HUGHES™

TELE.COM

Seventh Annual Report 2001-2002

Board of Directors

BOARD OF DIRECTORS

Mr. Pramod Mittal (*Chairman*)

Mr. Pradman Kaul (*Vice Chairman*)

Mr. Jack Shaw

Mr. Francis X. Frantz

Mr. Vinod K. Mittal

Mr. James Lucchese

Mr. Pradeep Kaul

Mr. Jaykumar Dehejia

Mr. Vijay Dhar

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

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

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

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

Mr. Paul W. Cheng (Alternate to Mr. Jaykumar Dehejia)

Mr. John-Michael Lind (Alternate to Mr. Pramod Mittal)

COMPLIANCE OFFICER

Mr. Madhav Joshi
Chief Legal Officer & Company Secretary

STATUTORY AUDITORS

M/s. Deloitte Haskins & Sells
Chartered Accountants
19th Floor, "Nirmal",
Nariman Point,
Mumbai 400 021.

REGISTRARS & SHARE TRANSFER AGENTS

MCS Limited
Sri Padmavathi Bhavan,
Plot No. 93, Road No. 16,
M.I.D.C., Andheri (East),
Mumbai - 400 093.
Contact Person : Mr. Satish Rathod
Tel. : 022 – 821 5235
Fax : 022 – 835 0456
E-mail : mcsmum@vsnl.com

REGISTERED OFFICE

Ispat House,
B.G. Kher Marg,
Worli, Mumbai 400 018.
Tel. : +91 (22) 461 5445
Website : www.hughestele.net

Contents

- Notice 2
- Directors' Report 8
- Corporate Governance Report 15
- Management's Discussion and Analysis of Financial Condition and Results of Operations 21
- Auditors' Report 26
- Balance Sheet 28
- Profit & Loss Account 29
- Schedules forming part of the Balance Sheet and Profit and Loss Account 30
- Cash Flow Statement 40
- Balance Sheet abstract and general business profile 42

NOTICE

Notice is hereby given that the 7th Annual General Meeting of Hughes Tele.com (India) Limited will be held on Friday, September 27, 2002 at 3.30 p.m. at Yashwantrao Chavan Pratishthan Auditorium, Gen. J. Bhosle Marg, Y. B. Chavan Centre, Near Mantralaya, Mumbai - 400 021 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts for the Financial year ended 31st March, 2002 alongwith the Report of auditors thereon as well as the Directors' Report.
2. To appoint a Director in place of Mr. James Lucchese who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Vijay Dhar who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Jack Shaw who retires by rotation and being eligible, offers himself for re-appointment.
5. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION (if on date of the meeting, the financial institutions hold not less than 25% of the Subscribed Capital of your Company, the resolution will be proposed to be passed as a SPECIAL RESOLUTION in terms of section 224-A of the Companies Act 1956)

   "RESOLVED THAT, M/s Deloitte Haskins & Sells, Chartered Accountants, retiring auditors of the Company, be and are hereby re-appointed as the Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company on remuneration to be decided by the Board of Directors"

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 163 of the Companies Act 1956 and other applicable provisions, if any, of the Companies Act, 1956, the Register of Members, Index of Members, Register of Debentureholders, Index of Debentureholders and copies of all annual returns prepared under section 159 together with copies of certificates and documents required to be annexed thereto under section 161, shall be kept at the following address instead of at the registered office of the Company:

   MCS Limited,
   Sri Venkatesh Bhavan,
   Plot No. 27, Road No. 11
   M.I.D.C., Andheri (East)
   Mumbai 400 093

   RESOLVED FURTHER THAT the Company Secretary and/or any officer of the Company appointed by the Board of Directors be and is/are hereby authorised to take all the necessary steps in order to give effect to this resolution."

7. To consider and, if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

   "RESOLVED THAT, pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the following clauses are hereby inserted/substituted in the Articles of Association of the Company:

   I. In Article 2, a new sub-Article (iia) shall be inserted after the existing sub-Article 2 (ii):

      '2 (iia) "Closing" means completion of sale and purchase of the 714,317,891 shares held by some of the JVA Shareholders to Tata Teleservices Limited.'

   II. If and when Closing happens, the existing Article 61A shall be substituted as follows:

      '61A. AEIF (India) Limited (the Fund) shall have certain rights and obligations including the right to designate its nominee as an "Observer" to be present at all meetings of the Board. The appointment of such an Observer, the Observer's rights and obligations, the tenure of enjoyment of such rights and other rights and obligations of the Fund, Tata Teleservices Limited (TTSL) and the Company inter se, shall be governed by the terms of the Agreement dated 27th June, 2002 entered into between the Company, TTSL and the Fund (the "Agreement"), the terms and conditions of which are reiterated in the Schedule 1 hereto.'

   III. A new Article 120 shall stand inserted after the existing Article 119 if and when Closing occurs, as follows:

      '120. Any rights conferred upon or any obligations cast upon any JVA Shareholder or the Company in relation to such JVA Shareholders by these presents (including but not limited to the provisions of Article 5,15, 45, 58, 61, 62, 66, 68, 71, 73, 75, 76, 84, 85, 86, 87, 88, 109, 113, 118 and 119) or any special provisions made in these presents pursuant to Joint Venture Agreement shall cease to have effect.'

   IV. If and when Closing occurs, a new Schedule 1 shall be inserted after Article 120 as follows:

'Schedule 1: Schedule of Terms and Conditions of the Agreement dated 27th June, 2002 between the Company, AEIF (India) Limited and Tata Teleservices Ltd.

1. Observer Rights: The appointment of the Observer under the terms of Article 61 A of the Articles of Association shall be governed by the terms and conditions of this Schedule as laid down herein below :

   (i) AEIF (India) Limited (the "Fund") shall have a right to designate one person to be present at meetings of the Board by giving a written notice to TTSL ("Observer") under the terms of the agreement dated 27th June, 2002 between the Fund, the Company and TTSL ("Agreement").

   (ii) The Observer shall at no time (with respect to any Person) be in: (a) any direct or indirect conflict of interest of such Person with the business of the Company; or (b) such Person being directly or indirectly related to, or materially interested in a Telecommunications Service Provider, whether as a director or adviser or otherwise. The Fund shall have the right to replace the Observer from time to time by issuing a 15 day notice to the Company, provided that the aforesaid requirement of 15 day notice shall be deemed to have been waived, where the Fund has been provided the Conflict Notice (as defined hereinbelow).

   (iii) If the Board acting objectively and in good faith decides that the Observer is in: (a) any direct or indirect conflict of interest of such Person with the business of the Company; or (b) such Person being directly or indirectly related to, or materially interested in a Telecommunications Service Provider, whether as a director or adviser or otherwise, the Board will inform the Fund about the conflict along with the details thereof at least 21 days prior to the next Board Meeting ("Conflict Notice"), provided that the requirement of 21 day period for the Conflict Notice shall be deemed to have been waived by the Fund in the event that the Conflict arises within a period of less than 21 days prior to the next Board Meeting, in which case the Conflict Notice will be given promptly upon arising of the Conflict. The decision of the Board in this regard shall be final and conclusive. Upon receipt of the Conflict Notice in accordance with this Item (iii), the Fund shall cause another person to be appointed as the Observer. The Company will issue a written confirmation to the Fund of such replacement, provided that the absence of the written confirmation shall not prevent the Observer from attending the Board Meeting.

   (iv) The Company shall send notices, along with all the agenda papers of the meetings of the Board of the Company to the Observer at the same time as these documents are required to be sent to the Directors of the Company in accordance with the provision of these Articles of Association. Any views expressed by the Observer shall not form part of the official proceedings of the meeting of the Board.

(2) Treatment of Price Sensitive Information:

   (i) The Observer, by virtue of attending the meetings of the Board, and through it the Fund itself, may come to acquire, or become aware of, unpublished price sensitive information in respect of the Company. Such information shall include all information that may be provided by the Company to the Fund under the terms of the Agreement and includes any and all information, whether written, oral or otherwise, concerning the business, operations, prospects, finances, or other affairs of the Company, its shareholders, affiliates, associates or subsidiaries (which includes, without limitation, information relating in whole or in part to present and future products, services, business plans and strategies, marketing ideas and concepts, especially with respect to unannounced products and services, present and future product plans, pricing, volume estimates, financial data, product enhancement information, business plans, marketing plans, sales strategies, customer information (including customers' applications and environments), market testing information, development plans, specifications, customer requirements, configurations, designs, plans, drawings, apparatus, sketches, software, hardware, data, prototypes or other technical and business information or other materials prepared which may be provided to the Fund under the terms of the Agreement, however such information is documented, that has been or may hereafter be provided or shown to the Fund by the Company or is otherwise obtained from review of the Company's documents or property or discussions with the representatives of the Company or TTSL by the Fund irrespective of the form of the communication, and also includes all notes, analyses, compilations, studies, summaries, and other material prepared by the Fund containing or based, in whole or in part, on any information included in the foregoing (such information the "Confidential Information").

   (ii) The Fund agrees to treat, and agrees to cause the Observer to treat, the Confidential Information received in confidence and to ensure compliance with the Securities & Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended from time to time ("Insider Trading Regulations").

   (iii) The Observer shall be entitled to require the company secretary of the Company to provide him relevant clarifications in respect of matters discussed at the meetings of the Board and to furnish him any further information relating to the Company, which the Observer may reasonably require and the Company shall cause the company secretary to furnish such information as may be requested by the Observer, keeping in mind the strategic interests of the Company.

3. Confidentiality: The Fund and the Observer, by virtue of attending the meetings of the Board, may come to acquire, or become aware of, Confidential Information in respect of the Company and the Fund, agrees to cause the Observer to hold and treat all of the Confidential Information in the strictest of confidence. Upon termination, the Fund shall return or certify the destruction of any Confidential Information specifically requested in writing by the Company. If after the return or destruction of any Confidential Information, the Fund requires copies of any such destroyed Confidential Information in connection with defence of any proceedings before any Governmental Authority, the Fund may require the Company to provide any such information and the Company shall make best efforts to provide the information to the Fund. In the event that the Fund is required to maintain any records or copies by any law or regulation of the jurisdiction to which the Fund is subject to, the Fund may retain copies of the Confidential Information and in such event, the Fund shall continue to be bound by the terms of the Agreement. The confidentiality obligations shall survive the termination of the Agreement for a period of 3 years from the date of its termination.

4. Corporate Governance: If the Board proposes to authorize, whether at a meeting or by circular resolution, an acquisition of or merger with or divestment or disposal of the undertaking of the Company to TTSL and its respective Affiliates who may come to hold shares in the Company from time to time, or any of their Affiliates or any other company of the TATA group, then the Fund shall have the right to request for and the Company shall appoint a recognized independent financial advisor to analyze the proposed transaction and to certify that the terms of the transaction have been arrived in good faith and on an arms length basis. The independent financial advisor shall be appointed by the Board and shall be a firm of good repute, and the costs of appointment of such independent financial advisor shall be borne by the Company. Instead, if the Observer desires the appointment of an investment bank or auditor of international repute, the Board shall appoint an investment bank or auditor of international repute and the costs in respect of such appointment shall be borne equally by the Fund and the Company.

   The Board shall refrain from taking any action on the transaction until such advisor reports its findings and shall give due and careful consideration to the recommendations of such advisor.

5. Deed of Adherence

   In the event TTSL sells or transfers all or part of its shareholding in the Company to any Third Party such that it shall either by itself or along with its associates no longer be able to Control the Company or such that the Third Party (either by itself or jointly along with its Affiliates) is able to Control or jointly Control the Company, it shall require such Third Party to execute a deed of adherence, in a form and manner satisfactory to the Fund, such that the Third Party is bound by the terms and conditions of the Agreement. For the purpose of this Item 5, "Control" shall have the meaning given to it in the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as amended from time to time. It is clarified that this Item 5 shall apply even if the Agreement is terminated under Item 6.4 so as to give effect to Item 7.2 should the same become applicable.

6. Termination:

6.1 The Agreement shall stand terminated automatically on the occurrence of any of the following events:

   (a) Sale by the Fund: In the event the Fund sells any of the Shares held by the Fund in the Company such that subsequent to such sale the number of Shares held by the Fund is less than 75 percent of the number of shares held by the Fund as of the date of the Agreement ("Funds Shareholding")

   (b) Dilution of Shareholding: If at any point of time, the percentage of Shares held by the Fund in the Company in the then existing Shareholding of the Company constitute less than half of the percentage of the Funds' Shareholding in the shareholding of the Company as of the date of the Agreement (as further augmented by acquisition of Shares in the Company through subscription to any Shares offered to the Fund pursuant to the provisions of Section 81(1) of the Act) where such a reduction in the Funds Shareholding is caused by any reason whatsoever other than those covered by the provisions of Item 6.1(a) above.

6.2 The Agreement shall stand terminated on the occurrence of either of the events stipulated in Item 6.1(a) or (b) above, notwithstanding a subsequent increase in the shares held by the Fund in the equity share capital of the Company as a result of the purchase of additional Shares by the Fund at any time after the abovementioned events have occurred. The limits on Shares mentioned in Item 6.1(a) and (b) above shall be appropriately adjusted to take into account any subdivision, consolidation splitting of the Shares or capital reduction or any issue of Shares by way of a bonus issue.

6.3 If the Fund or the Observer materially breach any provision of the Agreement and such material breach is not cured within a period of 21 days from the receipt of a Notice from the Company or TTSL in this regard, the Agreement shall stand terminated at the end of such 21 day period.

6.4 TTSL and its respective Affiliates who may come to hold shares in the Company from time to time shall have a right, subject to Item 7.2 hereinbelow, to terminate the Agreement by giving Notice of 15 days if the Fund or the Observer at any point of time violate the provisions of the Insider Trading Regulations, vis-à-vis the

Confidential Information and are issued a show cause notice, or enquiry or order from a Governmental Authority in respect of such a breach.

6.5 The Parties may, at any time terminate the Agreement in writing by mutual consent.

6.6 The Fund may terminate the Agreement at any time by giving 15 days Notice to the Company and TTSL, provided that the obligations of the Fund in relation to the transfer of Shares under Section 6.2, 6.3 and 6.4 of the Agreement shall survive for a period of 1 year from the date of such termination.

7. Effect of Termination

7.1 Subject to Item 7.2 hereinbelow, the Parties agree that in the event that the Agreement is terminated as described in Item 6 above, TTSL and its respective Affiliates who may come to hold shares in the Company from time to time and the Company shall be entitled to take steps to amend the AOA to remove the amendments made to the AOA pursuant to the terms of the Agreement, including but not limited to, removal of the provisions of the right of the Fund to appoint an Observer and the removal of this Schedule of Terms to the AOA.

7.2 If the Agreement is terminated in accordance with Item 6.4 above and HTIL and TTSL and its respective Affiliates who may come to hold shares in the Company from time to time, have amended or have caused the amendment of the AOA pursuant to the provisions of Item 7.1 above, the Parties agree that notwithstanding such a termination, if the relevant Governmental Authority absolves the Fund or the Observer, as the case may be, from its alleged breach of the Insider Trading Regulations, then the Agreement shall be revived automatically without the requirement of any further act or deed on the part of the Parties and HTIL and TTSL shall cause the AOA to be amended to re-insert the provisions inserted earlier under Section 2.3 and 2.4 of the Agreement, including but not limited to the right to appoint an Observer.'

RESOLVED FURTHER THAT the Board of Directors (including any committee/s thereof) of the Company be and is hereby authorized to do all such acts, deeds and things and execute all such documents, deeds and writing as may be required for the aforesaid purposes and which it may deem fit in the interest of the Company."

By order of the Board
For **Hughes Tele.com (India) Limited**

Madhav Joshi
Chief Legal Officer &
Company Secretary

Registered Office:
Ispat House,
B. G. Kher Marg,
Worli, Mumbai 400 018

Dated the 16th day of July, 2002

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE AT THE MEETING INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. A proxy in order to be effective, should be deposited at the registered office of your Company not less than 48 hours before the commencement of the meeting.
2. The Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 is annexed hereto and forms part of this Notice.
3. All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection by the Members at the registered office of your Company on all working days between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.
4. The Register of Members and Share Transfer Books of your Company will remain closed from 17th September 2002 to 27th September 2002 (both days inclusive).
5. Members are requested to notify immediately change of address, if any, at the registered office of your Company.
6. Members who hold shares in the dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the Annual General Meeting.

ANNEXURE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No. 2

Mr. James Lucchese retires by rotation at this Annual General Meeting and is eligible for re-appointment.

Mr. Lucchese, in his capacity as Executive Vice President and Chief Financial Officer of Hughes Network Systems (HNS), is responsible for all financial matters pertaining to HNS, with primary responsibility for profit and loss, balance sheet, and cash performance of HNS. In addition, he reviews and approves all major investments and participates directly in all strategic issues. He is a member of the Office of the Chairman and the Executive Committee of HNS.

Before joining HNS, Mr. Lucchese held senior financial positions with GTE. He has more than 30 years of financial management and accounting experience.

Mr. Lucchese holds a Bachelor of Science degree in accounting/management from Northeastern University in Boston, MA. He regularly volunteers his time and expertise to benefit the Lupus Foundation of Greater Washington, D.C.

Hughes Network Systems is a Hughes Electronics Corporation (HEC) company. HEC is one of the promoters of your Company.

In addition to being on your Company's Board, Mr. Lucchese is also a Director of Hughes Escorts Communications Limited

and Hughes Software Systems Limited. Apart from being a member of the Audit Committee of the Board of Directors of your Company, Mr. Lucchese is also a member of the Audit Committees of the Boards of Hughes Escorts Communications Limited and Hughes Software Services Limited.

Mr. Lucchese has been associated with your Company since inception. Your Board considers that the Company would benefit immensely from Mr. Lucchese's rich experience in the field of finance and therefore recommends his re-appointment in the interests of the Company, by passing this resolution.

None of the Directors except Mr. James Lucchese is deemed to be interested or concerned in the passing of this resolution.

Item No. 3

Mr. Vijay Dhar retires by rotation at this Annual General Meeting and is eligible for re-appointment.

Born in 1941, Mr. Vijay Dhar had his education in Kashmir. He is a successful enterpreneur and has been associated with commerce and industry for the last 35 years. He has held a number of positions in the Jammu & Kashmir Chamber of Commerce and Industry. He also held the positions of Vice-President and President of the Chamber for two years. He is Advisor to the Board of Bombay Mercantile Bank. He has also served as Director on the Board of Jammu & Kashmir Bank Limited, Jet Airways etc.

Apart from the responsibilities he holds on various corporate boards, he has business interests in agriculture, cinemas, real estate and hospitality trade.

In addition to being on your Company's Board, Mr. Dhar is also Director of Taksal Theatres (P) Ltd., Dargan Properties (P) Ltd., Kanika Properties (P) Ltd., Natasha Properties (P) Ltd., U.R. Production (P) Ltd., Hughes Software Systems Ltd. and Hughes Escorts Communications Ltd. He is also a member of the Audit Committee and the Employees' Stock Option Plan Compensation Committee of your Company's Board of Directors.

Mr. Dhar has been associated with your Company since inception. Your Board considers that the Company would benefit immensely from Mr. Dhar's rich experience across diverse industry sectors and therefore recommends his re-appointment in the interests of the Company, by passing this resolution.

None of the Directors except Mr. Dhar is deemed to be interested or concerned in the passing of this resolution.

Item No. 4

Mr. Jack Shaw retires by rotation at this Annual General Meeting and is eligible for re-appointment.

Mr. Jack Shaw is the Chief Executive Officer of Hughes Electronics Corporation, one of the sponsors of the Company. He is a member of the Hughes Electronics Executive Committee and the Management Committee. Prior to joining Hughes in 1987, Mr. Shaw held senior management positions with companies that include ITT Space Communications, Inc. and Digital Communications Corporation.

In addition to being on your Company's Board, Mr. Shaw is also a Director of Hughes Electronics Corporation, XM Satellite Radio, Hughes Software Systems Limited and PANAMSAT. Mr. Shaw is also a member of the Compensation Committees of the Boards of XM Satellite and PANAMSAT. He is a senior member of IEEE and is on the Board of Directors of the Montgomery College Foundation and the High Technology Council of Maryland.

Born on January 1, 1939 in Auburn, Indiana, U.S.A., Mr. Shaw graduated from the Purdue University, U.S.A. with a B.S. in Electrical Engineering in 1952 and he attended the Sloan School of Management at the Massachusetts Institute of Technology.

Mr. Shaw was named Outstanding Electrical Engineer of Purdue University in 1994 and was honoured as the University's Distinguished Engineering Alumnus that year. In May 1998, he was awarded an honorary Doctor of Engineering degree by Purdue University. He is also a member of the Visiting Committee to the Dean of Engineering, Purdue University. He received an honorary Doctor of Science degree from Capitol College and was honored for "Contributions to World Communications" by the Radio Club of America.

Mr. Shaw has been associated with your Company since inception. Your Board considers that the Company would benefit immensely from Mr. Shaw's rich experience in the field of telecom engineering and management and therefore recommends his re-appointment in the interests of the Company, by passing this resolution.

None of the Directors except Mr. Shaw is deemed to be interested or concerned in the passing of this resolution.

Item No. 5

It is proposed to re-appoint M/s Deloitte Haskins & Sells, Chartered Accountants, retiring auditors of your Company as Auditors on a remuneration to be decided by the Board of Directors. If the shareholdings of the public financial institutions, Government companies, Central Government, State Government, financial and other institutions established by any Provincial or State Act in which a State Government holds not less than fifty-one per cent of the subscribed share capital, nationalised banks and general insurance companies, is 25% or more of the subscribed share capital of your Company on the date of the ensuing Annual General Meeting, this resolution would be passed as a SPECIAL RESOLUTION. As on 31st March 2002, the above-referred institutions/bodies held 17.67% of the subscribed share capital of your Company.

None of the Directors is deemed to be concerned or interested in the passing of this resolution.

Item No. 6

M/s Computech International Limited ("Computech"), the current R & T agents of your Company have decided to transfer their R&T business to MCS Limited. Hence MCS

Limited have been appointed as the R & T agents in the place of Computech.

MCS Limited is one of the leading R&T agents in India, presently servicing shareholders of over 210 companies. It is registered with the Securities and Exchange Board of India as a Category I Registrar to Issue and as a Registrar & Transfer Agent.

The Board seeks the consent of the members for keeping the Register and Index of Members, Register and Index of Debentureholders and copies of annual returns together with all documents required to be annexed thereto, at the office of MCS Limited situated at Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, M.I.D.C., Andheri (East), Mumbai 400 093.

The above records will be open for inspection from 10.30 a.m. to 1.00 p.m. and from 2.00 p.m. to 4.30 p.m. on all working days on payment of specified fees. Extracts and copies of the aforesaid records can also be taken on payment of specified fees.

Your Board seeks the consent of the members for the above and recommends the passing of this resolution as a SPECIAL RESOLUTION.

None of the Directors is deemed to be concerned or interested, directly or indirectly, in passing this resolution.

Item No. 7

All the promoters of the Company except Ispat Industries Limited have agreed to sell their shareholdings in the Company to Tata Teleservices Limited subject to receipt of all necessary approvals and consents ("the Transaction"). On Closing or completion of the Transaction, the Joint Venture Agreement ("JVA") dated 25th May 1995 (as amended and restated from time to time) between the promoter companies and the Company would get terminated. The amendments as proposed to be made in Articles of Association under this item are intended to:

(a) remove special provisions relating to the present promoters (to become effective if and when the Closing of the Transaction occurs), and

(b) add the salient provisions of an agreement dated 27th July, 2002 executed between the Company, Tata Teleservices Limited and AEIF (India) Limited (to become effective if and when the Closing of the Transaction occurs).

Mr. Jay Dehejia (and his alternate Mr. Paul Cheng) are nominees of AEIF (India) Limited and hence may be deemed to be concerned or interested in relation to amendment to Article 61A of the Articles of Association to that extent. Other Directors, except Mr. Vijay Dhar, are nominees of the promoters of the Company and they may be interested or concerned in the proposed amendments relating to the promoters to that extent.

By order of the Board
For **Hughes Tele.com (India) Limited**

Madhav Joshi
Chief Legal Officer &
Company Secretary

Registered Office:
Ispat House,
B. G. Kher Marg,
Worli, Mumbai 400 018.

Dated the 16th day of July, 2002.

DIRECTORS' REPORT

Dear Members,

Your Directors present their Seventh Report together with the Audited Accounts of your Company for the financial year ended 31st March 2002.

FINANCIAL HIGHLIGHTS

(Rs. in millions)

Particulars	**Year ended 31st March, 2002**	Previous Year ended 31st March, 2001
Total Income	**2,766**	1,950
Total expenditure	**2,391**	1,964
EBITDA (-)	**375**	(14)
Finance & Treasury Charges	**723**	1,284
Depreciation & Amortisation	**1,137**	791
Profit / (Loss) before tax	**(1,485)**	(2,089)
Provision for taxation (-)	**—**	(1)
Net Profit / (Loss)	**(1,485)**	(2,088)

Total Income has recorded an impressive growth of 42% clocking Rs. 2,766 million for the current year (previous year Rs. 1,950 million). Of this, the revenue from provision of telephone services was Rs. 2,525 million (previous year Rs. 1,392 million). In addition, your Company earned other income of Rs. 241 million (previous year Rs. 558 million).

After taking into account depreciation of Rs. 1,077 million (previous year Rs. 727 million) and other expenditure, your Company incurred a lower loss of Rs. 1,485 million (previous year Rs. 2,088 million) during this year.

Dividend

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

Appropriations

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

PROJECT IMPLEMENTATION

Current Status

Your Company grew at a healthy pace during the year. Your Company's services are now offered to customers in Mumbai, Navi Mumbai, Panaji, Nagpur, Nasik, Pune, Kolhapur, Aurangabad, Ahmednagar and Sangli.

Your Company has rapidly expanded its network and currently provides telecommunication services through over 165,000 business and residential telephone lines in 10 cities in Maharashtra & Goa. Consistent with its commitment to fulfilling its social obligations to the nation, your Company has also extended its services to 185 villages in rural and remote areas of Maharashtra which did not have any telephone facilities earlier.

Your company has been implementing a Fibre-To-The-Business (FTTB) strategy by laying fibre optic cable right up to the premises of its customers giving them high bandwidth scalability. In highly congested and difficult-to-wire areas, your Company actively utilises a broadband PMP (Point-to-Multi-Point) radio network. This technology enables rapid 'last-mile' connectivity to the customer's premises, and is a fast and economical way to extend the benefits of its broadband network to these areas.

In addition to its strong product offerings in the conventional voice telephony services, your Company provides a full suite of broadband services focused on communication-intensive customers. The Hughes suite of Broadband Digital Data services includes Managed Leased Line services.

Your Company is the first service provider to provide network based Audio Conference services in India christened "Dial-a-Meet" which is aimed at your Company's corporate customers.

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

Your Company is also a Category A (National) ISP Licensee and offers a broad range of Internet-related products well-suited to its customers' needs and expectations and to complement your Company's other product offerings. Your Company also provides dial-up internet access and content services to more than 6,400 satisfied corporate customers. Your Company offers ADSL based "always-on" broadband internet services in this business segment.

Future Plans

As a result of far reaching changes in the regulatory environment, your Company is redrawing its project with limited further expansion of wired lines and growth expected to come through WLL Limited Mobility network.

Your Company seeks to expand its product offerings in order to provide its customers with an integrated suite of telecommunications products and services to satisfy their increasingly complex and rapidly changing needs for telecommunications solutions. These services include "last-mile" broadband connections for high-speed data and Internet access services, enhanced value-added services such as pre-paid calling cards, data application services such as

VPN, web hosting and voice messaging services. Subject to allocation of numbering scheme from the Department of Telecommunications of the Government of India, your Company is poised to launch Advance Intelligent Network Services, such as Calling Card services, Premium Rate services and Freephone services.

Your Company has completed the first phase of expansion of its network system through the construction of a state-of-the-art fiber optic cable network, capable of supporting the high-bandwidth requirements of its predominantly business subscribers, and ensuring seamless interconnection to all its customers. Your Company has become the first provider of broadband services in the State of Maharashtra. Your Company plans to further expand its coverage within the cities and towns where its network is present.

Your Company intends to extensively use Digital Subscriber Line ("DSL") technology to deliver bundled voice and data product offerings. This technology is a cost-effective, high-bandwidth option to deliver communication services over your Company's own network.

Project Financing

The discussions with the lenders are in progress to finalize a revised business plan for future expansion and to take into account the recent changes in tariff and the regulatory environment and are expected to be concluded in a few months.

The equity requirement of the project has been fully funded consequent to the Public Issue of Rs. 7,490 million in September 2000. The debt requirement comprises Rs. 8,540 million underwritten by ICICI Limited (now ICICI Bank Limited). ICICI Limited, together with your Company, is syndicating the debt through Indian Financial Institutions & banks and Rs. 10,780 million is proposed to be financed by way of vendor credit to be provided by your Company's vendors viz. Hughes Network Systems (Rs. 3,150 million) and Lucent Technologies Hindustan Private Limited (Rs. 7,630 million). On completion of the revised business plan, the terms of the debt facilities would be renegotiated with the lenders.

MATERIAL DEVELOPMENTS IN THE REGULATORY ENVIRONMENT

- **New Licensing Guidelines For Basic Telecom Operators**

  The new licensing guidelines applicable to new BSOs have provided for substantially lower entry fee and also do not envisage any obligation to provide VPTs. Your Company has filed a petition before the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) seeking a level playing field and its outcome is awaited. Meanwhile, based on the new guidelines, new licences and letters of intent have been issued to two companies in Maharashtra Telecom Circle (MTC).

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

  Basic services rentals and tariff for local calls in India has always been below cost so as to make telecom services affordable to the poorer sections of society. The deficit is intended to be met through retention of higher percentage of long distance revenues by Basic Service Operators (BSOs). The quantum of this retention has decreased significantly since January 2002 when National Long Distance (NLD) tariffs were reduced by about 60%. The incumbent operator, Bharat Sanchar Nigam Limited (BSNL) is also pressurizing BSOs for reduction in such retention percentage. TRAI is expected to announce by August 2002, cost based tariffs for all telecom services.

- **Carrier Selection**

  The NLD Licence Agreement mandates that telephone subscribers would have a choice of selecting the long distance carrier for inter-circle calls. To the extent technically possible, subscribers would also be provided the choice to select other BSOs to carry their intra-circle calls. As and when the incumbent operators i.e. Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) upgrade their telephone exchanges to provide carrier selection facilities to their subscribers, your Company intends to focus on becoming the preferred intra-circle carrier for BSNL/ MTNL subscribers. Your Company also intends to provide various options for carrier selection to its subscribers.

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

  The Government of India (GoI) has recently opened the International Long Distance (ILD) Services sector to competition from private players. The GoI has recently disinvested its stake in Videsh Sanchar Nigam Limited, the incumbent ILD Service operator. Six private players have recently been issued Letters of Intent for commencing ILD Services. While the telephone subscribers would benefit from this competition in the form of lower charges for international telephone calls, your Company may also be able to negotiate better terms with ILDOs and thus benefit in the form of a higher share of the revenue accruing out of international telephone calls generated or terminated on its network.

- **Limited Mobility**

  In January 2001, the GoI permitted your Company and other basic service operators to provide limited mobility

within a Short Distance Charging Area (SDCA) using the Wireless-in-Local-Loop (WLL) technology while concurrently allowing Cellular Mobile Service providers to offer fixed telecom services by utilizing their GSM networks. This decision was challenged by Cellular operators before TDSAT which however ruled against the Cellular Operators thereby confirming the legality of the GoI decision. An appeal has been filed, before the Supreme Court.

- **Internet Telephony Services**

  During the year, the GoI also announced guidelines allowing Internet Service Providers (ISPs) to provide Internet Telephony Services. Your Company, being a Category A (National) ISP Licensee, has applied for grant of licence to provide Internet Telephony Service and expects to receive such licence shortly. Your Company expects to be able to leverage its basic telecom network and infrastructure to capture a significant market share in this segment.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

(ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit or loss of your Company for that period;

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

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

Share Capital

There was no change in the paid-up share capital of your Company during the year; it stands at Rs. 14,053 million.

Fixed Deposits

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

Balance Sheet Abstract and Company's General Business Profile

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

Directors

Mr. Alok Gupta resigned from your Company's directorship w.e.f. 3rd April 2002. The Board appointed Mr. Jaykumar Dehejia as Director in the casual vacancy arising out of Mr. Gupta's resignation. Your Directors place on record their appreciation of the contribution made by Mr. Gupta to your Company.

During the year, the Board appointed Mr. John-Michael Lind as Alternate Director to Mr. Pramod Mittal.

M/s James Lucchese, Jack Shaw and Vijay Dhar, Directors retire at this meeting by rotation and being eligible offer themselves for re-appointment. Your Directors recommend their re-appointment in the interests of your Company.

Your Board has appointed Mr. George Varghese as the President & Chief Executive Officer (CEO) of your company in the Board Meeting held on 11th April 2002 to succeed Mr. Prakash Bajpai who resigned as President & CEO of your Company w.e.f. 5th April 2002. A Bachelor of Science and an MBA with an experience of 20 years, Mr. Varghese joined your Company on April 1, 1998 as Vice President - Sales. He was elevated in April, 2000 to the position of Senior Executive Vice President. Mr. Varghese, in his capacity as the Chief Operating Officer (COO), has overseen the successful sales, marketing, installation and customer service for over 160,000 lines.

Auditors

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

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

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

(i) Energy Conservation : Not Applicable

(ii) Technology Absorption :

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

(iii) Foreign Exchange Earnings and Outgo:

	(In Rs. Million)
Earnings	Nil
Outgo	591.21

Human Resources

Your Company's 800-plus employees keep your Company going and growing. It's been the commitment of your Company's employees that has built your Company's brand, preserved quality and kept customers satisfied. The employees hold a high degree of commitment and morale. Your Company gives considerable importance to training and employee development, emphasising on technical, behavioral and customer sensitivity training.

Consistent with your Company's intent on inculcating a sense of ownership amongst the employees towards your Company and creation of wealth for the employees through Shareholder value, an Employees' Stock Option Plan was introduced in 1999 and about 488 employees have already been granted warrants under the Plan during the financial year 2001-2002.

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

Further, the information as required to be disclosed in the Annual Report pursuant to the Securities & Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is also annexed to this Directors' Report as Annexure II and forms part of this report.

A certificate from M/s Deloitte Haskins & Sells, Chartered Accountants, Statutory Auditors, with regard to the implementation of your Company's Employee Stock Option Plan, would be placed before the members in the ensuing Annual General Meeting (AGM).

Corporate Governance

A report on Corporate Governance appears in this annual report. A certificate from M/s. Deloitte Haskins & Sells, Chartered Accountants, Statutory Auditors, with regard to compliance of the corporate governance code by your Company is annexed hereto as Annexure III and forms part of this report.

Acknowledgments

Your Directors wish to place on record their sincere appreciation of the assistance and support extended by customers, financial institutions, banks, vendors, employees, municipal authorities, electricity boards, public works department, Government of Maharashtra, Government of Goa, DoT and other departments of Government of India, TRAI, BSNL, MTNL, Association of Basic Telecom Operators (ABTO) and others associated with the activities of your Company. Your Directors record their sincere appreciation for the untiring efforts of the representatives of promoter companies at all levels working as a team for the implementation of the project.

For and on behalf of the Board of Directors

Place : London
Date : 28th May, 2002

Pramod Mittal
Chairman

Hughes Tele.com (India) Limited

Particulars of employees pursuant to section 217(2A) of the Companies Act 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2002

a) Employed throughout the financial year and in receipt of remuneration exceeding Rs. 12 lacs per annum

Sr. No.	Name	Age	Designation	Qualifications	Date of Joining	Prior Experience	Remuneration Received Rs.	Particulars of Last Employment Held
1	Mr. A R K Sarma	44	Director - Network Operations	A.M.I.E.T.E. (Computer Engg)	3-Aug-00	21 Years	1,307,164	Department of Telecommunications, Deputy General Manager
2	Mr. Arun Gupta	39	Assistant Vice President - Infotech	N.S.C.T.	28-Mar-01	16 Years	1,742,963	DHL World Wide Express, National IT Manager
3	Mr. Atul Ojha	37	Associate Director - Sales	B.Sc.	7-Sep-00	13 Years	1,351,909	Arvind Mills Ltd, Chief Manager - Telecommunications
4	Mr. Birjoo H. Mehta	44	Assistant Vice President - Product Management	B.Tech	2-Mar-98	18 Years	2,026,940	Matrix Paging (I) Pvt Ltd. , Sr. Vice President (Tech)
5	Mr. D V Iyer	48	Director - Administration	B.Com., MAM	5-Oct-98	21 Years	1,992,578	Airfreight Limited , Deputy General Manager
6	Mr. Dhananjay Saheba	47	Chief Technical Officer	B. Tech	19-Jun-00	22 Years	4,181,860	Lucent Technologies , Sr Manager - Business Development
7	Mr. Dilip C. Modi	58	Vice President - Program Management & Network Implementation	B.Sc. Engg	2-Mar-98	31 Years	2,347,062	British Telecom Plc. , Vice President
8	Mr. George Varghese	40	Senior Executive Vice President	B.Sc., MBA	1-Apr-98	19 Years	6,239,729	Indian Express Newspapers (Bombay) Ltd., Chief General Manager (Mktg.)
9	Mr. Gopal Srinivasa Pai	45	Director - Sales	B.E., PGDM	29-Oct-98	20 Years	1,834,443	Page Point Services India Ltd , Deputy General Manager
10	Mr. Haridev Khosla	45	Vice President - Network Operations	B.E.	2-Mar-98	23 Years	2,868,829	Mahanagar Telephone Nigam Limited , Deputy General Manager
11	Mr. Heramb Ranade	34	Associate Director - Product Management	B.E.(Electronics & Telecommunication)	16-Feb-00	10 Years	1,257,360	Tata Lucent Ltd, Deputy General Manager
12	Mr. Kishore Mukund Saletore	36	Treasurer & Head - Business Development	B.Com, ACA, PGDM	24-Nov-97	10 Years	2,364,475	ITC Limited , Exec Asst. to Dy Chairman
13	Mr. Krishnan Subramanian	49	Senior Manager - Network Operations	B.Sc (Maths)	24-Aug-98	14 Years	1,210,215	Mahanagar Telephone Nigam Ltd, Senior Deputy Engineer
14	Mr. Louis D'souza	48	Director - Sites & Material Logistics	B.Com, DMS	18-Aug-97	24 Years	2,280,346	Hutchinson Max Telecom Ltd , Sr. Manager, Materials
15	Mr. Madhav J Joshi	49	Chief Legal Officer and Company Secretary	B.Com.,LLB,FCS	1-Sep-98	29 Years	4,080,033	Bayer Industries Limited , Director and Secretary
16	Mr. Mulky Srinivas Rao	46	Assistant Vice President - Network Implementation	B.Tech	2-Mar-98	22 Years	2,013,148	GEIL Products & Services (I) Ltd. , Sr. Vice President (Project Services)
17	Mr. Muralidhar Sarma	35	Senior Manager - Materials	B.E Production, AICWA, MFM	17-Jan-00	12 Years	1,238,517	Godrej & Boyce Mfg Co Ltd, Manager Corporate Procurement
18	Mr. Naveen Chander Bhasin	53	Assistant Vice President - Customer Service & Revenue Assurance	M.Tech.,MBA,DCM	16-Jun-98	31 Years	2,516,159	Archana Technology Resource Park , Vice President
19	Mr. Prakash Bajpai	46	President & Chief Executive Officer	B.E.	15-Nov-99	20 Years	8,734,228	Tata Lucent Technologies Ltd , Vice President - Marketing & Sales
20	Mr. Prasad Tokekar	39	Associate Director - Human Resources	M.M.S.(Human Resources)	16-Mar-98	11 Years	1,486,175	Lakme Lever Ltd, Head - Human Resources
21	Mr. Rabindran Samuel	44	Director - Sales	MSW	15-Oct-98	16 Years	1,784,647	Modi Entertainment, Regional Sales Manager
22	Mr. Rajesh Hemrajani	32	Senior Manager - Sales	B.E.(Mechanical)	22-Dec-99	8 Years	1,287,016	Page Point Services India Ltd, Area Sales Manager - Corporate
23	Mr. Ratnesh Mittal	31	Senior Manager - PCO Business	P.G.D.M.(XLRI)	27-Nov-00	7 Years	1,200,984	E-India.com, Senior Manager - Brand Development
24	Mr. Sailesh Mody	33	Associate Director - Sales	B.E.(Electronics)	28-Jul-98	11 Years	1,482,854	Wipro Ltd, Regional Sales Managaer
25	Mr. Shishir Kumar	48	Director - Transmission	B.E.	14-Jul-98	27 Years	1,583,305	Hindustan Cables Ltd. , General Manager
26	Mr. Sridhar Ranganathan	43	Financial Controller	B.Com, ACA	15-Dec-97	17 Years	2,032,035	Gujarat Ambuja Cements Ltd. , General Manager - Accounts
27	Mr. Suneel Unni	42	Assistant Vice President - Sales	M.A.(Hons), PGDBM	2-Mar-98	16 Years	2,070,191	Sterling Holiday Resorts (I) Ltd. , General Manager (West)
28	Mr. Sunil Mohindra	37	Director - Investor Relations	B.E., Master's in International Business(IIFT)	15-Feb-01	10 Years	1,477,769	Powergen India Ltd , Project Development Manager
29	Mr. T.C. Raghavan	65	Chief Technical Advisor (Telecom)	B.E.	1-Nov-97	38 Years	1,852,469	Haris Telecommunications , Advisor, India Operations
30	Mr. Tushar Vaidya	37	Director - Marketing	P.G.D.M.(XLRI)	22-May-00	12 Years	1,311,187	Nestle India Ltd, Product Manager

b) Employed for part of the financial year and drawing not less than Rs. 1,00,000/- per month

Sr. No.	Name	Age	Designation	Qualifications	Date of Joining	Prior Experience	Remuneration Received Rs.	Particulars of Last Employment Held
1	Mr. Ashfaq Lal Sayed	33	Senior Engineer	B.E.(Electronics & Telecommunication)	13-Apr-98	7 Years	74,186	Mahanagar Telephone Nigam Ltd, Junior Telecom Officer
2	Mr. Chandrashekhar R Nene	47	Vice President - Information Technology	B.E., D.S/W.T.	22-Apr-98	23 Years	319,469	Birla AT&T Communications Ltd. , Vice President - Info Systems
3	Mr. Gautam M. Chainani	40	Vice President - Human Resources	B.Sc., MMS	1-Jan-98	16 Years	2,635,323	BPL Mobile Communications Ltd. , Head - HR
4	Mr. Gowri Shankar Sankara Narayan	45	Manager - Network Operations	B.Sc	1-Mar-99	15 Years	214,524	Mahanagar Telephone Nigam Ltd, Senior Deputy Engineer
5	Mr. Hemant Malpe	44	Senior Manager - ISP Operations	B.E.(Mechanical)	7-Jan-02	21 Years	315,123	BSES Telecom Ltd, Manager - ISP
6	Mr. R Rengarajan	41	Senior Manager - Network Operations	B.Sc, AMIE(Electronics & Telecommunication)	13-Apr-98	15 Years	302,095	Alcatel Modi Networks Systems Ltd, Deputy Manager
7	Mr. U P Joglekar	54	Director - Network Operations	B.E., MBA	1-Oct-98	32 Years	1,031,001	Modicom Networks Pvt. Ltd. , General Manager

Notes :

1) Remuneration includes Salary,Allowance,Contribution to Gratuity and Superannuation scheme with LIC and taxable value of perquisites.
2) All appointments are contractual and terminable by notice on either side.
3) None of the above employees is related to any of the Directors.

ANNEXURE II

PARTICULARS PURSUANT TO THE SECURITIES & EXCHANGE BOARD OF INDIA (EMPLOYEE STOCK OPTION SCHEME AND EMPLOYEE STOCK PURCHASE SCHEME) GUIDELINES, 1999

Options granted:

(i)	Cumulative	3,733,550
(ii)	During the year 2001-02	2,030,800
	Pricing formula	At par i.e. Rs. 10/- per share.
	Options vested (cum.)	802,470
	Options exercised (cum.)	Nil
	Options lapsed (cum.)	373,569
	Total number of shares arising as a result of exercise of options (cum.)	Nil
	Variation of terms of options	Not varied
	Money realised by exercise of options (cum.)	Nil
	Total number of options in force	3,359,981

Options granted to senior managerial personnel during financial year 2001-2002:

Sr. No.	Name	Designation	No. of Options
1.	Mr. George Varghese	President & Chief Executive Officer#	85,000
2.	Mr. H. D. Khosla	Vice President – Network Operations	50,000
3.	Mr. Madhav Joshi	Chief Legal Officer & Company Secretary	40,000
4.	Mr. Dhananjay Saheba	Chief Technical Officer	25,000
5.	Mr. T. C. Raghavan	Chief Technical Advisor	25,000
6.	Mr. Prakash Bajpai	President & Chief Executive Officer*	150,000

\# Appointed w.e.f. April 5, 2002, earlier he was Senior Executive Vice President

* Resigned w.e.f. April 5, 2002

Any other Employees to whom 5% or more of the total options have been granted during the year	None
Identified employees to whom options have been granted equal to 1% or more of the issued capital (excluding outstanding warrants & conversions) of the Company at the time of grant	None
Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS 33)	Rs. (1.06)

Number of employees to whom options have been granted:

(i)	Cumulative* till 31st March 2002	1,126
(ii)	during F.Y. 2001-2002	488

* Includes employees who have since left the employment of your Company.

ANNEXURE III

The Board of Directors
Hughes Tele.com (India) Limited

Re: Auditors' Certificate on Corporate Governance

We have examined the compliance of conditions of corporate governance by Hughes Tele.com (India) Limited for the year ended on 31st March, 2002 as stipulated in Clause 49 of the Listing Agreements of the said company with the Stock Exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring compliance of the conditions of corporate governance. 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, we certify that the company has complied in all material respects with the conditions of corporate governance as stipulated in the above mentioned Listing Agreements, except as stated in the relevant paragraphs of the Corporate Governance Report of the Board of Directors regarding the composition of the Board of Directors and the Audit Committee. In order to meet with the requirement of number of independent directors under Clause 49 of the Listing Agreements, the nominees of ICICI Bank Limited (formerly ICICI Limited)/other lenders need to be appointed on the Board of Directors and that of ICICI Bank Limited (formerly ICICI Limited) on the Audit Committee. The Company has informed us that no such nominee director has been appointed to date.

As required by the Guidance note issued by the Institute of Chartered Accountants of India, we have to state that according to the information and explanations given to us, no investor grievance is pending for a period exceeding one month against the company as per the records maintained by the Shareholders and Investor's Grievance Committee.

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 **DELOITTE HASKINS & SELLS**
Chartered Accountants

P.B. PARDIWALLA
Partner

Mumbai,
28th May, 2002

CORPORATE GOVERNANCE REPORT

STATEMENT OF COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Your Company believes in setting the highest standards of good and ethical corporate governance practices. The day to day management of your Company is fully delegated to the President & CEO who reports to the Board. The President & CEO is assisted by a team of highly qualified & experienced professionals.

Corporate Code of Conduct

Your Company is committed to integrity as the cornerstone of the way it does business. Your Company and its employees have a commitment to its customers, sub-contractors, suppliers, competitors, local communities, shareholders and the nation to conduct business in an ethical and legal manner. This includes:

- conduct of all dealings with your Company's customers and suppliers with honesty and integrity;
- respect for the rights of all employees to fair treatment and equal opportunity, free from discrimination or harassment of any type;
- knowledge, understanding and compliance with all laws, regulations and codes of conduct governing the operations of your Company's business;
- ensuring that all transactions are handled honestly and recorded accurately;
- protection of information that belongs to your Company or customers, suppliers and fellow workers;
- avoidance of conflict of interest, both real and perceived and
- recognition of the reputation of your Company and acting accordingly.

BOARD OF DIRECTORS

Composition

Your Company's Board of Directors comprises of 10 Directors, all of them are Non-Executive and 2 of them are Independent Directors*. The Board Structure is as under:

Director	Non-Executive (NE)/Independent	Promoter/Equity Investor whom the Director represents
Mr. Pramod Mittal	NE	Ispat Industries Limited
Mr. Pradman Kaul	NE	Hughes Network Systems Inc.
Mr. Jaykumar Dehejia@	NE & Independent	AEIF (India) Limited
Mr. Vijay Dhar	NE & Independent	—
Mr. Francis X. Frantz	NE	Alltel Corporation
Mr. Pradeep Kaul	NE	Hughes Network Systems Inc.
Mr. James Lucchese	NE	Hughes Network Systems Inc.
Mr. Vinod K. Mittal	NE	Ispat Industries Limited
Mr. Vivek Sett	NE	Ispat Industries Limited
Mr. Jack Shaw	NE	Hughes Network Systems Inc.

* An Independent Director is one who, apart from receiving directors' remuneration, does not have any other material pecuniary relationship or transactions with your Company, its promoters, its management or its subsidiaries, which in the judgement of your Board, may affect the independence of judgement of the Director.

@ Mr. Alok Gupta resigned w.e.f. 3rd April, 2002 and Mr. Jaykumar Dehejia was appointed w.e.f. 11th April, 2002 to fill the casual vacancy caused due to the resignation of Mr. Alok Gupta.

In addition, the Board has also appointed 7 Alternate Directors as under:

Name	Alternate To
Mr. Partho Banerjee	Mr. Pradeep Kaul
Mr. Sanjay Chaudhary	Mr. Francis X. Frantz
Mr. Paul W. Cheng	Mr. Jaykumar Dehejia
Mr. Arun Kumar	Mr. Jack Shaw
Mr. John-Michael Lind	Mr. Pramod Mittal
Mr. Pranav Roach	Mr. James Lucchese
Mr. Madhav Joshi*	Mr. Pradman Kaul

* Mr. Madhav Joshi has resigned as Alternate Director w.e.f. 25th April, 2002.

Mr. Pramod Mittal and Mr. Pradman Kaul are Chairman and Vice-Chairman respectively. Since the Board is chaired by a Non-Executive Chairman, the Corporate Governance guidelines issued by SEBI require at least one-third i.e. 4 Directors to be Independent Directors. Your Company currently has 2 Independent Directors on its Board and proposes to appoint 2 more Independent Directors who could be Nominees of financial institutions and banks participating in the financing of your Company's project. Such appointments of Nominee Directors would be necessary in terms of loan sanction letters and would take the total number of Directors to 12 and the total number of Independent Directors to 4 to meet the Board composition requirements.

The non-executive Directors had no material pecuniary relationship or transaction, vis-à-vis your Company, in their personal capacity during the year. The Directors, other than those in the employment of your Company, have not been issued any stock options by your Company during the year.

Participation and Interest of Directors

Since the commencement of the financial year 2001-2002 till the date of this report, a total of 7 Board Meetings were held on the following dates viz. 4th April 2001, 17th May 2001, 11th July 2001, 5th October 2001, 14th January 2002, 11th April 2002 and 28th May 2002. The maximum time gap between two board meetings was not more than four calendar months. The following table gives details of participation in Board Meetings and AGMs of your Company and the interests of Directors in other companies:

Director	Participation of Directors		Interest of Directors		
	Board Meetings#	Last AGM	Other Directorships @	Committee Memberships	Committee Chairmanships
Mr. Pramod Mittal	3	Yes	11	NIL	NIL
Mr. Pradman Kaul	5	No	4	2	NIL
Mr. Alok Gupta*	5	No	1	NIL	NIL
Mr. Jaykumar Dehejia*	1	No	NIL	NIL	NIL
Mr. Vijay Dhar	7	Yes	7	NIL	NIL
Mr. Francis X. Frantz	2	No	12	NIL	NIL
Mr. Pradeep Kaul	3	No	2	NIL	NIL
Mr. James Lucchese	1	No	2	2	NIL
Mr. Vinod K. Mittal	4	No	9	NIL	NIL
Mr. Vivek Sett	7	Yes	8	3	NIL
Mr. Jack Shaw	1	No	4	2	NIL
Mr. Partho Banerjee (Alternate to Mr. Pradeep Kaul)	4	No	NIL	NIL	NIL
Mr. Paul W. Cheng (Alternate to Mr. Jaykumar Dehejia)	1	No	NIL	NIL	NIL
Mr. Sanjay Chaudhary (Alternate to Mr. Francis X. Frantz)	5	Yes	1	NIL	NIL
Mr. Arun Kumar (Alternate to Mr. Jack Shaw)	1	No	4	1	NIL
Mr. John-Michael Lind (Alternate to Mr. Pramod Mittal)	1	No	NIL	2	NIL
Mr. Pranav Roach (Alternate to Mr. James Lucchese)	5	No	4	NIL	NIL
Mr. Madhav Joshi $ (Alternate to Mr. Pradman Kaul)	1	Yes	NIL	NIL	NIL

\# In the event that Directors are unable to attend meetings, they participate through a teleconference and/or the meeting is attended by the Alternate Director.

@ Includes directorships in private companies.

* Mr. Alok Gupta resigned w.e.f. 3rd April, 2002 and Mr. Jaykumar Dehejia was appointed w.e.f. 11th April, 2002 to fill the casual vacancy caused due to resignation of Mr. Alok Gupta.

$ Resigned as Alternate Director w.e.f. 25th April, 2002.

None of the Directors is a member in more than 10 committees and acts as a Chairman in more than 5 committees across all companies in which he is a director.

AUDIT COMMITTEE

The Board of Directors of your Company has, at its meeting held on 10th January 2001, appointed the Audit Committee in compliance of the Corporate Governance requirements.

Composition

The Audit Committee, of the Board of your Company, presently comprises of 4 members all of whom are Non-Executive Directors and out of which 2 are Independent Directors. The Committee functions under the Chairmanship of Mr. Vijay Dhar who is an Independent Director. Mr. Madhav Joshi, Chief Legal Officer & Company Secretary, acts as the Secretary to the Committee. The composition of the Committee is as follows:

Name of Member	Category/Position
Mr. Vijay Dhar	Independent Director
Mr. Vivek Sett	Non-Executive Director
Mr. Jaykumar Dehejia* or his alternate	Independent Director
Mr. James Lucchese	Non-Executive Director
ICICI Nominee (proposed)	Independent Director
Mr. Madhav Joshi	Secretary

* Mr. Jaykumar Dehejia was appointed (w.e.f. 11th April, 2002), in place of Mr. Alok Gupta, who resigned w.e.f. 3rd April, 2002 from the Committee.

Mr. Vivek Sett, a Chartered Accountant, who is a member of the Committee, has financial and accounting knowledge and possesses an experience of more than 20 years in the field of finance and accounts.

Terms of Reference

The terms of reference for the Committee as laid down by the Board include the following:

a) Overseeing your Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.

c) Reviewing with management, the half yearly and annual financial statements before submission to the Board, focusing primarily on:

   (i) any changes in accounting policies and practices

   (ii) major accounting entries based on exercise of judgement by management

   (iii) qualifications in draft audit report

   (iv) significant adjustments arising out of audit

   (v) the going concern assumption

   (vi) compliance with accounting standards

   (vii) compliance with stock exchange and legal requirements concerning financial statements

   (viii) any related party transactions i.e. transactions of your Company of material nature, with promoters or the management, their subsidiaries or relatives etc, that may have potential conflict with the interests of the Company at large.

d) Reviewing with the management, external and internal auditors, the adequacy of internal control systems and ensuring compliance therewith.

e) Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

f) Discussing with internal auditors any significant findings and follow up thereon.

g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

h) Discussions with external auditors before the commencement of the audit about the nature and scope of audit as well as have post-audit discussions to ascertain any areas of concern.

i) Reviewing your Company's financial and risk management policies.

j) Looking into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

k) Reviewing the half-yearly and annual financial statements before submission to the Board of Directors.

Committee Meetings

7 meetings of the Committee have been held since the commencement of the financial year 2001-2002 till the date of this report. The details of the same are as follows:

Date	Venue
4th April 2001	Mumbai
17th May 2001	New Delhi
11th July 2001	U.S.A.
5th October 2001	Mumbai
14th January 2002	Mumbai
11th April 2002	Mumbai
28th May 2002	New Delhi

The Attendance of the Committee Members at the above meetings is as follows:

Member	Committee Meetings	
	Held	Attended
Mr. Vijay Dhar	7	7
Mr. Vivek Sett	7	7
Mr. Alok Gupta*	5	5
Mr. Jaykumar Dehejia/ Mr. Paul W. Cheng*	1	1
Mr. James Lucchese	7	1

* Mr. Jaykumar Dehejia was appointed (w.e.f. 11th April 2002), in place of Mr. Alok Gupta, who resigned from the office of Director w.e.f. 3rd April 2002.

Mr. Paul W. Cheng has been authorised to attend the Audit Committee meetings as a member of the Committee in the absence of Mr. Jaykumar Dehejia.

REMUNERATION COMMITTEE

Your Company has not constituted such a Remuneration Committee since your Company has not employed any Executive or Whole-time Directors. Your Company has not paid sitting fees or any remuneration to any of the Directors.

INVESTORS' GRIEVANCES COMMITTEE

Composition

The Board of Directors of your Company has, at its meeting held on 10th January 2001, constituted the Investors' Grievances Committee comprising of Mr. Vivek Sett and Mr. Madhav Joshi. The Committee functions under the chairmanship of Mr. Vivek Sett who is a Non-Executive Director. Mr. Joshi resigned from the Board w.e.f. 25th April, 2002 and Mr. Pranav Roach was appointed as a member of the Committee effective 28th May, 2002.

Terms of Reference

The Committee would look into the redressal of the shareholders complaints in respect of any matter including transfer of shares, non-receipt of Annual Report, non-receipt of declared dividends, dematerialisation of shares, IPO refunds & complaints, etc.

Compliance Officer

Your Company has designated Mr. Madhav Joshi, Chief Legal Officer & Company Secretary as its Compliance Officer.

Summary of Investor Complaints

The status of Investor Complaints as on 31st March, 2002 was as follows :

Number of aggregate Complaints received (cum.)	:	294
Number of Complaints not solved to the satisfaction of shareholders	:	Nil
Number of pending share transfers	:	Nil

GENERAL BODY MEETINGS

Your Company's statutory meeting was held on 24th April, 1995. Further, till date, your Company has held 6 Annual General Meetings (AGM) and 9 Extra Ordinary General Meetings of shareholders. The details of the last 3 AGMs are as under:

Particulars	Date	Venue
4th Annual General Meeting	29th September 1999	Mumbai
5th Annual General Meeting	30th May 2000	Mumbai
6th Annual General Meeting	28th August 2001	Mumbai

No special resolutions have been put through postal ballot at any of the General Body Meetings and all the resolutions at these meetings have been passed unanimously. No resolutions are proposed to be passed by postal ballot at the ensuing Annual General Meeting.

RELATED PARTY TRANSACTIONS

There were no materially significant related party transactions during the year that in the opinion of the Board may have potential conflicts with the interests of your Company at large.

COMPLIANCE WITH LAWS

Your Company has exercised due diligence in complying with all applicable laws in the matter of conduct of its business and in particular, there has neither been any non-compliance on the part of your Company on any matter related to capital markets, during the last three years, nor have any penalties or strictures been imposed on your Company in this respect.

FINANCIAL RESULTS

Your Company approved its unaudited financial results for the quarter ended 31st December, 2001 at the meeting of the Board of Directors held on 14th January, 2002. The same were published in the 'Economic Times' in English and in 'Maharashtra Times' in Marathi on 15th January, 2002. The financial results as well as all other official news releases issued by your Company are displayed on its web site www.hughestele.net. Presentations to institutional investors or analysts whenever made, would be displayed on the web site.

CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING

In compliance with the Securities & Exchange Board of India (Prevention of Insider Trading) Regulations, 1992, your Company has framed a Code of Conduct for prevention of insider trading by Company insiders. Your Company has also put in place a Corporate Disclosure Policy in order to ensure timely disclosures of all material price sensitive information in a transparent manner. The above documents were taken on record by your Board at its meeting held on 11th April, 2002.

MANAGEMENT DISCUSSION & ANALYSIS

The Management Discussion and Analysis is attached and forms part of this Annual Report.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

The ensuing Seventh Annual General Meeting is scheduled to be held on Friday, 27th September, 2002 at 3.30 pm at Yashwantrao Chavan Pratishtan Auditorium, Y.B. Chavan Centre, Near Mantralaya, Gen. J. Bhosle Marg, Mumbai 400 021.

Financial Calendar

Your Company follows April – March financial year. The unaudited financial results for first, second (half yearly) and third quarter would be published in July, October and January respectively. Annual audited financial results would be published in May/June.

Date of Book Closure

The share transfer books and the members register will be closed between 17th September, 2002 and 27th September, 2002 (both days inclusive) for the purposes of the Seventh Annual General Meeting.

Listing on Stock Exchanges

Your Company's shares are listed on The Stock Exchange, Mumbai (BSE) and the National Stock Exchange of India Limited (NSE).

The addresses of the BSE & NSE are given below for the information of the shareholders:

The Stock Exchange, Mumbai
P. J. Towers
Dalal Street
Mumbai - 400 023.

The National Stock Exchange of India Limited
Exchange Plaza, 5th floor
Plot No. C/1, 'G' Block,
Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051.

Your Board confirms that the Annual Listing Fees have been paid to BSE & NSE.

Stock Code

The Stock Codes of your Company's shares on the BSE are as follows:

(a) Demat Segment Code No. 532371 Scrip ID HUGHESTELE

(b) Normal Segment Code No. 32371 Scrip ID HUGHESTELE

The Stock Code of your Company's shares on the NSE is HUGHESTELE, Series BT.

Market Price Data

The High & Low price, during each month in the last financial year, of your Company's shares is as follows:

Month	BSE		NSE	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2001	9.40	7.50	12.65	7.15
May 2001	12.05	8.55	12.90	8.60
June 2001	11.30	7.55	11.35	9.25
July 2001	9.65	8.05	10.25	7.10
August 2001	10.55	8.95	11.25	8.95
September 2001	9.60	7.40	9.65	7.25
October 2001	8.90	7.30	8.95	7.50
November 2001	9.50	8.10	9.50	8.05
December 2001	9.20	7.50	9.15	7.50
January 2002	8.50	6.95	8.45	6.95
February 2002	8.95	6.85	8.65	6.85
March 2002	8.10	6.95	7.95	6.90

Performance of Your Company's Share Price in comparison to BSE and NSE Indices

The performance of HTIL Share Price vis-à-vis the broad based BSE and NSE Indices during the financial year 2001-2002 is as under:

Particulars	HTIL Share Price v/s BSE		HTIL Share Price v/s NSE	
	Share Price (Rs.)	BSE Sensex	Share Price (Rs.)	NSE Nifty
As on 2nd April 2001	8.30	3566.26	8.35	1138.10
As on 1st April 2002	6.95	3500.18	6.90	1138.95
% Change	- 16.27	- 1.85	- 17.37	+ 0.07

Registrar & Share Transfer Agents

Your Company has appointed MCS Limited as its Registrar & Share Transfer Agents in the place of Computech International Limited vide resolution passed at the meeting of your Board held on 11th April 2002. Shareholders are advised to approach MCS Limited on the following address for any share & demat related queries and problems:

MCS Limited
Sri Padmavathi Bhavan,
Plot No. 93, Road No. 16,
M.I.D.C., Andheri (East),
Mumbai - 400 093.
Contact Person : Mr. Satish Rathod
Tel.: 022 – 8215235
Fax : 022 – 835 0456
E-mail : mcsmum@vsnl.com

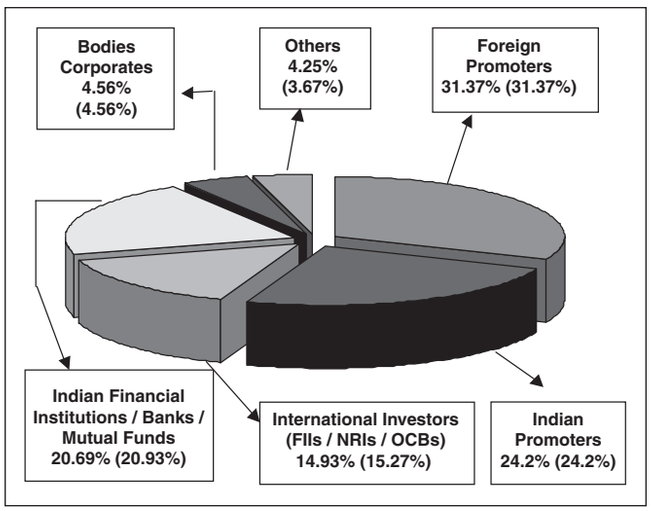
Share Transfer System

All physical share transfers are handled by MCS Limited. The transferee is required to furnish the transfer deed duly complete in all respects together with the share certificates to MCS Limited at the above said address in order to enable MCS Limited to process the transfer.

As regard transfers of dematerialized shares, the same can be effected through the demat accounts of the transferor/s and transferee/s maintained with recognized Depository Participants.

Distribution of Shareholding

The broad shareholding distribution of your Company as on 31st March, 2002 was as follows:



Note: Figures in brackets depict the position as on 31st March, 2001

Dematerialization of Shares & Liquidity

Approximately 93% of the shares issued by your Company have been dematerialised as on date. The trading in your Company's shares is compulsorily in dematerialized form. In order to afford full liquidity and efficient transfer mechanisms to the investor community, your Company has tied up with the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Thus, the investors can exercise dematerialization and transfer actions through a recognized Depository Participant (DP) who is connected to NSDL or CDSL.

Outstanding Employee Stock Options, GDRs, ADRs, etc.

Your Company has not issued any GDRs/ADRs/Warrants or any convertible instrument except 12,000,000 Employee Stock Options for one equity share each issued to Hughes Tele.com (India) Limited Employee Stock Option Plan Trust. These options are convertible into Equity Shares of your Company on payment by the employees of the Exercise Prices stipulated for the particular options. No shares have so far been issued against such options. Please refer Annexure II of the Report of the Board of Directors for further details.

Telephone Exchange Locations

Your Company provides services through its telephone exchanges located at Turbhe (Navi Mumbai), Worli (Mumbai), Nariman Point (Mumbai), Marol (Mumbai), Pune, Nasik, Panaji, Nagpur and Kolhapur.

Address for correspondence

Shareholders are requested to direct all share-related correspondence to MCS Limited and only the non-share related correspondence and complaints regarding MCS Limited to the Compliance Officer at the registered office of your Company. Shareholders holding shares in electronic (dematerialized) mode should address all share related correspondence to their respective depository participants.

Auditors' Certificate

The certificate dated 28th May, 2002 issued by M/s Deloitte Haskins & Sells, Chartered Accountants, Statutory Auditors on compliance of the Corporate Governance requirements by your Company is annexed to the Directors' Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956, and Indian Generally Accepted Accounting Principles (Indian GAAP) and the Accounting Standards as prescribed by the Institute of Chartered Accountants of India. There are no departures from the prescribed Indian accounting standards and the accounting principles applied for the preparation of the financial statements for the year under consideration are consistent with those applied during the previous years. Your Board believes that it has been objective and prudent in making estimates and judgements relating to the financial statements and confirms that these financial statements are a true and fair representation of the Company's operations and loss for the year.

A Background

The Company was incorporated on 13th March,1995 as Hughes Ispat Limited and effective 26th April,2000 was renamed Hughes Tele.com (India) Limited (HTIL). The Company's shares are traded on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE)

Hughes Tele.com is India's premier broadband network based telecommunication service provider. The Company is licensed to provide Basic telecommunication services in the western Indian states of Maharashtra (which includes Mumbai, India's commercial hub) & Goa and Internet services in India. The Company has expanded its network and currently provides telecommunication services in 10 large cities – Mumbai, Navi Mumbai, Pune, Nasik, Nagpur, Panaji, Ahmednagar, Kolhapur, Sangli and Aurangabad. These cities are fully interconnected on a Backbone comprising the Company's own fibre optic network and some leased lines from other service providers. The Company ended the financial year (March 2002) with about 160,000 subscriber lines (wireline and fixed wireless), an increase of about 90,000 lines over the previous year. The Company has also extended its services to 185 villages in rural and remote areas of Maharashtra.

B Industry structure and developments

The Indian telecommunication services industry can be broadly divided into the following segments

- Basic services (wireline and WiLL based wireless – both fixed and with limited mobility)
- Cellular mobile services (GSM)
- Long Distance services (Domestic and International)
- Data communications services
- Internet access services
- Internet Telephony services

The Company currently provides Basic telecommunication services, high-speed data communications and internet services in Maharashtra & Goa. The Company provides its customers access to Long Distance services by interconnecting with Long Distance Operators as the Company is not a Long Distance Operator. The Company has applied for an Internet Telephony License and expects to leverage its existing customer base, telecom network and other infrastructure to capture a significant market share in this new service segment.

The Government has divided India into a number of telecommunication circles, mostly contiguous with the state boundaries. In the MTC, the Company currently competes with the incumbent Government sponsored operators - MTNL in Mumbai and BSNL in the remaining part of the circle. Two other companies have been granted Licences or Letters of Intent to provide basic telecommunication services (including WiLL with limited mobility) in the MTC. New entrants into Basic telecom services have to pay a significantly lower License fees and do not have any VPT obligations in contrast with the Company's obligations. The Company has filed a petition before TDSAT seeking a level playing field and is awaiting its outcome.

Please also refer to the Material Developments in the Regulatory Environment section in the Directors report.

C Opportunities and Threats

Please refer to the Material Developments in the Regulatory Environment section in the Directors report.

D Product-wise performance

The Company provides telecommunication services including Internet services, which are discussed in detail under the Results of Operations section further on in this report.

E Outlook

Please refer to the Future Plans section in the Directors report.

F Risks and Concerns

The management believes that the Company's business is subject to a number of risks.

1. Business risks
2. Regulatory risks
3. Competition risks
4. Technology risks
5. Financing risks

1. Business Risks

The Company's revenues are significantly dependent on the general economic conditions. The overall economic weakness has constrained the revenue growth.

Please also refer to the Material Developments in the Regulatory Environment section in the Directors report.

2. Regulatory Risks

The Company is revising its business plan based on its view of the evolving regulatory framework. Some of the Regulations currently in-place have been challenged by different parties at the TDSAT or the Courts of Law. In the event that the assumptions used in the revised business plan differ from the eventual final regulations, there could be an impact on the Company's business plan possibly requiring further revisions in the business plan.

Please also refer to the Material Developments in the Regulatory Environment section in the Directors report.

3. Competition in the Company's lines of business:

Competition in Voice Telephony business:

The Company faces competition from the incumbent basic telecommunication service operators who have significant financial resources, well-established brand names, a large installed customer base, the potential to subsidize competitive services with revenues from a variety of business services and who, in certain respects, benefit from regulations that continue to favour incumbents over the Company. Two other companies have been granted Licenses or Letters of Intent to provide basic telephony services in the MTC. These new operators will increase the level of competition for the Company and the Incumbents. Additionally, the TRAI has the powers to stipulate conditions conducive to a healthy competition among operators, which may impact private telecom operators like the Company. However, the Company is well positioned to face competition by virtue of its service excellence, Broadband network, premier customer base and its high quality employees and systems.

Competition from ISPs and other value-added Internet Service Providers:

The Company's Internet access service faces significant competition from other ISPs, including VSNL and MTNL. However, the Company is confident of capturing a significant market share of its targeted market segment.

Please also refer to the Material Developments in the Regulatory Environment section in the Directors report.

Competition from Internet Telephony Service Providers:

The Government, based on TRAI recommendations has permitted Internet Telephony with some restrictions. Internet Telephony services, with all its constraints, may compete to some extent with the Company's existing telephony services. The Company has applied for an Internet Telephony Service License and intends to compete vigorously in this service segment by leveraging on its existing infrastructure and customer base.

4. Risk of rapid technological changes

The telecommunications industry is characterized by rapid technological changes and significant capital requirements. Given the fast pace of technological innovations in the telecommunication sector, the Company may need to upgrade its networks continuously. In case there is further convergence of the various forms of communications such as voice, data and video, the Company could face competition from a larger set of players - Fixed-line, CDMA based Wireless with Limited Mobility and GSM based Cellular telephony companies, ISPs, Cable TV operators and satellite based service providers.

However the Company has constructed a state-of-the-art broadband communications network which enables it to counter increasing competition. The Company is also poised to rapidly take advantage of any business opportunities that arise due to technological change or convergence in communications.

5. Financing risks

Please refer to the Directors' Report section on Project Financing.

G Internal control systems and their adequacy

An Audit Committee of the Board of Directors has been constituted as per provisions of Section 292A of the Companies Act, 1956 & Corporate Governance requirements specified by the stock exchanges. The Internal Auditor's Reports dealing with the Internal control Systems are considered by the Audit Committee and appropriate actions are taken, wherever deemed necessary.

The Company has an adequate internal control system in place. Internal Audit & Control Assurance is organized as an apex corporate function having direct reporting relationship to the Chief Financial Officer (CFO) & the Audit Committee of the Board of Directors. It conducts independent reviews & evaluation of all activities and operations as per the approved audit plans.

Financial Performance

A. Financial Condition

There was no significant change in the Share Capital, Reserves & Surplus, secured and unsecured loans

1. Fixed Assets

Year-end Gross Block increased by 32% to Rs. 21,514 million (previous year Rs. 16,257 million). The Company added new assets of Rs. 5,268 million (previous year Rs. 4,552 million) while deletions from Gross Block were Rs. 11 million (previous year Rs. 2 million).

Of the increase in the Gross Block, Rs.5,168 million was in Plant & Machinery while Rs. 45 million was in Furniture, Fixtures and Office Equipment. During the year, in addition to the expansion of the network and offices in the 6 existing cities, the Company commenced services in Kolhapur, Sangli, Aurangabad and Ahmednagar requiring additional Plant & Machinery as well as Furniture, Fixtures and Office Equipment.

Year-end Net Block increased by 29% (Rs. 4,183 million) to Rs. 18,632 million (previous year Rs. 14,449 million) after higher depreciation provision of Rs. 1,077 million (previous year Rs. 727million). Year-end Capital Work-In-Progress decreased to Rs. 1,334 million (previous year Rs. 2,748million). The decrease was due to the completion and commercial operation of a substantial part of our network under construction.

2. Investments

Year-end Investments decreased to Rs. 116 million (previous year Rs. 175 million). These investments represent residual funds out of the Initial Public Offering of shares during fiscal 2000-01. These short-term surpluses were invested in liquid debt plans of mutual funds, term deposits, etc. and are gradually being withdrawn for use in network buildout.

3. Sundry Debtors

As a percentage of telecom service revenues, Sundry Debtors decreased to 14% (previous year 17%). This was due to better receivables management.

4. Loans & Advances

Year-end Loans & Advances decreased substantially by 81% to Rs. 535 million (previous year Rs. 2,932 million). This was due to a substantial reduction in inter-corporate deposits to Rs. 305 million (previous year Rs. 2,650 million) as the deposits were withdrawn and used for funding the network buildout.

5. Current Liabilities and Provisions

During the year, Current Liabilities and Provisions increased by 23% to Rs. 10,163 million (previous year Rs. 8,269 million). While the sundry creditors increased by 26% to Rs. 9,561 million (previous year Rs. 7,609 million), the Provision for Contingencies remained almost unchanged at Rs 520 million (previous year Rs. 500 million). A significant component of the sundry creditors is comprised of our major equipment vendors including HNS and Lucent. They have supply contracts with the Company incorporating vendor financing. Most of these liabilities are expected to be converted to long term debt when the agreements for long term vendor financing are completed.

B Results of Operations

During the year, the Company earned its First Operating profit, (turned EBITDA positive), a major Milestone in the life of all Telecom projects worldwide. The Company's Operating profit (EBITDA) excluding Other Income increased by Rs. 706 million to Rs. 134 million as compared to an Operating Loss of Rs. 572 million during the previous year. The Operating profit was earned due to a significant increase in revenues, while costs increased at a slower rate leading to a significant increase in margins. The Operating margin increased by 46 percentage points to + 5% as compared to the previous years – 41%.

1. Total Income

Total income comprises revenues from Telecommunication Services and Other Income. Total income increased by 42% to Rs. 2,766 million for the financial year ended March 31, 2002 (previous year Rs. 1,950 million). The break up of total income is depicted in the table below:

Income	Year Ending March 31 2002 (Rs. in millions)	Year Ending March 31 2001 (Rs. in millions)	Increase (%)
Revenues from Telecommunication Services	2,525	1,392	81%
Other Income	241	558	-57%
Total Income	2,766	1,950	42%

2. Revenues from Telecommunication Services

Revenues from telecommunication services include :

- usage charges for outgoing local, domestic (STD) and International (ISD) long distance calls and interconnect charges for incoming calls from mobile phones.
- monthly rentals on lines - voice, leased data, and DSL,
- usage charges for internet access and audio conferencing services and
- installation charges for new subscriber, leased and DSL lines.

During the year, revenues from telecommunication services increased by 81% to Rs. 2,525 million (previous year Rs. 1,392 million).

This revenue growth has been largely driven by the 131% increase in the number of subscriber lines to 159,500 at the end of March 2002 (previous year 68,930 subscriber

lines). The revenue growth has been lower than the growth in lines due to a decrease in Average Revenue Per User (ARPUs). The decrease in ARPUs was driven by 3 main factors – weak economic conditions leading to lower usage and expense minimization by businesses, a decrease in Long Distance tariffs resulting in a decrease in revenues and a larger subscriber base with the addition of lower ARPU customers to the existing customer pool. We have observed some elasticity with lower Long Distance Tariffs driving up usage volumes among the more price sensitive customers. However the increase in volumes is not yet large enough to compensate for the lower revenues due to decrease in tariffs.

3. Other Income

Other Income decreased by 57% to Rs. 241 million (previous year Rs. 558 million). The decrease in Other Income was due to withdrawal of short-term surplus funds invested in liquid debt mutual funds, term deposits, etc. and their use for funding the network buildout.

4. Operating Expenses

The major operating expenses consist of network operation costs which include Interconnection and other access costs, the Operation Support System (OSS) fees and expenses, License fee payable to Department of Telecommunications (DoT), employee related expenses and administration and other expenses.

Operating expenses increased by 22% to Rs. 2,392 million (previous year Rs. 1,964 million). The Operating margin increased substantially to +5% (previous year -41%). The increase in margins was largely due to lower provisions for Contingencies alongwith the benefits of higher operating leverage as some expenses increased at a rate lower than the increase in revenues. The major operating expenses are :

Network Operation costs

These are costs incurred to operate and maintain the Company's networks – Interconnect and other access costs, Department of Telecommunication fees, OSS expenses, repairs & maintenance, power, etc.

During the year, Network Operation expenses increased by 78% to Rs. 1,503 million (previous year Rs. 846 million). This increase in expense was due to a significant increase in network size and expansion of coverage to 10 cities and 185 villages from 6 cities during the previous year. However the increase in network operation costs was lower than the increase in revenues resulting in the network operation expenses as a percentage of telecom service revenues decreasing by 1 percentage point to 60% (previous year 61%).

Interconnection and other access costs include the share of long distance telephony revenues paid out to the Domestic Long Distance (DLD) operator (40% of DLD charges billed) and the International Long Distance (ILD) operator (55% of ILD charges billed). Also included here is a License Fee, for the use of wireless spectrum, of 2% of wireless phones (WiLL) revenues, Port and leased line charges incurred by the Company while interconnecting with other OperatoRs. As a percentage of telecom service revenues, Interconnection and other access costs decreased by 1% point to 40% (previous year 41%). The Company expanded its inter-city connectivity with a combination of its own fibre optic network and leased lines from other service providers, leading to some savings in interconnect charges during part of the year.

The License Fee payable to Department of Telecommunications is 12% of the net revenues after deducting long distance Interconnect charges and service tax from the gross revenues. This fee increased by 109% to Rs. 201 million (previous year Rs. 96 million). As a percentage of telecom service revenues, the Fee payable increased by 1% point to 8% (previous year 7%). The previous year's expense was lower at 7% due to an adjustment (credit received) during that year consequent to the Department of Telecommunications fixing the Revenue Share at 12% as part of the NTP 1999 migration package instead of the previously mandated 15%.

The OSS expenses increased by 85% but continued to constitute 5% (previous year 5%) of telecom service revenues. The OSS expenses are partly dependent on the total number of subscriber lines.

Employee related expenses

The employee related expenses increased by 61% to Rs. 336 million (previous year Rs. 239 million). The increase in costs is due to the increase in number of employees by 98 to 832 at the end of the year (previous year 734) as well as significantly higher average number of employees employed with the Company during the year compared to the previous year. Expenses have also increased as the Company follows a policy of offering an attractive compensation package to ensure that it attracts and retains the highest quality of employees available within the industry. The telecom industry is currently witnessing high attrition rates due to the entry of many players into the industry. These incremental employees have been deployed primarily to man the additional switches, cell sites and customer service facilities consequent to the significant growth in operations of your company. As a percentage of telecom service revenues, these expenses decreased to 13% (previous year 15%); this decrease contributed to the increase in operating margins.

Administrative and other expenses

The major expenses are on rent, rates and taxes, insurance, repair and maintenance of buildings, other equipment, communications, electricity, travel and conveyance, legal and professional services, advertisement and business promotion, miscellaneous expenses, bad / doubtful debts and advances and contractual claims and liabilities including contingencies.

These expenses decreased to Rs. 552 million for the year (previous year Rs. 957 million). As a percentage of telecom service revenues, these expenses decreased substantially to 22% (previous year 69%) largely due to significantly lower contingency provisions. Excluding Contingency provisions, these expenses increased by 30% to Rs. 532 million (previous year Rs. 409 million) and as a percentage of telecom service revenues, they decreased to 21% (previous year 29%). The Company's administrative infrastructure is substantially in-place and it is now benefiting from the positive impact of operating leverage as the revenues increase rapidly while the administrative and other expenses are mostly fixed with small increases in some heads.

5. Finance and Treasury Charges

Finance and Treasury charges include interest paid on loans or overdue bills, expenses for loan arrangement, bank charges etc. and loss on foreign exchange fluctuations.

Total finance and treasury charges decreased to Rs.723 million (previous year Rs. 1,284 million). As a percentage of telecom service revenues, these expenses decreased to 29% (previous year 92%). The interest charges decreased by 10% to Rs. 664 million (previous year Rs. 735 million) whereas the year-end loans outstanding remained substantially unchanged. This decrease was because the previous year's expenses included interest paid on overdue vendors bills. Expenses on loan arrangement and bank charges declined significantly by 88% to Rs. 55 million (previous year Rs. 458 million) as most of the fees for arranging financing were paid upfront during the previous year. The loss on foreign exchange fluctuations decreased to Rs. 4 million (previous year Rs. 91 million) due to lower outstanding foreign exchange liabilities.

6. Depreciation and amortization of fixed assets

Depreciation on tangible and fixed assets other than leasehold assets is provided for on Straight Line basis at the rates specified in Schedule XIV to the Companies Act, 1956. Leasehold land and premises are amortized over the period of lease. Depreciation on intangible fixed assets is provided as under :

The fixed license fees of Rs. 5,325.4 million paid for the period upto July 31, 1999 is amortized equally (i.e. Rs. 266.3 million each year) over the license period of 20 years.

Computer software is amortized uniformly over its estimated useful life.

Total depreciation charges increased by 48% to Rs. 1,077 million (previous year Rs. 727 million). This increase in depreciation charges resulted from the increased capital investment by the Company on the expansion of its network assets during the year. As a percentage of telecom service revenues, these expenses declined to 43% (previous year 52%).

7. Taxes

No provision for current income tax has been made in the accounts, since there were no taxable profits for the year. No provision for deferred tax has been made in the accounts since the Company estimates that the accumulated deferred tax assets will offset the deferred tax liabilities.

8. Net Loss

The Company's net loss decreased by 29% to Rs. 1,485 million for the year (previous year Rs. 2,088 million). Most large Greenfield infrastructure telecom projects incur losses during the initial few years of the project implementation.

9. Liquidity and Capital Resources

At the end of the financial year 2001-02, the Company's cash and cash equivalent balance (including investments and deposits) declined to Rs. 1,317 million (previous year Rs. 3,677 million).

AUDITORS' REPORT

TO THE SHAREHOLDERS

We have audited the attached balance sheet of **Hughes Tele.com (India) Limited** as at 31st March, 2002 and also the Profit and Loss Account of the Company for the year ended on that date 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.

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 misstatements. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a Statement on the matters specified in paragraphs 4 and 5 of the said Order.

2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that :

   a) We have obtained all information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

   b) 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.

   c) The balance sheet and the profit and loss account dealt with in this report are in agreement with the above books of account.

   d) In our opinion, the balance sheet and profit and loss account comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

   e) On the basis of the written representations received from all the directors of the Company, and taken on record by the Board of Directors, we report that none of those directors is disqualified as at 31st March, 2002 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

   (f) In our opinion, and to the best of our information, and according to the explanations given to us, the said accounts, read together with the notes thereon, 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 :

      (i) In the case of the Balance Sheet, of the state of affairs of the company, as at 31st March, 2002, and

      (ii) in the case of the Profit and Loss Account, of the loss for the year ended on that date.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

P.B. PARDIWALLA
Partner

New Delhi
28th May, 2002

ANNEXURE TO THE AUDITORS' REPORT

Referred to in Paragraph 1 of our report of even date

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regards to the size of the Company and the nature of its assets. Accordingly, the physical verification of fixed assets has been carried out by the management during the year. We are informed that no material discrepancies were noticed on such verification as compared with the records of fixed assets.

2. The fixed assets have not been revalued during the year.

3. The Company holds an inventory of machinery spares, which are essentially capital in nature and are carried in the books under Capital Work-in-Progress. Such spares are, when required, also used for replacement, at which time they are charged to revenue. As the Company does not hold inventories as defined in Accounting Standard 2 on Valuation of Inventories, issued by the Institute of Chartered Accountants of India, items (iii), (iv), (v), (vi) and (xii) of clause A of paragraph 4 of the Order are not applicable to the Company.

4. The Company has not taken/granted any loans from/to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and from/to companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.

5. The Company has given to its employees, interest free as well as interest bearing loans. In respect of loans given to employees, where the principal amounts have fallen due for repayment during the year, the employees have repaid the loans as stipulated. In respect of those loans where the company charges interest, the employees have been regular in the payment of interest.

6. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of plant and machinery, equipment and other assets.

7. According to the information and explanations given to us, there are no transactions for purchase of goods and materials and sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- or more in respect of each party.

8. The Company has not accepted any deposits from the public.

9. The Company does not generate any disposable by product or scrap.

10. In our opinion the internal audit system of the Company is commensurate with the size and nature of its business.

11. The maintenance of cost records has not been prescribed by the Central Government under Section 209 (1) (d) of the Companies Act, 1956 for the business carried on by the Company.

12. The Company has regularly deposited Provident Fund and Employees State Insurance dues with the appropriate authorities.

13. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty outstanding for a period of more than six months as at 31st March, 2002 from the date they became payable.

14. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations, or in accordance with generally accepted business practice.

15. The Company is not a sick industrial company within the meaning of Clause (o) of sub section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

16. The nature of the service activities carried on by the Company does not require a system of recording receipts, issues and consumption of materials and stores and allocating materials consumed and labour to jobs. Further, the question of having a system of authorisation and internal control on issue of stores and allocation of stores and labour to jobs does not arise.

For **DELOITTE HASKINS & SELLS**

Chartered Accountants

P.B. PARDIWALLA

Partner

New Delhi
28th May, 2002

BALANCE SHEET AS AT 31st MARCH, 2002

	Schedule	As at 31st March, 2002 Rs. in millions	As at 31st March, 2001 Rs. in millions
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	**14,053**	14,053
Reserves and Surplus	2	**1,147**	1,147
		15,200	15,200
Loan Funds			
Secured Loans	3	**2,720**	2,722
Unsecured Loans	4	**795**	795
		3,515	3,517
Total		**18,715**	18,717
APPLICATION OF FUNDS			
Fixed Assets	5		
Gross Block		**21,514**	16,257
Less : Accumulated Depreciation		**2,882**	1,808
Net Block		**18,632**	14,449
Capital Work - In - Progress		**1,334**	2,748
		19,966	17,197
Investments	6	**116**	175
Current Assets, Loans and Advances			
Cash and Bank Balances	7	**896**	852
Sundry Debtors	8	**348**	238
Loans and Advances	9	**535**	2,932
		1,779	4,022
Less : Current Liabilities And Provisions	10	**10,163**	8,269
Net Current Liabilities		**(8,384)**	(4,247)
Miscellaneous Expenditure	11	**119**	179
(To the extent not amortised or adjusted)			
Profit and Loss Account		**6,898**	5,413
Total		**18,715**	18,717
Significant Accounting Policies and Notes to Financial Statements	15		

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.B. Pardiwalla
Partner

New Delhi
28th May, 2002

For and on behalf of the Board

Vijay Dhar
Vivek Sett
Directors

Madhav Joshi
Chief Legal Officer and
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2002

	Schedule	2001-2002 Rs. in millions	2000-2001 Rs. in millions
Income			
Telecommunication Services		**2,525**	1,392
Other Income	12	**241**	558
Total Income		**2,766**	1,950
Expenditure			
Operation and Other Expenses	13	**2,391**	1,964
Finance and Treasury Charges	14	**723**	1,284
Miscellaneous Expenditure amortised		**60**	64
Depreciation		**1,077**	727
Total Expenditure		**4,251**	4,039
Loss before Tax		**(1,485)**	(2,089)
Provision for Wealth Tax		**—**	—
(Current year Rs. 27,411/- Previous year Rs. 43,047/-)			
Excess Provision for Income tax in respect of earlier years		**—**	(1)
Loss after tax		**(1,485)**	(2,088)
Balance as per last accounts		**(5,413)**	(3,325)
Balance carried to Balance Sheet		**(6,898)**	(5,413)
Earnings Per Share - Basic and Diluted (Rs.)		**(1.06)**	(1.99)
Significant Accounting Policies and Notes to Financial Statements	15		

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.B. Pardiwalla
Partner

New Delhi
28th May, 2002

For and on behalf of the Board

Vijay Dhar
Vivek Sett
Directors

Madhav Joshi
Chief Legal Officer and
Company Secretary

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2002

	As at 31st March, 2002 Rs. in millions	As at 31st March, 2001 Rs. in millions
SCHEDULE - 1		
SHARE CAPITAL		
Authorised		
1,600,000,000 Equity Shares of Rs.10 each	**16,000**	16,000
	16,000	16,000
Issued and Subscribed		
1,405,326,661 Equity Shares of Rs.10 each fully paid up	**14,053**	14,053
	14,053	14,053
SCHEDULE - 2		
RESERVES AND SURPLUS		
Securities premium account		
Balance as at 1st April	**1,147**	—
Received on issue of shares	**—**	1,477
Less: Share Issue expenses	**—**	330
	1,147	1,147
SCHEDULE - 3		
SECURED LOANS		
From a Financial Institution - ICICI Ltd.		
Term Loans (Refer Note 1 below)	**2,200**	2,200
From Banks		
Bridge loans (Refer Note 2 below)	**500**	500
Interest Accrued and due thereon (Rs.312,880/-)		18
	500	518
Cash Credit Account (Refer Note 3 below)	**19**	—
Deferred payment credits (Refer Note 4 below)	**1**	4
(Includes Rs. 412,707/- (Previous year Rs. 2 million) due for repayment within one year)	**520**	522
	2,720	2,722

Notes :

1. Secured by first mortgage of all movable assets, both present and future, of the Company and immovable property viz. Office premises at Vashi, Land and Building at Turbhe- Navi Mumbai subject to a pari passu charge on movable properties in favour of Industrial Development Bank of India (IDBI) for guarantee assistance of Rs. 750 million. To be further secured by assignment of the Telecom Licence and proceeds on sale of network in the event of cancellation of the licence, in favour of the Institution and first mortgage of all immovable properties of the Company.
2. Secured by a charge by way of hypothecation of the Company's movable and immovable properties and book debts, present and future, subject to the charge in favour of IDBI (see Note 1 above) and ranking pari passu with the charges in favour of ICICI Ltd (see Note 1 above) and ICICI Bank Ltd (see Note 3 below). Rs. 250 million is further secured by a standby letter of credit from a third party.
3. Secured by a charge over the Company's movable and immovable properties and book debts, present and future, subject to the charge in favour of IDBI (see Note 1 above) and ranking pari passu with the charges in favour of ICICI Ltd (see Note 1 above) and Banks from whom Bridge loans have been obtained.
4. Secured by hypothecation of Vehicles acquired out of the Loans.

SCHEDULE - 4		
UNSECURED LOANS		
7,951,000, 12.75% floating rate (Previous year 13.75%) Non-Convertible Debentures of Rs. 100/- each redeemable on the expiry of 61 days from the date of allotment, i.e. 31st January, 2002 (Previous year 10th January, 2001)	**795**	795
	795	795

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2002

SCHEDULE - 5

FIXED ASSETS **Rs. in millions**

PARTICULARS	Notes	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As at 1st Apr. 2001	Additions during the year	Deletions during the year	**As at 31st Mar. 2002**	Upto 1st Apr. 2001	For the year	Deletions during the year	**Upto 31st Mar. 2002**	**As at 31st Mar. 2002**	As at 31st Mar. 2001
Tangible Assets											
Leasehold assets											
Land		62	2	—	**64**	4	1	—	**5**	**59**	58
Office premises		68	—	—	**68**	3	2	—	**5**	**63**	65
Buildings		20	4	—	**24**	2	*	—	**2**	**22**	18
Plant & Machinery	(a)	10,280	5,168	—	**15,448**	765	751	—	**1,516**	**13,932**	9,515
Furniture, Fixtures & Office Equipment											
- Own		362	35	—	**397**	81	43	—	**124**	**273**	281
- Acquired under finance lease		—	10	—	**10**	—	1	—	**1**	**9**	**—**
Vehicles	(b)	18	7	11	**14**	3	1	3	**1**	**13**	15
Intangible Assets											
Licence		5,326	—	—	**5,326**	932	266	—	**1,198**	**4,128**	4,394
Computer Software		121	42	—	**163**	18	12	—	**30**	**133**	103
		16,257	5,268	11	**21,514**	1,808	1,077	3	**2,882**	**18,632**	14,449
Previous year		11,707	4,552	2	16,257	1,081	727	—	1,808	14,449	

Notes : (a) Additions during the year include net exchange differences of Rs.168.28 million (Previous year Rs. 157.61 million) adjusted in the carrying values of the assets.

(b) Includes Rs. 11.77 million (Previous year Rs. 8.97 million) for vehicles acquired on hire purchase basis. Rs.4.90 million (Previous year Rs.3.36 million) has been paid by the Company till date.

(*) Rs. 724,084/-

SCHEDULE - 6

INVESTMENTS

Unquoted, Other than trade
Current investments (at lower of cost and fair value)
In units of Mutual Funds

	As at 31st March, 2002 No. of units	As at 31st March, 2001 No. of units	**As at 31st March, 2002 Rs. in millions**	As at 31st March, 2001 Rs. in millions
Prudential ICICI Liquid Plan - Growth	**1,148,485.992**	1,962,118.202	**16**	25
Zurich India Liquid Fund Savings Plan -Growth	**-**	13,845,301.83	**-**	150
HDFC Liquid Fund - Growth	**998,627.340**	-	**11**	-
Alliance Cash Manager - Growth	**5,367.641**	-	**8**	-
IDBI Principal Cash Management Fund - Growth	**2,509,148.631**	-	**28**	-
DSP Merrill Lynch Mutual Fund - Growth	**214,721.590**	-	**3**	-
Grindlays Super saver Income Fund	**456,380.814**	-	**5**	-
Balance of unutilised monies raised by issue of shares			**71**	175
Zurich India Liquid Fund Savings Plan-Growth	**3,872,011.755**	-	**45**	-
			45	-
			116	175

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2002

SCHEDULE - 6 ***(contd.)***

Note : Following units have been purchased and sold by the Company during the year.

	2001-2002 Number of units		2000-2001 Number of units	
	Purchased during the year	**Sold during the year**	Purchased during the year	Sold during the year
Prudential ICICI Liquid Plan - Growth	**94,683,140.048**	**93,534,654.056**	56,499,394.070	54,537,275.872
Zurich India Liquid Fund Savings Plan-Growth	**191,039,225.953**	**187,167,214.198**	37,740,849.610	23,895,547.782
HDFC Liquid Fund - Growth	**129,607,327.500**	**128,608,700.160**	24,733,618.928	24,733,618.928
Alliance Cash Manager - Growth	**155,669.250**	**150,301.609**	-	-
IDBI Principal Cash Management Fund - Growth	**35,869,530.329**	**33,360,381.698**	20,000,000.000	20,000,000.000
DSP Merrill Lynch Mutual Fund - Growth	**7,313,476.674**	**7,098,755.084**	-	-
Grindlays Super saver Income Fund	**25,040,281.457**	**24,583,900.643**	-	-
Kotak Mahindra Liquid Scheme-Growth	**-**	**-**	21,847,070.506	21,847,070.506

	As at 31st March, 2002 Rs. in millions	As at 31st March, 2001 Rs. in millions
SCHEDULE - 7		
CASH AND BANK BALANCES		
Cash on hand (Previous year Rs. 355,421/-) (including cheques on hand Rs. 6 million, Previous year Rs. 34,167/-)	**6**	
Balance with Scheduled Banks in		
— Current Accounts	**81**	69
— Term Deposit Accounts (including accrued interest Rs. 7 million, Previous year Rs. 32 million)	**809**	783
	896	852
SCHEDULE - 8		
SUNDRY DEBTORS (Unsecured)		
Outstanding for a period exceeding six months	**14**	6
Others	**348**	234
	362	240
Less : Provision	**14**	2
	348	238
Notes :		
1. Considered good	**348**	238
Considered Doubtful	**14**	2
2. Sundry Debtors comprise of billed trade receivables Rs. 248 million (Previous year Rs. 155 million) and unbilled trade receivables, not due Rs. 114 million (Previous year Rs. 85 million)		

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2002

	As at 31st March, 2002 Rs. in millions	As at 31st March, 2001 Rs. in millions
SCHEDULE - 9		
LOANS AND ADVANCES		
(Unsecured)		
Inter corporate deposits	**305**	2,650
Advances recoverable in cash or in kind or for value to be received		
Staff Loans	**11**	13
[Includes Rs. 2 million (Previous year Rs. 2 million) due from an officer of the Company. Maximum amount outstanding at any time during the year Rs. 2 million, Previous year Rs. 2 million]		
Deposits	**110**	165
Others	**115**	110
Tax paid (less Provision)	**2**	2
	543	2,940
Less : Provision for doubtful advances	**8**	8
	535	2,932
Note :		
Considered good	**535**	2,932
Considered doubtful	**8**	8
SCHEDULE - 10		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors other than small scale industrial undertakings (See Note below)	**9,556**	7,606
Deposits from Customers	**79**	84
Interest accrued but not due on loans	**3**	76
Provisions		
Provision for contingencies - Contractual claims/liabilities	**520**	500
Provision for leave encashment	**5**	3
	10,163	8,269
Note : Sundry Creditors includes liabilities that are due for payment after a period of 12 months Rs. 528 million (Previous year Rs. 4 million)		
SCHEDULE - 11		
MISCELLANEOUS EXPENDITURE		
(To the extent not amortised or adjusted)		
Preliminary expenses (Current year Rs. 44,763/- Previous year Rs. 52,223/-)		
Business process engineering expenses	**119**	179
	119	179

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2002

		2001-2002 Rs. in millions	2000-2001 Rs. in millions
SCHEDULE - 12			
OTHER INCOME			
Interest received (Tax deducted at source Rs.Nil, Previous year Rs. 63,756/-)		**189**	312
Profit on redemption of Units		**50**	12
Refund of Operating Support System fees		**-**	170
Gain on foreign exchange fluctuations (Rs. 25,448/-)		**-**	62
Miscellaneous Receipts		**2**	2
Provision no longer required (Rs. 287,504/- Previous year Rs. 146,866/-)			
		241	558
SCHEDULE - 13			
OPERATION AND OTHER EXPENSES			
Network Operation costs			
Interconnection and other access costs	**998**		575
Fee payable to Department of Telecommunication	**201**		96
Operations Support System costs	**131**		71
Repairs and Maintenance - Plant and Machinery (including machinery spares consumed Rs. 31 million, Previous year Rs. 38 million)	**100**		66
Power	**69**		35
Others	**4**		3
		1,503	846
Payments to and Provisions for Employees			
Salaries and Bonus	**286**		179
Contribution to Provident and other Funds	**18**		11
Staff Welfare	**32**		19
		336	209
Administration and Other expenses			
Rent		**166**	120
Rates and Taxes		**19**	11
Insurance Charges		**11**	9
Repairs and Maintenance			
Buildings	**6**		27
Other	**36**		21
		42	48
Communication costs		**19**	14
Electricity		**17**	24
Travel and conveyance expenses		**39**	39
Legal and professional charges		**54**	44
Advertisement and business promotion expenses		**56**	20
Miscellaneous expenses		**82**	68
Bad/Doubtful debts and advances		**24**	12
Loss on sale of fixed assets (net) (Previous year Rs. 404,917/-)		**3**	
Contractual claims and liabilities - Contingencies		**20**	500
		2,391	1,964
SCHEDULE - 14			
FINANCE AND TREASURY CHARGES			
Interest			
On Fixed Term Loans		**589**	492
Others		**75**	243
		664	735
Expenses for loan arrangement, bank charges etc.		**55**	458
Loss on Foreign exchange fluctuations		**4**	91
		723	1,284

SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

SCHEDULE - 15

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

1. Company background

Hughes Tele.com (India) Limited (the "Company") was incorporated on 13th March, 1995 under the name Hughes Ispat Limited. The Company changed its name on 26th April, 2000.

The Company is licensed to provide basic telecommunication services in the Maharashtra Telecom Circle (i.e. the states of Maharashtra and Goa). Presently it has 10 exchanges in operation and has plans to progressively cover other areas within the Circle. The Company is also licensed to provide internet services and has during the year, commenced commercial operations of these services.

2. Significant Accounting Policies

a) Basis of preparation of financial statements

The accompanying financial statements have been prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Principles and as per the provisions of the Companies Act, 1956.

b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Differences between actual results and estimates are recognised in the periods in which the results are known / materialise.

c) Fixed Assets

Fixed assets are stated at their historical cost of acquisition or construction, less accumulated depreciation.

The Company capitalises software and related implementation costs, where it is reasonably estimated that the software has an enduring useful life. Other application software purchased for internal use are charged to operations on purchase.

Expenditure related to and incurred during the construction period of switches and cellsites are capitalised as part of the construction cost and allocated to the relevant fixed assets.

Capital inventory comprises of switch, field unit cards, and capital stores that are carried under Capital Work in Progress, till such time as they are issued for new installation or replacement.

Assets acquired under finance leases are accounted for at the inception of the lease in accordance with Accounting Standard 19 on Leases at the lower of the fair value of the asset and present value of minimum lease payments.

d) Depreciation

i) Depreciation on tangible assets other than leasehold assets is provided for on Straight Line basis at the SLM rates specified in Schedule XIV to the Companies Act, 1956.

ii) Leasehold land and premises are amortised uniformly over the period of lease. Assets acquired under finance leases are depreciated over the lease term or their useful life, whichever is shorter. Accordingly, computers acquired under finance lease have been uniformly depreciated over the lease term of 30 months.

iii) Depreciation on intangible fixed assets is provided for as under:

Licence fees	—	Uniformly over the licence period.
Computer Software	—	Uniformly over its estimated useful life.

e) Foreign Currency transactions

i) Transactions in foreign currency are recorded at the original rates of exchange in force at the time transactions are effected.

ii) Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are adjusted in the carrying amount of the respective fixed assets. The carrying amount of fixed assets is also adjusted at the end of each financial year for any change in the liability arising out of expressing the related outstanding foreign currency liabilities at the closing rates of exchange prevailing at the date of the balance sheet or at the rates specified in the related forward contract.

iii) Monetary items (other than those related to the acquisition of fixed assets) denominated in foreign currency are restated using the exchange rates prevailing at the date of the balance sheet or rates specified in the related forward contract. Gains/losses arising on restatement and on settlement of such items are recognised in the profit and loss account under Other Income/Finance and Treasury Charges respectively.

f) Retirement benefits

Contributions to the Provident and Superannuation Funds are charged to revenue.

The gratuity liability is funded through a scheme administered by the Life Insurance Corporation (LIC) on the basis of LIC's demand which specifies the contribution to be made by the Company. Contributions made are charged to revenue.

Leave encashment benefits payable to employees is accounted for on accrual basis on the last salary drawn by the employees.

g) Stock based Compensation

The compensation cost of stock options granted to employees is measured by the difference between the market value of the Company's shares on the date of grant and the exercise price to be paid by the option holders. The compensation expense is amortised uniformly over the vesting period of the options.

h) Revenue recognition

Revenue from telecommunication services is recognised as the service is performed on the basis of actual usage of the Company's network / in accordance with contractual obligations.

i) Borrowing costs

Borrowing costs attributable to the acquisition of a qualifying asset, as defined in Accounting Standard 16 on Borrowing Costs, are capitalised as part of the cost of acquisition. Other borrowing costs are expensed as incurred.

j) Income taxes

Income taxes are accounted for in accordance with Accounting Standard 22 on Accounting for Taxes on Income. Taxes comprise both current and deferred tax.

Current tax is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.

The tax effect of the timing differences that result between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations.

The carrying amount of deferred tax assets at each balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realised.

k) Miscellaneous expenditure

i) Preliminary expenses are amortised over a period of ten years from the year in which the Company commenced commercial operations.

ii) Expenditure incurred in setting up Business Processes, where it is expected that benefits from the outlay will accrue in future periods, is amortised over a period of five years.

l) Earnings per share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard 20 on Earnings Per Share. Basic earnings per share is computed by dividing the net profit or loss for the year by the weighted average number of Equity shares outstanding during the year. Diluted earnings per share is computed by dividing the net profit or loss for the year by the weighted average number of Equity shares outstanding during the year as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

m) Share Issue Expenses

Expenses on issue of shares are written off to Securities Premium account.

n) Contingent liabilities

These are disclosed by way of notes to the accounts. Provision is made in the books for those liabilities which are likely to materialise after the year end, till the finalisation of accounts and those contractual claims/liabilities which may crystalise after negotiations with the concerned parties, and which have material effect on the position stated in the balance sheet.

		2001-2002 Rs. in millions	2000-2001 Rs. in millions
3.	Estimated amount of contracts remaining to be executed on capital account and not provided for (net)	**1,025**	1,427
4.	Counter guarantees given by the Company to Banks	**576**	251
5.	Contingent liabilities :		
	i. Claims etc. against the Company not acknowledged as debts	**3,371**	3,219
	ii. Income-tax demands disputed in appeals	**93**	93
	iii. The Company had paid during the previous year (under protest), a sum of Rs. 72 million to the Commissioner of Customs, Mumbai, pursuant to an inquiry carried out by the relevant authorities in connection with the import of Telecom equipment made by the Company in earlier years. The Company has till date not received a demand/show cause notice from the authorities, which when received will be contested. The amount of contingent liability, if any, is therefore at present not ascertainable.		

		2001-2002 Rs. in millions	2000-2001 Rs. in millions
6.	Managerial Remuneration under section 198 of the Companies Act, 1956, to the Manager (For the period from 1st April, 2000 to 10th January, 2001)		
	Salary	**—**	4
	Contribution to Provident and other funds (Previous year Rs.352,393/-)	**—**	
	Perquisites in cash or in kind (Previous year Rs.15,255/-)	**—**	4
	As no commission is payable to the Manager, the computation of net profits in accordance with Section 309(5) read with Section 349 of the Companies Act, 1956, has not been given.		
7.	Payments to Auditors (excluding service tax) :		
	i. Audit fees	**1**	1
	ii. Tax Audit fees (Previous year Rs.200,000/-)	**1**	
	iii. Other matters (certification work etc.) (Previous year Rs.365,000/-)	**3**	
	iv. Out of pocket expenses (Current year 15,093/- Previous year Rs.21,849/-)		
		5	1
8.	Significant prior period items:		
	Interest	**—**	3
	Interconnection and other access costs	**(2)**	—
	Repairs and maintenance	**—**	1
	Depreciation	**40**	—
	Others	**1**	6

9. The Company has in the accounts provided for fees payable to Department of Telecommunications (DoT) calculated with effect from 1st August, 1999, (i.e. the effective date of migration to NTP 1999) at 12% of gross revenues from its basic telecommunication business based on its interpretation of the New Telecom Policy (NTP 1999) announced by the Government of India and the migration package offered to the Company. These payments are however subject to the terms of licence agreement that will be finalised by DoT in accordance with the terms of Migration Package under NTP 1999.

10. As there are no profits, Debenture Redemption Reserve has not been created.

11. The DoT has asked the Company to submit an undertaking for fulfillment of Village Public Telephone and Direct Exchange Line obligations in accordance with the terms of the original licence before 31st December, 2002 and to provide an additional performance bank guarantee of Rs.500 million as security. The Company has till date provided a bank guarantee of Rs.200 million and has sought for additional time to provide the balance.

12. Stock Option Plan

In November 1999, the Company established the Employee Stock Option Plan (ESOP) under which equity shares are reserved for issuance to eligible employees of the Company. In terms of the plan 12 million warrants were issued to Hughes Tele.com (India) Limited Employees Stock Option Trust, to be held by it on behalf of the Company for awarding eligible employees, as and when advised by the Compensation Committee constituted for the purpose. Each allotted warrant carries with it a right to purchase one equity share of the Company at a price of Rs. 10/- per share. Other than 240,000 fully vested warrants allotted in an earlier year, all allotted warrants vest at the rate of 25% on each successive anniversary of the grant date, until fully vested. The period during which the vested warrants may be exercised expires after 10 years from the date of the vesting.

The position of the allotted warrants is as follows:

	(Nos.)	(Nos.)
Opening Balance	**1,556,850**	1,239,600
Issued	**2,030,800**	463,150
Forfeited	**227,669**	145,900
Exercised	**—**	—
Closing Balance	**3,359,981**	1,556,850

Since the market value of the Company's shares on the grant dates does not exceed the exercise price of Rs.10/-, no compensation expense has been recorded.

	2001-2002 Rs. in millions	2000-2001 Rs. in millions

13. Segment Reporting

The Company operates in single business and geographical segments.

14. Finance lease

The Company has acquired computers under a finance lease.

The total of minimum lease payments and their present values are as follows:

	As at 31st March 2002 Minimum Lease payments Rs. in millions	Present value of minimum lease payments Rs. in Millions
Due not later than one year	**9**	8
Due later than one year and not later than five years	**11**	9
As at 31st March, 2002	**20**	17

15. Income Taxes

No provision for current income tax has been made in the accounts, since the Company estimates that there will be no taxable profits for the year.

No provision for deferred tax has been made in the accounts since the Company estimates that the accumulated deferred tax assets will offset the deferred tax liabilities.

16. In respect of the public issue made by the Company during the Previous year, the balance of unutilised money aggregating to Rs.1,113 million (Previous year Rs. 3,352 million) is maintained in India in current investments, inter-corporate deposit and current accounts and term deposits with banks.

	2001-2002 Rs. in millions	2000-2001 Rs. in millions
17. Value of imports on CIF basis in respect of :		
Capital goods	**514**	978
Others	**2**	-
	516	978
18. Expenditure in foreign currency on account of :		
Interest	**7**	56
Professional fees	**-**	9
Others	**3**	5
	10	70

19. Value of Machinery Spares consumed during the year :

	Rs.in millions	%	Rs.in millions	%
Indigenous	**6**	**19.3**	3	7.0
Imported	**25**	**80.7**	35	93.0
	31	**100.0**	38	100.0

20. Related Party disclosures
(In terms of Accounting Standard – 18)

Name	Relationship	Nature of transaction	2001-2002 Rs. in millions	Debit/(Credit)As at 31st March, 2002 Rs.in millions
Hughes Electronics Corpn., USA	Promoter	Equipment Supply	**861.37**	**(3,711.34)**
Hughes Electronics Corpn., USA	Promoter	Pre-operative expenses	-	**(99.89)**
Ispat Industries Ltd.	Promoter	Licence to use building	**62.80**	-
Ispat Industries Ltd.	Promoter	Provision of Telecom services	**0.08**	**0.02**
Hughes Network Systems (I) Pvt. Ltd	Associate	Supply of Network related services	**153.60**	**(595.06)**
Hughes Network Systems (I) Pvt. Ltd	Associate	Provision of Telecom services	**0.64**	**-**
Alltel Information (India) Private Limited	Associate	Operating support system fees	**189.25**	**(528.02)**
Hughes Escorts Communications Ltd.	Associate	Supply of Equipment and service	**0.30**	**-**
Hughes Escorts Communications Ltd.	Associate	Training	*	**-**
Hughes Escorts Communications Ltd.	Associate	Provision of Telecom services	**2.33**	**0.10**
Hughes Software Systems Ltd	Associate	Provision of Telecom services	**0.03**	**0.03**
Prakash Bajpai	President & CEO	Salary	**8.66**	**-**
		Loan	**-**	**5.00**

*Rs.3,000/-

	2001-2002	2000-2001
21. Earnings Per Share Data		
The following is a reconciliation of the number of equity shares used in the computation of basic and diluted earnings per equity share:		
Basic earnings per equity share –		
Weighted average number of equity shares outstanding excluding unallocated shares of ESOP	**1,405,326,661**	1,047,123,958
Effects of Dilutive Potential Equity Share equivalents (Stock options/Advance against Equity)	**661,985**	3,211,765
Diluted earnings per equity share – Weighted average number of equity shares and potential equity share equivalents outstanding	**1,405,988,646**	1,050,335,723

In calculating the Earnings Per Share the effect of dilution is ignored since results are antidilutive.

22. Figures of the previous year have been regrouped/reclassified wherever necessary to correspond to figures of the current year.

Signatures to Schedules '1' to '15'

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.B. Pardiwalla
Partner

New Delhi
28th May, 2002

Madhav Joshi
Chief Legal Officer and
Company Secretary

For and on behalf of the Board

Vijay Dhar
Vivek Sett
} Directors

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2002

		2001-2002 Rs. in millions	2000-2001 Rs. in millions
A	**Cash flow from operating activities**		
	Net loss before tax	**(1,485)**	(2,089)
	Adjustments for :		
	Depreciation	**1,077**	727
	Loss on sale of fixed assets (net)	**3**	-
	Miscellaneous expenditure written off	**60**	64
	Provision for Contingencies	**20**	500
	Income from Investments	**(50)**	(12)
	Interest received	**(189)**	(312)
	Finance and Treasury charges	**723**	1,222
		1,644	2,189
	Operating profit before working capital changes	**159**	100
	(Increase) in Sundry Debtors	**(110)**	(138)
	Decrease/(Increase) in Prepayments and Other Receivables	**52**	(7)
	Increase in Current liabilities	**(51)**	(930)
	Cash Generated from Operations	**50**	(975)
	Direct tax refunds/payments (net)	**-**	10
	Net Cash from Operating Activities	**50**	(965)
B	**Cash Flow from Investing Activities**		
	Purchase of fixed assets	**(1,856)**	(3,597)
	Proceeds from Sale of Fixed assets	**5**	1
	Expenses incurred in setting up Business Processes	**-**	(13)
	Intercorporate deposits placed and withdrawn	**2,345**	(2,650)
	Income from Investments	**50**	12
	Interest received	**214**	281
	Net Cash from Investing activities	**758**	(5,966)
C	**Cash from Financing activities**		
	Net proceeds from Initial Public Offering	**-**	8,474
	Net Proceeds from long term borrowings	**239**	1,301
	Repayment of long term borrowings	**(258)**	(1,337)
	Finance and Treasury charges paid	**(779)**	(735)
	Net cash used in financing activities	**(798)**	7,703
	Net increase in cash or cash equivalents	**10**	772
	Cash and cash equivalents at beginning of period	**995**	223
	Cash and cash equivalents at end of period	**1,005**	995
		10	772

Notes to Cash Flow Statement

1. Components of Cash and Cash Equivalents includes Cash, Cheques on handbank balances in Current and Term Deposit Accounts and investments in Liquid Schemes of Mutual Funds (Refer Schedules 6 and 7 to the Balance Sheet)

2. Proceeds from Initial Public Offering is net of Share Issue Expenses.

3. Proceeds from long term borrowings is net of debt arrangement expenses.

4. Purchase of Fixed Assets are inclusive of movements in Capital Work in Progress between the commencement and end of the year.

5. Expenses incurred in setting up Business Processes bring into existence intangible benefits for an enduring period of time and have therefore been considered as part of investing activities.

For and on behalf of the Board

Vijay Dhar
Vivek Sett } Directors

Madhav Joshi
Chief Legal Officer and
Company Secretary

New Delhi
28th May, 2002

AUDITORS' CERTIFICATE

The Board of Directors,
Hughes Tele.com (India) Ltd.

We have examined the attached Cash Flow Statement of Hughes Tele.com (India) Limited, for the year ended 31st March, 2002. The statement has been prepared by the Company in accordance with the requirements of clause 32 of the Listing Agreements with stock exchanges and is based on and is in agreement with the corresponding profit and loss account and balance sheet of the Company covered by our report of 28th May, 2002 to the members of the Company.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

P.B. PARDIWALLA
Partner

New Delhi
28th May, 2002

BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	11-86354			State Code	11
Balance Sheet Date	31	03	2002		

II. Capital raised during the year (Rs. in millions)

Public Issue (Including Share Premium)	Rights Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

III. Position of Mobilisation and Deployment of Funds (Rs. in millions)

	Total Liabilities	Total Assets
	28,878	28,878
	Paid-up Capital	Reserves & Surplus
Sources of Funds	14,053	1,147
	Secured Loans	Unsecured Loans
	2,720	795
	Net Fixed Assets (including Capital Work-in-Progress)	Investments
	19,966	116
	Net Current Assets	Misc. expenditure (to the extent not amortised)
Application of Funds	(8,384)	119
	Accumulated Losses	
	6,898	

IV. Performance of the Company (Rs. in millions)

Turnover	Expenditure
2,525	4,251
Loss before tax	**Loss after tax**
(1,485)	(1,485)
Earning per share (Rs.)	**Dividend rate**
(1.06)	—

V. Generic Names of three Principal Products/Services of Company

Item Code No. (ITC Code)	Not Applicable
Product Description	Basic Telecom Services

For and on behalf of the Board

Vijay Dhar
Vivek Sett
Directors

Madhav Joshi
Chief Legal Officer and
Company Secretary

New Delhi
28th May, 2002

HUGHES TELE.COM

Hughes Tele.com (India) Limited

Registered Office : Ispat House, B.G. Kher Marg, Worli, Mumbai 400 018.

ATTENDANCE SLIP

Seventh Annual General Meeting on September 27, 2002

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company.

I hereby record my presence at the SEVENTH ANNUAL GENERAL MEETING of the Company at Yashwantrao Chavan Pratishthan Auditorium, Y.B. Chavan Centre, Near Mantralaya, Gen. J. Bhosle Marg, Mumbai - 400 021 at 3.30 p.m. on Friday, September 27, 2002.

Proxy's name in Block Letters ———————————————————

Member's/Proxy's Signature ———————————————————

Note : Please fill in this attendance slip and hand over at the ENTRANCE OF THE HALL.

TEAR HERE

TEAR HERE

HUGHES TELE.COM

Hughes Tele.com (India) Limited

Registered Office : Ispat House, B.G. Kher Marg, Worli, Mumbai 400 018.

PROXY FORM

DP ID * ———————————

Client ID * ———————————

I/We _____

of _____ in the district of

_____ being a member/members of the above

named Company hereby appoint _____ of

_____ in the district of _____ or

failing him _____ of _____

in the district of _____ as my/our proxy to vote for me/us on my/our behalf at the SEVENTH ANNUAL GENERAL MEETING of the Company to be held on Friday, September 27, 2002 and at any adjournment thereof.

Signed this ———— day of ———————— 2002.

Reference Folio

No. of Shares

Signature _____ Affix a 30 ps. Revenue Stamp

Note : This form in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Annual General Meting

* Applicable for investors holding shares in electronic (dematerialised) form.

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Addressee

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

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

HUGHES™

TELE.COM

Ispat House, B.G. Kher Marg, Worli, Mumbai 400 018.
Tel. : +91 (22) 461 5445 Website : www.hughestele.net