



TATA TELESERVICES (MAHARASHTRA) LIMITED

11th Annual Report
2005-2006

TATA TELESERVICES (MAHARASHTRA) LIMITED

Year on Year Performance

Particulars	[Amounts in Rs. Crores]										
	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99			
Income from Telecommunication	1,095.13	807.47	597.50	359.59	252.50	139.23	63.81	3.22			
Profit / (Loss) before Finance and treasury Charges, Depreciation, Exceptional Items & Tax	124.71	(66.12)	50.74	52.85	7.60	(46.42)	(119.57)	(28.19)			
Loss before Extraordinary Item and tax	(492.96)	(527.86)	(269.68)	(205.00)	(148.49)	(208.91)	(270.14)	(62.38)			
Extraordinary Item	47.25	-	-	-	-	-	-	-			
Loss after tax	(541.06)	(527.86)	(269.68)	(205.00)	(148.49)	(208.91)	(270.14)	(62.38)			
End of Period Subscribers (Nos. in Thousands)	1,840	1,006	488	232	165	75	22	12			

BOARD OF DIRECTORS

Mr. Ratan N. Tata (*Chairman*)

Mr. Kishor A. Chaukar

Dr. Naushad Forbes

Mr. R. Gopalakrishnan

Mr. Pradman Kaul (till June 20, 2006)

Mr. N. S. Ramachandran

Mr. Charles Antony (*Managing Director*)

COMPLIANCE OFFICER

Mr. Madhav Joshi

Chief Legal Officer & Company Secretary

Investor Services

Mr. Hiten Koradia

Tel. No. : 022 - 66615152

E-mail – investor.relations@tatatel.co.in

STATUTORY AUDITORS

M/s. Deloitte Haskins & Sells

Chartered Accountants

12, Dr. Annie Besant Road,

Opp. Shiv Sagar Estate,

Worli, Mumbai – 400 018.

REGISTRARS & SHARE TRANSFER AGENTS

TSR Darashaw Limited

Army & Navy Building,

148, Mahatma Gandhi Road,

Fort, Mumbai 400001.

Tel. No. : 022 - 66568484

Fax No. : 022 - 66568496

Email : csg-unit@tsrdarashaw.com

Website : www.tsrdarashaw.com

REGISTERED OFFICE

Ispat House, B. G. Kher Marg,

Worli, Mumbai – 400 018.

Tel. No. : 022 - 66615445

Fax No. : 022 - 66605516 / 5517

Website: www.tataindicom.com

E-mail: investor.relations@tatatel.co.in

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NOTICE

Notice is hereby given that the 11th Annual General Meeting of **Tata Teleservices (Maharashtra) Limited** will be held on **Thursday, August 10, 2006 at 1530 hours** at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai – 400 020 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts for the financial year ended March 31, 2006 alongwith the Report of auditors thereon as well as the Directors' Report and for that purpose to consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"RESOLVED THAT the Company's audited Balance Sheet as at March 31, 2006, the audited Profit and Loss Account and the audited Cash Flow Statement for the financial year ended on that date together with Directors' and Auditors' Report thereon be and are hereby approved and adopted."

2. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"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."

3. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"RESOLVED THAT in place of retiring director Mr. R. Gopalakrishnan, Mr. S. Ramadorai, in respect of whom the Company has received a notice pursuant to Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company liable to retire by rotation."

4. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"RESOLVED THAT in place of retiring director Mr. Kishor A. Chaukar, Mr. Arunkumar R. Gandhi, in respect of whom the Company has received a notice pursuant to Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company liable to retire by rotation."

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

"RESOLVED THAT Mr. Ratan N. Tata, an Additional Director, who ceases to hold office at this Annual General Meeting and in respect of whom the Company has received a notice pursuant to Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company liable to retire by rotation."

By order of the Board
For **Tata Teleservices (Maharashtra) Limited**

Madhav Joshi
Chief Legal Officer & Company Secretary

Registered Office:

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

Dated: June 20, 2006

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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 the 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 the Company on all working days between 11.00 a.m. and 1.00 p.m. up to the date of the Annual General Meeting.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, July 20, 2006 to Thursday, August 10, 2006 (both days inclusive).
5. Members' who holds shares in the physical form are requested to notify immediately change of address, if any, at the registered office of the 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.
7. A circular on the Nomination facility is available on the Company's web-site www.tataindicom.com under the link "TTML" under the "About Us" link. The shareholders holding shares in physical mode only are requested to go through the circular and appoint nominee/s, if any, in respect of their physical shareholdings at the earliest.

ANNEXURE

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

Item No. 3

Appointment of Mr. S. Ramadorai as Director

Mr. R. Gopalakrishnan retires by rotation as Director in this Annual General Meeting. Mr. Gopalakrishnan, though eligible for re-election, has informed the Company that he would not seek re-election as a Director of the Company in view of his other commitments.

The Company has received a notice pursuant to Section 257 of the Companies Act, 1956 from a member signifying an intention to propose Mr. S. Ramadorai as a candidate for the office of Director. Mr. Ramadorai is therefore eligible for appointment to the office of Director, whose office shall be liable to retirement by rotation.

Mr. S. Ramadorai is the Chief Executive Officer & Managing Director of Tata Consultancy Services Ltd (TCS). Armed with over 32 years of experience (he joined TCS on February 23, 1972 and took over as the CEO in 1996), Mr. Ramadorai has played an integral role in building TCS into India's first IT Services organization with US\$ 2 billion in annual revenues.

He has been designated as IT Advisor to Qingdao city and Hangzhou city, in the People's Republic of China. He is a fellow of the Institute of Electrical and Electronics Engineers and the Indian National Academy of Engineers, and is Chairman of the National Association of Software Companies (NASSCOM).

He is on the boards of Tata Industries Ltd, Tata Elxsi Ltd, Tata Technologies Ltd, WTI Advanced Technology Ltd, Aviation Software Development Consultancy India Ltd, Innova TV Inc. (USA), CMC Ltd, Hindustan Lever Ltd, Nicholas Piramal India Ltd, TCS Iberoamerica S.A. (Uruguay), Tata Solutions Centre S.A. (Uruguay), Tata Consultancy Services De Espana S.A. (Spain), Tata Consultancy Services Do Brasil S.A. (Brazil), Tata Consultancy Services Chile S.A. (Chile), Conscripti (pty) Ltd (South Africa), Tata Consultancy Services Ltd, Tata Teleservices Ltd, VSNL Singapore Pte. Ltd, C-Edge Technologies Ltd, Comicro S.A., Sisteco S.A. and Syscrom S.A. He is member of the Corporate Advisory Board, Marshall School of Business (USC).

Mr. Ramadorai does not hold any equity shares or any other securities in the Company.

The Board recommends the passing of this resolution in the interests of the Company. None of the Directors except Mr. Ramadorai is interested in the passing of this resolution.

Item No. 4

Appointment of Mr. Arunkumar R. Gandhi as Director

Mr. Kishor A. Chaukar retires by rotation as Director at this Annual General Meeting. Mr. Chaukar, though eligible for re-election, has informed the Company that he would not seek re-election as a Director of the Company in view of his other commitments.

The Company has received a notice pursuant to Section 257 of the Companies Act, 1956 from a member signifying an intention to propose Mr. Arunkumar R. Gandhi as a candidate for the office of Director. Mr. Gandhi is therefore eligible for appointment to the office of Director, whose office shall be liable to retirement by rotation.

Mr. Gandhi became an executive director of Tata Sons in August 2003, and is a member of the Group Corporate Centre. He is a fellow member of the Institute of Chartered Accountants of England and Wales, and that of India. He is an associate member of the Chartered Institute of Taxation, London.

Prior to joining Tata Sons, he was a senior partner at M/s N. M. Rajji & Company from July 1969 to July 2003. He became a senior partner in 1993. During his tenure with the firm, he handled a variety of client engagements, including advisory services relating to mergers and acquisitions, national and international tax issues, structuring efficient investment routes, and designing employee stock option plans.

He is also on the panel of arbitrators of the Indian Merchants' Chamber.

He is a director of Raychem RPG Ltd, Bayer Diagnostics India Ltd, Benares Hotels Ltd, The Paper Products Ltd, Tata Sons Ltd, UltraTech Cement Ltd, Tata Asset Management Co. Ltd, E2E Serwizsol Ltd, Tata Tea (GB) Ltd, Tata Tea Inc., Indo Maroc Phosphore S.A and VSNL Singapore Pte. Ltd.

He is a member of the Audit Committee of The Paper Products Ltd and UltraTech Cement Ltd. He is also the Chairman of the Audit Committee and Shareholders/Investors Grievance Committee of Bayer Diagnostics India Ltd.

Mr. Gandhi does not hold any equity shares or any other securities in the Company.

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The Board recommends the passing of this resolution in the interests of the Company. None of the Directors except Mr. Gandhi is interested in the passing of this resolution.

Item no. 5

Appointment of Mr. Ratan N. Tata as Director

Mr. Ratan N. Tata who was appointed additional director and Chairman of the Company on October 18, 2005, holds office till the date of the ensuing Annual General Meeting.

Mr. Tata has been the Chairman of Tata Sons, the holding company of the Tata Group, since 1991. He is the Chairman of the major Tata companies including Tata Motors, Tata Steel, Tata Consultancy Services, Tata Power, Tata Tea, Tata Chemicals, Indian Hotels, Tata Teleservices, Tata Industries and Tata Autocomp Systems. During his tenure, the Group's revenues have grown over six-fold to over Rs. 97,000 crore.

Mr. Tata joined the Tata Group in December 1962. After serving in various companies, he was appointed the Director-in-Charge of The National Radio & Electronics Company Ltd (NELCO) in 1971. In 1981, he was named Chairman of Tata Industries, the Group's other holding company, where he was responsible for transforming it into a Group strategy think-tank, and a promoter of new ventures in high technology businesses. He is also the Chairman of two of the largest private sector promoted philanthropic trusts in India.

Mr. Tata is associated with various organizations in India and abroad. He is the Chairman of the Government of India's Investment Commission and a member of the Prime Minister's Council on Trade and Industry, the Central Board of the Reserve Bank of India, the National Hydrogen Energy Board and the National Manufacturing Competitiveness Council. He also serves on the International Investment Council set up by the President of the Republic of South Africa and the International Business Advisory Council of the British Government to advise the Chancellor of the Exchequer. He is also a member of the International Advisory Council of Singapore's Economic Development Board, the Asia-Pacific Advisory Committee to the Board of Directors of the New York Stock Exchange and of the international advisory boards of the Mitsubishi Corporation, the American International Group and JP Morgan Chase.

Mr. Tata is President of the Court of the Indian Institute of Science and Chairman of the Council of Management of the Tata Institute of Fundamental Research. He is also a member of the Board of Trustees of the Ford Foundation, the Rand Corporation, Cornell University and the University of Southern California, and chairs the Advisory Board of RAND's Center for Asia Pacific Policy. He is also a member of the Global Business Council on HIV/AIDS and the Programme Board of the Bill & Melinda Gates Foundation's India AIDS Initiative. He is also a Director on the boards of reputed companies like Bombay Dyeing, Hindustan Aeronautics, Antrix Corporation and Fiat Ltd.

Mr. Tata received a Bachelor of Science degree in Architecture from Cornell University in 1962. He worked briefly with Jones and Emmons in Los Angeles, California before returning to India in late 1962. He completed the Advanced Management Program at Harvard Business School in 1975.

The Government of India honoured Mr. Tata with one of its highest civilian awards, the Padma Bhushan, on Republic Day, January 26, 2000. He has also been conferred an honorary doctorate in Business Administration by the Ohio State University, an honorary doctorate in Technology by the Asian Institute of Technology, Bangkok, and an honorary doctorate in Science by the University of Warwick.

Mr. Tata does not hold any equity shares or any other securities in the Company.

The Board recommends the passing of this resolution in the interests of the Company. None of the Directors except Mr. Tata are interested in the passing of this resolution.

By order of the Board
For **Tata Teleservices (Maharashtra) Limited**

Madhav Joshi
Chief Legal Officer & Company Secretary

Registered Office:

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

Dated: June 20, 2006

DIRECTORS' REPORT

Dear Members,

The Directors have pleasure in presenting the Eleventh Annual Report together with the Audited Statements of Accounts of the Company for the year ended March 31, 2006.

YEAR OF GROWTH AND CONSOLIDATION

The Company holds two Unified Access (basic + cellular) Services Licences ("UASL"), one for Mumbai Metro and the other for the rest of Maharashtra and Goa.

During the year, the Company consolidated its position in the market by increasing its share of new additions in the wireless market (i.e. fixed wireless and mobile) to 16%. The subscriber base of the Company registered almost 84% growth with the year-end subscriber base reaching 18.40 lacs.

Despite regulatory issues, the Company retained its market leadership position in the fixed wireless segment with 61% market share. It launched new customer premises equipments (CPEs) with enhanced features, such as fixed wireless phones with FM Radio features.

The launch of innovative schemes like Non-Stop Mobile in October 2005, which permitted free incoming calls for a period of two years, and subsequently Non-Stop Life in December 2005, boosted pre-paid mobile acquisitions.

During the year, the Company improved significantly customer satisfaction levels by concentrating on soft-skills training and undertaking programmes like Zero Error Billing. Acknowledging that there is always scope for improvement, it has undertaken new initiatives like 'indicom-Customer Appreciation & Response Excellence' (i-CARE) to improve customer response time and to empower and make accountable customer facing personnel.

PRODUCTS AND SERVICES

During the year, the Company focused on increasing its retail presence to penetrate the market better for its various products and services. The Company increased its subscriber base in the mobile and fixed wireless categories apart from enhancing its offerings of value added services.

The Company, using the franchisee model, has opened a large number of True Value Shops to display its range of services and offer a superior user experience to its customers.

The **mobile** subscriber base increased by 204% from 2.6 lacs to 7.9 lacs. The growth driver was the prepaid business where the Company pioneered in product innovations with the 0123 and Non-Stop Mobile plans. This growth was also fueled by the introduction of new handsets at attractive prices. During the year, the Company also introduced Maharashtra on Local by which customers in Mumbai could connect by way of a local call to customers all over Maharashtra and Goa and vice-versa.

The Company has reciprocal roaming arrangements with Tata Teleservices Limited (TTSL), which offers services in 17 other telecom circles, and thus the Company's subscribers now enjoy pan-India mobility. They would soon enjoy international roaming.

The **fixed wireless service** subscriber base increased by 51% from 5.50 lacs to 8.3 lacs. The Company introduced Walky Prepaid and also launched Indicom10 (ten digit numbering fixed wireless service) in rural Maharashtra. The Company is the market leader in this service.

During the year, the Walky brand received International accolades when it won the 'Best new service in Emerging Markets' award at the World Communication Awards, London in October 2005. Further, 3 new instrument models were launched with features like FM Radio and a 'Dust-proof' keypad. Tariff innovations included the innovative and customer-friendly 'Home2Mobile' tariff plans introduced in the last quarter of the year. A new product, Indicom 10, catering to the home phone needs of the up-country locations was also launched leading to a much higher penetration in this category. Prepaid Walky services were also extended to over 90 towns thus contributing to 20% of the total Walky base of the Company.

The Company continues to focus on **value added services** (VAS) offerings. The launch of Welcome Tunes (Caller Ringback Tunes), video streaming and other data services and content are bringing in improved revenues.

The Company is a Category A (National) ISP Licensee and offers a broad range of **Internet-related product offerings** including DSL, lease lines and dial-up internet access.

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NETWORK INFRASTRUCTURE

The Company has recently constituted a specialized infrastructure cell which will focus on expansion of the Company's network infrastructure whilst improving efficiency and reducing costs by adopting innovative methods and processes.

During the year, the Company rolled out CDMA wireless services in 46 new towns in Maharashtra and Goa. It now offers services in 171 towns and also along the major national highways linking various towns in Maharashtra & Goa. The Company's subscribers are therefore able to enjoy uninterrupted services while traveling by road and rail along the major travel routes in Maharashtra and Goa.

The Company and TTSL together provide service in approx. 2205 towns, which is proposed to be doubled during the current year.

The Company participated in an open bidding process for providing fixed phones in non-urban areas through Universal Services Obligation (USO) fund support. It won the bids and started providing services in Jalna, Kalyan, Nagpur, Pen and Ratnagiri telecom districts. Rural services have been launched in 43 SDCAs using Fixed Wireless Terminals. The Company is eligible to get subsidy towards meeting part of the capital expenditure and operating costs incurred for every line installed and operated at these locations.

The Company's network was operational and could successfully cope with very high traffic generated during the unprecedented floods in Mumbai in July 2005. The Company restored quickly its wired services in the affected areas.

The Company implemented cost efficiency measures by optimizing its infrastructure, increasing utilization factors and by use of power saving equipment. The Company entered into arrangements with other telecom operators for sharing of telecom infrastructure to optimize network costs. The Company has registered with DoT as Infrastructure Provider Class I so as to be able to share efficiently its infrastructure with other operators. There is no entry fee for such registration and revenues are not subject to licence fee.

QUALITY & PROCESSES

The Company was the first basic telecom service Company in India to receive ISO 9001:2000 certification in August 2002. The Company benchmarked its processes with inputs from world class consultants including IBM, TSMG and KPMG and got renewal of ISO 9001:2000 certification with the upgraded processes in August 2005. The Company has initiated implementation of TL 9000 requirements in line with the global trend in the telecom industry and has planned for certification to TL 9000 within the current financial year. The Company has implemented the Tata Business Excellence Model (TBEM), to serve its customers and other stakeholders with higher levels of value addition. The Company has completed training and certification programmes across all customer-facing units to ensure a consistent and superior customer experience.

FINANCIAL RESULTS

The financial results of the operations are given below:

	<i>(Rs. Crores)</i>		
Particulars	2005-06	2004-05	% Change + / (-)
Telecom Revenue	1095.13	807.47	36
Other Income	1.66	29.01	(94)
Total Income	1096.79	836.48	31
Expenditure	972.08	902.60	8
EBIDTA	124.71	(66.12)	289
Finance & Treasury Charges (Net)	145.77	144.73	1
Depreciation	471.90	317.01	49
Loss before Extraordinary item and tax	492.96	527.86	(7)
Extraordinary item	47.25	-	-
Loss before tax	540.21	527.86	2
Fringe Benefit tax	0.85	-	-
Loss after tax	541.06	527.86	3

The revenue growth is consistent with the growth in subscriber base considering that most subscriber additions happened in the second half of the financial year and the fixed line tariffs were reduced to match competition prices during the second half of the year.

Cost optimization efforts ensured lower rate of increase of 8% in operating expenses, compared with 36% increase in revenues.

The Company reported a positive EBIDTA of Rs.124.71 crores, representing a significant improvement over the previous year's negative EBIDTA of Rs.66.12 crores.

During the year, the Company re-estimated the balance useful life of certain fixed assets on account of technological obsolescence and the consequently enhanced pace of planned replacement. As a result, the depreciation charge for the year is higher apart from higher depreciation on account of substantial expansion of the Company's infrastructure.

Due to the unusually heavy rains and resultant floods in the city of Mumbai and other parts of Maharashtra and Goa during the year, certain fixed assets were seriously damaged. The Company has written off the amount being the written down value of these damaged assets and has disclosed the amount as an "Extraordinary item" in the Profit & Loss Account for the year, since the event is clearly distinct from the ordinary activities of the Company and cannot be expected to recur frequently or regularly. The Company is pursuing its insurance claims and would account the same once settled. As a result of the above, the Loss for the year was marginally higher.

FINANCING

Despite higher borrowings for expansion, the Company could maintain the finance costs at the previous year's level.

NATIONAL TELEDENSITY

The year 2005-2006 was an eventful year for the telecommunications sector as well as for the Company. The national tele-density (currently around 13%) targets were over-fulfilled. The Government has set a target of 25 crore connections by December, 2007 which now looks achievable.

The Company has requested the Government that in order to enhance participation of the private sector in meeting these objectives, the Government needs to provide expeditiously the required enablers like additional spectrum, rationalization of various levies including licence fees, taxes and duties and removal of access deficit charge (ADC), establishment of an effective interconnection enforcement mechanism, and adoption of flexible regulatory and licensing policies.

REGULATORY DEVELOPMENTS

● *Push to Talk (PTT)*

The Company, after holding discussions with the Telecom Regulatory Authority of India (TRAI) since May 2004, launched in November 2004 the innovative Push-to-talk (PTT) service on a non-chargeable basis. PTT enables subscribers to form groups and instantly connect with multiple persons across the country, who require short bursts of information thus increasing productivity and efficiency while simultaneously reducing costs. Commencing January 2005, DoT and TRAI sought some information which was furnished, and they directed the Company in February 2005 to discontinue the service. DoT thereafter levied a penalty of Rs.50 crores in January 2006, which has been challenged by the Company in TDSAT, and the demand has been stayed.

● *Numbering Change*

Based on numbering allocation received from DoT, the Company had been allotted "55" and "56" number series for its fixed wireless and wireline services. DoT in 2005 decided to allot the entire "6" numbering series to the Company and TTSI and asked them to migrate all existing fixed line connections to the new numbering series. The Company has migrated its wireline and fixed wireless subscribers to the "6" series.

● *New ADC Regulation*

With effect from March 1, 2006, the Telecom Regulatory Authority of India (TRAI) announced a new interconnection usage charges regime abolishing the distance bands for NLD/STD calls and imposing a flat maximum rate for the carriage charges. The operators have the freedom to negotiate the rates. The new regime also abolished the erstwhile Access Deficit Charges (ADC) payable to BSNL on a per minute basis and introduced an ADC charge as 1.5% of the Adjusted Gross Revenue. ADC on international calls still continues on a per minute basis but the rates have been reduced. The new interconnection usage charge regime has led to further reductions in tariffs and has prompted the introduction of One India plans.

The Association of Unified Telecom Service Providers of India (AUSPI), of which the Company is a member, has represented that Bharat Sanchar Nigam Limited (BSNL), a wholly owned Government of India undertaking, receives ADC from private telecom operators on the grounds that it rolls out services in rural areas; yet, the private operators are also obliged to contribute 5% of their revenues to the Universal Service Obligation (USO) Fund which was set up by the Government of India amongst other things for supporting rural telephony. The private operators thus bear a double burden while BSNL gets ADC even if it is making substantial profits;

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indeed, BSNL's use of ADC funds to offer very low tariffs even in urban areas which are not subject to regulated tariffs cannot be ruled out. All this creates a non-level playing field in favour of BSNL.

- **Spectrum**

The Government of India has appointed a Group of Ministers (GoM) to make recommendations on Spectrum Policy. This follows various recommendations made through 2005 by TRAI and by the Standing Committee of Parliament attached to the Ministry of IT and Telecom.

Without waiting for the GoM report, or specifically addressing the recommendations made by TRAI and the Standing Committee, the Department of Telecommunications (DoT) recently issued guidelines for allocation of spectrum to telecom service providers. These guidelines do not appear to be equitable and progressive in that they provide for allocation of more spectrum to GSM operators as compared to CDMA operators like the Company on the grounds that the CDMA technology is more spectrum efficient and enables the operator to serve more subscribers with the same amount of spectrum as compared to GSM technology. This violates the fundamental tenet of technology neutrality subscribed to by the Government ever since the New Telecom Policy of 1999 was adopted. The subscriber criterion prescribed, moreover, is unreasonably high and such method of allocation discriminates against the operators who start late. There is further no independent agency, which audits subscriber numbers reported by operators. The Company has represented to the Government against such inefficient and discriminatory allocation of a scarce national resource and has requested it to grant spectrum equitably irrespective of the technology used, utilizing, if necessary, an appropriate pricing methodology to ensure scarce spectrum is fairly allocated amongst all operators.

- **ADC on fixed wireless phones**

The Company and TTSL are market leaders in fixed wireless phones (FWPs) offered under the brand "Tata Indicom Walky". These phones, with the latest consumer friendly features like calling line identification, SMS, phone book, speaker phone, high speed internet without modem, voice mail etc, have become popular and are attracting wire line subscribers. As mentioned in last year's report, BSNL unilaterally treated these FWPs as mobile phones and raised demands for Access Deficit Charges (ADC). TDSAT upheld these demands and the Company has gone in appeal to the Supreme Court. Effective March 2006 the ADC is to be calculated as a percentage of revenues and hence this dispute is now confined to demands for past periods.

- **Unilateral Licence Clarifications, Directives and Amendments**

In several cases in the recent past, clarifications and directives which were retrospective in nature have been issued by the Government, instead of amendments to licences that would normally be prospective in nature, thus imposing unforeseen liabilities on the licencees. Examples include the clarification that fixed wireless phones, if not technically confined to subscriber premises, are to be treated as wireless limited mobility phones and thus would attract ADC payable to BSNL; and the directive for changing of the numbering scheme for fixed services. Such clarifications and directives have tended to be issued unilaterally by the Government, and have not been negotiated or subjected to any prior consultation process.

Licence amendments have also been made unilaterally by the Government. The latest such amendments made in December 2005, based on the Government of India's decision to permit foreign equity participation upto 74% (instead of 49%) stipulate that the majority of the Directors on the Board and Chairman, Managing Director, CEO, CTO and CFO are to be resident Indian citizens. These amendments also require the licencees to include a clause in their Memorandum of Association providing that the licencee would cease to carry on business in case of violation of certain conditions introduced by the December 2005 amendments. The Members have already consented to these amendments in the Extra Ordinary General Meeting held in March this year and they have authorised the Board to decide whether and when to include in the Memorandum & Articles of Association such clauses. The Board has not taken any decision so far as the Government, based on representations made by the Company, TTSL and some other operators, has extended the period for compliance till July 2, 2006 and it is understood that it is currently reviewing applicability of various conditions to telecom licencees who do not intend to increase the foreign equity participation beyond the earlier sectoral limit of 49%.

DIVIDEND

In view of losses, 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.

SHARE CAPITAL

During the year, the Company issued:

- a) an aggregate of 3,42,481 equity shares of Rs.10/- each at par, pursuant to the Company's Employee Stock Option Plan. The Company stopped grant of fresh options under this scheme since April 2001.
- b) an aggregate of 2,92,68,601 equity shares of Rs. 10/- each at a premium of Rs. 14.96 per share, pursuant to conversion of Foreign Currency Convertible Bonds (FCCBs). As of March 31, 2006, FCCBs aggregating to US\$ 63.41 million out of US\$ 125 million have been converted into equity at a premium of Rs.14.96 per share.

Due to the above, the paid-up share capital of the Company now stands increased from Rs.1490.97 crores to Rs.1520.59 crores.

In December 2005, the Board of Directors of the Company announced a rights issue of shares in the ratio of 2:25 with a price band of Rs.25-27 with issue size upto Rs. 330 crores. The record date and price could not be fixed due to delays in regulatory approvals. In June 2006, the Board revised the issue size to a maximum of Rs. 500 crores. The issue price, record date and entitled ratio could be decided in due course.

DIRECTORS

Mr. N. S. Ramachandran and Dr. Naushad Forbes are Independent Directors as regards the Company.

Effective October 18, 2005, Mr. F. A. Vandrevala who was Chairman of the Company resigned from the Board of Directors. The Board records its sincere appreciation of the valuable services rendered by Mr. Vandrevala.

Effective June 20, 2006, Mr. Pradman Kaul who was director of the Company since 1997 resigned from the Board of Directors. The Board records its sincere appreciation of the valuable services rendered by Mr. Kaul.

Mr. Ratan N. Tata was appointed as an Additional Director and Chairman of the Company w.e.f. October 18, 2005. A resolution has been proposed in the enclosed notice of the 11th Annual General Meeting ('the AGM') for his appointment as a Director liable to retirement by rotation. The Board recommends the appointment in the interests of the Company.

Mr. R. Gopalakrishnan and Mr. Kishor A. Chaukar, Directors retire by rotation at the ensuing Annual General Meeting but have informed the Company that they are not available for re-election as Directors due to their other commitments. The Board records its sincere appreciation of the valuable services rendered by Mr. Gopalakrishnan and Mr. Chaukar.

The Company has received notices pursuant to Section 257 of the Companies Act, 1956 from a member signifying an intention to propose Mr. S. Ramadorai and Mr. Arunkumar R. Gandhi as candidates for the office of Director. Resolutions have been proposed in the enclosed notice of the 11th Annual General Meeting ('the AGM') for appointment of Mr. Ramadorai and Mr. Gandhi as Directors liable to retirement by rotation. The Board recommends the appointments in the interests of the Company.

HUMAN RESOURCES

The Company is working towards institutionalizing a 'Performance-oriented' culture. The entire HR systems e.g. Recruitment, Performance Management System, Reward & Recognition have been aligned with the business objectives. The Company attaches considerable importance to training and employee development with focus on Customer sensitivity, Process and ISO training. A regular communication channel is maintained with the employees through Town halls, Departmental meets and such other forums. An independent Employee Engagement Survey is conducted annually involving the entire organization. The survey results are shared with the employees and an action plan is worked out through consensus. The Company has aligned its employee policies with those of TTSL in order to ensure uniformity.

Your Board sincerely thanks all the employees who have put in hard work and helped the Company to double its subscriber base during the year and to turnaround the EBIDTA from negative to positive.

SOCIAL RESPONSIBILITY

Social responsibility is a way of life in every Tata Group Company. Being a 'Responsible Corporate Entity' has been identified as one of the strategic objectives of the Company. Towards this end, various community initiatives were undertaken by the Company during the year.

As of March 31, 2006, the Company has provided about 2591 public telephone lines in remote villages, which did not have telephone facilities.

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Company Volunteers have participated in rural health and hygiene awareness camps in backward villages like those in Mokhada Taluka. Blood donation camps have been organized. Collection of clothes and distribution to the needy has been regularly done. Various SOS/ NGO organizations have been helped by mailing their donation requests through TTML bills. Mother Teresa Foundation Trust, Ramkrishna Mission, Prem Dham and D Y Patil Kala Kreedha Ani Sanskrutik Trust are some of the NGOs the Company is actively associated with. During unprecedented floods in Mumbai in July 2005, free Walky Phones were provided to Government agencies, free PCOs were provided at key locations in the city, and Help Line numbers were set up.

AUDITORS

● Internal Audit

The Board has re-appointed M/s. Axis Risk Consulting Services Private Limited as the Internal Auditors, effective April 1, 2006.

● Statutory 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 the Board recommend their re-appointment.

STATUTORY DISCLOSURES

● Directors' Responsibility Statement

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors, based on the representations received from the operating management, confirm that-

1. In the preparation of the annual accounts, the applicable accounting standards have been followed and there are no material departures;
2. They have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for the period;
3. They have taken proper and sufficient care, to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. They have prepared the annual accounts on a going concern basis.

● Auditors' Observations

Attention is invited to paragraph 10 in the Annexure to the Auditors' Report wherein the auditors have observed as follows:

'The accumulated losses of the Company exceed fifty percent of its net worth as at the end of the financial year. The Company had incurred cash losses in the immediately preceding financial year.'

● Directors' Comments

Attention is invited to the following note 23 in Schedule 14 forming part of the Balance Sheet and Profit and Loss Account which is self-explanatory and is reproduced below:

'23. Going Concern

The Company has been incurring losses and the accumulated losses of the Company at the close of the year exceed its paid up capital and reserves. This however is not an uncommon feature for telecommunication service providers in their initial years of commercial operations due to high operation costs of heavy infrastructure and high capital requirement for building the network. The Company presently has adequate commitments from its lenders for meeting its operating and financial requirements and continues to grow network. The Company is therefore being viewed as a going concern and accounts have accordingly been prepared under the going concern assumption.

● Fixed Deposits

The 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.

- **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: Electricity is used for the working of the Company's telephone exchanges and other network infrastructure equipment. The Company regularly reviews power consumption patterns across its networks and implements requisite improvements/changes in the network or processes in order to optimize power consumption and thereby achieve cost savings.
- (ii) Technology Absorption: The Company has not imported any technology. The Company has not yet established separate R & D facilities.
- (iii) Foreign Exchange Earnings and Outgo :

	Figures in Rs. Crores	
	Current Year	PreviousYear
Earnings	-	4.69
Outgo	17.68	3.52
Capital Goods	237.63	361.28

- **Particulars of Employees and Stock Options**

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

Further, the information as required to be disclosed in the Annual Report pursuant to the Securities & Exchange Board of India (Employees' Stock Option Schemes and Employees' 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 the Company's Employees' Stock Option Plan, would be placed before the members in the ensuing Annual General Meeting ("AGM").

- **Corporate Governance**

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

The Company has fully complied with all mandatory requirements prescribed under Clause 49 of listing agreements with Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE). The Company has also implemented some of the non-mandatory provisions. Observations made by DHS, in their report, are only in relation to non-mandatory requirements such as, quorum in additional meetings (beyond four meetings per annum) of the Audit Committee, and attendance of all the members in meetings of the Remuneration Committee.

ACKNOWLEDGEMENTS

The Directors wish to place on record their sincere appreciation of the assistance and support extended by customers, financial institutions, banks, vendors, Government and others associated with the activities of the Company.

For and on behalf of the Board of Directors

Place : Mumbai
Date : June 20, 2006

Ratan N. Tata
Chairman

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ANNEXURE I

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, 2006

a) Employed throughout the financial year and in receipt of remuneration exceeding Rs. 24 lacs per annum

Sr. No.	Name	Age	Designation	Qualifications	Date of Joining	Total Experience	Remuneration Received Rs.	Particulars of Last Employment Held
1.	Mr. Ajay Mathur	33	Vice President - Marketing	B. Com, DSM	9-Jun-03	15 Years	2,701,853	Reliance Infocomm Ltd, National Head - Direct Marketing
2.	CA. Amit Shah	37	General Manager - Finance & Accounts	B.Com, ACA	24-Dec-03	14 Years	2,434,214	BPL Mobile Communications Ltd, AGM - Finance
3.	Mr. Chandrajit Pati	38	General Manager - HR	MBA, M Sc, BSc.	16-Mar-05	15 Years	2,436,292	Bharti Televentures - Head HR
4.	Mr. Charles Antony	53	Managing Director	B.Sc (Maths), B.S. (Electrical Engineering)	1-Oct-04	26 Years	10,940,178	TATA Infotech Ltd, President & COO
5.	Mr. Dhananjay Saheba	51	Chief Technical Officer	B. Tech (IIT) M.S. (Columbia University)	19-Jun-00	28 Years	4,054,056	Lucent Technologies, Sr Manager - Business Development
6.	Mr. Gopal Srinivasa Pai	49	General Manager - Sales	B.E., PGDM	29-Oct-98	27 Years	2,550,043	Page Point Services India Ltd., Deputy General Manager
7.	Mr. Haridev Khosla	49	Vice President & Head - Network	B.E.	2-Mar-98	31 Years	4,746,136	Mahanagar Telephone Nigam Limited, Deputy General Manager
8.	CA. Kishore Mukund Saletore	40	Vice President - Finance	B.Com, ACA, PGDM	24-Nov-97	18 Years	4,239,827	ITC Limited, Exec Asst. To Dy Chairman
9.	Mr. Madhav J Joshi	53	Chief Legal Officer & Company Secretary	B.Com., LLB, FCS	1-Sep-98	34 Years	6,008,438	Bayer Industries Limited, Director And Secretary
10.	Mr. Rajesh Kovil	35	General Manager - Sales	BE	1-Dec-04	12 Years	2,531,014	Bharti Cellular DGM - Sales
11.	CA.S. Venkatesan	39	Vice President - Finance	B.Sc., AICWA, FCA	21-Jan-04	19 Years	2,707,031	IDEA Cellular GM - Finance
12.	Mr. Sanjay Thakur	40	General Manager - Network	ME, BE	6-Jul-04	17 Years	2,648,406	Ericsson India Ltd General Manager - Network Consulting
13.	Mrs. Swati Arte	39	General Manager - Customer Care	BA & MMMM	9-Aug-04	17 Years	2,511,616	Reliance Infocomm Ltd, Circle Head - Customer Care
14.	CA. Vivek Sett	51	Chief Financial Officer	B.Com, FCA	22-Jun-02	25 Years	8,508,086	Ispat Industries Limited, Director - Finance

b) Employed for part of the financial year and drawing not less than Rs. 2 lacs per month

Sr. No.	Name	Age	Designation	Qualifications	Date of Joining	Total Experience	Remuneration Received Rs.	Particulars of Last Employment Held
1	Mr. Pravin V. Patil	31	General Manager - Customer Service	B.Com	6-Mar-06	10 Years	656,977	Reliance Infocomm, Circle Head - Customer Service
2	Mr. Vivek Garg	44	Deputy Coo	B. Sc., PGDM	9-Feb-04	19 Years	3,590,932	BPL Mobile Communications, Dy. COO
3	Mr. Louis D'Souza	52	General Manager - Sites & Mtrl	B.Com, DMS	18-Aug-97	33 Years	825,384	Hutchinson Max Telecom Ltd, Sr. Manager, Materials
4	Mr. Shishir Kumar	52	General Manager - Network Implementation	B.E. (Electronics)	14-Jul-98	30 Years	1,281,654	Hindustan Cables Ltd, General Manager
5	Mr. Rajiv Luthra	40	Vice President - Operations	PGDBM	10-May-04	16 Years	1,957,788	Bharti Cellular, Head - Prepaid Business
6	Mr. V. Sivakumar	51	General Manager - Information Technology	B.Sc. (Maths), DCM, M.B.A.	14-Jul-98	28 Years	1,102,655	MTNL, Mumbai, Sub Division Engineer
7	Mr. Shailesh Dudani	31	Product Manager	B.E. (Electronics), MMM	21-Aug-00	9 Years	39,509	Convergent Communications, Asst. Manager - Sales
8	Ms. Vandita Shukla	30	Assistant Manager	B.E. (Electronics)	13-Aug-03	8 Years	36,805	Bharti Cellular, Sr. Executive

Notes :

- 1) Remuneration includes Salary, Allowance, Provident Fund and Superannuation scheme with L/C and 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 (EMPLOYEES' STOCK OPTION SCHEMES AND EMPLOYEES' STOCK PURCHASE SCHEME) GUIDELINES, 1999

Options granted:

(i) Cumulative (cum.)	37,33,550
(ii) During the year 2005-06	Nil
Pricing formula	Not Applicable
Options vested (cum.)	25,13,630
Options exercised (cum.)	24,36,805
Options lapsed (cum.)	12,34,860
Total number of shares arising as a result of exercise of options (cum.)	24,36,805
Variation of terms of options	Not varied
Money realised by exercise of options (cum.)	Rs. 2,43,68,050/-
Total number of options in force	64,936
Options granted to Senior managerial personnel during year 2005-2006:	NIL
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)	
- with extra ordinary item	Rs.(3.59)
- without extra ordinary item	Rs.(3.28)
Number of employees to whom options have been granted:	
(i) Cumulative* till March 31, 2006	349
(ii) during F.Y. 2005-2006	Nil

* Also includes employees who have since left the employment of the Company

ANNEXURE III

AUDITOR'S CERTIFICATE

The Board of Directors
Tata Teleservices (Maharashtra) Limited

We have examined the compliance of conditions of Corporate Governance by Tata Teleservices (Maharashtra) Limited for the year ended on March 31, 2006 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 with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement, subject to the following:

1. The Audit Committee of the Board of Directors of the Company held four meetings during the year as required under Clause 49 of the Listing Agreement. Additionally, the Committee made three more times during the year with the presence of one independent director but without a full quorum of two independent directors as required under Clause 49.
2. For the period April 1, 2005 to December 31, 2005, as required by a non-mandatory requirement of Clause 49 adopted by the Company all members of the remuneration committee, save one, were present at their meetings.

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

Membership No: 40005

Mumbai, dated May 18, 2006

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CORPORATE GOVERNANCE REPORT

STATEMENT OF COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The Company believes in setting the highest standards in good and ethical corporate governance practices. The Company is managed by the Managing Director under the supervision and control of the Board of Directors. The MD is assisted by a team of highly qualified & experienced professionals.

CORPORATE CODE OF CONDUCT

The activities and conduct of the Company and its employees are governed by the Tata Code of Conduct, which lays down the basic rules of good management practices, and ethical conduct. The major salutary principles prescribed by the Tata Code of Conduct are:

- (a) conduct of business in consonance with National interest,
- (b) fair and accurate presentation of financial statements,
- (c) being a Equal Opportunities employer,
- (d) prohibition on taking of gifts and donations which can be perceived to obtain business or uncompetitive favours,
- (e) practicing political non-alignment,
- (f) maintaining quality of products and services,
- (g) being a good Corporate Citizen,
- (h) ethical Conduct, and
- (i) commitment to enhancement of shareholder value and statutory compliance

BOARD OF DIRECTORS

Composition (as of May 18,2006)

The Company's Board of Directors comprises of 7 Directors, 6 of them are Non-Executive, and 3 of them are Independent Directors. The Board composition is as under:

Director	Non-Executive (NE) / Independent
Mr. Ratan N. Tata	NE
Mr. Kishor A. Chaukar	NE
Dr. Naushad Forbes	NE & Independent
Mr. R. Gopalakrishnan	NE
Mr. Pradman Kaul	NE & Independent
Mr. N. S. Ramachandran	NE & Independent
Mr. Charles Antony	Executive

Mr. Ratan N. Tata and Mr. Charles Antony are Non-Executive Chairman and Managing Director respectively. During the year Mr. F. A. Vandrevalla resigned from the Board of Directors of the Company. During the year, the Company appointed Mr. Ratan N. Tata as Additional Director and a Chairman of the Company w.e.f. October 18, 2005.

The Managing Director is a Executive Director and paid remuneration by the Company as per details given under the Section "Directors' Remuneration".

The non-executive Directors have no material pecuniary relationship or transaction vis-à-vis the Company in their personal capacity during the year. Sitting fees are paid to Directors for attending meetings of the Board and Committees. None of the Directors have been issued any stock options by the Company during the year.

Participation and Interest of Directors

Since the commencement of the financial year 2005-2006 till March 31, 2006, a total of 6 Board Meetings were held on the following dates viz. May 13, 2005, July 29, 2005, October 27, 2005, December 22, 2005, January 17, 2006 & March 16, 2006. The maximum time

gap between two board meetings did not exceed the limits prescribed in Clause 49 of the listing agreement. The following table gives details of participation of the directors of the Company in Board Meetings and AGMs of the Company and interests of these directors in other companies:

Director	Participation of Directors		Interests of Directors in Other Companies		
	Board Meetings	Last AGM	Directorships [@]	Committee Memberships [§]	Committee Chairmanships [#]
Mr. Ratan N. Tata	3	NA	14 (11)	NIL	NIL
Mr. Kishor A. Chaukar	6	Yes	12 (1)	6	4
Dr. Naushad Forbes	2	No	11 (3)	1	1
Mr. R. Gopalakrishnan	3	No	13 (3)	4	NIL
Mr. Pradman Kaul	NIL	No	1	NIL	NIL
Mr. N. S. Ramachandran	5	Yes	1	1	NIL
Mr. Charles Antony	6	Yes	NIL	NIL	NIL
Dr. J. J. Irani*	2	No	12	3	Nil
Mr. Ishaat Hussain*	2	No	14 (2)	8	3
Mr. F. A. Vandrevale*	2	Yes	5 (1)	2	Nil

Notes:

Figures mentioned in the brackets indicate the no. of companies in which each director is also the Chairperson

@ Includes directorships and chairmanships of private companies.

NA: Not Applicable

Includes memberships & chairmanships of audit committees & investors' grievances committees of Boards in other public companies.

§ Includes committees in which a individual holds chairmanship.

* Member of Board for part of the financial year 2005-2006.

None of the Directors is a member in more than 10 mandatory committees nor acts as a Chairman in more than 5 mandatory committees across all listed companies in which he is a Director.

Directors' Remuneration

The Company's Board of Directors comprises of 6 non-executive directors and 1 executive Director. The details of remuneration paid by the Company to its Directors during the financial year 2005-2006 is as follows:

Name	Salary (Rs.)	Allowances (Rs.)	Perquisites (Rs.)	Performance Pay (Rs.)	Stock Options (number)	Sitting Fees (Rs.)	Total
Mr. Ratan N. Tata	0	0	0	0	0	0	0
Mr. F. A. Vandrevale	0	0	0	0	0	10,000	10,000
Mr. Kishor A. Chaukar	0	0	0	0	0	65,000	65,000
Dr. Naushad Forbes	0	0	0	0	0	58,000	58,000
Mr. R. Gopalakrishnan	0	0	0	0	0	15,000	15,000
Mr. Ishaat Hussain	0	0	0	0	0	10,000	10,000
Dr. J. J. Irani	0	0	0	0	0	10,000	10,000
Mr. Pradman Kaul	0	0	0	0	0	0	0
Mr. N. S. Ramachandran	0	0	0	0	0	1,11,000	1,11,000
Mr. Charles Antony	34,18,160	23,22,707	16,45,843	36,35,000	0	0	110,21,710

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Mr. Charles Antony is not entitled to payment of any sitting fees for any Board or Committee meetings. Mr. Antony's appointment can be terminated by either party by giving six months' notice or by the Company paying six months' basic salary in lieu thereof.

The Board has approved the payment of sitting fees to non-executive directors as follows:

- a) independent directors – Rs. 8000/- plus out of pocket expenses for every meeting of the Board and Audit Committee and Rs. 5,000/- per meeting of Remuneration Committee and any other committee of the Board.
- b) Non-independent directors – Rs. 5000/- for every meeting of the Board and any committee of Board.

As on March 31, 2006, none of the directors of the Company held any equity shares or convertible instruments of the Company.

Except as disclosed in this Annual Report, there are no pecuniary relationship or transactions of Non-Executive Directors vis-à-vis the Company.

Information placed before Board of Directors

The Company has laid down procedures to inform Board members about the risk assessment and minimization procedures. The Board also periodically reviews compliance reports of all laws applicable to the Company, prepared by the Company as well as steps taken by the Company to rectify instances of non-compliances. All information, which is required to be placed before the Board of Directors under Clause 49 of the listing agreements with stock exchanges, has been duly placed before the Board of Directors during the year.

AUDIT COMMITTEE

Composition (as of May 18, 2006)

The Audit Committee of the Board of the Company presently comprises of 4 members all of whom are Non-Executive Directors and of them, 3 are Independent Directors. The Committee functions under the Chairmanship of Mr. N. S. Ramachandran who is an Independent Director. Mr. Madhav Joshi, Chief Legal Officer & Company Secretary, acts as the Convener to the Committee. The composition of the Committee is as follows:

Name of Member	Category / Position
Mr. N. S. Ramachandran	Independent Director / Chairman
Mr. Kishor A. Chaukar*	Non-Executive Director / Member
Dr. Naushad Forbes	Independent Director / Member
Mr. Pradman Kaul	Independent Director / Member

* Mr. Chaukar has financial and accounting knowledge and possesses 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 the 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 quarterly, 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 the Company of material nature, with promoters or the management, their subsidiaries or relatives etc., that may have potential conflict with the interests of 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 discussion to ascertain any areas of concern.
 - i) Reviewing the 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) To review the functioning of the Whistle Blower Policy adopted by the Company.
 - l) To review report on Management Discussion & Analysis of Financial Condition and Results of Operation, to be included in the Company's Annual Report to its shareholders.

Statement of related party transactions, fraud-related reports, quarterly results and management letters from Auditors are regularly placed before Audit Committee.

Audit Committee Meetings

Audit Committee had 4 meetings during the year as required. In addition, the Committee during F.Y. 2005-06 met 3 more times with one independent director but without a full quorum of two independent directors. The details of the same are as follows:

Date	Venue
May 13, 2005	Mumbai
August 26, 2005	Mumbai
October 15, 2005	Mumbai
October 27, 2005	Mumbai
December 9, 2005	Mumbai
January 17, 2006	Mumbai
February 8, 2006	Mumbai

The maximum time gap between two consecutive Audit Committee meetings held during the year has never exceeded 4 months.

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

Member	Committee Meetings	
	Held	Attended
Mr. N. S. Ramachandran	7	7
Mr. Pradman Kaul	7	Nil
Mr. Kishor A. Chaukar	7	7
Dr. Naushad Forbes	7	4

REMUNERATION COMMITTEE

This is a non-mandatory requirement. The Company has constituted such a Remuneration Committee for the purpose of approving from time to time, the remuneration payable to the Managing Director and executive director/s and to discharge any other statutory duties and functions as may be specified under the law, or to perform such task/s as may be entrusted by the Board of Directors from time to time. The Company pays sitting fees to non-executive directors. The Company also reimburses out-of-pocket expenses incurred by the Independent Directors in connection with attending Board Meetings and Committee Meetings. The Company's Remuneration Committee comprises of 3 Directors, all of them are Non-Executive Independent Directors. The committee composition **(as of May 18, 2006)** is as under:

Name of the Member	Category / Position
Mr. N. S. Ramachandran	Independent Director / Chairman
Mr. Pradman Kaul	Independent Director / Member
Dr. Naushad Forbes	Independent Director / Member

Two meetings of the Committee have been held since the commencement of the financial year 2005-2006 till the date of this report.

Date	Venue
December 9, 2005	Mumbai
January 17, 2006	Mumbai

Member	Committee Meetings	
	Held	Attended
Mr. N. S. Ramachandran	2	2
Mr. Pradman Kaul	2	NIL
Dr. Naushad Forbes	2	2

For meetings held till December 2005, the listing agreement stated that all the member directors should attend the meetings of the Remuneration Committee. In case of one such meeting, one member director could not attend.

INVESTORS' GRIEVANCES COMMITTEE

Composition

The Investors' Grievances Committee comprises of Mr. N. S. Ramachandran, Mr. Charles Antony and the Company Secretary. The Committee functions under the chairmanship of Mr. N. S. Ramachandran.

Name of the Member	Category / Position
Mr. N. S. Ramachandran	Independent Director / Chairman
Mr. Charles Antony	Executive Director / Member

Terms of Reference

To 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

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

Summary of Investors' Complaints

The status of Investors' Complaints as on March 31, 2006 is as follows:

Number of aggregate Complaints received (cum.) during the year 2005-2006	:	269
Number of Complaints not solved to the Satisfaction of shareholders	:	NIL
Number of pending share transfers	:	1*

* This has since been processed

GENERAL BODY MEETINGS

The Company's statutory meeting was held on April 24, 1995. Further, till date, the Company has held 10 Annual General Meetings (AGMs) and 12 Extra Ordinary General Meetings of shareholders. The details of the last 3 AGMs are as under:

Particulars	Date	Venue
8 th Annual General Meeting	August 6, 2003	Mumbai
9 th Annual General Meeting	August 10, 2004	Mumbai
10 th Annual General Meeting	August 5, 2005	Mumbai

Details of special resolutions passed in the above referred meetings are as under:

Particulars of the AGM	Section under which special resolution was passed	Purpose
8 th AGM held on August 6, 2003	Section 163 of Companies Act, 1956	Keeping of Register of Members etc. at the office of the Company's new Registrars & Share Transfer Agent viz. Tata Share Registry Limited
	Section 31 of Companies Act, 1956	Amendment to Articles of Association pertaining to meetings of Board of Directors and of shareholders.
10 th AGM held on August 5, 2005	Section 198, 269, 309, 310, 314, 316, 317 of Companies Act, 1956	Appointment of Mr. Charles Antony alongwith the remuneration paid for the period of 3 years from the date of his appointment as Managing Director of the Company
	Section 31 of Companies Act, 1956	Amendment to Articles of Association pertaining to Common Seal and Execution of Documents
	Section 81 of Companies Act, 1956	Amendment to Articles of Association pertaining to Further issue of Capital by way of Foreign Currency Convertible Bonds

An Extraordinary General Meeting (EGM) of the shareholders of the Company was held on March 2, 2006 to consider (i) alteration to Memorandum of Association by adding a Clause after the existing Clause V in the Memorandum of Association, such alteration to take effect from a date to be decided by the Board of Directors, (ii) addition of a Article after the existing Article 120 in the Company's Articles of Association, the said alteration to take effect from a date to be decided by the Board of Directors and (iii) alteration of Company's Articles of Association by adding sub-clause after the existing sub-clause (b) of Article 82 authorising the Company to represent and initiate legal proceedings against government directives. All these special resolutions were passed by the requisite majority.

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 the Company at large.

COMPLIANCE WITH LAWS

The 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 the Company on any matter related to capital markets, during the last three years nor have any penalties or strictures been imposed on the Company in this respect.

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The Board periodically reviews compliance reports of applicable laws as prepared by the management as well as steps taken by the Company to rectify instances of non-compliances (if any).

FINANCIAL RESULTS

The Company approved its unaudited financial results for the quarter ended December 31, 2005 at the meeting of the Board of Directors held on January 17, 2006. The same were published in Mumbai editions of the 'Free Press Journal' in English and in 'Navshakti' in Marathi on Thursday, January 19, 2006. The financial results as well as all other official news releases issued by the Company can be accessed on the website www.tataindicom.com by choosing the link "TTML" under the "About Us" link on the home page of the website. Presentations to institutional investors or analysts whenever made, are displayed on the website.

CERTIFICATION WITH RESPECT TO FINANCIAL STATEMENTS

The Managing Director and the Chief Financial Officer of the Company furnished a certificate to the Board of Directors of the Company with respect to accuracy of financial statements and adequacy of internal controls as required under Clause 49 of the listing agreement.

CODE OF CONDUCT FOR PREVENTION OF INSIDER TRADING

In compliance with the Securities & Exchange Board of India (Prevention of Insider Trading) Regulations, 1992, the Company has framed a Code of Conduct for prevention of insider trading by Company insiders. The 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 the Board at its meeting held on April 11, 2002.

WHISTLE BLOWER POLICY

The Tata Code of Conduct mandates that every employee of a Tata company shall promptly report to the management any actual or possible violation of the said Code, or an event he or she becomes aware of that could affect the business or reputation of his/her or any other Tata company.

Recently, the Securities & Exchange Board of India has also prescribed the adoption by all listed companies, of a Whistle Blower Policy as a non-mandatory requirement. The Company has adopted a Whistle Blower Policy, which affords protection and confidentiality to whistle blowers. The Audit Committee Chairman is authorized to receive Protected Disclosures under this Policy. The Audit Committee is also authorized to supervise the conduct of investigations of any disclosures made by whistle blowers in accordance with policy.

No personnel have been denied access to the Audit Committee. As of March 31, 2006, no Protected Disclosures have been received under this Policy.

Code of Conduct

The Company's Board of Directors has adopted the Tata Code of Conduct and the Tata Code of Conduct for Non-Executive Directors which govern the conduct of executive directors/employees and non-executive directors of the Company respectively. All Directors and senior management personnel have affirmed compliance with the respective codes for the financial year ended March 31, 2006. Please refer to the Managing Director's declaration as appearing elsewhere in this Annual Report.

IMPLEMENTATION OF NON-MANDATORY CORPORATE GOVERNANCE REQUIREMENTS

The Company has implemented the following non-mandatory requirements prescribed under Clause 49 of the listing agreement with stock exchanges with respect to corporate governance.

(i) Remuneration Committee

The Company's Board of Directors has constituted a Remuneration Committee comprising of a majority of independent directors and chaired by an independent director, with the power, inter alia, to fix from time to time, the remuneration payable to the executive directors of the Company. A detailed write up on the same appears earlier in this report.

(ii) Whistle Blower Policy

The Company's Board of Directors has adopted a Whistle Blower Policy whereby employees of the Company can report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy. It is the Company's policy to ensure that whistle blowers are not victimized or denied direct access to the Chairman of the Audit Committee. The existence of a whistle blower policy mechanism has been communicated to all employees. A detailed write up on this appears earlier in this report.

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 Eleventh Annual General Meeting is scheduled to be held on Thursday, August 10, 2006 at 1530 hours at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai – 400 020.

Financial Calendar

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

All statements of financial results are uploaded on the Company's website and can be accessed by choosing the link "TTML" under the "About Us" link on the home page of the website.

The same are also uploaded on the website of Securities & Exchange Board of India viz. www.sebi.gov.in via the Electronic Data Information Filing and Retrieval System and are available for public viewing via the link "EDIFAR" appearing on the home page of the said website.

Date of Book Closure

The share transfer books & the members' register will be closed between July 20, 2006 and August 10, 2006 (both days inclusive) for the purposes of the Eleventh Annual General Meeting.

Listing on Stock Exchanges

The Company's shares are listed on the Bombay Stock Exchange Limited (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:

Bombay Stock Exchange Limited (BSE)

P. J. Towers
Dalal Street
Mumbai - 400 023.

The National Stock Exchange of India Limited (NSE)

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 both the stock exchanges where the Company's shares are listed i.e. BSE & NSE.

During the financial year 2005-2006, the Company received listing approvals from BSE & NSE for listing of an aggregate of (a) 2,92,68,601 equity shares consequent to conversion of Foreign Currency Convertible Bonds issued by the Company and (b) 3,42,481 equity shares consequent to conversion of Employee Stock Options issued by the Company. All these shares have been duly issued and are currently tradeable on both the stock exchanges.

The Foreign Currency Convertible Bonds issued by the Company in June 2004 are listed on the Singapore Stock Exchange (SGX).

Stock Code

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

- (a) Demat Segment Code No. 532371 Scrip ID TTML
- (b) Normal Segment Code No. 32371 Scrip ID TTML

The Stock Code of the Company's shares on the NSE is TTML, Series EQ.

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Market Price Data

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

Month	BSE		NSE	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2005	28.85	24.90	29.90	24.95
May 2005	27.35	24.70	27.50	24.75
June 2005	28.60	25.50	28.60	25.30
July 2005	33.65	26.10	33.90	26.00
August 2005	31.75	28.35	31.75	28.35
September 2005	33.60	28.55	33.40	28.50
October 2005	31.70	26.60	32.90	26.55
November 2005	29.95	27.10	29.95	27.30
December 2005	31.00	27.50	30.60	27.50
January 2006	29.05	26.25	28.95	26.25
February 2006	27.40	23.95	27.40	22.70
March 2006	26.50	22.20	26.80	21.80

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

The performance of TTML Share Price vis-à-vis the broad based BSE and NSE Indices during the financial year 2005-2006 is as under:

Particulars	TTML Share Price v/s BSE		TTML Share Price v/s NSE	
	Share Price(Rs.)	BSE Sensex	Share Price(Rs.)	NSE Nifty
As on April 1, 2005	27.75	6605.04	27.80	2067.65
As on April 1, 2006	24.25	11564.36	24.25	3473.30
% Change	(12.61)	75.08	(12.77)	67.98

Registrar & Share Transfer Agents

The Company has appointed TSR Darashaw Limited (formerly Tata Share Registry Limited) as its Registrar & Share Transfer Agents. Shareholders are advised to approach Tata Share Registry Limited on the following address for any share & demat related queries and problems:

TSR Darashaw Limited

(formerly known as *Tata Share Registry Limited*)

Army & Navy Building,

148, Mahatma Gandhi Marg,

Fort, Mumbai – 400 001.

Tel. No. : 022 - 56568484 (Extn. 240 / 241 / 242)

Fax No. : 022 - 56568496

E-mail: csg-unit@tatashare.com

Website: www.tatashare.com

Share Transfer System

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

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 the Company as on March 31, 2006 with respect to categories of investors was as follows:

Category of Investors	Percentage of Shareholding	
	As on March 31, 2006	As on March 31, 2005
Promoters	65.46	66.80
International Investors (FIIs/NRIs/OCBs/Foreign Banks)	1.41	3.61
Indian Financial Institutions/Banks/Mutual Funds	4.12	6.28
Private Bodies Corporate	5.40	5.20
Individuals	23.61	18.11
TOTAL	100.00	100.00

The broad shareholding distribution of the Company as on March 31, 2006 with respect to size of holdings was as follows:

Range (No. of Shares)	% of Paid-up Capital	% of Total No. of Shareholders
1 to 500	3.88	63.16
501 to 1000	3.94	19.41
1001 to 2000	3.25	8.78
2001 to 3000	1.82	3.01
3001 to 4000	1.12	1.34
4001 to 5000	1.50	1.36
5001 to 10000	2.98	1.71
> 10000	81.51	1.23
Total	100.00	100.00

The Company had a total of 3,45,387 shareholders as on March 31, 2006.

The quarterly shareholding pattern filed with the stock exchanges are also uploaded on the website of Securities & Exchange Board of India viz. www.sebi.gov.in via the Electronic Data Information Filing and Retrieval System and are available for public viewing via the link "EDIFAR" appearing on the home page of the said website.

Dematerialization of Shares & Liquidity

As of March 31, 2006, 99.75% of the total equity shares issued by the Company have been dematerialised. The trading in the Company's equity shares is compulsorily in dematerialized form. In order to afford full liquidity and efficient transfer mechanisms to the investor community, the 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.

The Company has not issued any GDRs/ADRs/Warrants or any convertible instrument except 1,20,00,000 Employee Stock Options for one equity share each issued to Tata Teleservices (Maharashtra) Limited (*formerly known as Hughes Tele.com (India) Limited*) Employees' Stock Option Plan Trust. These options are convertible into Equity Shares of the Company on payment by the option holders of the stipulated conversion prices. In October, 2005, 2,91,432 equity shares and in January, 2006, 51,049 equity shares were issued consequent to exercise of stock options. Please refer Annexure II of the Directors' Report for further details regarding the Employee Stock Options.

In June 2004, the Company issued Foreign Currency Convertible Bonds (FCCBs) aggregating US\$ 125 million to foreign investors. Of these, FCCBs with aggregate principal value of US\$ 63.41 million have been converted into equity shares of the Company at a conversion price of Rs. 24.96 per share (including a premium of Rs. 14.96 per share). Consequent to conversions of these FCCBs, the Company has

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issued an aggregate of 2,92,68,601 equity shares during the financing year ended March 31, 2006. FCCBs with aggregate principal value of US\$ 61.59 million are outstanding as on March 31, 2006.

Where we offer service

The Company provides services in about 171 towns and cities in the States of Maharashtra and Goa through its telephone exchanges located at Turbhe (Navi Mumbai), Worli (Mumbai), Nariman Point (Mumbai), Marol (Mumbai), Andheri (Mumbai), Pune, Nasik, Panaji, Nagpur, Kolhapur.

Address for correspondence

Shareholders are requested to direct all share-related correspondence to TSR Darashaw Limited (formerly known as *Tata Share Registry Limited*) and only the non-share related correspondence and complaints regarding TSR Darashaw Limited to the Compliance Officer at the registered office of the Company. Shareholders holding shares in electronic mode (dematerialized) should address all shares-related correspondence to their respective depository participants only.

Auditors' Certificate

The certificate dated May 18, 2006 issued by M/s Deloitte Haskins & Sells, Chartered Accountants, Statutory Auditors on compliance of the Corporate Governance requirements by the Company is annexed to the Directors' Report.

DECLARATION

To

The Company Secretary
Tata Teleservices (Maharashtra) Limited
Ispat House, B. G. Kher Marg, Worli,
Mumbai 400 018

Pursuant to the requirements of Clause 49 of the listing agreement, I hereby confirm that:

1. the undersigned and senior management personnel (as defined in the above-said Clause 49) of the Company have affirmed that they have been in compliance with the 'Tata Code of Conduct' during the financial year ended March 31, 2006; and
2. all Non-Executive Directors of the Company have affirmed that they have been in compliance with the 'Tata Code of Conduct for Non-Executive Directors' during the financial year ended March 31, 2006.

Please arrange to include this confirmation in the Annual Report for the year 2005-06.

s/d

Charles Antony
Managing Director

Place: Mumbai

Date: May 18, 2006

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

COMPANY BACKGROUND

The Company was incorporated on March 13, 1995 as Hughes Ispat Ltd., and was later renamed Hughes Tele.com (India) Ltd., effective April 26, 2000. Consequent to takeover of the Company by the Tata Group, the Company was renamed Tata Teleservices (Maharashtra) Limited.

The Company was licensed to provide basic telecommunication services in Maharashtra Circle (including Mumbai and Goa). Effective November 14, 2003, the Company migrated to the Unified Access (Basic & Cellular) Services Licence (UASL), which authorizes the Company to provide fixed as well as mobile services within the States of Maharashtra and Goa. The Company now holds 2 UASLs – one for Mumbai Metro Area and another for Rest of Maharashtra and Goa. The Company also holds an all-India Internet Service (including Internet Telephony) licence.

During the financial year ended March 31, 2006, the Company's subscriber base almost doubled to 18,39,842 lines comprising of 2,28,791 wire line connections, 7,96,895 mobile connections and 8,14,156 fixed wireless connections.

INDUSTRY STRUCTURE AND DEVELOPMENTS

In India, there are various kinds of telecom service licences, including access licences i.e. basic/fixed service, cellular, Unified Access (basic + cellular) Service; carrier licences i.e. national long distance and international long distance; licences for internet services; VSAT licences; IP-1 licences for passive infrastructure (towers, ducts, fibre) and IP 2 licences for bandwidth. As per recent amendments, UASL operators like the Company can provide internet, internet telephony and broadband services under their UASL licence. Unrestricted competition is allowed in all the categories.

The Indian Telecom Services Industry has witnessed significant growth in the recent past, primarily driven by intense competition, falling tariffs, and reforms in the regulatory set-up. Major Indian business houses including the Tata Group have invested substantially in this sector. The past year or so have been very exciting for the industry. Details of major developments on the regulatory front have been given in the Directors' Report.

OPPORTUNITIES AND THREATS

The rapid pace of technological development in the telecom hardware and software sectors has made it possible for the Company to provide a variety of services to its subscribers in a spectrum-efficient and cost-efficient manner.

The year witnessed the introduction of some value added services, which are expected to deliver a growing part of the Company's revenues in the years ahead. The Company proposes to launch exciting new services and features on its network in the near future, as a part of its endeavour to achieve Customer Delight.

While the Company would continue to focus on the provision of fixed wireless and mobile telecom services, it would also aggressively deploy wireline services.

A write up on the various threats to which the Company is exposed, is provided under the section "Risks and Concerns".

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The Company is engaged in the business of provision of telecommunication services consisting of basic services, cellular services and internet telephony. The Company expanded its network throughout the States of Maharashtra and Goa by covering 171 towns and cities and plans to reach 229 towns by the end of the current financial year. Details of various products and services are provided in the Directors' Report.

OUTLOOK

The Company intends to concentrate on the wireless segment i.e. fixed and mobile. It would also continue to aggressively deploy wireline services. Further, in line with industry trends, the Company would give a thrust to prepaid products. The Company has already launched prepaid mobile services under the "Tata Indicom True Paid" brand and fixed wireless services under the "Walky" and "Indicom 10" brands.

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The outlook for the Company appears bright on a long-term basis, as the Company will benefit from its association with Tata Teleservices Limited (TTSL) which has licences to provide telecom services in 17 circles. With the national teledensity still hovering around the 13% mark, and considering the teledensity of other regions and countries in Asia (49% in China, 120% in Japan and 176% in Hongkong), there is a vast market waiting to be tapped and the Company will take all the necessary initiatives to become a major player in its chosen areas of operation.

RISKS & CONCERNS

As is the case with any infrastructure project, the Company is exposed to a number of risks. Key risks have been mentioned below:

Regulatory Risks

The Indian telecommunications industry is subject to extensive Government regulation. However, the industry is being liberalised and the Company would seek to exploit new opportunities afforded by regulatory changes, such as the proposed introduction of the Unified License regime, which could allow the Company to provide all types of communication and convergence services.

The Company's telecommunications licenses reserve broad discretion to the Government to influence the conduct of the Company's businesses by giving it the right to modify, at any time, the terms and conditions of the licenses and take over the entire services, equipment and networks or terminate or suspend the licenses, if necessary or expedient, in public interest or in the interest of national security or in the event of a national emergency, war or similar situation.

In some cases in the past, clarifications and directives (instead of amendments to licences) were issued by the Government which imposed unforeseen liabilities on the licencees.

Licence amendments are also made unilaterally by the Government and are not negotiated or subject to any prior consultation process.

The Company's licenses are for fixed periods and are renewable for additional terms at the discretion of the Government. There can be no assurance that any of the Company's licenses will be renewed at all or renewed on the same or better terms.

The future growth of the Company's business is dependent on its ability to expand its network capacity. The capacity of the network is limited, amongst other things, by the amount of the frequency spectrum available for its use. The Company's network expansion plans and introduction of new value added services may be materially affected if it is unable to obtain additional spectrum.

Technological Risks

Changes in technology may render the Company's current technologies obsolete or require it to make substantial capital investments. The telecommunications industry has seen rapid changes in technology. Although the Company strives to keep its technology up to date in accordance with the latest international technological standards, the technology currently employed by it may become obsolete or subject to competition from new technologies in the future.

Financing Risks

Like all infrastructure projects, the Company too requires significant amount of capital to fund its project especially for the expansion under implementation and for its working capital requirements. About half of the project cost is funded by way of debt. The completion of the financing is subject to a number of terms and conditions, including periodic review of the business plan. The implementation of the project would be materially affected if these debt facilities are not raised in a timely manner.

Interconnection Risks

For calls which originate or terminate outside the Company's network, its ability to provide telecommunications services is dependent on access to and the development, quality and maintenance of the competitors' networks and their willingness to cooperate with the Company in interconnection arrangements. If for any reason these interconnection arrangements are disrupted, or if grant of points of interconnection (Pols) or their augmentation are delayed, one or more of the Company's services may be delayed, interrupted or stopped, the quality of the Company's services may suffer and the customer dissatisfaction and churn may increase, each of which could adversely affect the Company's business.

Competition Risks

The Indian telecommunications industry has recently witnessed intense competition, falling tariffs, and the liberalization of the regulatory environment. Pursuant to the proposed introduction of a single unified license for provision of all telecommunications services, including mobile, wire-line, national and international long distance, data and VSAT services, competition is expected to further increase, with competitors offering integrated services and having an advantage over operators like the Company that are unable to provide integrated service offerings.

Dependency on Tata Teleservices Limited ("TTSL")

The Company has closely aligned, and intends to further integrate, its business operations and strategies with those of TTSL and also shares certain infrastructure (e.g. billing platform, intelligent network platform etc) and activities (e.g. procurement) with TTSL. The Company benefits from the goodwill associated with the *Tata Indicom* brand that Tata Sons Limited has permitted the Company to use for marketing its products and services. The Company's infrastructure sharing arrangements with TTSL allow it to jointly negotiate with equipment suppliers and service providers and benefit from economies of scale. In addition, the Company offers roaming services to its CDMA mobile subscribers, who can roam in the Service Areas where the TTSL network is operational. Although all the above positively impact the Company's performance, if the Company is viewed as a stand alone enterprise, this dependency may be perceived to be an area of concern.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

An Audit Committee of the Board of Directors has been constituted as per the provisions of Section 292A of the Companies Act, 1956 and Corporate Governance requirements specified by the Stock Exchanges.

The internal audit function is looked after by an independent firm which conducts reviews & evaluation and presents its reports to the Audit Committee and the management at regular intervals.

The Internal Auditor's Reports dealing with Internal Control Systems are considered by the Audit Committee and appropriate actions are taken, wherever deemed necessary

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956, the Indian Generally Accepted Accounting Principles (Indian GAAP) and the Accounting Standards as prescribed by the Institute of Chartered Accountants of India.

The 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 presentation of the Company's operations and loss for the year.

DEVELOPMENTS ON HUMAN RESOURCES FRONT

The Company had 998 employees on its rolls as on March 31, 2006. A detailed write-up appears in the accompanying Directors' Report under the paragraph titled "Human Resources".

FINANCIAL PERFORMANCE

The accumulated losses of the Company at the close of the year exceeded its paid up capital and reserves. This, however, is not uncommon for telecommunication service providers in their initial years of commercial operations, due to high operation costs of heavy infrastructure and high capital requirement for building the network. The Company has adequate commitments from its lenders for meeting its operating and financial requirements and continues to grow its network. The Company is therefore viewed as a 'going concern' and accounts have accordingly been prepared under the going concern assumption.

It is to be noted that the Company rolled-out its CDMA services in 46 more towns during the year and created huge infrastructure. It also provided coverage on the major highways. The Company plans to roll out its network in 58 more towns in the ensuing financial year.

a) Financial Condition

1. Share Capital, Reserves & Surplus

The share capital increased from Rs.1,490.97 crores to Rs.1,520.59 crores consequent to issue of equity shares for cash at par by

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the Company upon exercise of stock options by employees and conversion of FCCB into Equity. The Reserves & Surplus consist of Security Premium which increased from Rs.157.68 crores to Rs.215.21 crores on conversion of FCCB into Equity at premium.

2. Secured and Unsecured Loans

Secured Loans availed of by the Company as at March 31, 2006 are lower at Rs.1,080.12 crores as compared to Rs.1,136.48 crores as at March 31, 2005. This decrease is on account of repayment done by the Company on maturity date. Unsecured loans have increased from Rs.746.36 crores as at the end of previous year to Rs.1,031.73 crores as at the end of current year 2005-06. The increase is on account of temporary loans availed from banks and financial institutions during the year.

During 2004-05, the Company issued Foreign Currency Convertible Bonds (FCCBs) of US\$ 125 million at an interest rate of 1% per annum (payable semi-annually). The holders of these bonds have an option to convert the bonds into equity shares of the Company on or after July 1, 2004 at a pre-determined price of Rs.24.96. The bonds that are not converted into equity, are redeemable at a premium of 19.38% at the end of 5 years from the date of issue. Till March 31, 2006 FCCBs amounting to US\$ 63.4 million have been converted.

3. Fixed Assets

The Company continues to grow its network in Mumbai and other cities in Maharashtra and Goa. The year-end gross block increased by Rs.413.37 crores to Rs.3,646.17 crores (previous year Rs.3,232.80 crores). The major increase in the Gross Block was on account of expansion of the CDMA network by installation of switches, cell sites and backbone.

The year-end Net Block has increased from Rs.2,252.01 crores to Rs.2,261.51 crores. Year-end Capital Work-In-Progress is lower at Rs.175.08 crores (previous year Rs.240.37 crores).

4. Investments

The Company temporarily invests its short-term funds surplus in bank deposits and liquid and short-term debt plans of reputed Mutual Funds. Such surpluses are maintained until the time these are deployed in the network build out. There were no investments at the beginning and at the end of the year.

5. Sundry Debtors

Sundry debtors as a percentage of telecom service revenues, reduced to 14% (previous year 18%). During the year there has been a substantial improvement in the collections, which has resulted in a lower provision for doubtful debts at Rs.49.03 crores (previous year Rs.125.55 crores).

6. Profit & Loss Account

The accumulated losses of the Company (Rs.2,233.41 crores) exceeded its net worth as at the end of the financial year.

b) Results of Operations

Revenues for the Company have grown commensurate to the increase in the subscriber numbers. Sustained growth has been maintained in spite of the increased competition and reducing tariffs. The Company has implemented various programs to optimize its costs in the areas of network maintenance, operations and customer servicing. There has been improvement in the collection of debts resulting in lower provisioning of the doubtful debts.

The overall increased operational efficiency of the Company has resulted in the positive EBIDTA. Finance costs have been kept at the same level though there has been increase in the funds requirement resulting from an increased size of operations. Loss before Extraordinary item and tax is lower due to the growth in the EBIDTA.

1. Revenues from Telecommunication Services

During the year, revenues from telecommunication services increased to Rs.1,095.13 crores (previous year Rs.807.47 crores). This revenue growth was largely driven by the 83% increase in the number of subscriber to 18,39,842 at the end of March 2006 (previous year 10,05,655 subscriber lines as at the end of March 2005). The revenue growth is consistent with the growth in subscriber base, considering that most of subscriber additions happened in the second half of the current financial year and tariffs dropped significantly. The tariffs of prepaid, postpaid and fixed line segments have been reduced to meet increased competition.

2. Other Income

Other Income reduced to Rs.1.66 crores (previous year Rs.29.01 crores which included an amount of Rs.26.80 crores towards refund from DoT on account of excess interest recovered).

3. Operating Expenses

The major operating expenses comprise:

i) Network Operation costs

These are costs incurred to operate and maintain the Company's networks- fees to the Department of Telecommunication (DoT), repairs & maintenance, rent, power, etc. During the year, Network Operation expenses increased to Rs.177.08 crores (previous year Rs.134.65 crores). This increase was driven by increase in Revenue share and expansion of network, which are proportionate to the growth in the revenues.

ii) Interconnection and other access costs

As a percentage of telecom service revenues, Interconnection and other access costs paid to other operators decreased to 33% (previous year 36%). The Company expanded its inter-city connectivity with a combination of its own fiber optic network and leased lines from other service providers, leading to some savings in interconnect charges during part of the year.

iii) Employee related expenses

Employee related expenses of Rs.48.56 crores (previous year Rs.41.37 crores) as a percentage of telecom service revenues, reduced to 4% (previous year 5%).

iv) Administrative and other expenses

The major expenses under this category are in the nature of rents, rates & taxes, insurance, repair and maintenance of buildings & others, communications, electricity, travel & conveyance, collection / credit verification, customer services & call center, legal and professional services, advertisement and business promotion, sales commission & expenses, miscellaneous expenses, bad / doubtful debts and advances and contractual & other claims & liabilities. These expenses decreased to Rs.198.13 crores for the year (previous year Rs.311.82 crores) primarily due to reduction in provisions for doubtful debts. The Company's administrative infrastructure is substantially in place and it plans to focus on the prepaid segment and hence, going forward, administrative expenses are not expected to rise proportionately to the revenues.

v) Marketing and business promotion expenses

During the year, the Company incurred significant expenses on dealer commission for subscriber acquisition and advertisement & promotions for the launch of its Non-Stop Mobile scheme and Walky Indicom 10 services. As a result, these expenses increased to Rs.184.39 crores (previous year Rs.121.67 crores). This is commensurate with the increase in the Company's subscriber base.

5. Finance and Treasury Charges

On a net basis, the charge to the profit and loss account towards interest increased marginally to Rs.145.77crores (previous year Rs.144.73 crores). As a percentage of telecom service revenues, these expenses decreased to 13% (previous year 18%).

6. Depreciation

Total depreciation charges increased by 49% to Rs.471.90 crores (previous year Rs.317.01 crores). During the year the Company re-estimated the balance useful life of certain fixed assets on account of technological obsolescence and the consequently enhanced pace of planned replacement. As a result the depreciation charge for the year is higher by Rs.66.12 crores. As a percentage of telecom service revenues, these expenses increased to 43% (previous year 39%).

7. Loss before Extraordinary item and Tax

Loss before Exceptional item and tax decreased to Rs.492.96 crores (previous year Rs.527.86 crores).

8. Extraordinary item

Due to the unusual heavy rains and floods in the city of Mumbai and other parts of Maharashtra & Goa during the year, certain Fixed Assets were seriously damaged. The Company has written off Rs.47.25 crores being written down value of these damaged

TATA TELESERVICES (MAHARASHTRA) LIMITED

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assets and has disclosed the amount as an "Extraordinary item" in the profit and loss account, since the event is clearly distinct from the ordinary activities of the Company and cannot be expected to recur frequently or regularly. The Company is pursuing its insurance claims and would account the same once settled.

9. 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.

Fringe Benefits Tax (FBT) payable under the provisions of section 115WC of the Income-tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI regarded as an additional income tax and considered in determination of the profits/(losses) for the year.

10. Net Loss

The Company's net Loss increased to Rs.541.06 crores for the year (previous year Rs.527.86 crores). Generally, it is not uncommon for large greenfield infrastructure telecom projects to incur losses during the initial few years of the project implementation. The Company launched its CDMA wireless business only in August 2003 and expanded coverage to 171 towns as at March 31, 2006.

11. Liquidity and Capital Resources

During the year the Company has generated net cash of Rs.363.01 crores (previous year Rs.0.46 crores) from its operating activities. At the end of the financial year 2005-06, the Company's cash and cash equivalent balance reduced to Rs.26.71 crores (previous year Rs.80.90 crores) on account of the liquidation of investments done by the Company during the year. The Company has tied up its current funding requirements with the lenders and will consider additional funding requirements based on its expansion plans.

AUDITORS REPORT

TO THE MEMBERS OF TATA TELESERVICES (MAHARASHTRA) LIMITED

1. We have audited the attached Balance Sheet of Tata Teleservices (Maharashtra) Limited, as at March 31, 2006 and also the Profit and Loss Account and the Cash Flow Statement 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.
2. We conducted our audit in accordance with auditing standards generally accepted in India. These 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.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a Statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the above books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - e) On the basis of written representations received from the directors of the Company as at March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as at March 31, 2006 from being appointed as directors 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 Companies Act, 1956, in the manner so required and give a true and fair view in conformity with accounting principles generally accepted in India:
 - (i) in the case of Balance Sheet, of the state of affairs of the Company, as at March 31, 2006;
 - (ii) in the case of Profit and Loss Account, of the loss for the year ended on that date; and
 - (iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. B. Pardiwalla
Partner
(Membership No. 40005)

Mumbai, dated May 18, 2006

TATA TELESERVICES (MAHARASHTRA) LIMITED

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ANNEXURE TO THE AUDITORS' REPORT

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

1. The nature of the Company's business/ activities during the year is such that clauses (i-c), (vi), (xii), (xiii), (xiv), (xviii), (xix) and (xx) of the Order are not applicable to the Company:
2. In respect of its fixed assets:
 - a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b) Fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.
3. The Company holds an inventory of capital stores and spares, which is carried in the books under Capital Work in Progress. Such items of inventory, when required, are 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, item (ii) of paragraph 4 of the Order is not applicable to the Company.
4. The Company has neither granted nor taken any loans, secured or unsecured to/ from companies, firms or other parties covered in the register maintained under section 301 of the Act.
5. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regards to purchase of fixed assets and sale of services. We have not observed any continuing failure to correct major weaknesses in internal controls. The nature of the Company's activities is such that there is no purchase of inventory or sale of goods.
6. In respect of contracts or arrangements required to be entered in the register maintained in pursuance of section 301 of the Companies Act 1956, to the best of our knowledge and belief and according to the information and explanations given to us:
 - (a) There are no contracts or arrangements referred to Section 301 that need to be entered into the register maintained under the said section.
 - (b) Since there are no contracts or arrangements referred to in Section 301 that need to be entered into the register, the question of the transactions being made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time does not arise.
7. In our opinion, the internal audit function carried out during the year by an external agency appointed by the management has been commensurate with the size of the Company and the nature of its business.
8. We have broadly reviewed the books of account and records maintained by the Company relating to telecommunication activities pursuant to the order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete.
9. In respect of Statutory dues:
 - (a) According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Sales-tax, Wealth Tax, Service Tax, Custom Duty, cess and any other material statutory dues with the appropriate authorities during the year.

(b) According to the information and explanations given to us, details of disputed sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess which have not been deposited as on March 31, 2006 on account of disputes are given below:

Name of statute	Nature of the dues	Amount (Rs)	Period to which the amount relates	Forum where dispute is pending
The Income Tax Act, 1961	Income tax demand	93,496,852	A.Y. 1998-1999 1999 - 2000	Income Tax Appellate Tribunal
The Central Excise Act, 1944	Excise duty demand	129,695,446	Not specified in demand	Customs & Central Excise Settlement Commission, Mumbai

10. The accumulated losses of the Company exceed fifty percent of its net worth as at the end of the financial year. The Company had incurred cash losses in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions and banks.
12. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans taken by others from banks and financial institutions, are not prima facie prejudicial to the interests of the Company.
13. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
14. According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
15. To the best of our knowledge and belief and according to the information and explanations given to us, no material fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

P. B. Pardiwalla
Partner
(Membership No. 40005)

Mumbai, dated May 18, 2006

TATA TELESERVICES (MAHARASHTRA) LIMITED

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BALANCE SHEET AS AT MARCH 31, 2006

	Schedule	As at March 31, 2006 Rs. in Crores	As at March 31, 2005 Rs. in Crores
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	1,520.59	1,490.97
Reserves and Surplus	2	215.21	157.68
		<u>1,735.80</u>	<u>1,648.65</u>
Loan Funds			
Secured Loans	3	1,080.12	1,136.48
Unsecured Loans	4	1,031.73	746.36
		<u>2,111.85</u>	<u>1,882.84</u>
Total		<u>3,847.65</u>	<u>3,531.49</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block (at cost)	5	3,646.17	3,232.80
Less : Accumulated Depreciation		1,384.66	980.79
Net Block		<u>2,261.51</u>	<u>2,252.01</u>
Capital Work - In - Progress		175.08	240.37
		<u>2,436.59</u>	<u>2,492.38</u>
Current Assets, Loans and Advances			
Cash and Bank Balances	6	27.39	82.02
Sundry Debtors	7	155.80	142.29
Loans and Advances	8	146.59	142.29
		<u>329.78</u>	<u>366.60</u>
Less : Current Liabilities and Provisions	9	<u>1,152.13</u>	<u>1,019.84</u>
Net Current Liabilities		<u>(822.35)</u>	<u>(653.24)</u>
Profit and Loss Account		<u>2,233.41</u>	<u>1,692.35</u>
Total		<u>3,847.65</u>	<u>3,531.49</u>
Significant Accounting Policies and Notes to Financial Statements 14			

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

P.B. Pardiwalla
Partner

Place : Mumbai
Date : May 18, 2006

For and on behalf of the Board

Kishor A. Chaukar
(Director)

Vivek Sett
(Chief Financial Officer)

Charles Antony
(Managing Director)

Madhav J. Joshi
(Chief Legal Officer and
Company Secretary)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	Schedule	2005-06 Rs. in Crores	2004-05 Rs. in Crores
Income			
Telecommunication Services	10	1,095.13	807.47
Other Income	11	1.66	29.01
Total		1,096.79	836.48
Expenditure			
Operation and Other Expenses	12	972.08	902.60
Profit/(Loss) before Finance & Treasury charges, Depreciation, Exceptional item and Tax		124.71	(66.12)
Finance and Treasury Charges (Net)	13	145.77	144.73
Depreciation (Refer note 21 of schedule 14)	5	471.90	317.01
Loss before Extraordinary item and tax		(492.96)	(527.86)
Extraordinary item			
- Damage of Fixed Assets due to flood (Refer note 22 of schedule 14)		47.25	-
Loss before tax		(540.21)	(527.86)
Provision for Tax			
- Fringe Benefit Tax		0.85	-
Loss after tax		(541.06)	(527.86)
Balance at commencement		(1,692.35)	(1,164.49)
Balance carried to Balance Sheet		(2,233.41)	(1,692.35)
Earnings Per Share - Basic and Diluted (Rs.)			
- Including Extraordinary item		(3.59)	(3.73)
- Excluding Extraordinary item		(3.28)	(3.73)
Par Value (Rs.)		10.00	10.00
Significant Accounting Policies and Notes to Financial Statements	14		

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

P.B. Pardiwalla
Partner

Place : Mumbai
Date : May 18, 2006

For and on behalf of the Board

Kishor A. Chaukar
(Director)

Vivek Sett
(Chief Financial Officer)

Charles Antony
(Managing Director)

Madhav J. Joshi
(Chief Legal Officer and
Company Secretary)

TATA TELESERVICES (MAHARASHTRA) LIMITED

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SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2006

	As at March 31, 2006 Rs. in crores	As at March 31, 2005 Rs. in crores
SCHEDULE - 1		
SHARE CAPITAL		
Authorised 2,500,000,000 Equity Shares of Rs.10 each	2,500.00	2,500.00
	2,500.00	2,500.00
Issued and Subscribed 1,520,585,484 (Previous year 1,490,974,402) Equity Shares of Rs.10 each fully paid up	1,520.59	1,490.97
	1,520.59	1,490.97

Note:

- Of the above 833,832,530 shares are held by the Holding company and its subsidiaries. (Refer note 1 of schedule 14)
- During the year some employees exercised options issued under the Employee Stock Option Plan resulting in allotment of 342,481 (previous year 4,40,869) fully paid equity shares for cash at par amounting to Rs. 0.34 crores (previous year Rs. 0.44 crores.)

SCHEDULE - 2

RESERVES AND SURPLUS

Securities Premium account		
Balance at beginning of the year	157.68	114.71
Add: On conversion of FCCB	57.53	125.00
Less: Applied towards FCCB redemption premium and issue expenses	-	82.03
Balance at the end of the year.	215.21	157.68

SCHEDULE - 3

SECURED LOANS

From Banks (Refer note 1 below)		
Term Loans	843.00	1,016.58
Cash Credit Accounts	68.48	74.79
Acceptances	168.50	44.97
	1,079.98	1,136.34
Deferred payment credits (Refer note 2 below)	0.14	0.14
	1,080.12	1,136.48

Notes :

- Loans from Banks are secured/to be secured by either one or more of the following as per terms of the arrangements with respective banks:
 - by first pari pasu charge on the movable and/or immovable assets of the company,
 - by pledge of shares of promoters,
 - by assignment of the proceeds on sale of network in the event of cancellation of the telecom license,
 - by assignment of telecom license,
 - by assignment of insurance policies
- Secured by hypothecation of Vehicles acquired out of the Loans.

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2006

	As at March 31, 2006 Rs. in crores	As at March 31, 2005 Rs. in crores
SCHEDULE - 4		
UNSECURED LOANS		
Foreign Currency Convertible Bonds (FCCB) (Refer note 1 below)	274.80	341.43
From Banks		
- Short Term Loans	522.00	170.00
From others	234.93	234.93
(Refer note 2 below)	1,031.73	746.36

Note:

- During 2004-05, the company issued Foreign Currency Convertible Bonds (FCCB) of USD 12.50 crores at an interest rate of 1% per annum (payable semi-annually). The holders of these bonds have an option to convert the bonds into equity shares of the company on or after July 1, 2004 at a pre-determined price of Rs. 24.96. The bonds that are not converted into equity, are redeemable at a premium of 19.38% at the end of 5 years from the date of issue.
- Loans - From others include Rs. 46.96 crores where the lender will have the right to share assets of the Company mortgaged to secured lenders, in the event of enforcement of the security and subject to consent of the secured lenders.

SCHEDULE - 5 FIXED ASSETS

Rs. in Crores

PARTICULARS	Notes	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As at April 1, 2005	Additions during the year	Deletions during the year	As at March 31, 2006	Upto April 1, 2005	For the year	Deletions during the year	Upto March 31, 2006	As at March 31, 2006	As at March 31, 2005
Tangible Assets											
Leasehold assets											
Land		6.38	-	-	6.38	0.77	0.10	-	0.87	5.51	5.61
Office premises		6.86	-	-	6.86	0.81	0.09	-	0.90	5.96	6.05
Buildings		2.42	-	-	2.42	0.43	0.11	-	0.54	1.88	1.99
Plant & Machinery	(a)										
Own		2,561.51	499.59	93.47	2,967.63	711.08	408.28	42.72	1,076.64	1,890.99	1,850.43
Acquired under finance lease		41.16	2.81	-	43.97	2.33	2.86	-	5.19	38.78	38.83
Furniture, Fixtures & Office Equipment		58.22	4.47	0.29	62.40	49.06	6.41	0.15	55.32	7.08	9.16
Vehicles		1.38	0.08	0.19	1.27	0.70	0.26	0.16	0.80	0.47	0.68
Intangible Assets											
License		532.55	-	-	532.55	199.75	26.63	-	226.38	306.17	332.80
Computer Software		22.32	0.37	-	22.69	15.86	2.16	-	18.02	4.67	6.46
		3,232.80	507.32	93.95	3,646.17	980.79	446.90	43.03	1,384.66	2,261.51	2,252.01
Previous year		2,494.91	738.02	0.13	3,232.80	694.76	286.16	0.13	980.79	2,252.01	
Capital Work-In-Progress:											
Capital advances (net of provision)										36.58	14.80
Capital Inventory [net of provision for obsolescence of Rs. 56.85 crores (previous year Rs. 31.85 crores)]										103.66	212.05
Assets under construction (b)										34.84	13.52
										175.08	240.37

Notes : (a) Additions include Rs. 2.45 crores (Previous year Rs. 4.38 crores) for fluctuations in foreign exchange rates on account of increase in liabilities.
(b) Refer Note 19 of Schedule 14.

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SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2006

SCHEDULE - 6	As at March 31, 2006 Rs. in crores	As at March 31, 2005 Rs. in crores
CASH AND BANK BALANCES		
Cash on hand	0.01	0.03
Balance with Scheduled Banks in		
- Current Accounts	22.30	26.83
- Term Deposit Accounts [including accrued interest Rs. 0.68 Crores (Previous year Rs. 1.12 crores)]	5.08	55.16
	27.39	82.02

SCHEDULE - 7

SUNDRY DEBTORS (Unsecured)

Outstanding for a period exceeding six months	179.35	118.06
Others	174.60	173.34
	353.95	291.40
Less: Provision for doubtful debts	198.15	149.11
	155.80	142.29
Note:		
Considered good	155.80	142.29
Considered Doubtful	198.15	149.11

The above include:

- 1) Debts due from companies under the same management Rs. 2.75 crores (Previous year Rs. 0.37 crores) includes TATA Teleservices Ltd. Rs.1.36 crores, TATA Internet Services Ltd. Rs. 0.48 crores, TATA Consultancy Services Ltd. Rs. 0.63 crores, THDC Ltd. Rs. 0.01 crores, TATA AIG General Insurance Company Ltd. Rs. 0.07 crores and TATA Life Insurance Company Ltd. Rs. 0.20 crores.
- 2) Debts due from director(s) Rs. 2,075/- (Previous year Rs. Nil). Maximum amount outstanding during the year Rs. 14,033/- (Previous year Rs. 2,376/-)

SCHEDULE - 8

LOANS AND ADVANCES

(Unsecured)

SCHEDULE - 8	As at March 31, 2006 Rs. in crores	As at March 31, 2005 Rs. in crores
Advances recoverable in cash or in kind or for value to be received		
Staff Loans	0.42	0.45
[Includes Rs. 0.18 crores (Previous year Rs. 0.18 crores) due from an officer of the Company. Maximum amount outstanding at any time during the year is Rs. 0.18 crores (Previous year Rs. 0.18 crores)]		
Advances to Suppliers	83.14	81.98
Premises and other deposits	11.77	11.88
Prepayments and Others	51.86	48.89
Tax paid	0.32	0.01
	147.51	143.21
Less : Provision	0.92	0.92
	146.59	142.29
Note :		
Considered good	146.59	142.29
Considered doubtful	0.92	0.92

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2006

	As at March 31, 2006 Rs. in crores	As at March 31, 2005 Rs. in crores
SCHEDULE - 9		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors (other than small scale industrial undertakings)		
- Under Usance Letter of Credit	179.96	149.98
- Others	697.84	608.71
	877.80	758.69
Deposits from Customers and others	69.75	59.25
Interest accrued but not due on loans	27.08	17.73
Other liabilities	99.56	92.82
Provisions		
For contingencies	16.74	16.74
For retirement benefits	1.21	0.89
For premium on redemption of Foreign Currency Convertible Bonds (FCCB)	59.99	73.72
	1,152.13	1,019.84

Notes

- (a) Other liabilities includes Rs.61.21 crores (Previous Year Rs 66.94 crores) that are due after a period of 12 months.
 (b) Provisions for contingencies relate to certain claims by vendors on the Company made in earlier years.

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	2005-06 Rs. in crores	2004-05 Rs. in crores
SCHEDULE - 10		
TELECOMMUNICATION SERVICES		
Telephony	987.08	704.72
Internet Services	16.19	17.72
Interconnection Usage Charges	91.86	85.03
	1,095.13	807.47
SCHEDULE - 11		
OTHER INCOME		
Miscellaneous Receipts	1.66	2.21
Refund from DoT	-	26.80
	1.66	29.01

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SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	2005-06 Rs. in crores	2004-05 Rs. in crores
SCHEDULE - 12		
OPERATION AND OTHER EXPENSES		
Network Operation costs		
Revenue Share to Department of Telecommunications (DoT)	85.59	60.58
Repairs and Maintenance - Plant and Machinery [including capital inventory consumed Rs. 0.36 crores (Previous year Rs. 0.59 crores)]	31.89	23.53
Power	30.17	24.58
Rent, Rates and taxes	15.65	14.76
Others	13.78	11.20
	<u>177.08</u>	<u>134.65</u>
Interconnection and Other access costs	363.92	293.09
Payments to and Provisions for Employees		
Salaries and Bonus	43.38	36.83
Contribution to Provident and other Funds	2.42	1.96
Staff Welfare	2.76	2.58
	<u>48.56</u>	<u>41.37</u>
Administration and Other expenses		
Rent, Rates and taxes	21.71	20.45
Repairs and Maintenance		
Buildings	0.01	0.08
Others	3.70	5.54
Travel and conveyance expenses	5.16	6.19
Collection / Credit verification charges	25.70	22.00
Customer service and call centre cost	46.80	27.01
Bad/Doubtful debts and advances	49.03	125.55
Miscellaneous expenses	46.37	44.11
Contractual and other claims and liabilities (Net)	(0.35)	60.89
	<u>198.13</u>	<u>311.82</u>
Marketing and business promotion expenses		
Advertisement and business promotion expenses	122.23	82.93
Sales Commission and Expenses	62.16	38.74
	<u>184.39</u>	<u>121.67</u>
	<u>972.08</u>	<u>902.60</u>
SCHEDULE - 13		
FINANCE AND TREASURY CHARGES (NET)		
Interest		
On Fixed Term Loans	98.46	120.02
Others	20.26	12.64
Expenses for loan arrangement, bill discounting and bank charges	23.30	21.31
Foreign exchange fluctuations (Net)	4.20	(1.97)
	<u>146.22</u>	<u>152.00</u>
Less: Interest Income on Deposit	0.39	7.21
Profit on redemption of Units	0.06	0.06
	<u>145.77</u>	<u>144.73</u>

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

SCHEDULE –14

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

1. Company background

Tata Teleservices (Maharashtra) Limited (“the Company”), was incorporated on March 13, 1995. The Company is licensed to provide basic and cellular telecommunication services. The Company presently holds two Unified Access (Basic & Cellular) Service Licenses, one for Mumbai Service Area and another for Maharashtra and Goa. The Company also holds the National Internet Service provider – Internet Telephony license.

The company is presently the subsidiary of Tata Sons Limited.

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, (the Act).

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 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. Cost includes all costs incurred to bring the assets to their working condition and location.

The Company capitalises software and related implementation costs, where it is reasonably estimated that the software has an enduring useful life.

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

Capital inventory comprises of switching equipment, 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) Fixed assets are depreciated on a straight line basis, based on the following estimates of their useful economic lives :

	Useful Life (In years)
Buildings	60
Plant & Machinery	
- Network Equipment	12
- Time Division Multiple Access (TDMA) Equipment	9
- Outside Plant	18
- Network Interface Units	5
- Air-Conditioning Equipment	6
- Generators	6
- Electrical Equipments	6
- Computers	3
- Office Equipments	3
- Computer Software	3
Furniture & Fittings	3
Vehicles	5

TATA TELESERVICES (MAHARASHTRA) LIMITED

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

- 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 lives, whichever is shorter. Accordingly, computers and dark fiber acquired under finance lease have been depreciated uniformly over the respective lease terms of 30 months and 15 years.
 - iii) Depreciation on License fees is provided for uniformly over the license period of 20 years. Since the Company has intention of being in business for a period well beyond 10 years and the telecommunication business cannot be carried on without the Telecom licence, the useful life of the asset will exceed the rebuttable presumption of 10 years under AS 26 on Intangible Assets.
 - iv) Depreciation on additions and deletions to assets during the year is charged to revenue pro rata to the period of their use.
 - v) The Company provides for obsolescence of its slow moving capital inventory, by way of depreciation, at the rate of 33.33% p.a. of cost.
- 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) Foreign currency denominated assets and liabilities are reported as follows:
 - a) Monetary items are translated into rupees at the exchange rates prevailing at the balance sheet date. Non-Monetary items such as fixed assets, are carried at their historical rupee values.
 - b) Gains/losses arising on settlement of foreign currency transactions or restatement of foreign currency denominated assets and liabilities (monetary items) are recognised in the profit and loss account, except those relating to the acquisition of imported fixed assets, which are adjusted to the carrying values of the relevant fixed assets.
 - iii) In case of forward exchange covers, the premium or discount arising at the inception of the contract is amortised as expense or income over the life of the contract, except in respect of the liabilities for the acquisition of imported fixed assets where such amortization is adjusted in the carrying value of the fixed assets.
- f) Retirement benefits**
- Retirement benefit costs are expensed to revenue as incurred.
- Contributions to the Provident and Superannuation Funds are made in accordance with the rules of the Funds.
- The Company participates in a group gratuity cum life assurance scheme administered by the Life Insurance Corporation (LIC). Provision for the year in respect of gratuity is made on the basis of actuarial valuation as at the end of the year.
- Leave encashment benefit payable to employees is provided for on the basis of actuarial valuation.
- g) 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 and is recorded net of service tax. The amount charged to subscribers for specialised features which entitle them to access the network of the company and where all other services and products are paid for separately, are recognised as and when such features are activated.
- Revenue is recognised when it is earned and no significant uncertainty exists as to its ultimate realisation or collection.
- h) 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 (refer para I below). During the year, there was no such qualifying Asset, hence no Borrowing Costs were capitalised.
- i) 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 period by the weighted average number of Equity shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Equity shares outstanding during the period as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

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

j) Operating Leases

Assets taken on Lease under which all significant risks and rewards of ownership are effectively retained by the lessor are classified as Operating Leases. Lease payments under Operating Leases are recognized as expenses as incurred in accordance with the respective Lease Agreements.

k) Cash Flow Statement

The Cash Flow statement is prepared by the indirect method set out in Accounting Standard 3 on Cash Flow Statements and presents Cash flows by operating, investing and financing activities of the Company.

l) Bond Expenses

Premium payable on redemption of bonds is fully provided for on issue of the bonds. The Securities Premium Account is applied in providing for premium on redemption in accordance with Section 78 of the Act. On conversion of the bonds to equity the redemption premium is reversed.

Expenses on issue of bonds are written off to the Securities Premium Account in accordance with section 78 of the Act.

m) Finance and Treasury charges

Net finance and treasury charges are disclosed in the financial statements. Interest and other income earned from treasury operations are reduced from the costs of treasury operations.

n) Fringe Benefit Tax

Fringe Benefits Tax (FBT) payable under the provisions of section 115WC of the Income-tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI regarded as an additional income tax and considered in determination of the profits/(losses) for the year.

o) Impairment of assets

An asset is considered as impaired in accordance with Accounting Standard 28 on Impairment of Assets when at balance sheet date there are indications of impairment and the carrying amount of the asset, or where applicable the cash generating unit to which the asset belongs, exceeds its recoverable amount (i.e. the higher of the asset's net selling price and value in use). In assessing the value in use, the estimated future cash flows expected from the continuing use of the asset and from its ultimate disposal are discounted to their present values using a pre-determined discount rate. The carrying amount is reduced to the recoverable amount and the reduction is recognized as an impairment loss in the profit and loss account.

p) Contingent Liabilities

Contingent Liabilities as defined in Accounting Standard 29 on Provision, Contingent Liabilities and Contingent Assets are disclosed by way of notes to accounts. Provision is made if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability.

	As at March 31, 2006 Rs. in Crores	As at March 31, 2005 Rs. in Crores
3. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	228.28	208.63
4. Counter guarantees given by the Company	695.00	685.00
5. Contingent liabilities :		
i) Claims against the Company not acknowledged as debts		
Telecom Regulatory	109.64	8.48
Others	74.37	71.78
ii) Disputed demands before relevant authorities:		
Income Tax	9.35	9.35
Excise Duty	12.98	2.92
Sales Tax	-	3.50
6. Payments to Auditors (excluding service tax) :	2005-06 Rs. in Crores	2004-05 Rs. in Crores
i) Audit fees	0.15	0.13
ii) Tax Audit fees	0.04	0.04
iii) Other matters (certification work etc.)	0.15	0.08
iv) Out of pocket expenses [Current period Rs. 30,000/- (Previous year Rs. 30,000/-)]		

TATA TELESERVICES (MAHARASHTRA) LIMITED

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

7. 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, 1.20 crores 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 2,40,000 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:

	As at March 31, 2006 (Nos.)	As at March 31, 2005 (Nos.)
Opening Balance	419,306	951,962
Issued during the period	-	-
Forfeited	-	-
Exercised	342,481	440,869
Lapsed	11,889	91,787
Closing Balance	64,936	419,306

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

8. Segment Reporting

The Company is engaged in the business of providing Telecommunication Services under Unified Access Licence. These, in the context of Accounting Standard 17 on segment Reporting, issued by the Institute of Chartered Accountants of India, are considered to constitute a single primary business segment.

9. Operating Lease

Operating lease rentals charged to revenue during the period for lease agreements entered from April 1, 2001.

	2005-2006 Rs. in Crores	2004-2005 Rs. in Crores
Residential Flats for accommodation of employees	0.38	0.20
Switch and other Sites	28.44	27.27

Future Minimum Lease Payments

under Non-Cancelable Operating Lease :

Due not later than one year	0.57	0.71
Due later than one year and not later than five years	1.33	1.83
Due later than five years	-	0.19

The agreements are executed for a period ranging from 6 months to 9 years with a renewable clause and in many cases also provide for termination at will by either party giving a prior period between 30 to 90 days.

10. 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. Deferred Tax charges / credits have not been recognized in view of the tax holiday enjoyed by the Company and on considerations of prudence as set out in Accounting Standard 22 on "Accounting for Taxes on Income".

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

11. Value of imports on CIF basis in respect of :	2005-06		2004-05
	Rs. in Crores		Rs. in Crores
Capital Goods	237.63		361.28
12. Expenditure in Foreign Currency (Payment basis) on account of :			
Interest	17.35		4.17
Other	0.33		0.74
	<u>17.68</u>		<u>4.91</u>
13. Earnings in Foreign Currency :			
Interest	-		4.69
14. Value of Capital Inventory consumed during the year :			
	2005-06		2004-05
	Rs. in Crores	%	Rs. in Crores
Indigenous	0.20	56	0.03
Imported	0.16	44	0.56
	<u>0.36</u>	<u>100</u>	<u>0.59</u>
			<u>100</u>
15. Investment Details			
Following units have been purchased and sold by the Company during the Year ended March 31, 2006			
	No. of Units Purchased		No of Units Sold
Zurich India Mutual Fund-Growth	40,228,040.14		40,228,040.14
HDFC Cash Management Fund-Savings Plan- Growth	18,729,999.64		18,729,999.64
16. Derivatives			
i) Outstanding derivative instruments as at March 31, 2006 :			
	USD in Crores		Rs. in Crores
Currency option for hedging of foreign currency exposure	10.23		456.44
ii) The foreign currency exposure that are not hedged by derivative instruments as at March 31, 2006 :			
	USD in Crores		Rs. in Crores
FCCB	7.37		328.81
Vendor payables	0.03		1.46
	<u>7.40</u>		<u>330.27</u>

The above disclosures have been made consequent to an announcement by the Institute of Chartered Accountants of India in December, 2005, which is applicable to the financial periods ending on or after March 31, 2006. Therefore, figures for the previous year have not been disclosed.

TATA TELESERVICES (MAHARASHTRA) LIMITED

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SCHEDULES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT 17. Related Party disclosures (in terms of Accounting Standard – 18)

For the year ended March 31, 2006	Fellow Subsidiaries							Key Management	Total		
	Holding Company	Tata Tele- services Ltd.	Tata Internet Services Ltd.	Wireless TT Info Services Ltd.	EZE Serviz Solutions Ltd.	Tata Consultancy Services Ltd.	THDC Ltd.			Tata AIG General Insurance Company Ltd.	Tata AIG Life Insurance Company Ltd.
Payable:											
- Salary	-	-	-	-	-	-	-	-	-	1.09	1.09
- Interest	-	0.05	-	-	-	-	-	-	-	-	0.05
- Customer Service & Call Centre Cost	-	23.77	-	-	26.01	-	-	-	-	-	49.78
- Advertisement and Business promotion expenses	-	21.75	-	-	-	-	-	-	-	-	21.75
- Network operation cost	-	7.41	-	-	-	-	-	-	-	-	7.41
- Miscellaneous Expenses	-	15.07	1.26	5.89	-	1.33	0.01	0.07	0.04	-	23.68
- Rent	-	-	1.21	-	-	-	-	-	-	-	1.21
- Purchase of Fixed Asset	-	-	-	-	-	1.05	-	-	-	-	1.05
Recoverable:											
- Miscellaneous Expenses	-	11.56	0.15	-	-	0.63	-	-	-	-	12.34
- Rendering Telecom Services	0.12	2.40	0.70	-	-	7.40	0.02	0.34	0.64	**	11.62
Outstanding as at March 31, 2006											
Sundry Debtors	0.01	1.36	0.48	-	-	0.75	0.01	0.07	0.20	***	2.88
Sundry Creditors	-	8.93	1.24	7.51	-	-	-	-	-	-	17.68
Other Receivables	-	-	-	-	0.08	0.38	-	-	*	-	0.46
Inter Corporate Deposits											
Taken	-	32.00	-	-	-	-	-	-	-	-	32.00
Repaid	-	32.00	-	-	-	-	-	-	-	-	32.00
Finance											
Unsecured Loan	-	121.04	-	-	-	-	-	-	-	-	121.04

* Rs. 4,779/- ** Rs. 1,856/- *** Rs. 1,856/-

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

Related Party disclosures (in terms of Accounting Standard – 18)

Rs. in crores

For the year ended March 31, 2005	Holding Company		Fellow Subsidiaries							Key Management Personnel- Charles Antony Managing Director	Total	
	Tata Sons Ltd.	Tata Tele-services Ltd.	Tata Internet Services Ltd.	E2E Serwiz Solutions Ltd.	Tata Consultancy Services Ltd.	Tata Info-tech Ltd.	THDC Ltd.	Tata AIG General Insurance Co. Ltd.	Tata AIG Life Insurance Co. Ltd.			CMC Ltd.
Expenses Payable:												
- Salary	**	-	-	-	-	-	-	-	-	-	-	0.48
- Interest	-	0.68	-	-	-	-	-	-	-	-	-	0.68
- Repairs & Maintenance	-	6.19	-	-	-	-	-	-	-	-	-	6.19
- Advertisement and Business promotion expenses	-	19.81	-	-	-	-	-	-	-	-	-	19.81
- Network operation cost	-	6.36	-	-	-	-	-	-	-	-	-	6.36
- Miscellaneous Expenses	-	16.86	1.41	0.01	0.20	0.03	0.01	0.40	0.07	-	-	18.99
- Rent	-	-	1.28	-	-	-	0.05	-	-	-	-	1.33
- Purchase of Fixed Assets	-	0.17	-	-	0.30	4.70	-	-	-	-	-	5.17
Expenses Recoverable:												
- Miscellaneous Expenses	-	4.47	-	-	-	-	-	-	0.03	-	-	4.50
- Rendering Telecom Services	0.04	0.13	0.85	-	5.58	1.10	0.17	1.28	1.21	0.14	-	10.50
Outstanding as at March 31, 2005												
Sundry Debtors	****	0.04	0.32	-	1.03	0.16	0.02	0.21	0.18	0.01	-	1.97
Sundry Creditors	-	41.12	0.27	-	-	0.09	0.01	***	-	0.06	-	41.56
Other Receivables	-	-	-	8.73	0.03	-	-	-	0.02	-	-	8.78
Finance												
Unsecured Loan	-	121.04	-	-	-	-	-	-	-	-	-	121.04

** Rs. 6,000/- *** Rs. 6,238/- ****Rs. 32,622/-

TATA TELESERVICES (MAHARASHTRA) LIMITED

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

	As at March 31, 2006	As at March 31, 2005
18. Earnings Per Share Data		
i) Loss after Extraordinary item (Rs. in Crores)	541.06	527.86
Less: Extraordinary item (Rs. in Crores)	47.25	-
Loss before Extraordinary item (Rs. in Crores)	493.81	527.86
ii) Weighted average number of shares outstanding.	1,507,715,625	1,416,313,657
iii) Effects of Dilutive Potential Equity Share equivalents [Stock options and Foreign Currency Convertible Bonds (FCCB)]	109,610,173	199,724,761
iv) Diluted Earnings per equity share – Weighted average number of equity shares and potential equity share equivalents outstanding.	1,617,325,798	1,616,038,418
v) Nominal Value of Equity Shares (Rs)	10	10
vi) Basic & Diluted Earnings per Share (Rs.)		
- Including Extraordinary item	(3.59)	(3.73)
- Excluding Extraordinary item	(3.28)	(3.73)

In calculating the earnings per share the effect of dilution is ignored since results are anti-dilutive.

19. Asset under construction includes the following incidental expenditure incurred during the construction period.

	2005- 2006 Rs. in Crores	2004- 2005 Rs. in Crores
Rent, Rates and Taxes	-	2.75
Charges for services	0.40	-
Power	0.12	0.82
Total	<u>0.52</u>	<u>3.57</u>

20. Managerial Remuneration

i) Managing Director	2005- 2006 Rs. in Crores	2004- 2005 Rs. in Crores
Salaries	0.84	0.34
Contribution to Provident and other Fund	0.07	0.04
Monetary value of perquisites	0.18	0.10
Total	<u>1.09</u>	<u>0.48</u>

Note: a) 2004-05 figures are for the period October 1, 2004 to March 31, 2005.

b) 2005-06 figures include Rs.0.13 crores paid during the year for 2004-05.

ii) Non-executive Directors	2005- 2006 Rs. in Crores	2004- 2005 Rs. in Crores
Directors' Sitting Fees	0.03	0.03

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

21. Depreciation

During the year, the Company re-estimated the balance useful life of certain items of plant and machinery on account of technological obsolescence and the consequent enhanced pace of planned replacement. As a result the depreciation charge for the year is higher Rs.66.12 crores.

22. Extraordinary item

Due to the unusual heavy rains and floods in the city of Mumbai and other parts of Maharashtra & Goa during the year, certain Fixed Assets were seriously damaged. The company has written off Rs. 47.25 crores being written down value of these damaged assets and has disclosed the amount as an "Extraordinary item" in the profit and loss account, since the event is clearly distinct from the ordinary activities of the company and cannot be expected to recur frequently or regularly. The company is pursuing its insurance claims and would account the same once settled.

23. Going Concern

The Company has been incurring losses and the accumulated losses of the Company at the close of the year exceed its paid up capital and reserves. This however is not an uncommon feature for telecommunication service providers in their initial years of commercial operations due to high operation costs of heavy infrastructure and high capital requirement for building the network. The Company presently has adequate commitments from its lenders for meeting its operating and financial requirements and continues to grow its network. The Company is therefore being viewed as a going concern and accounts have accordingly been prepared under the going concern assumption.

24. Comparatives

Comparative financial information is presented in accordance with the Corresponding Figure' financial reporting framework set out in Auditing and Assurance Standard 25 on Comparatives. Figures of the previous year are regrouped and reclassified wherever necessary to correspond to figures of the current year.

Signatures to Schedules '1' to '14'

As per our attached report of even date

For Deloitte Haskins & Sells

Chartered Accountants

P.B. Pardiwalla

Partner

Place : Mumbai

Date : May 18, 2006

For and on behalf of the Board

Kishor A. Chaukar

(Director)

Vivek Sett

(Chief Financial Officer)

Charles Antony

(Managing Director)

Madhav J. Joshi

(Chief Legal Officer and
Company Secretary)

TATA TELESERVICES (MAHARASHTRA) LIMITED

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CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	2005-06 Rs. in Crores	2004-05 Rs. in Crores
A Cash flows from operating activities		
Net Loss before Extraordinary item and tax	(492.96)	(527.86)
Adjustments for :		
Depreciation	471.90	317.01
Loss on Disposal of fixed assets (Net)	0.01	-
Profit on redemption of units	(0.06)	(0.06)
Unrealised foreign exchange loss (Net)	4.20	(1.97)
Interest income	(0.39)	(7.21)
Finance and Treasury charges	142.02	153.97
	<u>617.68</u>	<u>461.74</u>
Operating profit/(loss) before working capital changes	124.72	(66.12)
(Increase)/Decrease in Sundry Debtors	(13.51)	78.96
(Increase) in Loans and Advances	(4.30)	(53.93)
Increase in Current liabilities and Provisions	256.90	12.90
	<u>363.81</u>	<u>(28.19)</u>
Cash Generated from operations	363.81	(28.19)
Fringe Benefit Tax paid	(0.80)	-
Net Cash generated from operating activities	363.01	(28.19)
B Cash flow from investing activities		
Purchase of Fixed Assets	(598.89)	(448.20)
Proceeds from sale of Fixed Assets	3.75	-
Profit on redemption of units	0.06	0.06
Interest received	0.83	7.13
	<u>(594.25)</u>	<u>(441.01)</u>
Net Cash used for investing activities	(594.25)	(441.01)
C Cash flow from financing activities		
Proceeds from issue of equity shares	0.34	0.44
Proceeds from long term borrowings (Net)	365.74	664.13
Repayment of long term borrowings	(56.36)	(74.35)
Finance and Treasury charges paid	(132.67)	(146.04)
	<u>177.05</u>	<u>444.68</u>
Net cash generated from financing activities	177.05	444.68
Net (decrease) in cash or cash equivalents	(54.19)	(24.52)
Cash and cash equivalents at beginning of year	80.90	105.42
Cash and cash equivalents at end of year	26.71	80.90
	<u>(54.19)</u>	<u>(24.52)</u>

Notes to Cash Flow Statement

- Components of Cash and Cash Equivalents includes Cash, bank balances in Current and Term Deposit Accounts (Refer schedule 6 to the Balance Sheet).
- Cash and Cash Equivalents includes foreign exchange gain Rs.Nil (Previous year Rs. 0.07 crores)
- Proceeds from long term borrowings is net of debt arrangement expenses.
- Purchase of Fixed Assets are inclusive of movements in Capital Work in Progress between the commencement and end of the year.

For Deloitte Haskins & Sells

Chartered Accountants

P.B. Pardiwalla

Partner

Place : Mumbai

Date : May 18, 2006

For and on behalf of the Board

Kishor A. Chaukar

(Director)

Vivek Sett

(Chief Financial Officer)

Charles Antony

(Managing Director)

Madhav J. Joshi

(Chief Legal Officer and
Company Secretary)

BALANCE SHEET ABSTRACT AND GENERAL BUSINESS PROFILE

I Registration Details	
Registration No.	11-86354
State Code	11
Balance Sheet Date	March 31, 2006
II Capital raised during the year (Rs. in Crores) (Equity Share Capital & Security Premium Account)	
Public Issue	-
Rights Issue	-
Bonus Issue	-
Private Placement (ESOP and conversion of FCCB)	87.15
III Position of Mobilisation and Deployment of Funds (Rs. in Crores)	
Total Liabilities	3,847.65
Total Assets	3,847.65
Sources of Funds	
Paid-up Capital	1,520.59
Reserves & Surplus	215.21
Secured Loans	1,080.12
Unsecured Loans	1,031.73
Application of Funds	
Net Fixed Assets (including Capital Work-in-Progress)	2,436.59
Net Current Assets	(822.35)
Accumulated Losses	2,233.41
IV Performance of the Company (Rs. in Crores)	
Turnover (including other income)	1,096.79
Expenditure	1,637.00
Loss Before Tax	(540.21)
Loss After Tax	(541.06)
Earning Per Share (Rs.)	(3.59)
Dividend Rate	-
V Generic Names of three Principal Products/Services of the Company	
Item Code No. (ITC Code)	Not Applicable
Product Description	Telecommunication Services

For and on behalf of the Board

Kishor A. Chaukar
(Director)

Charles Antony
(Managing Director)

Vivek Sett
(Chief Financial Officer)

Madhav J. Joshi
(Chief Legal Officer and
Company Secretary)

Place : Mumbai
Date : May 18, 2006

TATA TELESERVICES (MAHARASHTRA) LIMITED

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



ATTENDANCE SLIP

Eleventh Annual General Meeting on August 10, 2006

Folio No..... DP ID*..... Client ID*.....

Name.....

Address.....

.....

..... Pincode.....

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company. I hereby record my presence at the ELEVENTH ANNUAL GENERAL MEETING of the Company at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai – 400 020 at 1530 hours on Thursday, August 10, 2006.

Proxy's name in Block Letters

Member's/Proxy's Signature

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

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

TATA TELESERVICES (MAHARASHTRA) LIMITED

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



PROXY FORM

Reg. Folio No..... DP ID*..... Client ID*.....

I/We..... of

..... in the district of

.....being a member/members of the above named Company hereby appoint

..... ofin the district of

..... or failing him

..... in the district ofas my/our proxy to

vote for me/us on my/our behalf at the ELEVENTH ANNUAL GENERAL MEETING of the Company to be held on Thursday, August 10, 2006 and at any adjournment thereof.

Signature

Signed this day of 2006.

Affix a
15 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 meeting.

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

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

TATA TELESERVICES (MAHARASHTRA) LIMITED

Ispat House, B. G. Kher Marg, Worli, Mumbai – 400 018.
Tel 91 22 6661 5445 Fax 91 22 6660 5516 / 5517
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