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CORPORATE GOVERNANCE PRACTICES/STANDARDS TO BE DISCLOSED ON MTNL'S WEBSITE

FOREIGN PRIVATE ISSUER DISCLOSURE

(A Statement of significant Corporate Governance differences between the NYSE, New York and Indian Companies Act/Listing Agreement requirements in relation to MTNL)

On November 4, 2003, the US Securities and Exchange Commission ("SEC") approved the new Corporate Governance rules established by the New York Stock Exchange ("NYSE"). Pursuant to these rules, foreign private issuers that are listed on the NYSE, such as MTNL, must disclose any significant ways in which its Corporate Governance practices differ from the Corporate Governance standards established by the NYSE.

MTNL is listed on the Indian Stock Exchanges i.e., National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Delhi Stock Exchange (DSE), Calcutta Stock Exchange (CSE) and Madras Stock Exchange (MSE). On 26th August, 2003, the Securities and Exchange Board of India ("SEBI"), further amended the principles of Corporate Governance, which were introduced by SEBI by adding Clause 49 in the Listing Agreement of the Stock Exchanges in India. All Stock Exchanges in India were directed by SEBI to replace the existing Clause 49 of the Listing Agreement (which was introduced by SEBI in February 2000 and subsequently amended by SEBI from time to time) with the new revised Clause 49 ("Clause 49"). MTNL is, therefore, obliged to comply with the Corporate Governance standards as set forth under Clause 49 of the Listing Agreement and also in some of the provisions of the Indian Companies Act, 1956. Clause 49 and the relevant provisions of the Indian Companies Act, referred to hereunder, are collectively hereinafter referred to as the "Indian Regulations".

The significant differences in which the Corporate Governance practices followed by MTNL in compliance with the Indian Regulations, differ from the NYSE Corporate Governance standards are stated in the tabular form below:

I. COMPOSITION OF BOARD OF DIRECTORS INCLUDING INDEPENDENT DIRECTORS		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE Standards require listed companies to have a majority of independent directors and set forth in detail the rigorous principles by which a listed company can determine whether a director qualifies as independent	Clause 49 requires that the board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors and further that where the Chairman is a non-executive director, at least one-third of board should comprise of independent directors and in case he is an executive director, at least half of board should comprise of independent directors. The said Clause also sets out the principles for determining “independent director”. The said Clause also provides that nominee directors appointed by an investing or lending institution shall be deemed to be independent directors.	MTNL Board of Directors comprises of twelve directors, four being executive directors, four being non-executive directors, two being Govt. nominee directors and two ex-officio directors. However, presently, only one non-executive director is functioning on the Board as the remaining three non-executive directors have retired. In terms of its Articles of Association, such directors can be appointed only after the approval in writing of the President of India i.e. the Government. MTNL has taken up the matter with Govt. of India, to take immediate action for appointment of requisite non-executive directors on the Board of MTNL to enable MTNL to comply with the Listing requirements.
II. EXECUTIVE SESSIONS AS REQUIRED BY NYSE STANDARDS		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE standards require non-management directors (being persons who are not company officers) to meet at regularly scheduled executive sessions without management.	Under the Indian Regulations, i.e., clause 49 of the Listing Agreement and the Indian Companies Act, no such meetings are required. According to Clause 49 up to one-half of the members of the Board of directors can also hold management positions. There is	Non-executive directors participate in all the Board Meetings as well as the meetings of the Committees of the Board on which they are members such as the Audit Committee, constituted by the Board.

	no requirement that the non-management directors must meet regularly without management, except as members of the Audit Committee and other Committees of the Board of Directors.	
III. COMMITTEES		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE Standards requires that in addition to an Audit Committee, a listed company must have a Nominating/ Corporate Governance Committee and a Compensation Committee, each composed entirely of independent directors with a written charter that addresses certain specified purposes and responsibilities.	Under the Indian Regulations, a listed company is not required to have a Nominating Committee or a Corporate Governance Committee. The only mandatory requirement is to have an Audit Committee. However, clause 49, under its non-mandatory requirements, suggests a Remuneration Committee and a Shareholders Committee.	In MTNL, since remuneration of all directors is fixed by the Govt. of India and the non-executive directors are paid fixed sitting fee for attending each meeting of the Board/Board’s Committees, there has been no need for constituting any Remuneration Committee. There is also no Nomination Committee as all the appointments of directors are made by the Govt. of India, in terms of the Memorandum and Articles of Association.
IV. AUDIT COMMITTEE		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE Standards requires that a listed company has an Audit Committee composed of three independent members that satisfy the independence	The Indian Regulations i.e. Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement provide for the requirement of an Audit Committee and stipulate that the company shall have a	In MTNL, we have constituted an Audit Committee, giving the terms of reference as per the Indian Regulations, i.e., provisions of the Indian Companies Act and Clause 49. The Committee has three members including the Chairman. The

<p>requirements of Rule 10A-3 under the Exchange Act, with a written charter that addresses certain specified purposes and responsibilities.</p> <p>Section 3(a)(58) of the Securities Exchange Act of 1934, as amended defines Audit Committee as a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting of the issuer and audits of the issuer's financial statements; and if no such committee exists with respect to an issuer, the entire board of directors of the issuer.</p>	<p>qualified and independent Audit Committee consisting of minimum three members, all being non-executive directors (with the majority of them being independent) and with at least one director having financial and accounting knowledge. The Chairman of the Committee shall be an independent director. The Chairman shall be present at Annual General Meeting to answer shareholders queries. The Audit Committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitees for the meetings of the Audit Committee. The Company Secretary shall act as the secretary to the committee.</p> <p>It is further required that the Audit Committee shall meet at least four times a year and not more than four months shall elapse between two meetings. One meeting shall be held before finalisation of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the Audit Committee, whichever is higher and minimum of two independent directors.</p> <p>The Audit Committee shall have powers</p>	<p>Chairman is non- executive and independent director.. The other two members are Govt. Directors. Since the appointment of non-executive directors is done by the Govt. of India and we have already taken up the matter with the Govt. of India for urgent appointment of these directors, particularly, in view of the necessity to reconstitute the Audit Committee. After the Govt. appoints more independent directors on the Board, the Audit Committee shall be reconstituted to have all members as independent and non-executive directors.</p> <p>The Audit Committee is functioning strictly as per the provisions contained in the Indian Regulations.</p>
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	<p>which should include the following:</p> <ul style="list-style-type: none">a) to investigate any activity within its terms of reference.b) to seek information from any employee.c) to obtain outside legal or other professional advice.d) to secure attendance of outsiders with relevant expertise, if it considers necessary. <p>The company agrees that the role of the audit committee shall include the following.</p> <ul style="list-style-type: none">a) Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is 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 annual financial statements before submission to the board, focusing primarily on;<ul style="list-style-type: none">- Matters required to be included in the Director's Responsibilities Statement to be included in the Board's report including that the directors had prepared the annual accounts on a going concern basis.- Any changes in accounting policies and practices.- Major accounting entries based on exercise of judgement by management.- Qualifications in draft audit report.- Significant adjustments made arising out of	
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	<p>audit findings.</p> <ul style="list-style-type: none">- Compliance with accounting standards.- Compliance with stock exchange and legal requirements concerning financial statements- Disclosure of 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.- Qualifications in the draft Audit Report. <p>d) Reviewing with the management, the quarterly financial statement before submission to the Board for approval.</p> <p>e) Reviewing with the management, external and internal auditors, the adequacy of internal control systems.</p> <p>f) 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.</p> <p>g) Discussion with internal auditors any significant findings and follow up there on.</p> <p>h) 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.</p> <p>i) Discussion with external auditors before the audit commences nature and scope of audit as</p>	
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	<p>well as have post-audit discussion to ascertain any area of concern.</p> <p>j) Reviewing the company's financial and risk management policies.</p> <p>k) To look 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.</p> <p>l) Carry out any other functions as mentioned in the terms of reference of the Audit Committee.</p> <p>It is further required that the Audit Committee shall mandatorily review the following information:</p> <ol style="list-style-type: none">1. Management discussion and analysis of financial condition and results of operations;2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management.3. Management letters / letters of internal control weaknesses issued by the statutory auditors.4. Internal Audit Reports relating to internal control weaknesses; and5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.	
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V.SHAREHOLDER APPROVAL OF EQUITY COMPENSATION PLANS		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE Standards require that shareholders of a listed company must be given the opportunity to vote on all equity compensation plans and material revisions thereto, subject to certain specified exceptions.	The Indian Regulations would require any equity compensation plans applicable to CEO or directors or revisions thereto, to be approved in the Shareholders’ Meeting where all shareholders are given an opportunity to vote for the same. Moreover, the power to implement any such plans would also require to be mentioned and supported by the company’s charter i.e. its Memorandum and Articles of Association.	MTNL has no equity compensation plans or schemes. Any such plans, if formulated, would besides requiring the approval of the shareholders, also require the prior approval of the Government in terms of MTNL’s Memorandum and Articles of Association.
VI.CORPORATE GOVERNANCE GUIDELINES		
<i>REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)</i>	<i>REQUIREMENTS UNDER INDIAN REGULATIONS</i>	<i>COMPLIANCE BY MTNL</i>
NYSE Standards require that a listed company must adopt and disclose corporate governance guidelines that address certain minimum specified standards which include, director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, director orientation and continuing education, management	As per the provisions of Section 217 (2AA) of the Indian Company Law, we are required to give Directors’ Responsibility Statement regarding preparation of annual accounts, applicable accounting standards, etc. Clause 49 of the Listing Agreement requires a separate Corporate Governance Report together with Management Discussion & Analyses to be given along with Directors’ Report.	We are complying with all the requirements of Indian Regulations.

succession, annual performance evaluation of the board.		
VII.CODE OF BUSINESS CONDUCT AND ETHICS		
REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)	REQUIREMENTS UNDER INDIAN REGULATIONS	COMPLIANCE BY MTNL
NYSE Standards require that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or officers.	Clause 49 (to be effective from 31 st December 2005) contains the requirement that the Board of Directors shall lay down a code of conduct for all Board members and senior management of the Company and that the Code of Conduct shall be posted on the Website of the Company. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Company shall contain a declaration to this effect signed by the CEO.	A Code of Conduct as stipulated has been approved by the MTNL Board and is made applicable to all Board members and senior management personnel. The said case is also listed on the website of the company.
VIII.CERTIFICATION REQUIREMENTS		
REQUIREMENTS UNDER NYSE CORPORATE GOVERNANCE RULES (“NYSE STANDARDS”)	REQUIREMENTS UNDER INDIAN REGULATIONS	COMPLIANCE BY MTNL
NYSE Standards require that each listed company’s Chief Executive Officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance standards. Further each listed	Clause 49 provides: 1. The company shall obtain a certificate from either the auditors or practicing company secretaries regarding the compliance of conditions or corporate governance as stipulated in this clause and annex the certificate with the director’s report, which is sent annually	MTNL is complying with the NYSE requirements as well as Listing Agreement requirements and is taking steps accordingly. We are regularly obtaining a certificate from a practicing Company Secretary to this effect.

<p>company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material noncompliance with any applicable provisions of this Section 303A</p>	<p>to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.</p> <p>2. The non-mandatory requirements given in Annexure I D may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance)/ non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.</p>	
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