. B. BILLIMORIA & CO.
Chartered Accountants

N VENKATRAM
Partner
Membership No: 71387

Mumbai: 9 June, 2005

VIDESH SANCHAR NIGAM LIMITED

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FINANCIAL RATIOS

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Profitability ratios					
EBIDTA Margin	24.07	22.85	25.13	16.29	23.28
Cash Profit Margin	23.85	21.62	19.26	16.30	29.33
Net Profit Margin	22.33	19.79	16.21	11.20	22.18
Return on Average Capital Employed	29.14	25.15	15.29	9.00	19.73
Return on Net Worth	27.87	24.20	14.73	7.05	13.88
Total Expenditure/Total Income	67.70	70.83	73.93	83.62	81.45

Figures are in %

BUSINESS CHARACTERISTICS

Debt to Equity Ratio	—	0.11	0.06	0.01	—
Tax rate (%)	31.94	32.14	37.81	30.48	28.24
Revenue to Capital Ratio	1.21	1.21	0.77	0.64	0.59
Income/Debtors ratio	4.40	4.78	5.76	7.19	5.42
Income/Avg Assets Ratio	3.22	2.59	1.56	1.12	1.19
Net Working Capital as part of TCE %	65	66	61	37	39.00
Current Ratio	2.17	2.90	3.37	1.77	1.99
Quick Ratio	2.17	2.90	3.37	1.77	1.99
Cash and Equivalents/Total Assets Ratio	73.46	42.96	37.89	19.99	24.18
Depreciation/Gross Block %	4.37	4.60	4.46	7.31	7.67

GROWTH(% OVER PRECEDING YEARS)

Growth in Turnover	10.30	(10.72)	(32.33)	(29.95)	1.17
Growth in FE Earnings	1.04	(14.16)	(31.79)	(51.45)	41.06
Growth in PBIDT (excl other income)	7.54	(15.25)	(29.81)	(54.81)	49.22
Growth in PAT	113.88	(20.88)	(44.57)	(51.58)	100.28
Growth in Cash Profit	31.37	(19.07)	(39.74)	(40.72)	82.09

PER SHARE DATA

Earnings (Rs.)	# 62.42	49.38	27.37	13.25	26.54
Dividend %	# 500	875	85	45	60.00
Book Value (Rs.)	#231.18	176.98	194.75	181.30	200.98
P/E (as of Year End)	4.68	3.79	2.67	15.46	7.05

During the year, the Company issued Bonus Shares in the ratio of 2:1. Without Bonus issue these values would be three times the value depicted above.

AUDITORS' REPORT

TO THE MEMBERS OF VIDESH SANCHAR NIGAM LIMITED

1. We have audited the attached balance sheet of **VIDESH SANCHAR NIGAM LIMITED** as at 31 March, 2005, and also the profit and loss account and the cash flow statement for the year ended on that date both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (v) on the basis of written representations received from the directors, as on 31 March, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956; and
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the balance sheet, of the state of affairs of the Company as at 31 March, 2005;
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For **S. B. BILLIMORIA & Co.**
Chartered Accountants

N VENKATRAM
Partner
Membership No: 71387
Mumbai, 9 June, 2005

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) As explained to us, physical verification of a major portion of fixed assets as at 31 March, 2005 was conducted by the Management during the year. In our opinion, the frequency of physical verification is reasonable. Having regard to the size of the operations of the Company and on the basis of explanations received, in our opinion, the net differences found on physical verification were not significant.
- (ii) (a) As explained to us, the stocks of stores and spares have been verified during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) In our opinion and according to the information and explanations given to us, the Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material having regard to the size of the operations of the Company.
- (iii) The Company has not taken or granted any loans during the year to parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for rendering of services. During the course of our audit, we have not observed any major weakness in the internal controls.
- (v) (a) To the best of our knowledge and belief and according to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.
- (b) In our opinion and having regard to our comments in paragraph (iv) above, and according to the information and explanations given to us, transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time, where such market prices are available.
- (vi) In our opinion and according to the information and explanations given to us, the Company has not accepted deposits from the public to which the provisions of Section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 are applicable during the period covered by our audit report.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) We have broadly reviewed the books of account and records maintained by the Company relating to telecommunication activities pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 and, are of the opinion that *prima facie*, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determining whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it. The

Company has received exemption from the operation of Employees' State Insurance Act, 1948.

- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, service tax, customs duty, excise duty and cess were in arrears, as at 31 March, 2005 for a period of more than six months from the date they became payable.
- (c) According to the information and explanations given to us, details of dues of sales tax, income tax, excise duty and service tax which have not been deposited on account of any dispute are given below:

Particulars	Financial years to which the matter pertains	Forum where the dispute is pending	Amount in Rs. '000
Sales Tax	1989-1990	Appellate Commissioner of Sales Tax	100
Sales Tax	2003-2004	Tribunal	93,647
TDS on perquisites	2001-2002	High Court	2,757
TDS on perquisites	2003-2004	High Court	613

- (x) The Company does not have accumulated losses. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holder.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year. Accordingly, the provisions of clause 4 (xii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Accordingly, the provisions of clause 4 (xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- (xiv) In our opinion and according to the information and explanations given to us, the Company is not dealing

in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

- (xv) In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantee for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company.
- (xvi) In our opinion and according to the information and explanations given to us, no term loans have been raised during the financial year covered by our audit.
- (xvii) In our opinion and according to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, we report that, no funds raised on short-term basis have been used for long-term investment.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) In our opinion and according to the information and explanations given to us, the Company has not issued any secured debentures during the period covered by our report. Accordingly, the provisions of clause 4 (xix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- (xx) During the period covered by our audit report, the Company has not raised any money by public issues.
- (xxi) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. B. BILLIMORIA & Co.
Chartered Accountants

N VENKATRAM
Partner

Membership No: 71387

Mumbai, 9 June, 2005

VIDESH SANCHAR NIGAM LIMITED

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BALANCE SHEET AS AT 31 MARCH, 2005

	Schedule	Rupees '000	As at 31 March, 2004 Rupees '000
FUNDS EMPLOYED:			
1	1	2,850,000	2,850,000
2	2	54,430,468	48,821,767
3		57,280,468	51,671,767
4	3	—	630,000
5		996,796	71,166
		58,277,264	52,372,933
APPLICATION OF FUNDS:			
6	4		
(a)		31,826,824	23,512,048
(b)		8,356,542	5,934,699
(c)		23,470,282	17,577,349
(d)		5,131,681	2,166,291
		28,601,963	19,743,640
7	5	12,005,839	20,891,446
8			
(a)	6	19,651	24,091
(b)	7	6,089,452	4,455,027
(c)	8	14,091,243	10,467,110
(d)	9	507,201	1,126,637
		20,707,547	16,072,865
B.	10	14,892,865	11,053,602
		35,600,412	27,126,467
9			
(A)	11	15,279,229	13,287,390
(B)	12	2,651,721	2,101,230
		17,930,950	15,388,620
10		17,669,462	11,737,847
11		58,277,264	52,372,933
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS			
20			

As per our report attached

For **S.B.BILLIMORIA & Co.**
Chartered Accountants

N.VENKATRAM
Partner

MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9 June, 2005

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, 2005

	Schedule	Rupees '000	Year ended 31 March, 2004 Rupees '000
INCOME:			
1 TRAFFIC REVENUES	13	33,030,391	31,642,031
2 OTHER INCOME	14	519,873	649,455
3 INTEREST INCOME (net)	15	554,159	928,893
4 INTEREST ON INCOME TAX REFUNDS (net)		—	490,307
5 TOTAL INCOME		34,104,423	33,710,686
EXPENDITURE:			
6 SALARIES AND RELATED COSTS	16	1,412,808	1,371,785
7 NETWORK COSTS	17	20,030,893	22,048,884
8 OPERATING AND OTHER EXPENSES	18	3,895,660	2,919,341
9 DEPRECIATION	4	2,441,535	1,728,083
Less: TRANSFER FROM CAPITAL RESERVE		(1,859)	(3,534)
10 PRIOR PERIOD ADJUSTMENTS	19	—	(15,963)
11 TOTAL EXPENDITURE		27,779,037	28,048,596
PROFIT BEFORE TAXES AND EXCEPTIONAL ITEMS		6,325,386	5,662,090
12 EXCEPTIONAL ITEMS:			
(a) Expenditure on voluntary retirement schemes		—	(1,029,661)
(b) Profit from sale of long-term investment, net of licence fee (Refer Note B5, Schedule 20)		4,687,303	800,189
(c) Provision for recoverable pension obligation (Refer Note B6, Schedule 20)		(472,866)	—
PROFIT BEFORE TAXES		10,539,823	5,432,618
13 TAXES			
(a) CURRENT TAX		(2,050,519)	(1,356,408)
(b) DEFERRED TAX		(925,630)	(299,650)
PROFIT AFTER TAXES		7,563,674	3,776,560
14 BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR		7,004,890	5,053,150
AMOUNT AVAILABLE FOR APPROPRIATIONS		14,568,564	8,829,710
15 APPROPRIATIONS :			
(a) PROPOSED DIVIDEND (Refer Note B3, Schedule 20)		1,710,000	1,282,500
(b) TAX ON DIVIDEND		243,114	164,320
(c) GENERAL RESERVE		756,367	378,000
BALANCE CARRIED TO BALANCE SHEET		11,859,083	7,004,890
EARNINGS PER SHARE (EPS)			
16 Basic/Diluted earnings per share excluding exceptional items(Rs.) (Refer Note B12, Schedule 20)		14.34	13.45
17 Basic/Diluted earnings per share including exceptional items (Rs.) (Refer Note B12, Schedule 20)		26.54	13.25

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS 20

As per our report attached

For **S.B.BILLIMORIA & Co.**
Chartered Accountants

N.VENKATRAM
Partner

MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9 June, 2005

VIDESH SANCHAR NIGAM LIMITED

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2005

	(Rupees in '000)	Year ended 31 March, 2004 (Rupees in '000)
1. CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT BEFORE TAXES AND EXCEPTIONAL ITEMS	6,325,386	5,662,090
Adjustments for:		
Depreciation	2,441,535	1,728,083
Transfer from capital reserve	(1,859)	(3,534)
(Profit)/Loss on sale of fixed assets	(11,111)	3,766
Investment written off	-	279
Interest income	(554,938)	(918,951)
Interest expense on short term bank loans	366	4,146
Fixed assets written down	32,547	263,046
Interest on income tax refunds	-	(490,307)
Dividend income/gain on sale of current investments	(287,445)	(465,024)
Valuation loss on current investments	149	-
Dividend income from long-term investments	(6,331)	-
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	7,938,299	5,783,594
Inventories	4,440	1,916
Sundry debtors	(1,634,425)	3,742,435
Other current assets	121,419	(648,095)
Loans and advances	(25,059)	246,276
Current liabilities and provisions	589,198	2,776,807
Cash generated from operations	6,993,872	11,902,933
Taxes paid	(3,756,751)	978,209
Interest on income tax refunds	-	490,307
Exceptional items	-	-
Payment under voluntary retirement schemes	-	(1,029,661)
NET CASH FROM OPERATING ACTIVITIES	3,237,121	12,341,788
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(10,605,756)	(4,725,888)
Purchase of long-term investments	(2,354,000)	(3,233,325)
Investments in subsidiaries	(202,880)	(110,336)
Purchase of current investments	(40,727,822)	(66,319,130)
Proceeds from sale of fixed assets	733,930	59,775
Proceeds from sale of long-term investment (net of licence fee)	7,789,383	1,252,281
Proceeds from liquidation of subsidiaries	221	-
Sale of current investments	49,076,885	54,937,840
Advances paid for equity investments in subsidiaries	(226,237)	(49,605)
Loans to subsidiaries	(1,881,735)	-
Payment made for acquisition of Dishnet/DSL business (net of cash acquired)	-	(2,359,255)
Dividend income from long-term investments	6,331	-
Dividend income from current investments	278,419	404,845
Fixed deposits (net)	(1,702,391)	12,750,000
Interest received	580,089	960,624
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	764,437	(6,432,174)
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans(net)	(630,000)	(3,540,000)
Dividends paid including dividend tax	(1,450,549)	(2,734,776)
Interest paid	(366)	(4,753)
CASH FLOW USED IN FINANCING ACTIVITIES	(2,080,915)	(6,279,529)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,920,643	(369,915)
CASH AND CASH EQUIVALENTS AS AT 1 APRIL, 2004	301,938	671,853
(Refer note B7, Schedule 20)		
CASH AND CASH EQUIVALENTS AS AT 31 MARCH, 2005	2,222,581	301,938
(Refer note B7, Schedule 20)		

Note :
Figures in brackets represent outflows.

As per our report attached
For **S.B.BILLIMORIA & Co.**
Chartered Accountants

N.VENKATRAM
Partner

MUMBAI MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

DATED: 9 June, 2005

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE - 1	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
SHARE CAPITAL		
AUTHORISED		
300,000,000 (2004:300,000,000) Equity shares of Rs.10 each	<u>3,000,000</u>	<u>3,000,000</u>
ISSUED, SUBSCRIBED AND PAID UP		
285,000,000 (2004: 285,000,000) Equity shares of Rs.10 each, fully paid-up	<u>2,850,000</u>	<u>2,850,000</u>
Notes :		
1) 60,000,000 (2004: 60,000,000) shares have been allotted as fully paid up, pursuant to the contract without payment being received in cash		
2) 210,000,000 (2004: 210,000,000) shares have been allotted as fully paid bonus shares by capitalisation of General Reserve		
3) 15,000,000 (2004: 15,000,000) shares are allotted as fully paid up by way of Euro issue represented by 30,000,000 American Depository Receipts (ADRs)		
SCHEDULE - 2		
RESERVES AND SURPLUS		
(a) CAPITAL RESERVE		
Balance at the beginning of the year	2,061,757	2,090,943
Foreign exchange fluctuation adjusted against fixed asset	—	(2,097)
	<u>2,061,757</u>	<u>2,088,846</u>
Less : Transferred to profit and loss account	(1,859)	(3,534)
Less: Transfer to Securities Premium for reduction in carrying cost of gifted assets	—	(23,555)
	<u>2,059,898</u>	<u>2,061,757</u>
(b) Securities Premium Account		
Balance at the beginning of the year	8,348,834	14,481,809
Less: Reduction in carrying cost of fixed assets, net of transfer from Capital Reserve	—	(9,564,093)
Add: Deferred Tax Asset on reduction in carrying cost of fixed assets	—	3,431,118
	<u>8,348,834</u>	<u>8,348,834</u>
(c) General Reserve		
Balance at the beginning of the year	31,406,286	31,028,286
Add: Transferred from profit and loss account	756,367	378,000
	<u>32,162,653</u>	<u>31,406,286</u>
(d) PROFIT AND LOSS ACCOUNT		
Balance carried forward	11,859,083	7,004,890
	<u>54,430,468</u>	<u>48,821,767</u>
SCHEDULE - 3		
UNSECURED LOANS		
Short-term loan from DishnetDSL Limited	—	630,000
	<u>—</u>	<u>630,000</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE - 4 FIXED ASSETS

(Rupees '000)

SL. NO.	FIXED ASSETS	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
		1 April, 2004	Additions	Deductions/ Adjustments	31 March, 2005	1 April, 2004	Depreciation expense	Deductions/ Adjustments	31 March, 2005	31 March, 2005	31 March, 2004
(a)	LAND	782,327 <i>782,327</i>	- <i>-</i>	- <i>-</i>	782,327 <i>782,327</i>	28,023 <i>19,771</i>	8,286 <i>8,252</i>	- <i>-</i>	36,309 <i>28,023</i>	746,018 <i>754,304</i>	754,304 <i>762,556</i>
(b)	BUILDINGS	2,576,781 <i>2,433,983</i>	4,059 <i>149,609</i>	(4,241) <i>(6,811)</i>	2,576,599 <i>2,576,781</i>	290,371 <i>247,498</i>	40,871 <i>43,138</i>	(837) <i>(265)</i>	330,405 <i>290,371</i>	2,246,194 <i>2,286,410</i>	2,286,410 <i>2,186,485</i>
(c)	PLANT AND MACHINERY	17,076,708 <i>28,488,267</i>	8,799,631 <i>4,508,133</i>	(725,961) <i>(15,919,692)</i>	25,150,378 <i>17,076,708</i>	4,890,151 <i>9,318,976</i>	1,857,104 <i>1,479,504</i>	(2,117) <i>(5,908,329)</i>	6,745,138 <i>4,890,151</i>	18,405,240 <i>12,186,557</i>	12,186,557 <i>19,169,291</i>
(d)	FURNITURE AND FIXTURES	325,564 <i>212,094</i>	114,950 <i>117,606</i>	(8,216) <i>(4,136)</i>	432,298 <i>325,564</i>	100,161 <i>83,997</i>	28,065 <i>17,737</i>	(5,306) <i>(1,573)</i>	122,920 <i>100,161</i>	309,378 <i>225,403</i>	225,403 <i>128,097</i>
(e)	OFFICE EQUIPMENTS	307,994 <i>232,316</i>	58,930 <i>35,216</i>	(2,117) <i>40,462</i>	364,807 <i>307,994</i>	90,307 <i>68,123</i>	17,059 <i>17,258</i>	(927) <i>4,926</i>	106,439 <i>90,307</i>	258,368 <i>217,687</i>	217,687 <i>164,193</i>
(f)	COMPUTERS	1,406,186 <i>738,114</i>	146,411 <i>677,388</i>	(18,270) <i>(9,316)</i>	1,534,327 <i>1,406,186</i>	509,516 <i>404,337</i>	287,794 <i>144,113</i>	(10,194) <i>(38,934)</i>	787,116 <i>509,516</i>	747,211 <i>896,670</i>	896,670 <i>333,777</i>
(g)	MOTOR VEHICLES	16,974 <i>15,178</i>	- <i>2,734</i>	(400) <i>(938)</i>	16,574 <i>16,974</i>	9,178 <i>9,228</i>	1,453 <i>1,089</i>	(311) <i>(1,139)</i>	10,320 <i>9,178</i>	6,254 <i>7,796</i>	7,796 <i>5,950</i>
(h)	GOODWILL	1,019,514 <i>-</i>	- <i>1,019,514</i>	(50,000) <i>-</i>	969,514 <i>1,019,514</i>	16,992 <i>-</i>	200,903 <i>16,992</i>	- <i>-</i>	217,895 <i>16,992</i>	751,619 <i>1,002,522</i>	1,002,522 <i>-</i>
	GRAND TOTAL	23,512,048 <i>32,902,279</i>	9,123,981 <i>6,510,200</i>	(809,205) <i>(15,900,431)</i>	31,826,824 <i>23,512,048</i>	5,934,699 <i>10,151,930</i>	2,441,535 <i>1,728,083</i>	(19,692) <i>(5,945,314)</i>	8,356,542 <i>5,934,699</i>	23,470,282 <i>17,577,349</i>	17,577,349 <i>22,750,349</i>
(i)	CAPITAL WORK-IN-PROGRESS (including advances for capital expenditure Rs. 30,874 thousands, 2004: Rs. 10,688 thousands)									5,131,681 <i>2,166,291</i>	
										28,601,963 <i>19,743,640</i>	

NOTES :

- Land includes Rs. 638,340 thousands under lease. This includes:
 - Rs. 2,558 thousands in respect of which conveyance is not done.
 - Leasehold Land in Srinagar in respect of which lease deed is not available.
 - Rs. 12,079 thousands in respect of which lease agreement has not been executed/ registered.
 - Rs. 1,640 thousands identified as Surplus land.
- Gross block of buildings include:
 - Rs. 67,858 thousands for leasehold office space.
 - Rs. 4,398 thousands being cost of flats in Co-operative Societies under formation.
 - Rs. 335,181 thousands for flats/office space at Mumbai in respect of which agreements have not been executed.
- Additions to Plant and Machinery/capital work in progress include Rs. 11,283 thousands (2004 : Rs. 43,236 thousands) on account of increase in liabilities consequent to fluctuations in foreign exchange rates.
- Gross block of buildings and plant and machinery include leasehold assets acquired on or after 31 March, 2001 Rs. 2,118,229 thousands (2004: Rs. 336,896 thousands).
- Plant and machinery includes Indefeasible Rights of Use (IRU) for international and domestic telecommunication circuits Rs. 2,991,617 thousands (2004: Rs. 1,191,914 thousands).
- As at 31 March, 2004, deduction/adjustments for the year includes reduction in cost of gross block and corresponding reduction in accumulated depreciation aggregating Rs. 15,577,519 thousands and Rs. 6,013,426 thousands respectively. Net reduction in carrying cost aggregating Rs. 9,564,093 thousands has been debited to Securities Premium Account in accordance with the terms of the approval of the shareholders and the High Court of Judicature at Mumbai.
- In the year ended 31 March, 2005, goodwill on purchase of the internet service provider ("ISP") business from Dishnet/DSL Limited decreased by Rs. 50,000 thousands consequent to a purchase price adjustment. The ISP business was acquired in the previous year for a consideration of Rs. 2,700,000 thousands. The purchase consideration was settled at Rs. 2,650,000 thousands in the year ended 31 March, 2005.
- Figures in italics are for the previous year.

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE - 5	Number of shares	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
INVESTMENTS			
A. Trade - Quoted			
New Skies Satellites N.V. (3,442,150 shares of Euro 0.05 each sold during the year)			
	—	—	562,304
B. Trade - Unquoted			
(a) Tata Teleservices Ltd. (235,400,000 equity shares of Rs 10 each subscribed during the year) (Refer Note B4, Schedule 20)			
	835,800,000	8,358,000	6,004,000
(b) New ICO Global Communications (Holdings) Limited (Class A common stock of US\$ 0.01 each)			
	180,373	65	65
(c) United Telecom Limited (Equity shares of NRS 100)			
	3,732,400	233,275	233,275
(d) Intelsat Limited (90,15,314 shares of US\$ 3 each sold during the year)			
	—	—	2,539,776
C. Investment in Subsidiary Companies (Unquoted)			
(a) VSNL Lanka Limited (7,000,000 equity shares of SLR 10 each subscribed during the year)			
	13,593,199	73,396	31,118
(b) VSNL Singapore Pte Limited (3,250,000 equity shares of US\$ 1 each subscribed during the year)			
	5,000,000	226,170	79,218
(c) VSNL America Inc. (3,000 equity shares of US\$ 0.01 each subscribed during the year)			
	3,000	13,125	—
(d) VSNL Bermuda Limited (1,200,000 equity shares of US\$ 0.01 each subscribed during the year)			
	1,200,000	525	—
(e) VSNL Seamless Services Limited (50,000 equity shares of Rs.10 each liquidated)			
	—	—	221
		8,904,556	9,449,977
D. OTHERS			
INVESTMENTS IN MUTUAL FUNDS (Unquoted)			
(a) Liquid Dividend Plan (including dividend reinvestment)			
-			2,560,382
-			360,660
-			150,000
-			3,273,401
-			123,238
-			634,797
-			287,182
-			513,489
-			855,811
-			200,073
-			105,144
	20,006,096	200,073	
	103,724	105,144	

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(b) Fixed Maturity Plan			
- JM Fixed Maturity Plan	—	—	750,000
- Standard Chartered Fixed Maturity	—	—	200,000
- Birla FMP QTRLY Series 3 - Plan A dividend payout	23,974,108	239,851	
- HDFC Fixed Investment Plan - growth	25,003,072	250,031	
- JM Fixed Maturity Plan QSA 5- dividend	25,219,136	252,192	
- Principal Deposit Fund (FMP-3) 91 Days- dividend reinvestment plan -	20,165,233	201,654	
- Prudential ICICI FMP- quarterly dividend series	14,997,750	150,000	
- SBI Magnum Debt Fund Series 180 Days - dividend option	15,066,232	150,666	
- SBI Magnum Debt Fund Series - 180 Days dividend option	20,165,494	201,672	
- TATA Fixed Horizon Fund Yearly - growth	50,000,000	500,000	
- TATA Fixed Horizon Fund Yearly - growth	5,000,000	50,000	
- TATA Fixed Horizon Fund Yearly - growth	10,000,000	100,000	
- UTI Fixed Maturity Plan - Qfmp Dividend plan	20,000,000	200,000	
- UTI Fixed Maturity Plan - Qfmp Dividend plan	30,000,000	300,000	
(c) Floating Rate Short- Term plan			
- Tata Floating Rate	—	—	252,509
- Templeton Floating Rate Income Fund STP	—	—	1,280,000
- Prudential ICICI FMP Quarterly - Dividend series	—	—	200,000
(d) Income Plan			
- JM equity and derivative fund	20,000,000	200,000	
		3,101,283	11,441,469
		12,005,839	20,891,446
(1) Book Value of quoted investment		—	562,304
(2) Book Value of unquoted investments		12,005,839	20,329,142
(3) Market Value of quoted investment		—	997,691
(4) All investments other than investments in Mutual Funds are long-term investments			

(5) Current Investments bought and sold during the year

Scheme Name	Face Value (In Rupees)	No of Units	Purchase Cost (Rs. '000)
Floating Rate Plans			
Birla Floating Rate Fund-Short term plan-Dividend reinvestment	10	16,494,610	171,088
DSP ML Floating Rate Fund - Daily dividend reinvestment	10	69,727,002	697,947
DSP ML Floating Rate Fund - Weekly dividend reinvestment	10	29,766,684	298,102
Grindlays Floating Rate Fund - Long term- Institutional plan- Quarterly dividend reinvestment	10	44,590,152	446,185
Grindlays Floating Rate Fund- Short term plan- Plan 'C'- Super Institutional Plan- Daily dividend reinvestment	10	54,306,121	543,062
HSBC Floating Rate Fund - Long term plan- Institutional plan- Dividend reinvestment	10	20,092,599	201,473
HSBC Floating Rate Fund - Short term plan- Institutional plan- Daily dividend reinvestment	10	45,755,614	457,698
JM Floater Fund - Long term plan- Premium Plan- Dividend reinvestment	10	23,181,480	231,816

Scheme Name	Face Value (In Rupees)	No of Units	Purchase Cost (Rupees '000)
JM Floater Fund- Short term plan - Dividend reinvestment	10	37,621,081	377,764
JM Floater Fund - Short term plan - Growth	10	4,774,531	50,006
Kotak Floater Long Term - Growth	10	17,893,356	180,000
Kotak Floater Long Term - Weekly dividend reinvestment	10	53,798,083	538,184
Principal Floating Rate Fund- Short maturity plan- Institutional plan - Dividend reinvestment	10	20,069,915	200,713
Prudential ICICI Floating Rate Fund - Short term - Plan C - Daily dividend reinvestment	10	6,073,117	60,739
Prudential ICICI Floating Rate Fund - Short term- Fortnightly dividend reinvestment	10	24,997,244	250,447
SBI Magnum Income- Floating rate plan- Short term - Dividend reinvestment	10	15,000,000	150,000
TATA Floating Rate Fund - Short term plan - Institutional plan- Daily dividend reinvestment	10	16,145,938	161,614
TATA Floating Rate Fund - Short term plan- Institutional plan - Growth	10	20,697,218	206,972
TATA Floating Rate Fund - Short term plan- Institutional plan- Weekly dividend reinvestment	10	25,617,427	256,181
Templeton Floating Rate Income Fund- Long term- Quarterly dividend reinvestment	10	24,551,686	250,000
Templeton Floating Rate Income Fund- Short term- Weekly dividend reinvestment	10	158,721,370	1,587,970
Fixed Maturity Plan			
Birla FMP Quarterly Series 1- Dividend	10	40,000,000	400,000
Birla FMP Quarterly Series 2 - Growth	10	30,000,000	300,000
Birla FMP Quarterly Series 3 - Dividend	10	29,989,504	300,000
Birla FMP Quarterly Series 3 - Dividend	10	25,000,000	250,000
Grindlays Fixed Maturity - 3rd Plan- Dividend	10	15,000,000	150,000
Grindlays Fixed Maturity - Quarterly dividend	10	20,000,000	200,000
JM Fixed Maturity Plan QSA 2 - Dividend	10	30,000,000	300,000
JM Fixed Maturity Plan QSA 3 - Dividend	10	35,000,000	350,000
JM Fixed Maturity Plan QSA 4 - Dividend	10	15,000,000	150,000
JM Fixed Maturity Plan QSB 2 - Dividend	10	25,000,000	250,000
JM Fixed Maturity Plan QSB 3 - Dividend	10	20,000,000	200,000
JM Fixed Maturity Plan QSC 2 - Dividend	10	20,000,000	200,000
JM Fixed Maturity Plan QSC 4 - Dividend	10	20,000,000	200,000
JM Fixed Maturity Plan QSG 4 - Dividend	10	30,342,711	303,429
Kotak FMP Series VIII - Dividend	10	30,104,684	301,047
Principal Deposit Fund (FMP 3) - 91 days dividend	10	15,159,555	151,596
Principal Deposit Fund (FMP 3)- 91 days dividend	10	15,145,346	151,454
Principal Deposit Fund (FMP 4)- 91 days dividend	10	20,190,400	201,904
Prudential ICICI FMP- QSR XXIV - Dividend	10	12,127,392	121,432
Prudential ICICI FMP- QSR XXIV - Dividend	10	50,511,800	505,118
Prudential ICICI FMP- QSR XXV - Dividend	10	45,455,629	454,760
Prudential ICICI FMP QSR XXVI - Dividend	10	40,602,585	406,149
TATA Fixed Horizon- Quarterly dividend	10	20,046,486	200,465
UTI Fixed Maturity Plan- QFMP (Series- IV) - Dividend	10	15,000,000	150,000
UTI Fixed Maturity Plan- QFMP (Series- V) - Growth	10	20,000,000	200,000
UTI Fixed Maturity Plan- QFMP (Series- VII) - Dividend	10	5,000,000	50,000

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Scheme Name	Face Value (In Rupees)	No of Units	Purchase Cost (Rs. '000)
Fund of Fund			
Grindlays All Seasons Bond Fund-Growth option	10	20,000,000	200,000
Liquid Dividend Plan (including dividend reinvestment)			
Birla Cash Plus Institutional premium plan - Daily dividend reinvestment	10	190,735,276	1,910,449
Birla Cash Plus Institutional premium plan - Growth option	10	42,069,330	430,000
Deutsche Insta Cash Plus Fund - Institutional plan - Daily dividend	10	55,011,249	551,185
DSP ML Liquidity Fund - Daily dividend reinvestment option	10	22,980,860	229,982
DSP ML Liquidity Fund - Daily dividend reinvestment option	10	176,735,600	1,769,102
DSP ML Liquidity Fund - Growth option	10	47,477,151	750,000
Grindlays Cash Fund - Plan 'B' - Institutional plan- Daily dividend reinvestment	10	14,651,598	155,037
Grindlays Cash Fund - Plan 'C' - Super institutional plan - Daily dividend reinvestment	10	274,839,076	2,748,392
HDFC Cash Management Fund - Savings plan - Daily dividend reinvestment	10	16,947,815	180,264
HDFC Cash Management Fund- Savings plus plan - Dividend reinvestment	10	9,000,091	90,069
HDFC Cash Management Fund - Savings plus plan - Growth	10	18,068,806	250,000
HSBC Cash Plus- Institutional plus plan- Daily dividend reinvestment	10	88,386,577	884,070
JM High Liquidity - Dividend reinvestment	10	12,505,205	150,523
JM High Liquidity - Institutional plan - Daily dividend reinvestment	10	54,830,681	548,307
JM High Liquidity - Super institutional plan - Daily dividend reinvestment	10	164,627,834	1,648,995
Kotak Liquid Institutional Premium Plan Daily dividend reinvestment	10	8,177,885	100,000
Kotak Liquid - Institutional premium plan Daily dividend reinvestment	10	322,787,863	3,947,082
Kotak Liquid - Institutional premium plan - Growth option	10	21,578,298	280,000
Principal Cash Management Fund - Liquid option - Institutional premium plan - Daily dividend reinvestment	10	188,332,338	1,883,402
Principal Cash Management Fund - Liquid option - Institutional premium plan - Growth	10	75,519,276	760,000
Principal Cash Management Fund - Liquid option - Institutional plan- Daily dividend reinvestment	10	24,353,556	243,553
Principal Cash Management Fund - Liquid option - Institutional plan- Daily dividend reinvestment	10	11,717,499	117,183
Prudential ICICI Liquid Fund - Institutional premium plan - Daily dividend reinvestment	10	514,167,672	6,093,660
Prudential ICICI Liquid Fund - Institutional premium plan - Growth	10	20,669,824	330,000
Tata Liquid Fund- Super high investment plan - Daily dividend reinvestment	1000	302,815,728	4,382,671
Templeton India TMA - Daily dividend reinvestment	1000	1,369,755	2,071,019
Templeton India TMA - Growth	1000	28,346	45,000
Templeton India TMA - IP- Daily dividend reinvestment	1000	329,003	329,003
UTI Liquid Cash Fund - IP - Daily dividend reinvestment	1000	1,244,291	1,261,053
Short Term Plans			
ING Vysya Select Debt Fund - Growth option	10	20,000,000	200,000
JM Short Term Fund - Institutional plan - Fortnightly dividend reinvestment	10	30,300,156	307,921
Kotak Flexi Debt Fund - Dividend plan	10	15,015,818	150,285
Principal Income Fund- Short term plan - Institutional plan - Weekly dividend reinvestment	10	27,844,876	304,337

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
SCHEDULE - 6		
INVENTORIES		
Equipment for resale	26,334	19,241
Less: Provision for obsolescence	(9,926)	(85)
	16,408	19,156
Consumable stores and spares	3,243	4,935
	19,651	24,091
 SCHEDULE - 7		
SUNDRY DEBTORS		
(a) Over six months (unsecured)		
Considered good	411,495	294,029
Considered doubtful	1,310,532	1,892,670
	1,722,027	2,186,699
Less: Provision for doubtful debts	(1,310,532)	(1,892,670)
	4,11,495	294,029
(b) Others (unsecured)		
Considered good	5,677,957	4,160,998
	6,089,452	4,455,027
Note:		
(i) Includes amounts due from subsidiaries of Rs. 229,075 thousands (2004: Nil)		
 SCHEDULE - 8		
CASH AND BANK BALANCES		
(a) Cash in hand	890	2,506
(b) Remittances in transit	—	16
(c) Current accounts with scheduled banks	221,691	184,685
(d) Deposit accounts with scheduled banks	13,868,662	10,279,903
	14,091,243	10,467,110
Note:		
(i) Deposit accounts include Rs. 5,972,069 thousands (2004: Rs. 5,972,069 thousands) representing unutilised monies from GDR issue		
 SCHEDULE - 9		
OTHER CURRENT ASSETS		
(a) Interest receivable	151,307	176,458
(b) Service tax recoverable	279,453	270,315
(c) Pension contributions recoverable from Government of India (net of provision of Rs.472,866 thousands; 2004 : Nil) (Refer note B6, Schedule 20)	74,424	547,290
(d) Others	2,017	132,574
	507,201	1,126,637
Note:		
(i) Interest receivable includes interest due from subsidiaries of Rs. 25,588 thousands (2004 : Nil)		

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SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
SCHEDULE - 10		
LOANS AND ADVANCES		
(a) Unsecured - Considered good		
(i) Staff advances (note 1)	135,171	150,272
(ii) Deposits with public bodies	40,953	37,492
(iii) Inter - Corporate deposit	—	100,000
(iv) Other deposits	71,904	125,061
(v) Other loans and advances (note 2)	754,228	246,657
(vi) Prepaid expenditure	270,225	538,335
(vii) Advance payment of tax (net of provision for tax)	11,512,412	9,806,180
(viii) Advance against equity investments in subsidiaries	226,237	49,605
(ix) Loans to subsidiaries	1,881,735	—
	<u>14,892,865</u>	<u>11,053,602</u>
(b) Unsecured - Considered doubtful		
Other loans and advances	73,786	38,109
Less: Provision for doubtful advances	(73,786)	(38,109)
	<u>14,892,865</u>	<u>11,053,602</u>
Notes:		
(1) Loans due by an officer of the Company Rs. 176 thousands (2004:Rs.199 thousands)		
(2) Other loans and advances include amounts due from subsidiaries of Rs. 242,174 thousands (2004: Nil)		
SCHEDULE - 11		
CURRENT LIABILITIES		
(a) Sundry Creditors		
(i) Traffic creditors	3,504,086	3,501,659
(ii) Unearned income and deferred revenues	3,921,713	3,475,532
(iii) Others	4,995,577	3,316,634
(b) Liability towards Investors Education and Protection Fund under Section 205C of the Companies Act 1956 not due		
Unpaid dividend	11,772	12,215
(c) Government of India current account	210,393	268,949
(d) Other liabilities (note 3)	2,635,688	2,712,401
Notes:		
(1) Rs. 122 thousands due to M/s. Eneritech Electronics, a small scale undertaking, for more than 30 days.		
(2) Dividends are not outstanding for a period exceeding seven years.		
(3) Includes Rs.74,556 thousands overdrawn book bank balance (2004:Rs.1,184,260 thousands)		
	<u>15,279,229</u>	<u>13,287,390</u>
SCHEDULE - 12		
PROVISIONS		
(a) Provisions for employee benefits	701,893	654,410
(b) Provision for proposed dividend	1,710,000	1,282,500
(c) Tax on dividend	239,828	164,320
	<u>2,651,721</u>	<u>2,101,230</u>

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
SCHEDULE - 13		
TRAFFIC REVENUES		
(a) Telephone (Refer Note B9, Schedule 20)	18,784,022	21,325,940
(b) Leased channel	7,180,825	5,600,291
(c) Frame Relay	1,382,652	1,276,425
(d) Internet	4,953,008	2,887,040
(e) Other traffic revenues	729,884	552,335
	33,030,391	31,642,031
SCHEDULE-14		
OTHER INCOME		
(a) Dividend income from current investments	278,419	404,845
(b) Dividend income from long-term investments	6,331	—
(c) Profit on sale of current investments	9,026	60,179
(d) Profit on sale of fixed assets	11,111	—
(e) Rent	48,786	38,472
(f) Excess provisions written back	—	69,227
(g) Other income	166,200	76,732
	519,873	649,455
SCHEDULE-15		
INTEREST		
(a) Interest income		
i. Bank Deposits	520,800	918,951
(Tax deducted at source Rs.93,487 thousands, 2004:Rs.202,971 thousands)		
ii. Other Deposits and Advances (note 1)	34,138	14,390
(Tax deducted at source Rs.1,648 thousands (2004 : Rs.1,010 thousands)		
	554,938	933,341
(b) Less: Interest expense		
i. Short-term bank loan	(366)	(4,146)
ii. Others	(413)	(302)
	(779)	(4,448)
	554,159	928,893
Note: (1) Interest income includes Rs 25,588 thousands (2004: Nil) from subsidiaries.		
SCHEDULE - 16		
SALARIES AND RELATED COSTS		
(a) Salaries and bonus	1,035,752	981,559
(b) Contributions to provident, gratuity and other funds	56,217	89,661
(c) Staff welfare expenses	320,839	300,565
	1,412,808	1,371,785

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SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
SCHEDULE-17		
NETWORK COSTS		
(a) Rent of satellite channels	1,219,098	1,721,726
(b) Rent of landlines	1,193,634	3,553,497
(c) Administrative lease charges	95,389	136,171
(d) Royalty and licence fee to Department of Telecommunications	2,112,526	2,698,515
(e) Charges for use of transmission facilities		
(i) Telephone [net of excess provision written back Rs 118,489 thousands (2004: Rs.732,911 thousands)]	14,064,532	13,128,626
(ii) Leased channel	137,286	64,509
(iii) Internet	856,555	383,327
(iv) Others	351,873	362,513
	<u>20,030,893</u>	<u>22,048,884</u>
SCHEDULE - 18		
OPERATING AND OTHER EXPENSES		
(a) Consumption of stores	16,507	7,206
(b) Light and power	335,325	299,077
(c) Repairs and maintenance:		
(i) Buildings	54,300	38,357
(ii) Plant and machinery	1,074,857	817,897
(iii) Others	90,212	70,151
(d) Bad debts written off	526,909	112,301
(e) Provision for doubtful debts	(582,138)	152,437
(f) Provision for doubtful advances	35,677	38,109
(g) Rent	123,204	25,443
(h) Rates and taxes	83,673	120,793
(i) Travel expenses	149,601	112,357
(j) Communication expenses	67,268	31,575
(k) Printing, postage and stationery	27,511	28,346
(l) Security expenses	56,939	35,942
(m) Computer software and maintenance	56,591	18,041
(n) Legal and professional fees	323,046	196,326
(o) Advertising and publicity	719,781	254,778
(p) Water charges	10,774	13,741
(q) Insurance	38,735	26,957
(r) Donations	1,029	50
(s) Loss on sale of fixed assets	—	3,766
(t) Investment written off	—	279
(u) Exchange loss (net)	151,617	12,941
(v) Other expenses	534,242	502,471
	<u>3,895,660</u>	<u>2,919,341</u>
SCHEDULE - 19		
PRIOR PERIOD ADJUSTMENTS		
INCOME :		
Traffic revenues	—	(14,565)
Miscellaneous income	—	(44)
EXPENSES :		
Charges for use of transmission facilities	—	(2,350)
Operation and other expenses	—	16
Repairs and maintenance	—	980
	<u>—</u>	<u>(15,963)</u>

Note : Figures in brackets are credits

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SCHEDULE 20

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

The financial statements are prepared under the historical cost convention, in accordance with the accounting standards issued by the Institute of Chartered Accountants of India and in accordance with the applicable requirements of the Companies Act, 1956.

2. Use of estimates

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to the contingent liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts and advances, employee retirement benefit obligations, provision for taxes and useful lives of fixed assets.

3. Fixed assets

- a) Fixed assets are stated at cost less accumulated depreciation. Cost includes freight, duties, taxes and all incidental expenses incurred to bring the assets to their present location and condition.
- b) Fixed assets received as gifts from other Foreign Telecom Administrations are capitalised and credited to capital reserve on the basis of notional cost (cost assessed by customs authorities). Cost includes freight, insurance and customs duty.
- c) Intangible assets in the nature of Indefeasible Rights of Use (IRU's) for international and domestic telecommunication circuits are recorded as fixed assets. IRU agreements transfer substantially all the risks and rewards of ownership.
- d) Jointly owned assets are capitalised in proportion to the Company's ownership interest in such assets.
- e) Consideration for purchase of business in excess of book value of net assets acquired is recognised as goodwill.

4. Depreciation

Depreciation is provided on straight-line basis (SLM), at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 except as follows :

i) Plant and machinery	
a. Land cables	6.33 %
b. Earth station and switches	7.92 %
c. Other networking equipment	11.88 %
d. Overhead fibre cables	19.00 %
ii) Goodwill	60 months
iii) Indefeasible Rights of Use (IRU's)	Life of IRU or period of agreement, whichever is lower
iv) Leasehold land	Lease period

5. Impairment

The Company reviews the carrying amounts of its fixed assets annually to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows expected from the continuing use of the asset and from its ultimate disposal are discounted to their present values using a pre-determined discount rate that reflects the current market assessments of the time value of money and risks specific to the asset.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

6. Investments

Long-term investments are valued at cost less provision for diminution in value. Provision for diminution in the value is made to recognise a decline, which is other than temporary. Current investments comprising investments in mutual funds are stated at the lower of cost and fair value determined on an individual investment basis.

7. Inventories

Inventories are valued at lower of cost and net realisable value. Cost is determined on a weighted average basis.

8. Retirement benefit obligations

- a) Provision is made for unutilised leave due to employees at the balance sheet date and is determined based on independent actuarial valuation.
- b) Provision for gratuity is determined based on independent actuarial valuation.
- c) Pension contributions are charged to the profit and loss account based on actuarial valuation.
- d) Contributions to Employees' Provident and Superannuation Funds, defined contribution plans, are recognised in the profit and loss account in the period when such contributions are made.

9. Revenue recognition

Revenues from long distance telephone services are recognised at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased channels and frame relays are recognised over the lease period based on contracted fee schedules. Revenues from internet services are recognised based on usage. Substantial portion of revenues are on account of recoveries from Foreign Telecommunication Administrations for incoming traffic and recovery from domestic carriers for delivery of calls on foreign networks.

10. Foreign currency transactions

- a) Foreign currency transactions are converted to Indian Rupees at rates of exchange approximating those prevailing at the transaction date. Foreign currency monetary assets and liabilities are translated to Indian Rupees at the closing rate prevailing on the balance sheet date. Exchange differences, other than on foreign currency liabilities for purchase of fixed assets from countries outside India are recognised in the profit and loss account. Exchange differences on translation of foreign currency liabilities incurred to purchase fixed assets from countries outside India are included in the cost of such assets.
- b) Premium or discount on forward contracts is amortised over the life of such contracts and is recognised in the profit and loss account, except in respect of liabilities for purchase of fixed assets where such amortisation is adjusted in the carrying cost of fixed assets. Profit or loss arising on cancellation or renewal of forward exchange contract is recognised in the profit and loss account in the period of such cancellation or renewal, except in case of a forward contract relating to liabilities for purchase of fixed assets from countries outside India, in which case such profit or loss is adjusted to the carrying cost of such fixed assets. Forward exchange contracts outstanding at the balance sheet date are stated at fair values and any gains or losses are recognised in the profit and loss account.

11. Taxation

Current tax is determined in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are measured using the tax rates, which have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are recognised for future tax consequences attributable to timing differences between the taxable and accounting income.

Deferred tax assets in respect of unabsorbed depreciation and carry forward tax losses are recognised if there is virtual certainty that there will be sufficient future taxable income available to realise such losses. Deferred tax assets in respect of other timing differences are recognised if there is a reasonable certainty that sufficient future taxable income will be available to realise such assets.

12. Operating lease

Lease arrangements where risks and rewards incident to ownership of an asset substantially vests with the lessor are classified as operating lease.

Rental income and expense on assets given or obtained under operating lease arrangements are recognised on a straight-line basis over the term of relevant lease.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

B. NOTES TO ACCOUNTS

1. The Company was incorporated on 19 March, 1986. The Government of India vide its Order No. G 25015/6/86-OC dated 27.3.1986, transferred all the assets and liabilities of the OCS (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31 March, 1986 to the Company with effect from 1 April, 1986. As per the letter no. G-25015/6/86-OC dated 23 October, 2001 of Government of India, Department of Telecommunications; there was no requirement to register a formal transfer deed or deed of sale in the matter of such transfer of assets.
2. Capital reserve includes Rs. 2,052,161 thousands (2004 Rs. 2,052,161 thousands) in respect of foreign exchange gains on unutilised proceeds from Global Depository Receipts issued in previous years.
3. The Board of Directors recommended a dividend of Rs. 6 (2004: Rs. 4.5) per share including a special dividend of Rs. 1.5 (2004: NIL) per share for the year ended 31 March, 2005.
4. The preference shareholders of Tata Teleservices Limited ("TTSL") assigned the voting rights on preference shares to Tata Sons Limited with effect from 1 April, 2004. As a result, the Company's voting interest in TTSL decreased from 19.86% to 16.57% and consequently TTSL ceased to be an associate from 1 April, 2004.

TTSL has accumulated losses, which have significantly eroded its net worth. In the opinion of the management, having regard to the long gestation period inevitable in the nature of its business, there is no permanent diminution in value of the investment.

5. In the year ended 31 March, 2005, the Company sold its long-term investments in New Skies Satellites N.V. and Intelsat Limited for an aggregate cash consideration of Rs.8,616,566 thousands and realised a gain of Rs. 4,687,303 thousands net of licence fees of Rs.827,183 thousands. In the year ended 31 March, 2004, the Company sold its investment in Inmarsat Plc for cash consideration of Rs. 1,393,491 thousands and realised a gain of Rs. 800,189 thousands net of licence fee of Rs.141,210 thousands.
6. As at 1 April, 2004 proportionate share of pension obligation and payments to erstwhile OCS employees of Rs.547,290 thousands were recoverable from the Government of India ("The Government"). The Government has disputed the amount and has offered Rs. 74,424 thousands as settlement. Pending resolution of the matter, provision of Rs. 472,866 thousands has been made in the year ended 31 March, 2005.

7. Cash and cash equivalents are as follows:-

	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
Cash on hand and balances held with banks	222,581	187,207
Deposit accounts held with banks	13,868,662	10,279,903
	14,091,243	10,467,110
Deposits with original maturity period over three months	(11,862,391)	(10,160,000)
Deposits held for unpaid dividends	(6,271)	(5,172)
Cash and cash equivalents	2,222,581	301,938

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SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

8. Deferred tax liability

	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
Deferred tax liability		
Difference between accounting and tax depreciation	1,857,787	1,076,384
Deferred tax assets		
Provision for doubtful debts	441,125	678,912
Voluntary retirement schemes	210,369	300,630
Unearned income and deferred revenues	177,169	-
Others	32,328	25,676
	<u>860,991</u>	<u>1,005,218</u>
Net deferred tax liability	<u>996,796</u>	<u>71,166</u>

9. Traffic revenues include Rs. 468,536 thousands in respect of settlement received from an operator for services rendered in previous years. Revenues from these services were not recognised in the period when services were rendered, as realisation was uncertain.

10. Included in operating and other expenses:

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Auditors' remuneration and expenses		
(i) Audit fees	5,500	4,500
(ii) Tax audit fees	1,000	1,000
(iii) Other professional services	1,648	1,500
(iv) Service tax	727	560
Auditors' remuneration excludes fees of Rs. 2,000 thousands (2004: Rs.2,000 thousands) payable/paid for professional services to a firm of auditors in which partners of the firm of statutory auditors are partners.		

11. Managerial Remuneration

a. Managerial Remuneration for Managing Director (upto 30 September, 2004), Whole-time Director and Non-Executive Directors (excluding provision for encashable leave and gratuity as separate actuarial valuation for the whole - time director is not available) :

b. The above is inclusive of :

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
i. Salaries	3,305	3,700
ii. Contribution to provident and other funds	551	681
iii. Estimated monetary value of perquisites	1,392	2,242
iv. Commission	2,500	2,700
v. Directors' sitting fees	615	510
	<u>8,363</u>	<u>9,833</u>

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

c) Commission to Directors	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
i. Profit before taxes as per profit and loss account	10,539,823	5,432,618
ii. Add:		
Managerial Remuneration	8,363	9,833
Provision for doubtful debts	-	152,437
Provision for doubtful advances	35,677	38,109
Depreciation/amortisation as per books	2,439,676	1,728,083
	13,023,539	7,361,080
iii. Less:		
Capital profit on sale of investments	5,514,486	941,399
Provision for doubtful debts written back (net)	582,138	-
Depreciation/amortisation as per Section 350 of the Companies Act, 1956	2,439,676	1,728,083
Net profit as per Sections 349/350	4,487,239	4,691,598
d) Commission		
Managing Director and Whole-time Director	2,500	2,700

12. Earnings per Share		
	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Profit before taxes and exceptional items	6,325,386	5,662,090
Income tax expense on profit excluding exceptional items	2,238,229	1,828,055
Profit after tax excluding exceptional items	4,087,157	3,834,035
Exceptional income (net)	4,214,437	(229,472)
Income tax expense on exceptional items	(737,920)	171,997
Net profit after tax and exceptional items	7,563,674	3,776,560
Number of Shares	285,000,000	285,000,000
Earnings per share excluding exceptional items	Rs.14.34	Rs.13.45
Earnings per share including exceptional items	Rs.26.54	Rs.13.25

13. Business Segments

In the year ended 31 March, 2005, the management revised its segments to consider "Telephony and related services" as a reportable segment for the purpose of evaluation of performance and to facilitate decision making on future allocations of resources. Telephony and related services include international and national voice and data services and internet. Transponder lease, television uplinking, gateway packet switching services and video conferencing facilities are reported under "Other services".

In the previous year, "International telephony and related services" which included international voice and data services was considered as a reportable segment and other services including national voice and data service and internet were reported under "Other services".

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SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

The segment information for the previous year has been reclassified to confirm to the segments reported in the year ended 31 March, 2005.

	Year ended 31 March, 2005			Year ended 31 March, 2004		
	Rupees '000			Rupees '000		
	Telephony and related services	Other services	Total	Telephony and related services	Other services	Total
Revenues	32,399,804	630,587	33,030,391	30,775,422	866,609	31,642,031
Segment profits	13,099,139	38,836	13,137,975	9,828,849	73,322	9,902,171
Unallocated expenses (net)			6,812,589			4,240,081
Profit before taxes and exceptional items			6,325,386			5,662,090
Exceptional items			4,214,437			(229,472)
Profit before taxes			10,539,823			5,432,618
Income taxes			(2,976,149)			(1,656,058)
Profit after taxes			7,563,674			3,776,560

- (i) Revenue and expenses, which are directly identifiable to segments, are attributed to the relevant segment. The Company does not have any inter-segment revenues. Expenses on rent of satellite channels and landlines, and royalty and license fee on revenues from operations are allocated based on usage. In the previous year these expenses were allocated based on turnover. Segment results for the year ended 31 March, 2004, have been restated to confirm to the basis of allocation adopted in the current year. Certain expenses such as staff costs, operating and other expenses, and depreciation are not allocable to segments and consequently have been classified as "unallocable expenditure".
- (ii) Segment total assets and liabilities have not been allocated, in the absence of a meaningful basis to allocate assets and liabilities between segments. Fixed assets are used interchangeably between segments.

Geographical Segment:

	Year ended 31 March, 2005	Year ended 31 March, 2004
	Rupees '000	Rupees '000
India	19,075,781	17,830,280
United States of America	3,804,508	4,748,288
Saudi Arabia	1,026,045	1,445,273
United Arab Emirates	2,633,825	2,822,396
Other Countries	6,490,232	4,795,794
	33,030,391	31,642,031

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

14. Related Party Disclosures

(a) List of related parties and relationship:

I. Investing party

- Panatone Finvest Limited

II. Subsidiaries (Directly held)

- VSNL Lanka Limited
- VSNL Singapore Pte. Ltd.
- VSNL America Inc.
- VSNL Bermuda Limited

III. Other Subsidiaries (Held indirectly)

- VSNL Telecommunications (US) Inc.
- VSNL UK Limited
- VSNL Netherlands B.V.
- VSNL Telecommunications (UK) Limited
- VSNL France SAS
- VSNL Portugal Unipessoal Limitada
- Videsh Sanchar Nigam Spain, SRL
- VSNL Japan K.K.
- VSNL Hong Kong Limited

IV. Joint Venture

- United Telecom Limited

V. Associate (as at 31 March, 2004)

- Tata Teleservices Limited

VI. Key Managerial Personnel

- S.K. Gupta (Till 30 September, 2004)
- N. Srinath

Managing Director

Director Operations

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SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

(b) Related party transactions

Transactions	Subsidiaries	Key Managerial Personnel	Associate	(Rupees '000) Joint Venture
Traffic revenue	345,254	—	—	11,949
	<i>538</i>	—	<i>289,081</i>	—
Network cost	60,837	—	—	180
	<i>987</i>	—	<i>200,811</i>	—
Purchase of fixed assets	3,509	—	—	—
	—	—	<i>234,426</i>	—
Sale of fixed assets	727,132	—	—	—
(includes VSNL Singapore Pte. Ltd. Rs. 705,842)	<i>49,731</i>	—	<i>78,818</i>	—
Services rendered	6,869	—	—	—
	—	—	—	—
Management contracts for deputation	—	—	—	—
	—	—	<i>21,708</i>	—
Equity contributions	386,839	—	—	—
(includes VSNL Singapore Pte. Ltd. Rs. 364,202)	<i>159,941</i>	—	<i>3,200,000</i>	<i>33,325</i>
Interest income	25,588	—	—	—
	—	—	—	—
Managerial remuneration	—	8,363	—	—
	—	<i>9,323</i>	—	—
Rent income	—	—	—	—
	—	—	<i>26,087</i>	—
Balances:				
Receivables	237,956	—	—	9,297
	<i>205</i>	—	<i>161,037</i>	—
Payables	525	2,500	—	—
	<i>464</i>	<i>2,700</i>	<i>183,933</i>	—
Loans	1,907,323	—	—	—
	—	—	—	—
Advances	459,529	—	—	—
	<i>49,605</i>	—	—	—
Guarantee on behalf of VSNL Telecommunications (US) Inc.	98,656	—	—	—
	—	—	—	—

Note:: *Figures in italics are in respect of the previous year*

(c) Disclosure in respect of material transactions of related parties

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Traffic revenue		
VSNL Lanka Limited	127,390	—
VSNL Singapore Pte. Ltd.	109,826	—
VSNL UK Limited	86,061	—
Network cost		
VSNL Lanka Limited	41,344	—
VSNL Singapore Pte. Ltd.	18,235	—

15. Operating lease arrangements:

(a) As lessee :

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Minimum lease payments under operating leases recognised as expense in the year	1,232,160	1,721,726
At the balance sheet date, minimum lease payments under non- cancellable operating leases fall due as follows:		
Due not later than one year	713,384	849,622
Due later than one year but not later than five years	903,041	1,476,650
Later than five years	92,885	188,018
	<u>1,709,310</u>	<u>2,514,290</u>

Operating lease payments represent rent payable for certain plant and machinery.

(b) As lessor:

- (i) The Company has leased under operating lease arrangements certain IRU's with gross carrying amount and accumulated depreciation of Rs. 504,518 thousands and Rs. 14,397 thousands respectively as at 31 March, 2005. Depreciation expense of Rs 14,397 thousands recognised in respect of these assets has been recognised in the profit and loss account for the year ended 31 March, 2005.

In respect of the above, rent income of Rs. 18,150 thousands has been recognised in the profit and loss account for the year ended 31 March, 2005.

Lease rent of Rs. 527,400 thousands will be recognised in the profit and loss account as follows:

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Not later than one year	36,370	—
Later than one year but not later than five years	145,480	—
Later than five years	345,550	—
	<u>527,400</u>	<u>—</u>

- (ii) The Company has leased certain premises under operating lease arrangements. Lease rent income in respect of these leases will be recognised in the profit and loss account as follows:

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Not later than one year	50,058	8,897
Later than one year but not later than five years	34,804	12,026
	<u>84,862</u>	<u>20,923</u>

Lease rent income of Rs. 32,419 thousands (2004: Rs. 26,087 thousands) in respect of the above leases have been recognised in the profit and loss account for the year ended 31 March, 2005.

VIDESH SANCHAR NIGAM LIMITED

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16. Contingent Liabilities and capital commitments

	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
Letters of Credit	292,532	71,007
Guarantees	3,683,246	4,986,082
i. Claims for taxes on income (Refer notes 1 and 2)		
(a) Income tax disputes where the department is in appeal against the Company	1,694,521	1,419,904
(b) Income tax disputes where the Company has a favourable decision in other assessment year for the same issue	1,860,194	2,161,851
(c) Income tax disputes other than the above	9,593,879	7,659,847
ii. Claims for other taxes	229,135	221,880
iii. Other claims	381,738	256,301

Notes:

- (1) Significant claims by the revenue authorities in respect of income tax matters are in respect of:
 - (a) expenditure on licence fees for the Assessment Year 1995-96 disallowed by the revenue authorities. The Company's appeal was allowed at the Tribunal stage, and the matter is now pending before the High Court. The Company has obtained favourable decisions in other assessment years, which have not been contested by the revenue authorities, and the Company is of the view that the claims will eventually be decided in its favour.
 - (b) deductions claimed under Section 80 IA of the Income Tax Act from Assessment years 1996-97 onwards have been disallowed by the revenue authorities. The Company has contested the disallowance and has preferred appeals.
 - (c) reimbursement by the Department of Telecommunications (DoT) of income tax paid by the Company on the DoT levy during 1994-95, that was taxed by the revenue authorities. The Commissioner of Income Tax (Appeals) has upheld the disallowance. The Company is in appeal with the Income Tax Appellate Tribunal.
- (2) Based on the CIT (Appeals) favourable orders received in the current year for assessment years 1994-95, 1998-99, 2000-01 and 2001-02, the above mentioned contingent liabilities would reduce by Rs. 2,907,922 thousands. The Company has not considered the reduction in contingent liability since the Assessing Officer's order giving effect to CIT (Appeals) order is not received.

Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 5,365,977 thousands (2004 Rs. 7,520,765 thousands).

In the year ended 31 March, 2005, VSNL Bermuda Limited entered into an agreement with Tyco Global Network to acquire its cable network for US\$ 130 million. The completion of the acquisition is subject to Government approvals in India, United States and other countries. An advance payment of Rs. 694,525 thousands (US\$ 15 million) has been paid by VSNL Bermuda Limited through an interest bearing loan extended by the Company.

17. Value of Imports on C.I.F. basis

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Stores and Spares	52,869	20,107
Capital Goods	5,966,872	531,838

18. Expenditure in foreign currencies

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Charges for use of transmission facilities	5,465,237	4,528,089
Rent of satellite channels	1,219,098	1,721,726
Administrative lease charges	88,809	136,171
Repairs and maintenance	646,429	342,670
Advertisement	1,740	613
Legal and professional fees	66,516	33,154
Travel expenditure	24,744	15,526
Others	35,040	196,836
	7,547,613	6,974,785

19. Earnings in foreign currencies

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Traffic revenue	13,954,610	13,811,751
Profit on sale of long-term investments	5,514,486	941,399
Interest income	26,495	—
Other income	23,286	23,946
	19,518,877	14,777,096

20. Value of imported and indigenous stores/spares consumed

	Year ended 31 March, 2005 Rupees '000		Year ended 31 March, 2004 Rupees '000	
	Value	%	Value	%
Imported	571	3.00	6,456	59.75
Indigenous	18,159	97.00	4,349	40.25
	18,730	100.00	10,805	100.00

21. United Telecom Limited ("UTL") is a joint venture between the Company, Mahanagar Telephone Nigam Limited, Telecommunications Consultant India Limited and Nepal Ventures Private Limited. The Company has 26.66 percent equity ownership in UTL. UTL operates basic telephony services in Nepal based on wireless-in-local loop technology. The Company's share in income, expenses, assets and liabilities based on management accounts for the year ended 31 March, 2005 are as follows

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
Income	43,112	30,845
Expenses	107,157	47,296
	As at 31 March, 2005 Rupees '000	As at 31 March, 2004 Rupees '000
Assets	380,497	404,328
Liabilities	239,977	190,443

Contingent liability in respect of claims of taxes and duties Rs. 28,283 thousands

VIDESH SANCHAR NIGAM LIMITED

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22. Disclosure required by Clause 32 of the Listing Agreement

Amount of loans and advances in the nature of loans outstanding from subsidiaries during the year ended 31 March 2005.

Name of the Company	Outstanding as at 31 March, 2005 Rupees '000	Maximum amount outstanding during the year Rupees '000	Investment in shares of the Company No of shares	Investment in shares of subsidiaries of the Company No of Shares
a) Subsidiaries				
(i) VSNL America Inc.	113,942	113,942	—	— *
(ii) VSNL Lanka Limited	—	—	—	—
(iii) VSNL Singapore Pte. Ltd.	1,099,096	1,099,096	—	— **
(iv) VSNL Bermuda Limited	668,697	668,697	—	— ***

Name of the Subsidiary	(No. of Shares)
* VSNL UK Limited	1
** VSNL Netherlands B.V.	18000
** Videsh Sanchar Nigam Spain, SRL	3006
** VSNL Japan K.K.	200
** VSNL Hong Kong Limited	1
*** VSNL Telecommunications (US) Inc.	3000
Subsidiaries of VSNL Netherlands B.V. are	
a) VSNL Telecommunications (UK) Limited	2
b) VSNL France SAS	18500
c) VSNL Portugal Unipessoal Limitada	5000

23. Net Dividend remitted to non-resident shareholders in foreign currency

The Company has not remitted any amount in foreign currencies on account of dividends during the year and does not have information as to the extent to which remittances, if any, in foreign currencies on account of dividends have been made by/on behalf of non – resident shareholders. The particulars of final dividends for the year ended 31 March, 2004 paid to non–resident shareholders, for which dividends were declared during the year, are as under:

	Year ended 31 March, 2005 Rupees '000	Year ended 31 March, 2004 Rupees '000
i. Number of non-resident shareholders	293	336
ii. Number of shares held by them	38,042,841	28,074,770
iii. Year to which dividend relates	2003-2004	2002-2003
iv. Amount remitted net of tax	171,192	238,636

24. Previous year's figures have been reclassified wherever necessary.

VIDESH SANCHAR NIGAM LIMITED

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V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	
Product Description	I N T E R N A T I O N A L T E L E C O M M U N I C A T I O N S S E R V I C E S
Item Code No. (ITC Code)	
Product	
Description	
Item Code No. (ITC Code)	
Product	
Description	

* Note : For ITC code of products please refer to the publication Indian Trade Classification based on harmonized commodity description and coding system by Ministry of Commerce, Directorate General of Commercial Intelligence & Statistics, Calcutta - 700 001

ANNEXURE I Code List 1 : State Codes

State Code	State Name	State Code	State Name
01	Andhra Pradesh	02	Assam
03	Bihar	04	Gujarat
05	Haryana	06	Himachal Pradesh
07	Jammu & Kashmir	08	Karnataka
09	Kerala	10	Madhya Pradesh
11	Maharashtra	12	Manipur
13	Meghalaya	14	Nagaland
15	Orissa	16	Punjab
17	Rajasthan	18	Tamil Nadu
20	Uttar Pradesh	21	West Bengal
22	Sikkim	23	Arunachal Pradesh
24	Goa	52	Andaman Islands
53	Chandigarh	54	Dadra Islands
55	Delhi	56	Daman & Diu
57	Lakshwadeep	58	Mizoram
59	Pondicherry		

For and on behalf of the Board of directors
Videsh Sanchar Nigam Limited
SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9th JUNE, 2005

SUMMARY OF FINANCIAL INFORMATION OF SUBSIDIARY COMPANIES

(Rupees '000)

Sr. No.	Name of Subsidiary Company	Reporting Currency	Exchange Rate	Share Capital	Retained Earnings/ (Accumulated losses)	Total Liabilities (other than amounts due to holding company)	Total Assets	Turnover	Profit before taxes
1	VSNL Singapore Pte. Ltd.	USD	43.75	218,750	(184,323)	275,145	1,587,617	71,060	(228,073)
2	VSNL America Inc.	USD	43.75	13,125	(60,494)	30,110	88,920	28,687	(100,744)
3	VSNL Lanka Limited	LKR	0.44	59,946	18,797	144,674	144,900	207,534	22,099
4	VSNL UK Limited	GBP	82.28	-***	(46,438)	82,748	134,021	90,913	(66,349)
5	VSNL Bermuda Limited**	-	-	-	-	-	-	-	-
6	VSNL Netherlands B.V. *	-	-	-	-	-	-	-	-
7	VSNL Telecommunications (US) Inc. **	-	-	-	-	-	-	-	-
8	VSNL Hong Kong Limited*	-	-	-	-	-	-	-	-
9	Videsh Sanchar Nigam Spain, SRL *	-	-	-	-	-	-	-	-
10	VSNL Telecommunications (UK) Limited *	-	-	-	-	-	-	-	-
11	VSNL France SAS *	-	-	-	-	-	-	-	-
12	VSNL Japan K.K. *	-	-	-	-	-	-	-	-
13	VSNL Portugal Unipessoal Limitada *	-	-	-	-	-	-	-	-

* The first accounting year is ending on March 31, 2006

** The first accounting year is ending on December 31, 2005

*** Share Capital of VSNL UK Limited is Rs. 82.28 (GBP 1/-)

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANIES

	Name of Subsidiary Company	VSNL Singapore Pte. Ltd.	VSNL America Inc.***	VSNL Lanka Limited	VSNL UK Limited***	VSNL Bermuda Limited**	VSNL Netherlands B.V.**	VSNL Telecommunications (US) Inc.**	VSNL Hong Kong Limited*	Videsh Sanchar Nigam Spain, SRL*	VSNL Telecommunications (UK) Limited*	VSNL France SAS*	VSNL Japan K.K.*	VSNL Portugal Unipessoal Limitada*
1	Financial Year of the Subsidiary ended on	31-Mar-05	31-Mar-05	31-Mar-05	31-Mar-05	31-Dec-05	31-Mar-06	31-Dec-05	31-Mar-06	31-Mar-06	31-Mar-06	31-Mar-06	31-Mar-06	31-Mar-06
2	Share of the Subsidiary held by the Company on the above date													
	(a) Number	5,000,000	3,000	13,593,199	1	-	-	-	-	-	-	-	-	-
	(b) Face value	US\$. 1 each	US\$ 0.01 each	SLR 10	GBP 1 each	-	-	-	-	-	-	-	-	-
	(c) Extent of Holding	100%	100%	100%	100%	-	-	-	-	-	-	-	-	-
3	Net Aggregate of profit/(losses) of the subsidiary for the above financial year of the subsidiary so far as they concern members of the company (fig in '000)													
	(a) Dealt with in the accounts of the company for the year ended 31st March 2005 (fig in '000)	(US\$ 4,213)	(US\$ 2,303)	SLR 50,111	(GBP 806)	-	-	-	-	-	-	-	-	-
	(b) Not dealt in the accounts of the company for the year ended 31st March 2005 (fig in '000) -	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Net Aggregate of the profit/(losses) for the previous years of the subsidiary, since it became a subsidiary so far as they concern the members of the Company													-
	(a) Dealt with in the accounts of the company for the year ended 31st March 2005 (Rs. Lakhs)	NIL	NIL	NIL	NIL	-	-	-	-	-	-	-	-	-
	(b) Not dealt in the accounts of the company for the year ended 31st March 2005 (Rs. Lakhs)	NIL	NIL	(SLR 7,488)	NIL	-	-	-	-	-	-	-	-	-

* The first accounting year is ending on March 31, 2006

** The first accounting year is ending on December 31, 2005

*** Companies have changed the financial year end to March 31. Consequently figures reported are for a period of fifteen months

For and on behalf of the Board

SUBODH BHARGAVA

Chairman

N. SRINATH

Director (Operations)

SATISH RANADE

Company Secretary & Vice President (Legal)

MUMBAI

DATED: 9 June, 2005

**AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
TO THE MEMBERS OF VIDESH SANCHAR NIGAM LIMITED**

1. We have audited the attached consolidated balance sheet of Videsh Sanchar Nigam Limited ('the Company'), and its subsidiaries (collectively referred as 'the VSNL Group') as at 31 March, 2005 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. (a) We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs.1,905,296 thousands as at 31 March, 2005, total revenues of Rs. 382,633 thousands and net cash inflows amounting to Rs. 143,328 thousands for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.

(b) The financial statements of certain subsidiaries and joint venture which represents total assets of Rs. 1,068,204 thousands as at 31 March, 2005, total revenues of Rs. 43,112 thousands and net cash inflows amounting to Rs.28,560 thousands for the year then ended have been incorporated in the consolidated financial statements on the basis of unaudited financial statements as provided by the management of those subsidiaries and joint venture.
4. Subject to our remark in paragraph 3 (b) above:
 - (a) We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of the Accounting Standard (AS) 21, Consolidated Financial Statements, Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India.
 - (b) Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the consolidated balance sheet, of the state of affairs of the VSNL Group as at 31 March, 2005;
 - (ii) in the case of consolidated profit and loss account, of the profit for the year ended on that date; and
 - (iii) in the case of the consolidated cash flow statement, of the consolidated cash flows for the year ended on that date.

For S. B. BILLIMORIA & Co.
Chartered Accountants

N VENKATRAM
Partner
Membership No: 71387
Mumbai, 9 June, 2005

VIDESH SANCHAR NIGAM LIMITED

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CONSOLIDATED BALANCE SHEET AS AT 31 MARCH, 2005

	Schedule	Rupees '000
FUNDS EMPLOYED:		
1	SHARE CAPITAL	2,850,000
2	RESERVES AND SURPLUS	51,894,856
3	TOTAL SHAREHOLDERS' FUNDS	54,744,856
4	SECURED LOANS	169,371
5	DEFERRED TAX LIABILITY (NET) (Refer Note B8, Schedule 19)	996,796
		55,911,023
APPLICATION OF FUNDS:		
6	FIXED ASSETS:	
	(a) Gross Block	33,338,956
	(b) Less: Accumulated depreciation	8,484,629
	(c) Net Block	24,854,327
	(d) Capital work-in-progress	6,118,741
		30,973,068
7	INVESTMENTS	9,447,917
8	A. CURRENT ASSETS	
	(a) Inventories	74,043
	(b) Sundry Debtors	6,052,602
	(c) Cash and Bank Balances	14,291,087
	(d) Other Current Assets	522,309
		20,940,041
	B. LOANS AND ADVANCES	12,727,566
		33,667,607
9	Less: CURRENT LIABILITIES AND PROVISIONS	
	(A) CURRENT LIABILITIES	15,524,861
	(B) PROVISIONS	2,652,708
		18,177,569
10	NET CURRENT ASSETS	15,490,038
11	TOTAL ASSETS (NET)	55,911,023
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS		
	19	

As per our report attached

For S.B.BILLIMORIA & Co.
Chartered Accountants

N.VENKATRAM
Partner

MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9 June, 2005



CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, 2005

	Schedule	Rupees '000
INCOME:		
1 TRAFFIC REVENUES	13	33,083,061
2 OTHER INCOME	14	522,241
3 INTEREST INCOME (net)	15	517,237
4 TOTAL INCOME		34,122,539
EXPENDITURE:		
5 SALARIES AND RELATED COSTS	16	1,600,647
6 NETWORK COSTS	17	20,082,817
7 OPERATING AND OTHER EXPENSES	18	4,060,140
8 DEPRECIATION	4	2,533,347
Less: TRANSFER FROM CAPITAL RESERVE		(1,859)
9 TOTAL EXPENDITURE		28,275,092
PROFIT BEFORE TAXES AND EXCEPTIONAL ITEMS		5,847,447
10 EXCEPTIONAL ITEMS:		
(a) Profit from sale of long term investment, net of licence fee (Refer Note B5, Schedule 19)		4,687,303
(b) Provision for recoverable pension obligation (Refer Note B6, Schedule 19)		(472,866)
PROFIT BEFORE TAXES		10,061,884
11 TAXES		
(a) CURRENT TAX		(2,050,519)
(b) DEFERRED TAX		(925,630)
PROFIT AFTER TAXES		7,085,735
12 BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR		4,953,872
AMOUNT AVAILABLE FOR APPROPRIATIONS		12,039,607
13 APPROPRIATIONS :		
(a) PROPOSED DIVIDEND (Refer Note B3, Schedule 19)		1,710,000
(b) TAX ON DIVIDEND		243,114
(c) GENERAL RESERVE		756,367
BALANCE CARRIED TO BALANCE SHEET		9,330,126
EARNINGS PER SHARE (EPS)		
14 Basic/Diluted earnings per share excluding exceptional items (Rs.) (Refer Note B10, Schedule 19)		12.66
15 Basic/Diluted earnings per share including exceptional items (Rs.) (Refer Note B10, Schedule 19)		24.86

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

19

As per our report attached

For S.B.BILLIMORIA & Co.
Chartered Accountants

N.VENKATRAM
Partner

MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9 June, 2005

VIDESH SANCHAR NIGAM LIMITED

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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2005

	(Rupees in '000)
1. CASH FLOWS FROM OPERATING ACTIVITIES	
PROFIT BEFORE TAXES AND EXCEPTIONAL ITEMS	5,847,447
Adjustments for:	
Depreciation	2,533,347
Transfer from capital reserve	(1,859)
Loss on sale of fixed assets	17,828
Interest income	(529,517)
Interest expense on short-term bank loans	11,867
Fixed assets written down	38,618
Dividend income/gain on sale of current investments	(287,445)
Valuation loss on current investments	149
Dividend income from long-term investments	(6,331)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	7,624,104
Inventories	1,755
Sundry debtors	(1,597,015)
Other current assets	100,420
Loans and advances	101,056
Current liabilities and provisions	698,351
Cash generated from operations	6,928,671
Taxes paid	(3,756,979)
NET CASH FROM OPERATING ACTIVITIES	3,171,692
2. CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(12,716,343)
Purchase of long-term investments	(2,354,000)
Purchase of current investments	(40,727,822)
Proceeds from sale of fixed assets	714,478
Proceeds from sale of long-term investment (net of licence fee)	7,789,383
Sale of current investments	49,076,885
Dividend income from long-term investments	6,331
Dividend income from current investments	278,419
Fixed deposits (net)	(1,706,406)
Interest received	580,255
NET CASH FROM INVESTING ACTIVITIES	941,180
3. CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of loans(net)	(567,798)
Dividends paid including dividend tax	(1,450,549)
Interest paid	(11,867)
CASH FLOW USED IN FINANCING ACTIVITIES	(2,030,214)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,082,658
CASH AND CASH EQUIVALENTS AS AT 1 APRIL, 2004	305,588
Effect of exchange on cash and cash equivalents	5,006
CASH AND CASH EQUIVALENTS AS AT 31 MARCH, 2005	2,393,252
(Refer note B7, Schedule 19)	

Note :

Figures in brackets represent outflows

As per our report attached

For S.B. BILLIMORIA & Co.
Chartered Accountants

N. VENKATRAM
Partner

MUMBAI
DATED: 9 June, 2005

For and on behalf of the Board

SUBODH BHARGAVA
Chairman

N. SRINATH
Director (Operations)

SATISH RANADE
Company Secretary & Vice President (Legal)

MUMBAI
DATED: 9 June, 2005

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

SCHEDULE - 1	As at 31 March, 2005 Rupees '000
SHARE CAPITAL	
AUTHORISED	
300,000,000 Equity Shares of Rs.10 each	3,000,000
ISSUED, SUBSCRIBED AND PAID UP	
285,000,000 Equity Shares of Rs.10 each, fully paid-up	2,850,000
SCHEDULE - 2	
RESERVES AND SURPLUS	
(a) Capital Reserve	2,059,898
(b) Securities Premium	8,348,834
(c) General Reserve	32,162,653
(d) Profit and Loss Account	9,330,126
	<u>51,901,511</u>
(e) Exchange Translation Reserve	(6,655)
	<u>51,894,856</u>
Notes:	
(1) Depreciation on gifted assets of Rs. 1,859 thousands has been transferred from capital reserve to the profit and loss account for the year ended 31 March, 2005	
(2) Capital reserve includes Rs. 2,052,161 thousands in respect of foreign exchange gains on unutilised proceeds from Global Depository Receipts issued in previous years	
(3) As at 31 March, 2005 Rs. 756,367 thousands has been transferred from the profit and loss account to general reserve	
(4) Profit and loss account balance brought forward has been adjusted to recognise losses of Rs. 5,874 thousands, Rs. 33,713 thousands and Rs 2,011,431 thousands as of 31 March, 2004 in respect of the Company's share in its subsidiaries, joint venture and associate, respectively	
SCHEDULE - 3	
SECURED LOANS	
Term-loans from banks	169,371
(Term-loans are secured against plant and machinery of joint venture) (Refer Note 8, Schedule 4)	
	<u>169,371</u>

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

SCHEDULE - 4

(Rupees '000)

SL. No.	FIXED ASSETS	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK
		1 April, 2004	Additions	Deductions/ Adjustments	31 March, 2005	1 April, 2004	Depreciation expense	Deductions/ Adjustments	31 March, 2005	31 March, 2005
(a)	LAND	782,327	-	-	782,327	28,022	8,286	-	36,308	746,019
(b)	BUILDINGS	2,576,781	4,059	(4,241)	2,576,599	290,371	40,871	(837)	330,405	2,246,194
(c)	PLANT AND MACHINERY	17,372,365	10,013,123	(734,590)	26,650,898	4,921,112	1,946,561	(4,194)	6,863,479	19,787,419
(d)	FURNITURE AND FIXTURES	328,677	116,436	(9,180)	435,933	100,749	28,952	(5,342)	124,359	311,574
(e)	OFFICE EQUIPMENTS	308,894	60,086	(2,117)	366,863	90,462	17,409	(933)	106,938	259,925
(f)	COMPUTERS	1,407,050	150,245	(18,270)	1,539,025	509,728	288,393	(4,136)	793,985	745,040
(g)	MOTOR VEHICLES	18,197	-	(400)	17,797	9,607	1,972	(319)	11,260	6,537
(h)	GOODWILL	1,019,514	-	(50,000)	969,514	16,992	200,903	-	217,895	751,619
	TOTAL	23,813,805	10,343,949	(818,798)	33,338,956	5,967,043	2,533,347	(15,761)	8,484,629	24,854,327
(i)	CAPITAL WORK IN PROGRESS (Including advances for capital expenditure Rs. 687,124 thousands)									6,118,741
										30,973,068

NOTES:

- 1 Land includes Rs. 638,340 thousands under lease. This includes:
 - (i) Rs. 2,558 thousands in respect of which conveyance is not done
 - (ii) Leasehold land in Srinagar in respect of which lease deed is not available
 - (iii) Rs. 12,079 thousands in respect of which lease agreement has not been executed/ registered
 - (iv) Rs. 1,640 thousands identified as surplus land
- 2 Gross block of buildings include:
 - (i) Rs. 67,858 thousands for leasehold office space
 - (ii) Rs. 4,398 thousands being cost of flats in Co-operative Societies under formation
 - (iii) Rs. 335,181 thousands for flats/office space in Mumbai in respect of which agreements have not been executed
- 3 Additions to plant and machinery/ capital work-in-progress include Rs. 11,283 thousands on account of increase in liabilities consequent to fluctuations in foreign exchange rates
- 4 Gross block of buildings and plant and machinery include leasehold assets acquired on or after 31 March, 2001 Rs. 2,118,229 thousands
- 5 Plant and machinery includes Indefeasible Rights of Use (IRU) for international and domestic telecommunication circuits Rs. 3,460,548 thousands
- 6 As at 31 March, 2004, deduction/adjustments for the year includes reduction in cost of gross block and corresponding reduction in accumulated depreciation aggregating Rs. 15,577,519 thousands and Rs. 6,013,426 thousands respectively. Net reduction in carrying cost aggregating Rs. 9,564,093 thousands has been debited to Securities Premium Account in accordance with the terms of the approval of the shareholders and the High Court of Judicature at Mumbai
- 7 In the year ended 31 March, 2005, goodwill on purchase of the internet service provider ("ISP") business from DishnetDSL Limited decreased by Rs. 50,000 thousands consequent to a purchase price adjustment. The ISP business was acquired in the previous year for a consideration of Rs. 2,700,000 thousands. The purchase consideration was settled at Rs. 2,650,000 thousands in the year ended 31 March, 2005
- 8 Net book value of plant and machinery of Rs. 187,856 thousands is secured against term-loans obtained by the joint venture

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

As at
31 March, 2005
Rupees '000

SCHEDULE - 5 INVESTMENTS

A. Long-term investments (unquoted)

(a) Tata Teleservices Ltd. (Refer Note B4, Schedule 19)	6,346,569
(b) New ICO Global Communications (Holdings) Limited (Class A common stock of US\$ 0.01 each)	65

6,346,634

B. Current investements (unquoted)

Investments in Mutual Funds	3,101,283
-----------------------------	-----------

9,447,917

SCHEDULE - 6 INVENTORIES

Equipment for resale	80,726
Less: Provision for obsolescence	(9,926)
	<u>70,800</u>
Consumable stores and spares	3,243
	<u>74,043</u>

SCHEDULE - 7

SUNDRY DEBTORS

(a) Over six months (unsecured)	
Considered good	411,495
Considered doubtful	1,314,693
	<u>1,726,188</u>
Less: Provision for doubtful debts	(1,314,693)
	411,495
(b) Others (unsecured)	
Considered good	5,641,107
	<u>6,052,602</u>

SCHEDULE - 8

CASH AND BANK BALANCES

(a) Cash in hand	1,120
(b) Current accounts with banks	350,389
(c) Deposit accounts with banks	13,938,726
(d) Margin money with banks	852
	<u>14,291,087</u>

Note:

(1) Deposit accounts include Rs.5,972,069 thousands representing unutilised monies from GDR issue

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SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

As at
31 March, 2005
Rupees '000

SCHEDULE - 9

OTHER CURRENT ASSETS

(a) Interest receivable	125,720
(b) Service tax recoverable	294,020
(c) Pension contributions recoverable from Government of India (net of provision of Rs 472,866 thousands) (Refer Note B6, Schedule 19)	74,424
(d) Others	28,145
	<u>522,309</u>

SCHEDULE - 10

LOANS AND ADVANCES

(a) Unsecured - Considered good	
(i) Staff advances	135,308
(ii) Deposits with public bodies and others	116,319
(iii) Other loans and advances	672,765
(iv) Prepaid expenditure	289,982
(v) Advance payment of tax (net of provision for tax)	11,513,192
	<u>12,727,566</u>
(b) Unsecured - Considered doubtful	
Other loans and advances	73,786
Less: Provision for doubtful advances	(73,786)
	<u>12,727,566</u>

SCHEDULE - 11

CURRENT LIABILITIES

(a) Sundry Creditors	
(i) Traffic creditors	3,595,601
(ii) Unearned income and deferred revenues	3,945,757
(iii) Others	5,053,566
(b) Liability towards Investors Education and Protection Fund under Section 205C of the Companies Act 1956 not due	
Unpaid dividend	11,772
(c) Government of India current account	210,393
(d) Other liabilities (note 1)	2,707,772
	<u>15,524,861</u>

Note:

(1) Includes Rs.74,556 thousands in respect of overdrawn book bank balance

SCHEDULE - 12

PROVISIONS

(a) Provisions for employee benefits	702,880
(b) Provision for proposed dividend	1,710,000
(c) Tax on dividend	239,828
	<u>2,652,708</u>

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31 March, 2005 Rupees '000
SCHEDULE - 13	
TRAFFIC REVENUES	
(a) Telephone (Refer Note B9, Schedule 19)	18,852,517
(b) Leased channel	7,112,963
(c) Frame Relay	1,382,652
(d) Internet	5,005,044
(e) Other traffic revenues	729,885
	33,083,061
 SCHEDULE-14	
OTHER INCOME	
(a) Dividend income from current investments	278,419
(b) Dividend income from long-term investments	6,331
(c) Profit on sale of current investments	9,026
(d) Rent	48,786
(e) Other income	179,679
	522,241
 SCHEDULE-15	
INTEREST	
(a) Interest income	
i. Bank deposits	520,800
(Gross, inclusive of tax deducted at source Rs.93,487 thousands)	
ii. Other deposits and advances	8,717
(Gross, inclusive of tax deducted at source Rs.1,648 thousands)	
	529,517
(b) Less: Interest expense	
i. Short-term bank loan	(11,867)
ii. Others	(413)
	(12,280)
	517,237
 SCHEDULE - 16	
SALARIES AND RELATED COSTS	
(a) Salaries and bonus	1,208,840
(b) Contribution to provident, gratuity and other funds	69,473
(c) Staff welfare expenses	322,334
	1,600,647

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SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31 March, 2005 Rupees '000
SCHEDULE-17	
NETWORK COSTS	
(a) Rent of satellite channels	1,219,270
(b) Rent of landlines	1,195,195
(c) Administrative lease charges	95,389
(d) Royalty and licence fee to Department of Telecommunications	2,118,149
(e) Charges for use of transmission facilities	
(i) Telephone (net of excess provision written back Rs 118,489 thousands)	14,070,670
(ii) Leased channel	167,227
(iii) Internet	856,549
(iv) Others	360,368
	<u><u>20,082,817</u></u>
SCHEDULE - 18	
OPERATING AND OTHER EXPENSES	
(a) Consumption of Stores	16,507
(b) Light and power	336,343
(c) Repairs and maintenance:	
(i) Buildings	54,300
(ii) Plant and machinery	1,082,085
(iii) Others	91,161
(d) Bad debts written off	526,909
(e) Provision for doubtful debts	(577,943)
(f) Provision for doubtful advances	35,677
(g) Rent	142,106
(h) Rates and taxes	83,737
(i) Travel expenses	172,436
(j) Communication expenses	73,153
(k) Printing, postage and stationery	29,090
(l) Security expenses	57,569
(m) Computer software and maintenance	57,798
(n) Legal and professional fees	350,362
(o) Advertising and publicity	727,748
(p) Water charges	12,177
(q) Insurance	41,946
(r) Donations	1,039
(s) Loss on sale of fixed assets	17,828
(t) Exchange loss (net)	152,980
(u) Other expenses	575,132
	<u><u>4,060,140</u></u>

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Schedule 19

A. Significant Accounting Policies

1. Basis of Preparation

The consolidated financial statements of Videsh Sanchar Nigam Limited (the Company), its subsidiary companies, joint venture and associate ("the Group") have been prepared under the historical cost convention and in accordance with the accounting standards issued by the Institute of Chartered Accountants of India.

Comparative figures for previous periods have not been included as this is the first occasion that consolidated financial statements have been presented by the Company.

a) Principles of consolidation

The consolidated financial statements have been prepared on the following basis:

- i) The financial statements of the Company and its subsidiary companies have been combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. Inter-company balances and transactions, and unrealised profits or losses have been fully eliminated.
- ii) The consolidated financial statements include the share of loss of the joint venture which has been accounted as per the 'proportionate consolidation' method as per Accounting Standard 27- 'Financial Reporting of Interests in Joint Ventures'. Unrealised profits or losses have been eliminated to the extent of Company's share in the joint venture.

2. Use of estimates

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to the contingent liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts and advances, employee retirement benefit obligations, provision for taxes and useful lives of fixed assets.

3. Fixed Assets

- a) Fixed assets are stated at cost less accumulated depreciation. Cost includes freight, duties, taxes and all incidental expenses related to bring the assets to their present location and condition.
- b) Fixed assets received as gifts from other Foreign Telecom Administrations are capitalised and credited to capital reserve on the basis of notional cost (cost assessed by customs authorities). Cost includes freight, insurance and customs duty.
- c) Intangible assets in the nature of Indefeasible Rights of Use (IRU's) for international and domestic telecommunication circuits in cables are recorded as fixed assets. IRU agreements transfer substantially all the risks and rewards of ownership.
- d) Jointly owned assets are capitalised in proportion to the Company's ownership interest in such assets.
- e) Consideration for purchase of business in excess of book value of net assets acquired is recognised as goodwill.

4. Depreciation

Depreciation is charged over the periods set out below so as to write-off the cost of the assets on a straight-line basis over the estimated useful lives, at the following rates :

i) Leasehold land	Lease period
ii) Buildings	1.63%
iii) Plant and machinery	
(a) Indefeasible Rights of Use (IRU's)	Life of IRU or period of agreement, whichever is lower
(b) Other plant and machinery	5.28% to 19%

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

iv) Furniture and fixtures	6.33% to 33.33%
v) Office equipment	4.75% to 33.33%
vi) Computers	16.21% to 16.66%
vii) Motor vehicles	9.50%
viii) Goodwill	60 months

5. Impairment

The carrying amounts of fixed assets are reviewed annually to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows expected from the continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-determined discount rate that reflects the current market assessments of time value of money and the risks specific to the asset.

6. Investments

Long-term investments are valued at cost less provision for diminution in value. Provision for diminution in the value is made to recognise a decline, which is other than temporary. Current investments comprising investments in mutual funds are stated at the lower of cost and fair value, determined on an individual investment basis.

7. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

8. Retirement Benefits

- Provision is made for unutilised leave due to employees at the balance sheet date and is determined based on independent actuarial valuation.
- Provision for gratuity is determined based on independent actuarial valuation.
- Pension contributions are charged to the profit and loss account based on actuarial valuation.
- Contributions to Employees' Provident and Superannuation Funds, defined contribution plans, are recognised in the profit and loss account in the period when such contributions are made.

9. Revenue Recognition

Revenues from long distance telephone services are recognised at the end of each month based upon minutes of incoming or outgoing traffic completed in such month. Revenues from leased channels and frame relay are recognised over the term of the lease based on contracted fee schedules. Revenues from internet services are recognised based on usage. Substantial portion of revenues are on account of recoveries from Foreign Telecommunication Administrations for incoming traffic and recovery from domestic carriers for delivery of calls on foreign networks.

10. Foreign Currency Transactions

- Foreign currency transactions are converted to Indian Rupees at rates of exchange approximating those prevailing at the transaction date. Foreign currency monetary assets and liabilities are translated to Indian Rupees at the closing exchange rate prevailing on the balance sheet date. Exchange differences, other than on foreign currency liabilities to purchase fixed assets from countries outside India are recognised in the profit and loss account. Exchange differences on translation of foreign currency liabilities incurred to purchase fixed assets from countries outside India are included in the cost of such assets.
- Premium or discount on forward contracts is amortised over the life of such contracts and is recognised in the profit and loss account, except in respect of liabilities for purchase of fixed assets where such amortisation is adjusted in the carrying cost of fixed assets. Profit or loss arising on cancellation or renewal of forward exchange contract is recognised in the profit and loss account in the period of such cancellation or renewal, except in case of a forward contract relating to liabilities for purchase of fixed assets from countries outside India, in which case such profit or loss is adjusted to the carrying cost of such fixed assets. Forward exchange contracts outstanding at the balance sheet date are stated at fair values and any gains or losses are recognised in the profit and loss account.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- c) In the consolidated financial statements assets and liabilities of foreign subsidiaries and joint venture are translated at the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates. Exchange differences arising are recognised in an exchange translation reserve.

11. Taxation

Current tax expense is determined in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are measured using the tax rates, which have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are recognised for future tax consequences attributable to timing differences between the taxable and accounting income.

Deferred tax assets in respect of unabsorbed depreciation and carry forward tax losses are recognised if there is virtual certainty that there will be sufficient future taxable income available to realise such losses. Deferred tax assets in respect of other timing differences are recognised if there is a reasonable certainty that sufficient future taxable income will be available to realise such assets.

12. Operating Lease

Lease arrangements where risks and rewards incident to ownership of an asset substantially vests with the lessor are classified as operating lease.

Rental income and expense on assets given or obtained under operating lease arrangements are recognised on a straight-line basis over the term of the relevant lease.

VIDESH SANCHAR NIGAM LIMITED

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SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

B. Notes to Accounts forming part of Consolidated Balance Sheet and Profit and Loss Account

1. Particulars of subsidiary companies are as follows:

	Country of incorporation	Percentage of voting power
Subsidiaries (held directly)		
VSNL Singapore Pte. Ltd.	Singapore	100
VSNL Lanka Limited	Sri Lanka	100
VSNL America Inc.	United States of America	100
VSNL Bermuda Limited	Bermuda	100
Subsidiaries (held indirectly)		
VSNL UK Limited	United Kingdom	100
Videsh Sanchar Nigam Spain, SRL	Spain	100
VSNL Netherlands B.V.	Netherlands	100
VSNL Hong Kong Limited	Hong Kong	100
VSNL Japan K.K.	Japan	100
VSNL Portugal Unipessoal Limitada	Portugal	100
VSNL France SAS	France	100
VSNL Telecommunications (UK) Limited	United Kingdom	100
VSNL Telecommunications (US) Inc.	United States of America	100

2. The Company was incorporated on 19 March, 1986. The Government of India vide its Order No. G 25015/6/86-OC dated 27.3.1986, transferred all the assets and liabilities of the OCS (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31 March, 1986 to the Company with effect from 1 April, 1986. As per the letter no. G-25015/6/86-OC dated 23 October, 2001 of Government of India, Department of Telecommunications; there was no requirement to register a formal transfer deed or deed of sale in the matter of such transfer of assets.

3. The Board of Directors have recommended a dividend of Rs. 6 per share including a special dividend of Rs. 1.5 per share for the year ended 31 March, 2005.

4. The preference shareholders of Tata Teleservices Limited ("TTSL") assigned the voting rights on preference shares to Tata Sons Limited with effect from 1 April, 2004. As a result the Company's voting interest in TTSL, decreased from 19.86% to 16.57% and consequently TTSL ceased to be an associate from 1 April, 2004.

TTSL has accumulated losses, which have significantly eroded its net worth. In the opinion of the management, having regard to the long gestation period inevitable in the nature of its business, there is no permanent diminution in value of the investment.

5. In the year ended 31 March, 2005, the Company sold its long-term investments in New Skies Satellites N.V. and Intelsat Limited for an aggregate cash consideration of Rs. 8,616,566 thousands and realised a gain of Rs. 4,687,303 thousands net of licence fees of Rs. 827,183 thousands.

6. As at 1 April 2004, proportionate share of pension obligation and payments to erstwhile OCS employees of Rs. 547,290 thousands were recoverable from the Government of India ("The Government"). The Government has disputed the amount and has offered Rs. 74,424 thousands as settlement. Pending resolution of the matter, provision of Rs. 472,866 thousands has been made in the year ended 31 March, 2005.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

7. Cash and cash equivalents are as follows:-

	Rupees '000
Cash on hand and balances held with banks	351,509
Deposit accounts held with banks	13,938,726
Margin money with banks	852
	14,291,087
Deposits with original maturity over three months	(11,890,712)
Deposits held for unpaid dividends	(6,271)
Margin money with banks	(852)
Cash and cash equivalents	2,393,252

8. Deferred tax liability

	Rupees '000
Particulars	
Deferred tax liability	
Difference between accounting and tax depreciation	1,857,787
Deferred tax assets	
Provision for doubtful debts	441,125
Voluntary retirement schemes	210,369
Unearned income and deferred revenues	177,169
Others	32,328
	860,991
Net deferred tax liability	996,796

9. Traffic revenues include Rs. 468,536 thousands in respect of settlement received from an operator for services rendered in previous years. Revenues from these services were not recognised in the period when services were rendered, as realisation was uncertain.

10. Earnings Per Share

	Rupees '000
Profit before taxes and exceptional items	5,847,447
Income tax expense on profit excluding exceptional items	(2,238,229)
Profit after tax excluding exceptional items	3,609,218
Exceptional income (net)	4,214,437
Income tax expense on exceptional items	(737,920)
Net profit after tax and exceptional items	7,085,735
Number of shares	285,000,000
Earnings per share excluding exceptional items	Rs. 12.66
Earnings per share including exceptional items	Rs. 24.86

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SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

11. Business Segments

The Company's reportable segment is "Telephony and related services". Telephony and related services include international and national voice and data services and internet. Transponder lease, television uplinking, gateway packet switching services and video conferencing facilities are included under "Other services".

	Telephony and related services	Other Services	Rupees '000 Total
Revenues	32,452,474	630,587	33,083,061
Segment profits	13,099,882	38,837	13,138,719
Unallocated expenses (net)	-	-	7,291,272
Profit before taxes and exceptional items			5,847,447
Exceptional items			4,214,437
Profit before taxes			10,061,884
Income taxes			2,976,149
Profit after taxes			7,085,735

- (i) Revenue and expenses, which are directly identifiable to segments are attributed to the relevant segment. Expenses on rent of satellite channels and landlines, and royalty and licence fee on revenues from operations are allocated based on usage. Certain expenses such as staff costs, operating and other expenses and depreciation are not allocable to segments and consequently have been classified as "other unallocable expenditure".
- (ii) Segment total assets and liabilities have not been allocated, in the absence of a meaningful basis to allocate assets and liabilities between segments. Fixed assets are used interchangeably between segments.

Geographical Segment:

	Rupees '000
India	19,078,700
United States of America	3,812,001
Saudi Arabia	1,026,045
United Arab Emirates	2,633,825
Others	6,532,490
	33,083,061

12. Related Party Disclosures

- (a) List of related parties and relationship:

Party

- I. Investing party
- Panatone Finvest Limited
- II. Key Managerial Personnel
- S.K.Gupta (Till 30th September, 2004)
 - N. Srinath

Managing Director
Director Operations

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

(b) Related party transactions and balances:

Transaction:

Managerial remuneration

Rupees '000

8,363

Balance:

Payables

2,500

13. Operating lease arrangements

(a) As lessee:

Rupees '000

Minimum lease payments under operating leases recognised as expense in the year

1,242,295

As at the balance sheet date, minimum lease payments under non- cancellable operating leases fall due as follows:

Rupees '000

Due not later than one year

721,221

Due later than one year but not later than five years

923,759

Later than five years

92,885

1,737,865

Operating lease payments represent rent payable for certain plant and machinery.

(b) As lessor:

(i) The Company has leased under operating lease arrangements certain IRU's with gross carrying amount and accumulated depreciation of Rs. 504,518 thousands and Rs. 14,397 thousands respectively as at 31 March, 2005. Depreciation expense of Rs 14,397 thousands in respect of these assets has been recognised in the profit and loss account for the year ended 31 March, 2005.

In respect of the above, rent income of Rs. 18,150 thousands has been recognised in the profit and loss account for the year ended 31 March, 2005.

Lease rent income of Rs. 527,400 thousands will be recognised in the profit and loss account as follows:

Rupees '000

Not later than one year

36,370

Later than one year but not later than five years

145,480

Later than five years

345,550

527,400

(ii) The Company has leased certain premises under operating lease arrangements. Lease rent income in respect of these leases will be recognised in the profit and loss account as follows:

Rupees '000

Not later than one year

50,058

Later than one year but not later than five years

34,804

84,862

In respect of the above, rent income of Rs. 32,419 thousands has been recognised in the profit and loss account for the year ended 31 March, 2005.

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

14. Contingent Liabilities and capital commitments

	Rupees '000
Letters of Credit	292,532
Guarantees	3,694,051
(i) Claims for taxes on income (Refer Notes 1 and 2)	
(a) Income tax disputes where the department is in appeal against the Company	1,694,521
(b) Income tax disputes where the Company has a favourable decision in other Assessment year for the same issue	1,860,194
(c) Income tax disputes other than the above	9,593,879
(ii) Claims for other taxes	237,448
(iii) Other claims	401,708

Notes:

- (1) Significant claims by the revenue authorities in respect of income tax matters are in respect of:
 - (a) expenditure on licence fees for the Assessment Year 1995-96 disallowed by the revenue authorities. The Company's appeal was allowed at the Tribunal stage, and the matter is now pending before the High Court. The Company has obtained favourable decisions in other assessment years, which have not been contested by the revenue authorities, and the Company is of the view that the claims will eventually be decided in its favour.
 - (b) deductions claimed under Section 80 IA of the Income Tax Act from Assessment years 1996-97 onwards have been disallowed by the revenue authorities. The Company has contested the disallowance and has preferred appeals.
 - (c) reimbursement by the Department of Telecommunications (DoT) of income tax paid by the Company on the DoT levy during 1994-95, that was taxed by the revenue authorities. The Commissioner of Income Tax (Appeals) has upheld the disallowance. The Company is in appeal with the Income Tax Appellate Tribunal.
- (2) Based on the CIT (Appeals) favourable orders received in the current year for assessment years 1994-95, 1998-99, 2000-01 and 2001- 02, the above mentioned contingent liabilities would reduce by Rs. 2,907,922 thousands. The Company has not reduced the contingent liability since the Assessing Officer's order giving effect to the CIT (Appeals) order is not received.

Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for Rs 5,541,991 thousands.

In the year ended 31 March, 2005, VSNL Bermuda Limited, a subsidiary entered into an agreement with Tyco Global Network to acquire its cable network for US\$ 130 million. The completion of the acquisition is subject to Government approvals in India, United States and other countries. An advance of Rs. 694,525 thousands (US\$ 15 million) has been paid during the year.

15. United Telecom Limited ("UTL") is a joint venture between the Company, Mahanagar Telephone Nigam Limited (MTNL), Telecommunications Consultant India Limited (TCIL) and Nepal Ventures Private Limited (NVPL). The Company has 26.66 percent equity ownership in UTL. UTL operates basic telephony services in Nepal based on wireless-in-local loop technology.

The following amounts have been included in the consolidated financial statements using the proportionate consolidation method:

	Rupees '000
FUNDS EMPLOYED	
1. Share Capital	233,275
2. Reserves and Surplus	(92,755)
3. Secured Loan	169,371
Total	309,891
APPLICATION OF FUNDS	
4. Fixed Assets	
(a) Gross Block	288,620
(b) Less: Accumulated Depreciation	97,201
(c) Net Block	191,419
5. A. Current Assets	
(a) Inventories	54,393
(b) Sundry Debtors	27,343
(c) Cash and Bank Balances	48,218
(d) Other Current Assets	38,661
	168,615
B. Loans and Advances	20,463
	189,078
6. Less: Current Liabilities	70,606
7. Net current Assets	118,472
8. Total Assets	309,891
Rupees '000	
INCOME	
1. Traffic Revenue	39,711
2. Other Income	14,483
3. Interest (net)	(11,082)
Total Income	43,112
EXPENDITURE	
4. Salaries and Related Costs	2,025
5. Network Costs	9,401
6. Operating & Other Expenses	35,381
7. Depreciation	60,350
Total Expenditure	107,157
CONTINGENT LIABILITIES	
(i) Claims for other taxes	8,313
(ii) Other claims	19,970
	28,283

BOARD OF DIRECTORS

Mr. Subodh Bhargava

Mr. Subodh Bhargava holds a degree in mechanical engineering from the University of Roorkee. He started his career in 1962 with Balmer Lawrie & Co. Calcutta. He joined the Eicher Group of Companies in Delhi in 1975 as general manager and retired as group chairman and chief executive in March 2000, to become the Group's chairman emeritus and advisor.

Mr. Bhargava has been a key spokesperson for Indian industry, as past president of the Confederation of Indian Industry (CII) and the Association of Indian Automobile Manufacturers, and as vice president of the Tractor Manufacturers Association.

Mr. Bhargava was a member of the central boards of the State Bank of India, the Indian Institute of Foreign Trade, the Insurance Tariff Advisory Committee and several other government-appointed committees and task forces. He is currently on the governing bodies of the Centre for Policy Research; the India Trade Promotion Organisation; and the

Technology Information Forecasting and Assessment Council.

Mr. Bhargava has been closely associated with technical and management education. He is on the boards of IIM, Indore; the Entrepreneurship Development Institute of India, Ahmedabad; and other institutions. He is also on the senior panel of the All India Council for Technical Education (AICTE); and on the committee set up by the Ministry of Human Resource Department, GoI for policy perspectives for management education. He is a trustee of the India Brand Equity Fund, the National Centre for Promotion of Employment for Disabled People and the Bhartiya Yuva Shakti Trust.

Mr. Bhargava is chairman of Wartsila India Ltd. and is on the boards of Samtel Colour Ltd., Samcor Glass Ltd., Rane Engine Valves Ltd., TRF Ltd. and Carborundum Universal Ltd. He is also the mentor of two start-up companies -Autoparts Asia Pvt. Ltd. and Nicco Internet Ventures Ltd.

Mr. Srinath Narasimhan

Mr. Srinath Narasimhan was born on July 8, 1962. He received a degree in mechanical engineering from IIT (Madras) and completed his management degree from IIM (Calcutta), specialising in marketing and systems.

Joining the Tata Administrative Services in 1986 as a probationer, Mr. Srinath has held positions in the project management, sales and marketing, and corporate functions in different Tata companies over the last 17 years. He has been responsible for setting up new projects in high-technology areas like process automation and control, computers and telecommunications. After his probation, he was a project executive in Tata Honeywell from 1987 to 1988, working on getting various approvals and the necessary project funding.

He then moved to Tata Industries as executive assistant to the chairman, an assignment he handled till mid-1992. He was part of the team that set up Tata Information Systems (later Tata IBM). In June 1992 he moved into that company full-time for the next six years, during which period he handled a number of assignments in sales and marketing. In March 1998, he returned to Tata Industries as General Manager (Projects) and worked with Tata Teleservices in this capacity for a year. In April 1999, he moved to Hyderabad as chief operating officer responsible for the operations of the Tata Teleservices. In late 2000 he took over as chief executive officer of Tata Internet Services, a position he held till February 2002, when he moved to VSNL as director (operations).

Mr. Suresh Krishna

Mr. Suresh Krishna was born in Madurai, South India, on December 24, 1936. He received a Bachelor of Science degree from Madras Christian College in 1955 and an M.A. in literature from the University of Wisconsin in 1959. He did his post-graduate work in literature in the University of Munich, Germany.

Mr. Krishna is the chairman and managing director of Sundram Fasteners Limited, the leading company in high tensile fasteners in India. He was the president of the Confederation of Engineering Industry (1987-88) and the president of the Automotive Component Manufacturers Association of India (1982-84).

He has been involved in several other public bodies set up by the central and state governments. He was a director on the central board of the Reserve Bank of India; a member of the Indo-German Consultative Group, set up by the Prime

Minister of India and the Chancellor of the Federal Republic of Germany, to improve bilateral relations; and a member of the advisory council on trade and industry to the Prime Minister. The Government of Tamil Nadu appointed him the sheriff of Madras for 1992 and 1993.

Mr. Krishna has won numerous awards and honours, including the Sir Jehangir Ghandy Medal for Industrial Peace from XLRI in 1991; Business India magazine's Businessman of the Year award, 1995; the Qimpro Platinum Standard 1997 for being a role model for quality leadership; the Juran Quality Medal from the Indian Merchants Chamber, Mumbai; the national award for 2000 (for India) from the Asian Productivity Organisation, Japan; the JRD Tata Corporate Leadership Award 2000 from the All India Management Association; and Ernst & Young's Entrepreneur of the Year award for manufacturing for 2001.

Mr. Ishaat Hussain

Mr Ishaat Hussain joined the board of Tata Sons Ltd. as an executive director on July 1, 1999, and has been its finance director since July 28, 2000. Before joining Tata Sons he was senior vice president and executive director – finance at Tata Steel for almost ten years.

Born on September 2, 1947, Mr Hussain completed his schooling from the Doon School in 1963 and then graduated in economics from St. Stephens College Delhi. A chartered accountant from England and Wales, Mr. Hussain

also attended the Advanced Management Program at the Harvard Business School. He joined the board of The Indian Tube Company (a Tata Steel associate company) in 1981. He moved to Tata Steel in 1983 after Indian Tube was merged with Tata Steel.

Besides being on the board of Tata Sons, he is the chairman of Voltas Ltd. He is also on the boards of several other Tata companies: Tata Steel, Tata Industries, Tata Teleservices and Titan Industries Ltd.

Mr. Kishor A. Chaukar

Mr. Kishor A. Chaukar (57), currently the managing director of Tata Industries Limited (TIL), is a post-graduate in management from the Indian Institute of Management at Ahmedabad.

TIL is one of the two principal holding companies of the Tata Group, acts as its diversification and new projects-promotion arm, and spearheads its entry into the emerging high-technology and sunrise sectors of the economy.

As managing director of TIL, Mr. Chaukar is responsible for enhancing TIL's interests in the companies it promotes and adding value, especially by providing strategic direction to these companies. Mr. Chaukar is also a member of the Tata Group executive office and the Group corporate centre, which are engaged in strategy formulation. He is the director on the board of various Tata companies like

Tata Teleservices Ltd, Idea Cellular Ltd. Tata Autocomp Systems Ltd. and Tata Investment Corporation Ltd. He also oversees the functions of Tata Economic Consultancy Services (TECS) and the Department of Economics & Statistics (DES). Mr. Chaukar is the Chairman of Tata Council for Community Initiatives (TCCI) – the nodal agency of the Group on all matters related to social development, environmental management, bio-diversity restoration and conservation of wild life.

Mr. Chaukar was previously the managing director of ICICI Securities & Finance Company Ltd. (July 1993 to October 1998), and a board member of ICICI Ltd. from February 9, 1995 to October 15, 1998. His other experiences include stints in Godrej Soaps Ltd. and in Bhartiya Agro Industries Foundation, a public trust engaged in rural development.

VIDESH SANCHAR NIGAM LIMITED

Nineteenth Annual Report 2004-2005

Mr. Vivek Singhal

Mr. Vivek Singhal, born on June 26, 1940 in Agra, started his own company Computronics India in 1971, and was among the pioneers of computer and software related activities. In 1993, he began another company, Biotech International Ltd., a pioneer in the field of biotechnology-based products for agriculture and public health.

Mr. Singhal is the founder-president of the All-India Biotech Association, a non-profit organisation established in 1994, dedicated to the development of biotechnology in India. For his contribution in bringing about computer consciousness in India, and looking to his outstanding performance in exports, social service and other fields, he has

received various prestigious awards, including three awards from the President and two from the Prime Minister of India.

Mr. Singhal is a member of the governing councils of CSIR and the Indraprastha Mahavidyalay; a member of the Gujarat Council of Biotechnology, Govt. of Gujarat; the chairman (NR) of the Federation of Indian Exports Organization; the former chairman of the Electronics & Computer Software Export Promotion Council; and a director of BSNL, Bharat Yantra Nigam Ltd. and HILTRON, as well as the department of Electronics Accreditation Computer Courses Society, under the Ministry of Information Technology, Gol.

Dr. Ashok Jhunjhunwala

Dr. Ashok Jhunjhunwala is a professor at the electrical engineering department, IIT Madras, and was a founder of the Telecommunications and Computer Networks (TeNeT) Group there, which he now heads.

He graduated from IIT Kanpur and received his MS and Ph.D. from the University of Maine, USA. He worked as assistant professor at the Washington State University before joining IIT Madras in 1981 as faculty. He was the head of the electrical engineering department from August 1998 to July 2001.

Dr. Jhunjhunwala has led research in developing low-cost technologies. He has made significant policy contributions as a member of various government bodies and councils including the National Advisory Committee on Communications and Information Technology (NACCIT)-Ministry of Communications and IT; Engineering Sciences Research Committee-CSIR, National Advisory Committee-

ISRO; the boards of VSNL and BSNL; and as advisor to the Universal Service Fund.

Dr. Jhunjhunwala currently works closely with industry and venture capital funds to promote R&D and entrepreneurship. He has incubated several companies including Midas Communications, Banyan Networks, NMS Works, Chennai Kavigal and n-Logue Communications. He is on the board of various companies including Sasken Communications, Tejas Networks, Jataayu Software, Polaris Software, Shyam Telecom and HTL.

He was awarded the Padmashri in 2002 for distinguished service in science, engineering and telecommunications. His other awards include the Vikram Sarabai Research Award 1997, the Shanti Swarup Bhatnagar Award 1998, the Millennium Medal by CSIR-2000 and the H.K. Firodia Award 2002.

Mr. Firdose A Vandrevala

Mr. F A Vandrevala, 54, joined Tatas in October 1972 and is the Chairman of Tata Teleservices Limited. Mr. Vandrevala graduated with a Bachelor of Technology degree in electrical engineering (Hon) from the Indian Institute of Technology, Kharagpur, and subsequently earned a post graduate diploma in business management from XLRI, Jamshedpur.

In his long and fruitful career with Tata Steel and Tata Power, Mr. Vandrevala has spearheaded many change initiatives resulting in improvements at the shop-floor level including production and quality improvements, and has

successfully implemented management practices of planning, organizing, people management and customer focus in all business activities.

He has attended specialised training programs including a visit to Malcolm Baldrige award-winning companies in the US, Strategic Marketing Management at Harvard Business School, US and a general management programme at CEDEP INSEAD, France. He is a director on the boards of several Tata companies. He has held various important positions in CII and was the chairman of CII, Eastern & Western Regions.

Mr. Pankaj Agrawala

Mr. Agrawala was born on October 16, 1955. Since May 2002, he has been the joint secretary to the GoI, Department of IT, Ministry of Communications and IT. Mr. Agrawala belongs to the 1978 batch of the IAS (Uttar Pradesh cadre). He holds degrees in public administration, development economics and history and was the Mason Fellow at the Kennedy School of Government, Harvard University, USA.

Mr. Agrawala has held various important U.P government positions. He has been chief development officer, Lucknow; joint development commissioner, Bundelkhand; joint secretary, Planning Department; collector and district magistrate, Basti and Azamgarh districts; special secretary, power department; and collector and district magistrate, Saharanpur. He has also headed various District Rural Development Agencies.

He took over as director of the then Ministry of Urban Development, GoI in August 1991, and as director, Housing Division, Ministry of Urban Affairs and Employment, GoI in July 1994. He was the secretary of the Indian delegation to the Habitat II city summit, Istanbul. He then worked in decentralised training for the Urban Development Project, an Indo-Dutch collaboration with the Institute for Housing and Urban Development, Rotterdam.

From July 1998 to May 2002, he was secretary to the U.P government, in various departments, including the Department of Planning; the Department of Banking and Private Capital Investments; the Department of Externally Aided Projects, where he was responsible for five World Bank projects; the department of IT and Electronics, when India's first private-sector IT university was set up; and the department of Small Scale Industries and Export Promotion.

Dr. Mukund Rajan

Dr. Rajan was born in Chennai on April 5, 1968. He completed his Bachelors degree in Chemical Engineering from the Indian Institute of Technology, Delhi in 1989. He followed this up with a Masters and Doctorate in International Relations at Oxford University, where he studied on a Rhodes Scholarship. His doctoral dissertation was published by Oxford University Press, and is titled "Global Environmental Politics - India and the North-South Politics of Global Environmental Issues." Dr. Rajan joined the Tata Group through the Tata Administrative Service (TAS) in January 1995. In his first year with the Group, as

part of the TAS's induction programme, he was assigned to various Tata Companies including Tata International, Indian Hotels, Tata Steel, and Tata AutoComp Systems. On completion of this induction programme, he was assigned to the office of Mr. Ratan Tata, Chairman, Tata Sons Limited. Dr. Rajan's current designation is Vice President, Tata Sons Limited, and he continues to support Mr. Tata as a member of his office. Dr. Rajan's interests include reading (fiction and biographies), sports (badminton, tennis, squash, cricket), watching movies, and listening to music (particularly 1960s and 1970s pop).



Seamless connectivity is no longer a pipe dream.

Virtual Private Network (VPN)

At Tata Indicom, we are aware that for business to work like a well-oiled machine, seamless connectivity with your business associates is not just desirable, but essential.

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