Sasken annual report 2004 - 2005

where the future is shaped

annual report 2004 - 2005

sasken

Clay. A simple object that adapts itself to any form and gives wings to imagination. Stretch it. Shape it. Mould it. And do it all over again.

Quite like Sasken Technologies. Where flexibility, adaptability and creativity form the core of every solution. Where people come eager to be shaped. To blend together and translate the company's vision to reality.

Giving the Company the freedom to dream.

And the power to create.

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Board of Directors

Mr. Rajiv C Mody	Chairman and Managing Director
Mr. Pranabh D Mody	Director
Mr. Krishna J Jhaveri	Wholetime Director
Mr. J B Mody	Director
Prof. J Ramachandran	Director
Dr. Ashok Jhunjhunwala	Director
Mr. Bansi S Mehta	Director
Mr. Vinod Dham	Director
Dr. G.Venkatesh	Wholetime Director

Committees of the Board

Audit Committee Members

Mr. Bansi S Mehta	Chairman
Prof. J Ramachandran	Member
Dr. Ashok Jhunjhunwala	Member

Share Transfer and Investor Grievance Committee Members

Prof. J Ramachandran	Chairman
Mr. Rajiv C Mody	Member
Dr. G.Venkatesh	Member

Members of Compensation Committee

Prof. J Ramachandran	Chairman
Dr. Ashok Jhunjhunwala	Member
Mr. Vinod Dham	Member

Management Council Members

Mr. Rajiv C Mody	Chairman & Managing Director
Mr. Edwin Moses	Vice President, Head Worldwide Marketing and Sales, Products
Mr. G Muralikrishnan	Vice President, Head Product Operations
Dr. G.Venkatesh	Wholetime Director, CTO, Chief Strategist & Head Products
Mr. Hari Iyer	Vice President, Culture Officer
Mr. K S G Shankar	Vice President, Operations and Quality
Mr. Kevin Koenig	Vice President, Head Networks Business Unit
Mr. Koichiro Uda	Territory Head, Asia Pacific
Mr. Krishna J Jhaveri	Wholetime Director & President, North America
Mr. Kumar Prabhas	Chief Operating Officer & Head Services
Ms. Neeta Revankar	Chief Financial Officer & Company Secretary
Mr. Ashok Desai	General Manager, Territory Head, North America
Mr. Santosh Xavier	General Manager, Head Terminal Devices Business Unit
Mr. Shrikrishna G Gokhale	Vice President, Head Semiconductor Business Unit
Mr. Surendra Saxena	Vice President, Head Nortel Business Unit
Mr. Swami Krishnan	Chief Marketing Officer

Company Secretary

Neeta Revankar

Statutory Auditors

S R Batliboi & Co.
Chartered Accountants

Internal Auditors

S B Billimoria & Co.
Chartered Accountants

Bankers & Financial Institutions

Citibank N.A.
Dena Bank
HDFC
Union Bank of India

Solicitors and Attorneys

Dua Associates
Wilson Sonsini Goodrich and Rosatti

Registered and Corporate Office

Sasken Communication Technologies Limited
No. 139/25
Domlur Layout
Ring Road, Domlur P.O.
Bangalore 560 071

Letter to shareholders. In the last few years our growth has been dramatic. We started from scratch, but every year we shoot beyond the stretch targets we've set for ourselves. Our confidence is high, so is our commitment to continue to scale greater heights.

Letter to Shareholders

Mr. Rajiv C Mody
Chairman &
Managing Director

Dear Shareholder,

It is indeed with great pleasure that I present to you the performance of your Company for the financial year 2004-05. This year has been one of major gains and growth for your Company.

If the previous year was marked by a return to growth in revenue and profits for your Company, this year marks the consolidation of the same. It does feel very good to be riding this wave of growth, and let us hope that this will continue in the year ahead. Let me quickly take you through the numbers after which I will walk you through some important announcements, as well as, our business performance.

Your Company has seen a good growth during the current year. Revenue has increased by 45.5% in rupee terms from Rs. 1661.30 million in 2003-04 to Rs. 2417.70 million in 2004-05. Services grew at 64.4% contributing 84.2% of our revenues, while our Products revenues contributed 14% to the total and Network Engineering Services contributed 1.8% of our revenues. Our onsite:offshore revenue ratio for the year is at 25:75. Our revenue per person stood at US$ 29,334. The profits grew from Rs. 183.37 million to Rs. 227.80 million during the year.

After the brief tour of financials, it is time to look over a few important happenings at your Company that has brought significant inflow and set our cash registers ringing. The biggest of them is Nortel, one of our largest and oldest customers, has invested approximately US$ 10 million in your Company, and has signed a definitive agreement. In addition to the investment, we have signed a multi-year extension to our existing services agreement with Nortel, under which we will continue to partner in the development of software solutions for Nortel. Nortel has been an important customer to us for more than a decade. This investment is a re-affirmation of Nortel's long and close relationship with your Company.

I am also very glad to inform you that Nokia Growth Partners, a global mid-to late-stage venture capital fund, has invested about US$ 3 million in your Company. This is the first investment by Nokia Growth Partners in any Indian Telecom Company, and is another significant step in Sasken's efforts to build relationships with key players in the wireless space.

Another significant investment has come from MVC VI FVCI Limited, a SEBI registered venture capital firm focused on helping entrepreneurs create and build major new enterprises that use technology to improve the way people live, work and play. This is MVC VI FVCI Limited's first investment in India.

Sasken plans to use the proceeds from the investments for Mergers & Acquisitions. Our M&A strategy is to acquire companies that either bring new capabilities to service existing customers or new customers for existing capabilities. In addition to our regular business and financial due diligence, our M&A process will check for cultural compatibility before proceeding with any transactions.

After giving you a brief tour of the financials for the year, let me now take you through our business that generates these numbers. We track our business by revenues generated from services and products separately. Our services business has been growing handsomely over the last few quarters at a handsome growth rate per quarter. Our revenues from the products business continues to show choppiness quarter on quarter, and will remain like that for the coming few quarters till the products offerings are mature and start yielding royalties.

Your Company continues to invest on the technology and R&D front. Last year, our R&D expenses were about 1.1% of the revenues. In the coming year, we expect to ramp this spend. Your Company differentiates itself in the market place by developing technology and technical expertise. I would like to re-emphasize that to sustain this differentiation, continued investments in R&D are a must.

During the year, your Company also promoted Sasken Network Engineering Limited ("SNEL"), a wholly owned subsidiary in India. SNEL was incorporated on September 29, 2004 and is headed by capable individuals. SNEL provides installation, commissioning and project management services in cellular network. SNEL acquired the assets and a contract of Blue Broadband Technologies Private Limited on October 28, 2004.

On the people front, we grew from a team size of 1437 at the beginning of the year to 1902 on March 31. You will read more of this in the People First segment.

I am concluding on the note that this augurs well for a promising future for your Company. Of course there are going to be bigger challenges that will test our strength and character. I am sure that we shall overcome every single challenge and surge ahead with renewed vigor.

Finally, I am proud of each and every Sasian worldwide who has delivered this result. I am also thankful to you for supporting the management of this Company.

Thanking you,

Rajiv C Mody
Chairman & Managing Director

People first. There are those few who are leaders. Who show the world the way. And guide the rest through, to tomorrow. At Sasken, every Sasian is a leader. Simply put, they wouldn't be here otherwise.

People First

Our People. Our Wealth.

Our Corporate Credo is People First. We believe that respect for the individual comes before organizational imperatives.

And this year that strategy has won us public accolades. In the Business Today-Mercer Survey which covered corporates across sectors, in which IT was one, Sasken was awarded the No. 1 position as The Best Company To Work For.

We also earned recognition on other platforms:

- Ranked sixth in the DQ-IDC Survey of Indian IT Best Employers
- Ranked sixth in the BW-Grow Talent Study of Great Places to Work

These awards are natural outcomes of the unique people-oriented practices that Sasken has nurtured over several years. Drawing on the foundation of our five core values has enabled us to build an institution of character, commitment and competence.

On the other hand though, while our scores in the Gallup Organisation's Employee Engagement survey improved a bit, our global percentile position remained the same.

This indicates that, even as Sasken is constantly bettering its people practices, we need to do so faster.

Building Intellectual Wealth

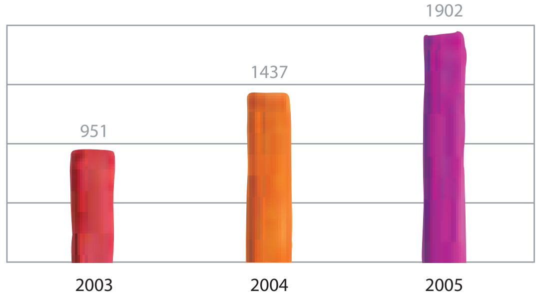
P-CMM: People Capability Maturity Model

The initiative of getting Sasken assessed at Level 5 as per the People Capability Maturity Model (P-CMM) is an effort to achieving global levels of employee engagement. The P-CMM effort was launched this year as a project, with a Project Manager and an external consultant to head it. A Task Force and a Steering Committee have been formed. The people management processes have been documented and the gaps in them identified. Efforts are now on to bridge these gaps.

Quality. Not Quantity.

The Company added over 600 people to its rolls during 2004-05, taking the total number of employees to 2000 by the end of the year. Over 70% of the new employees had work experience, with their high caliber being reflected in the fact that 27% of the employees were post-graduates and PhDs.

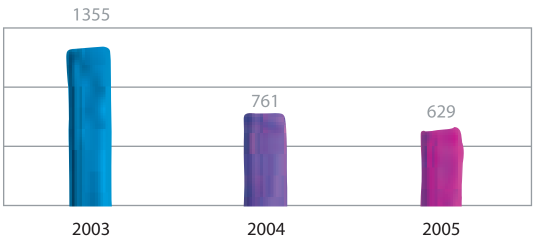
Number of employees as on March 31



Competencies Development

Sasken's commitment to develop employee competencies witnessed an increased impetus this year. Over 17,000 person-days of training represents an increase of about 63% over the last year. The Company invested more than Rs. 11 million in training. Nearly two-thirds of training was on technical competencies, while the remainder was on non-technical competencies.

Cost per person-day of Competence Development (in INR) Rupees

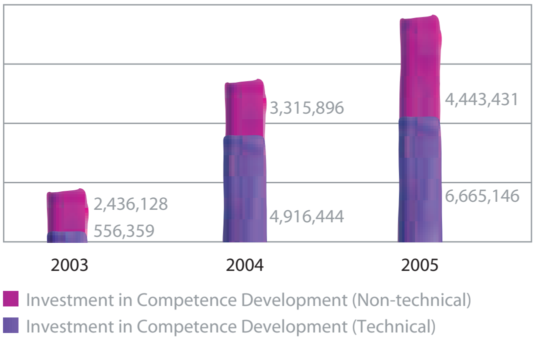


Building Leaders for Stronger Teams

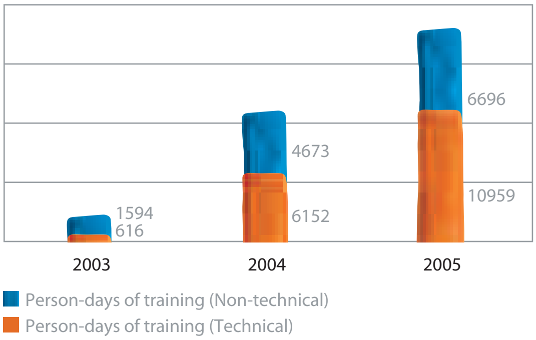
Sasken believes that every Sasian is a leader. And developing leadership capabilities is a priority. The year saw three leadership programs being developed for various levels of managers.

- **Sasken Excellence in Leadership Forum** was designed for senior managers. This program focused on openness; mental models; personality types; performance-orientation; emotion and power management; managing self & time; systems thinking; theory of constraints; group observation skills; team building coaching & mentoring; and change management.
- **On Becoming a Leader** was targeted at middle-level managers. This program covered the following topics: listening skills; giving & receiving feedback; temperament & mental models; balancing task & relationship; ensuring commitment; performance management; time & self management; team building & leadership; and change management.
- **Udaya,** meant for junior managers, covered topics like transaction analysis; interpersonal skills; communication dynamics; environment management; meeting skills; creative thinking; decision making; and understanding team dynamics.

Investment in Competencies Development (Amount in INR)



Investment in Competencies Development (person-days)



All these three programs were developed completely in-house with the active involvement of the line managers. Many sessions were handled by the line managers themselves. Experiences with these programs were presented in the conference "Developing Leadership for the Global Era", conducted by the Academy of Human Resources Development, Ahmedabad, and the paper was published in a book on the same theme.

Building a Future. Building Commitment.

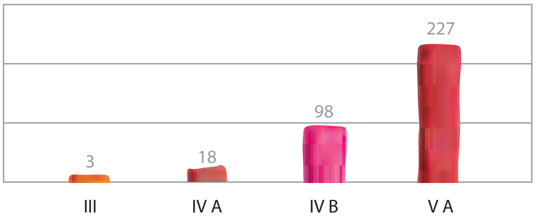
Career Growth

The Career Planning and Management initiative was started this year. Under this intitiative, employees are counseled to plan their career using specified career ladders, and to identify and develop on competencies to move into identified roles. The information is used as an input to plan the training calendar. Three hundred and forty six employees were moved to roles with greater responsibilities, enabling fast-track career growth.

Performance Management and Recognition

The Performance Management system was migrated to PeopleSoft. The KPAs for many roles were standardized. The Quarterly Performance Index Compensation was revised, based on the concept of Economic Value Add. Currently, this is applicable for all employees in managerial roles. Various on-going team and individual rewards, to recognize significant contributions, continued.

Number of Movements to Higher Bands



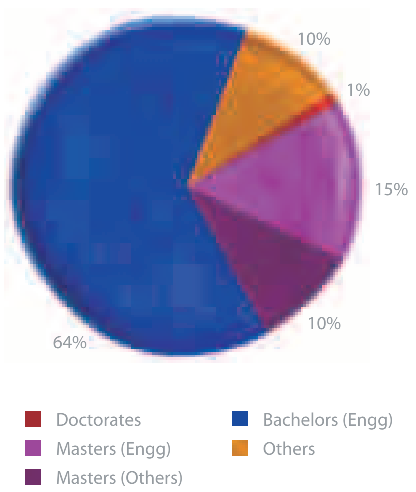
Employee Communication

Sasken strongly believes in two-way employee communication processes. Platforms like performance planning and appraisal; general information sharing; quarterly business update meets; touch-time meetings; one-on-one meetings between the employee and the reporting manager; skip-level meetings etc., continued. Under the new initiative of "Sasken Daily Media Monitor" by the Branding and Communication unit, employees are informed daily about media reports related to Sasken and its business.

Work-life Balance

A team that laughs together lives together. Continuing our emphasis on work-life balance, softer entertainment and recreation programmes for employees and their families were held on an on-going basis. Sasken definitely isn't only about achievement and competitiveness in the work sphere.

Sasken Employee Profile



Technology and markets. Today, the globe is our marketplace. Our single-minded focus on telecom helps us constantly spot and evaluate telecom trends and prepare ourselves for tomorrow's technology, today. And tomorrow, we're not going to be reading the trends, we're going to be setting standards.

Technology and Markets

The Indian IT Industry

In FY 2003-04, the Indian IT services and software sector grossed US$ 12.8 billion in revenue – an annual growth of 29.6 percent over FY 2002-03. The segment is expected to exceed US$ 16.5 billion by the end of the current fiscal – translating to a CAGR of 25.7 percent over FY 2000-05. The share of exports in total industry revenue is expected to rise further and to account for nearly three-fourths of the segment revenue by the end of the current fiscal.

Analysis of IT Services and Software Exports

The economic upswing in key markets towards the second and third quarters of FY 2003-04 helped fuel the growth of Indian IT services and software exports. IT services and software exports grew from US$ 7.1 billion in FY 2002-03 to US$ 9.2 billion in FY 2003-04 – a growth of over 30 percent over the previous year.

Based on the good performance observed in the first three quarters of the current fiscal, IT service and software exports are expected to reach US$ 12.2 billion by March 2005 – a forecast growth of 32 percent over FY 2003-04.

R&D Services and Software Product Exports

Indian R&D services and software product exports, though at a nascent stage, are undergoing a quiet change. Currently valued at US$ 2.3 billion (barely 1.3 percent of the worldwide market), global R&D and product development sourced from India is likely to grow rapidly – driven by the strong global demand for embedded software and systems and the increasing adoption of offshore product development. Analysts forecast Indian R&D services and software products market to grow to US$ 8-11 billion by 2008-10.

Embedded Software and Systems

The worldwide market for embedded software and systems is currently valued at US$ 25 billion, and is estimated to be growing at an annual rate of 16 percent. Rapidly increasing global demand has helped Indian exports of embedded systems and software to reach US$ 1.6 billion in FY 2003-04 – a growth of 44 percent over the previous fiscal. The high levels of growth in segment revenues is expected to continue as increasing levels of convergence and digitization and declining costs increase the global adoption of electronic devices – and manufacturers are forced to seek technically superior / low cost sourcing destinations to remain competitive.

Offshore Product Development

The value of offshore product development exports (includes the export of software products made by Indian companies) sourced from India is estimated to have increased from US$ 560 million in FY 2002-03 to US$ 710 million in FY 2003-04. Many global Independent Software Vendors (ISVs) are eyeing India as a location for establishing captive centers for R&D activities. Since the beginning of 2001, approximately 230 multinationals have opened offices in India. The market for outsourced R&D activities in India reached US$ 800 million to US$ 1 billion in 2003, and is expected to reach US$ 11 billion by 2008.

Unlike large IT service organizations, product-centric firms are often small set-ups typically funded through the venture capital route. As a result the pressure to deliver on financial profitability metrics is very high. Offshore product development has proven to be an effective means of extracting more value out of every dollar of funding raised. Analysts believe that, as in services, global sourcing of product development will become an integral part of most product-centric strategies over the next few years.

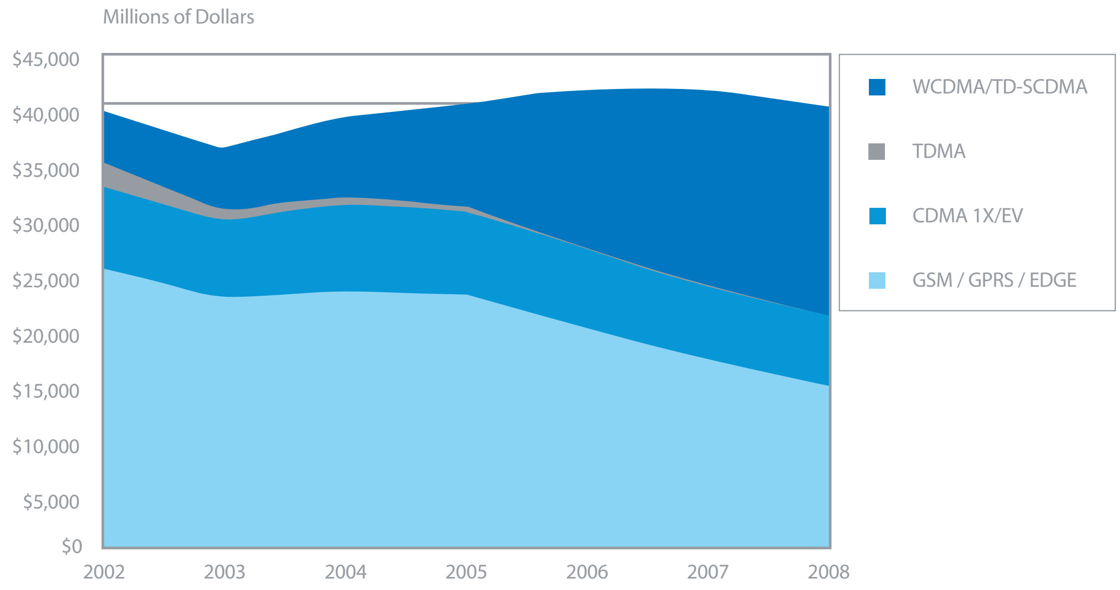
Cellular Infrastructure Market

The leading vendors in the market are Nortel, Lucent and Motorola from North America, and Ericsson, Nokia, Siemens and Alcatel from Europe. The worldwide market for mobile infrastructure is estimated to have been about US$ 39.2 billion in 2004. The worldwide cellular network equipment revenue has declined from US$ 40 billion in 2002 and is expected to grow to US$ 40.1 billion by 2008.

The market is split across two competing technologies – CDMA 2G/3G and GSM (2G)/UMTS(3G). GSM/UMTS is the dominant technology (see figure below). Vendors have to manage multiple internal programs as well as support their customers for 2G, 2.5G and 3G technologies simultaneously. In addition, GSM, TDMA and CDMA technologies each follow a unique migration path to 3G, forcing network equipment vendors to manage diversity in their overall migration roadmap.

Gartner, Inc.; Forecast: Total Mobile Infrastructure Revenue by Technology Standard (2002-2008)

During the forecast period, Gartner expects price erosion to be higher in 3G than the more mature 2G technologies. But equipment volumes for the 3G technologies will rise. Gartner forecasts that WCDMA revenue will exceed that of GSM-related technologies by 2007.



Source: Gartner Dataquest (September 2004)

Network Services Market

Gartner estimates that telecom carriers spent US$17.3 billion in 2004 for externally provided OSS solutions. Of the US$17.3 billion, US$3.27 billion was spent on software license fees while the remaining US$14.03 billion was spent on consulting, integration, maintenance, customization and managed network services. The total external OSS market is expected to grow to US$22.55 billion by 2008 at a compounded annual growth rate of 6.8%. In 2004, North America was the largest external market for OSS at US$6.28 billion.

Indian Cellular Market Forecast

The Indian mobile market, according to the Cellular Operators' Association of India (COAI), has increased from approximately 1.2 million subscribers as of 31 March, 1999 to approximately 33.56 million subscribers as of 30 September, 2004. Despite this rapid growth, the mobile penetration rate in India, at approximately 3.1 percent as of 30 September, 2004, is significantly lower than the average mobile penetration rate in other Asian and international markets.

	2004	2005	2006	2007	2008
Mobile Connections (K)	56,500.0	90,000.0	119,000.0	145,180.0	165,490.7
Annual Growth	98.7%	59.3%	32.2%	22.0%	14.0%

Source: Gartner Dataquest, 2004

India is one of the fastest growing cellular industries in the world witnessing high competition, steep price reductions and higher fixed-to-mobile substitution. As the subscriber numbers in India ramp up, Indian service providers are looking to aggressively roll out networks and enhance coverage. Hence the Indian market is a critical market for NEMs. Given the price sensitive nature of the Indian market, NEMs are looking to reduce the network roll out costs using local vendors.

Segment Market Overview

The overall semiconductor market worldwide is estimated to have been around US$ 220 million by the end of 2004. The semiconductor market will post little revenue growth for the next two years, as the factors that drove strong revenue growth in 2004 will dissipate. However, this next downcycle will not be as traumatic as the last and, as it plays out, will go some way to continue the industry's recovery from its 2001 hangover.

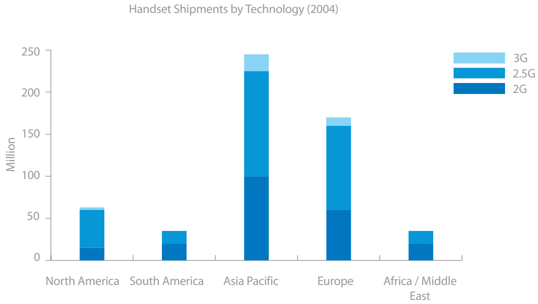
Market Share by Device

The total market size of the semiconductor market in 2003 was US$ 178 billion. We segment the semiconductor market in two ways – by device category and by end applications. In terms of device category, Sasken targets the ASIC/ASSP segments. ASSP segment was 24% of the worldwide market and we expect it to grow by 2.7% in 2005. ASIC segment was 8% of the worldwide market and we expect it to grow by 0.9% in 2005. In terms of end applications, we target the wireless semiconductor space. This segment of the worldwide semiconductor market was US$ 35.7 billion in 2004. This segment was about 16% of the world markets in 2004, and we expect it to grow by 5.1% in 2005.

2004 was a strong growth year for semiconductors used in mobile handsets and mobile infrastructure. Handset semiconductor revenue growth will be US$ 33.4 billion, with growth of 46 percent compared with 2003. Long term, no growth is expected in 2006 and modest growth in 2007 and 2008. If this scenario plays out, industry consolidation will increase after 2005 because of greater competition and relatively high development costs.

On the infrastructure side, operators are investing in upgrading their 2G and 2.5G networks to improve the quality of service they provide to their customers. Coupled with ongoing investment in their 3G networks, the upgrades provide welcome growth for semiconductor suppliers.

The shipments of mobile phones worldwide reached about 674 million units in 2004, exceeding forecasts.

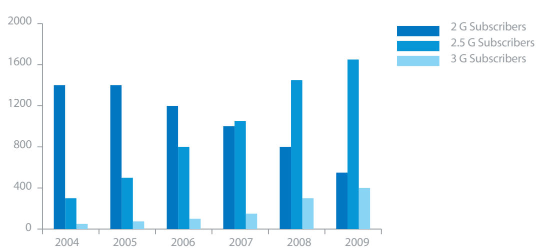


Source: Future Mobile Handsets, 6th Edition, Informa Telecoms and Media

More 2.5G handsets were shipped than any other generation of technology with most of the growth coming from the Asia-Pacific region, followed by Europe. Asia-Pacific also saw the largest number of 3G handset sales.

According to forecast by Informa Telecoms and Media (erstwhile ARC Group) on handset shipments, over the next 4 years, 2G handset shipments are expected to decline significantly worldwide. The sale of 2.5G handsets is expected to peak by 2007-08, fuelled by sales in Asia-Pacific region, followed by Europe. In 3G, handset sale is expected to grow worldwide with maximum growth registered in Asia-Pacific followed by Europe.

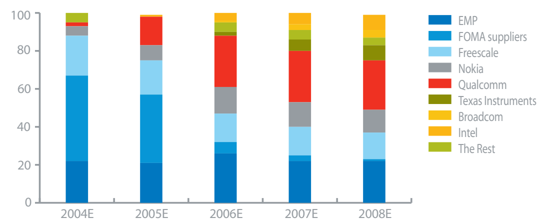
Worldwide Mobile Subscriber Forecast in Millions by Technology Type



Source: Future Mobile Handsets, 6th Edition, Informa Telecoms and Media

Baseband Processor Vendors and their Market Shares

The 2G and 2.5G baseband processor markets are well established and Texas Instruments leads the market in this space. The 3G baseband processor market is still evolving and according to the Signals Research Group, Ericsson Mobile Platform and Qualcomm are likely to be the dominant vendors in the UMTS baseband processor market by 2008.



Source: Signals Research

We believe that the other significant feature of the 3G baseband processor market evolution is that while software partnerships are well established in the 2G and 2.5G space, they are still evolving in the 3G space.

Both these evolutions create a window of opportunity for Sasken. Building partnerships with the right semiconductor partner will be critical for our growth.

The last seven years at a glance. *There are companies who grow. And then there are those who grow, but forever retain the entrepreneurship and zeal of a young start-up. At Sasken, our energy and innovation remains that of a pioneer, but that's backed by mature business acumen and the experience of some of the best intellectual capital.*

Financial Performance – A Seven Year Snapshot

(Rs. in lakhs)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
1) Revenue account							
Sales / Revenue	4,703.59	7,591.56	14,283.34	10,862.70	10,938.19	16,613.01	22,299.02
Other income	100.58	427.34	112.86	149.08	(15.93)	130.45	399.67
Total revenue	4,804.17	8,018.90	14,396.20	11,011.78	10,922.26	16,743.46	22,698.69
Profit before Interest, depreciation and taxes (PBIDT)	2,074.78	3,466.95	4,293.46	1,061.40	2,022.50	2,889.54	3,720.73
Depreciation	612.06	878.31	808.31	1,790.47	1,257.92	1,187.78	1,341.88
Profit before Interest and taxes (PBIT)	1,462.72	2,588.64	3,485.15	(729.07)	764.58	1,701.76	2,378.85
Interest	33.79	88.18	136.44	439.62	362.23	79.84	44.85
Profit / (Loss) before tax (PBT)	1,428.93	2,500.46	3,348.71	(1,168.69)	402.35	1,621.92	2,334.00
Income tax (including withholding taxes)	206.23	1,014.34	538.07	395.17	275.09	(213.20)	164.20
Profit / (Loss) after tax (PAT)	1,222.70	1,486.12	2,810.64	(1,563.86)	127.26	1,835.12	2,169.80
Dividend	472.40	513.95	551.88	–	–	427.58	505.42
2) Capital account							
Share capital	1,079.39	1,247.47	1,256.53	1,266.94	1,271.00	1,516.09	1,684.72
Share application money	–	–	–	0.06	1,642.76	–	25.49
Reserves and surplus	1,368.68	6,347.17	8,912.74	7,785.29	7,211.71	9,860.11	12,376.77
Loan funds	1,407.16	85.63	3,176.47	3,539.34	2,675.35	42.68	45.03
Gross block	3,082.40	4,799.25	10,144.22	13,048.69	13,174.80	13,716.82	15,629.92
Net block	2,075.77	2,914.28	7,531.87	8,949.20	8,234.87	7,805.35	8,378.27
Investment	29.79	1,905.38	186.18	335.41	14.42	269.19	329.55
Net current assets	1,749.67	2,860.61	5,627.69	3,307.02	4,551.53	3,344.34	5,346.78
3) Other information							
Total number of shareholders	160	441	572	659	709	788	935
Number of employee shareholders (including ex-employees)	120	218	317	394	432	467	463

Financial Performance – A Seven Year Snapshot (contd.)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
4) Ratios							
a) Profitability / Efficiency							
Operating turnover/Total turnover (%)	97.9%	94.7%	99.2%	98.6%	100.1%	99.2%	98.2%
Other income/Total turnover (%)	2.1%	5.3%	0.8%	1.4%	-0.1%	0.8%	1.8%
PBIDT/Total turnover (%)	43%	43%	30%	10%	19%	17%	16%
PBIT/Total turnover (%)	30%	32%	24%	-7%	7%	10%	10%
PBT/Total turnover (%)	30%	31%	23%	-11%	4%	10%	10%
PAT/Total turnover (%)	25%	19%	20%	-14%	1%	11%	10%
Return on average net worth (%) (PAT/average net worth)(%)	60%	30%	32%	-16%	1%	17%	17%
Return on average capital employed (pre-tax) (PBT+ Interest)/(average capital employed)(%)	50%	45%	33%	-6%	6%	14%	19%
Return on average capital employed (post-tax) (PAT+ Interest)/(average capital employed)(%)	43%	27%	28%	-9%	4%	16%	17%
Sales to average net working capital	3.6	3.3	3.4	2.4	2.8	4.2	5.1
Total Revenues to average total assets	1.6	1.4	1.4	0.9	0.9	1.4	1.8
Fixed Assets turnover	1.5	1.6	1.4	0.8	0.8	1.2	1.4
b) Liquidity							
Net working capital to total assets	0.5	0.4	0.4	0.3	0.4	0.3	0.4
Average collection period (days)	187	126	127	98	104	74	74
Current ratio	2.3	3.2	3.5	2.9	3.9	2.6	2.8
c) Leverage							
Debt-Equity ratio	0.6	0.0	0.3	0.4	0.3	0.0	0.0
Interest cover	37.2	17.9	21.6	(2.6)	1.4	24.0	49.4
Total assets / net worth	1.6	1.0	1.3	1.4	1.3	1.0	1.0
d) Growth							
Growth in operational turnover (%)	66%	61%	88%	-24%	1%	52%	34%
Growth in total turnover (%)	65%	67%	80%	-24%	-1%	53%	36%
Net profit growth (%)	55%	22%	89%	-156%	108%	1,342%	18%

The Year at a Glance – Consolidated

For the year	31-Mar-05		31-Mar-04	
	Rs. lakhs	US$,000	Rs. lakhs	US$,000
Exports	22,411.02	49,979.97	15,111.80	32,808.95
Domestic sales	1,765.98	3,938.41	1,501.21	3,259.25
Other income	367.08	818.64	130.45	283.21
Profit before interest, depreciation and taxes (PBIDT)	3,918.50	8,738.85	2,888.13	6,270.36
PBIDT as a percentage of revenue	16.2%	16.2%	17.4%	17.4%
Profit / (Loss) before taxes (PBT)	2,452.18	5,468.73	1,620.51	3,518.26
Profit / (Loss) after tax (PAT)	2,278.03	5,080.35	1,833.71	3,981.13
Earnings per share … Weighted Average (in Rs. / US$)+	13.94	0.31	12.14	0.13
Earnings per share … Diluted (in Rs. / US$)+	13.53	0.30	11.54	0.13
Equity Dividend percentage	30%	30%	25%	25%
Equity Dividend amount	505.42	1,127.16	379.02	822.88
Investment in Fixed Assets (Gross)	2,428.14	5,551.30	678.61	1,554.65
PBT as a percentage of average net worth*	19.3%	19.3%	15.1%	15.1%
PAT as a percentage of average net worth*	17.9%	17.9%	17.1%	17.1%
Revenue per person year**	1.28	28,636	1.50	32,810
At the end of the year				
Total assets	14,339.39	32,783.24	11,417.47	26,156.86
Fixed assets (net)	8,773.95	20,059.33	7,805.35	17,881.67
Working capital	5,509.49	12,596.00	3,232.80	7,669.71
Investment	55.95	127.91	264.29	605.48
Total debt	145.59	332.85	42.68	97.78
Net worth	14,193.80	32,450.39	11,374.79	26,059.08

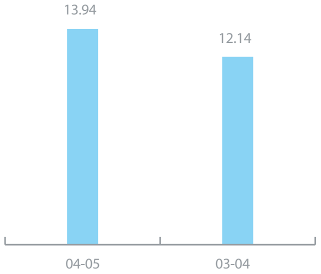
To facilitate comparison figures in US$ have been arrived at by converting Rupee figures as follows:
- at the average conversion rate for all revenue items
- at the closing rate for all Balance Sheet items
- at actual rates for sales

* Share application money is excluded

** considering all employees including the support staff, numbers are in Rs. Million & US$

\+ Face value of Rs. 10 per share

Earnings per share...
Weighted Average (in Rs.)



Financials. When one has people who are leaders, technology that's relevant, yet ahead of it's times, constant growth, and clients who come back, one is bound to know the secret to unlocking value.

Directors' Report

Your Directors have pleasure in presenting the report on the business and operations of the Company along with the Audited Accounts for the financial year ended March 31, 2005.

(Rs. in lakhs)

Financial Results		
Year ended March 31,	**2005**	**2004**
Revenues	22,299.02	16,613.01
Gross profit	7,327.69	5,590.44
Non operating income	399.67	130.45
Profit / (Loss) before tax	2,334.00	1,621.92
Income tax expense / (credit), net	164.20	(213.20)
Profit / (Loss) after tax	2,169.80	1,835.12
Appropriation:		
Proposed equity dividend	505.42	379.02
Dividend Tax	70.88	48.56
Transfer to general reserve for the year	216.98	183.51

Result of Operations

Your Company has seen a good growth during the current year. Revenue has increased by 34% in rupee terms from Rs. 16,613.01 lakhs in 2003-04 to Rs. 22,299.02 lakhs in 2004-05. In dollar terms the revenue has increased by 37% from US$ 36.40 million in 2003-04 to US$ 49.71 million in 2004-05. The net profit was 9.7% of revenues.

The Company's headcount has increased from 1,437 at the end of March 2004 to 1,921 as at March 2005. Your Company has taken additional space in one of the three facilities in Bangalore in order to meet the growing needs and is also in the process of finalizing the fourth facility near the corporate office.

In the current year your Company had set up the second wholly owned subsidiary, Sasken Network Engineering Limited headquartered in Bangalore, by taking over the assets and contract of a Company in Mumbai. This Company undertakes the Installation & Commissioning of Cellular Network and Network Integration Services. It has commenced operations from October 2004.

Dividend

The board recommends a dividend of 30% in view of good performance this year.

Further issue of equity

The following shares were issued during the year:

Particulars	Date of Allotment	No. of shares	Details
Issued to strategic investor	16.07.2004	3,266,667	Shares of Rs. 5/- each were issued on conversion of warrants issue earlier
Issued for consolidation	16.07.2004	120	Shares of Rs. 5/- each were issued for consolidation of Shares of Rs. 5/- into Shares of Rs. 10/- each
Issued on exercise of ESOP vested in October 2004	19.10.2004	34,570	Share of Rs. 10/- each were issued to the employees who have exercised their ESOPs vested on 1st October 2004
Issued on exercise of ESOP vested in October 2004	25.01.2005	18,440	Share of Rs. 10/- each were issued to the employees who have exercised their ESOPs vested on 1st October 2004

Borrowings

Currently the Company enjoys no other credit facility from banks/institutions except working capital credit.

Sasken Employee Stock Option Plan

In addition to the options issued in April 2004 to all the employees who were in rolls of the Company as on March 31, 2004, the Company has extended ESOP to some of its employees on Potential and Performance basis in June 2004. The total number of ESOPs issued under the scheme is 971,533 options of Rs. 10 each (1,943,066 options of Rs. 5/- each at the time of issue).

In January 2005, Company has extended ESOP to the employees of its subsidiary Company, viz. Sasken Network Systems Limited. The total number of ESOPs issued under this category is 42,530 of Rs.10/- each.

In January 2005, Company had also issued 2,735 options of Rs. 10/- each to some employees of Sasken who were missed out earlier.

The details required under SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme), Guidelines 1999, as on 31st March 2005 are annexed to this Report.

The Company believes in philosophy of sharing wealth with its employees and encourages the employees to be partners in the growth of the organization.

Patents

The Company encourages the employees to file for Patent, so that the R&D investment translates into economic benefit for the organization. The Company as on date has filed a total of 32 Patent applications out of which 5 patents have been granted by the US Patent and Trademark Office for the inventions.

Award

The Board is pleased to inform you that your Company has been rated by the Business Today-Mercer survey "The Best Companies to work for in India" and the results were published in the Business Today issue dated 21st November 2004. The Business Today has ranked Sasken as the #1 Company to work for in India.

Certification

During the year under report, your Company has become the first Indian organisation in the telecom software sector to be certified to the BS 7799 standard. This assures your Company's customers and partners of information and data protection through controlled procedures, policies and best practices and is a comprehensive specification that defines the requirements for establishing, implementing and documenting an effective information security management system.

Conservation of Energy, Technology Absorption and Foreign Exchange Outgo

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, regarding conservation of energy, technology absorption and foreign exchange earnings and outgo, is given in the Annexure forming part of this Report.

Particulars of Employees

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the annexure to this report.

Corporate Governance

The detailed report on Corporate Governance at Sasken is provided separately in this Annual Report.

Directors' Responsibility Statement

Directors' Responsibility Statement as required under Section 217 (2AA) of the Companies Act, 1956, is given in the Annexure forming part of this report.

Directors

Prof. J Ramachandran and Mr. Vinod Dham retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

During the year, Mr. Shirish B Mody and Mr. Suresh Dholakia resigned from the Board. Consequent to resignation of Mr. Shirish B Mody, the office of Mr. Bansi S Mehta who was an alternate director to Mr. Shirish B Mody has got vacated and Mr. Bansi S Mehta was subsequently appointed as an Additional Director effective 19th October 2004. Consequent to the resignation of Mr. Suresh Dholakia the office of Mr. Mahendra J Jhaveri an alternate director to Mr. Suresh Dholakia also got vacated.

The Directors place on record their appreciation of services provided by Mr. Shirish B. Mody and Mr. Suresh Dholakia during their tenure.

Effective 1st April 2005 Mr. Pranabh D Mody stepped down from the position of Whole-time Director. However, he continues to be a Director on the Board of the Company.

On 25th January 2005, Dr. G. Venkatesh was appointed as an additional Director of the Company and was appointed as Whole-time Director of the Company.

At the Annual General Meeting held on 24th May 2000, Mr. Rajiv C. Mody and Mr. Krishna J. Jhaveri were appointed as Chairman & Managing Director and Whole-time Director respectively for a period of five years and their term expired on 31st March 2005. The Board at its meeting held on 19th April 2005 reappointed them for a further period of five years with effective from 1st April 2005. The terms of appointment are detailed in the Notice convening the Annual General Meeting.

Contribution to society

In line with the Company's belief of being a responsible corporate citizen, the Company contributes to various social and educational causes that bring out excellence & well being of the society. Accordingly the Company contributed Rs. 22.40 lakhs to various organizations in the current year.

Dematerialization of equity shares

One of the good measures that the Company has initiated as an investor friendly move was dematerialization of shares, which was well appreciated by our shareholders. At present the shares of the Company can be dematerialized with National Securities Depositories Limited (NSDL). As on 31st March 2005, more than 38 % of the shares have been dematerialized.

Deposits

The Company has neither accepted nor renewed any deposits during the year under review. As such, no amount of principal and/or interest is outstanding as on the balance sheet date.

Auditors

M/s S R Batliboi & Co., auditors of the Company, retire at the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if reappointed.

Acknowledgement

Your directors would like to place on record, their appreciation to customers, shareholders, vendors, Union Bank of India, HDFC Bank, Citibank N.A., Dena Bank, the STPI Bangalore, RBI and all Governmental and statutory agencies for their cooperation and invaluable support. Your directors would also like to thank the employees for their valuable contribution and also seeing that the Company is back into growth path.

For and on behalf of the Board of Directors

Place: Bangalore
Date : April 19, 2005

Rajiv C Mody
Chairman & Managing Director

Particulars pursuant to the provisions of Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A) Conservation of Energy

Though the Company does not have energy intensive operations, it continues to adopt energy conservation measures.

Energy conservation programs adopted by the Company are (i) Continuous monitoring of energy consumption (ii) Bi-weekly "Cost review" with action plans on effective utilization of Power (iii) Optimizing HVAC and other plant & machinery system performance to reduce cost.

Further the Company is implementing the learnings from other industries through benchmarking and also encouraging our maintenance engineers to go in for Energy Audit Certification.

B) Research and Development and Technology Absorption

Emphasis was placed during the year on improving the performance of existing products and we also undertook R&D in the areas of DSL, multimedia codecs and applications and mobile protocol stacks. The above products have reached considerable maturity and also have been deployed in the field.

The following is a description of the Research and Development efforts during the financial year:

Patents:

The Company began to develop intellectual property in 1997.

Filing of patents continues to be a significant aspect of the Company's business strategy. Patents help in increasing the value of the licensed IP and it also helps in defending against IP infringement claims. Till the end of the last financial year, the Company had filed a total of 32 applications for patents of which 5 patents have been granted and 6 Patent Co-operation Treaty applications has also been filed.

Five of our patent applications were granted by the USPTO during the year.

These are:

(a) Peak Power to average power ratio reduction in multi carrier communication systems using error correcting code.

(b) A Technique for peak power to average power ratio reduction in multi carrier communication systems.

(c) Data decompression technique for image processing.

(d) Memory architecture for parallel data access along any given dimension of an n-dimensional rectangular data array.

(e) Clock recovery in multi-carrier transmission systems.

C) Foreign Exchange Earnings and Outgo	(Rs. in Lakhs)
Foreign exchange earnings	21,798.71
Foreign exchange outgo (Including capital goods purchased, recovery of travel expenses and dividend paid in foreign currency)	5,677.70

D) Particulars of disclosures as required under SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines 1999.

The Company has been issuing Options to employees under various ESOP Schemes. All the Options issued under the earlier SAS Stock Option Plan 1997 have been exercised & closed, the details of which are given in the corporate governance section of the Annual Report. In 2000-01 a fresh ESOP Plan 2000 as per SEBI guidelines was instituted, and on 31-12-2002 the outstanding Options were cancelled due to high exercise price and lack of enthusiasm for the conversion. The total numbers of Options issued were 1,263,940 whereas only 3,237 Options were exercised and converted into shares.

The Company has issued additional stock Options under ESOP 2000 Plan formulated as per the SEBI guidelines during the month of June 2004 and January 2005. The various details of the scheme as at 31-03-2005 are as follows:

1.	Total Options granted	1,691,763
2.	Total Options vested (but not exercised) cumulative till 31.03.2005	211,170
3.	Total Options exercised (including the Options exercised for April 2005 Allotment)	84,870
4.	Total number of Options outstanding as on 31.03.2005 (Cumulative till 31.03.2005)	1,606,893
5.	Total Options lapsed (due to resignation as on 31.03.2005)	188,405
6.	Money realized by the exercise of Options	6,789,600
7.	Total number of Options in force	1,418,488
8.	Variation of terms of Options	N.A

9. Pricing formula for the grant:

Price is based on valuation of the shares as may be determined by the Compensation Committee from time to time and which was decided to be Rs. 40/- per Option for Options issued in October 2003. Since the shares were subsequently consolidated into Rs. 10/- the shares were issued at a price of Rs. 80/- per share at the time of exercise by the employees.

10. Employee-wise details of Options granted to:

a. Employees who were in receipt of grants amounting to 5% or more of total options granted during the year: Nil

b. Employees who were granted options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant: Nil

c. Employee-wise details of Options granted to senior managerial personnel during the year under review.

S.No	Employee Name	Designation	No of Options (Rs. 10)
1	Mr. G. Muralikrishnan	Vice President, Head Product Operations	22,625
2	Dr. G. Venkatesh	Wholetime Director, CTO, Chief Strategist & Head Products	20,540
3	Mr. Hari Iyer	Vice President, Culture Officer	22,625
4	Mr. KSG Shankar	Vice President, Operations and Quality	11,625
5	Mr. Kumar Prabhas	Chief Operating Officer & Head Services	20,050
6	Ms. Neeta Revankar	Chief Financial Officer & Company Secretary	22,625
7	Mr. Shrikrishna G G	Vice President, Head Semiconductor Business Unit	13,625
8	Mr. Surendra Kumar Saxena	Vice President, Head Nortel Business Unit	19,125
9	Mr. Edwin Moses	Vice President, Head World Wide Marketing & Sales, Products	19,125
10	Mr. Santosh Xavier	General Manager, Head Terminal Devices Business Unit	12,135
11	Mr. Ashok Desai	General Manager, Territory Head, North America	4,845
12	Mr. Koichiro Uda	Territory Head, Asia Pacific	4,845

11. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of Option calculated in accordance with International Accounting Standard (IAS) 33 is Rs. 12.88 per share and as per the Indian Accounting Standard Rs. 12.88 per share.

E. Directors' Responsibility Statement pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956.

The management of Sasken has prepared and is responsible for the accompanying financial statements.

The directors have followed the applicable Accounting Standards in the preparation of the annual accounts along with proper explanation relating to material departures.

In the preparation of the annual accounts, the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year.

The directors had taken proper and sufficient care 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.

The directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board of Directors

Place: Bangalore
Date : April 19, 2005

Rajiv C Mody
Chairman and Managing Director

Corporate Governance

Sasken is committed to long-term shareholder value creation, on the foundation of good governance.

Authority and responsibilities are allocated among Shareholder's of the Company, Board of Directors and management by Corporate Governance. The shareholders form the supreme body and they decide matters of importance which by law are to be decided by them. They appoint the members of Board of Directors. The Board governs the affairs of the Company and is responsible for appointing, overseeing and evaluating the management of the Company and is responsible to the shareholders. The management runs the day-to-day operations of the Company subject to the guidance and authority of the Board and is responsible to the Board and Shareholders. There are Committees of the Board which evaluate and guide on matters like audit and accounts, compensation etc The system should enhance goal setting, decision making and appropriate monitoring of compliance and performance within a framework of strong corporate values.

Effective governance requires a proactive, focused state of mind on the part of directors, the CEO and senior management, all of whom must be committed to success by carrying out their responsibilities with the highest standard of ownership and ethics.

Corporate values

Corporate values shape the governance of a Company. The following are the key values that serve as the foundation on which Sasken is governed.

a) Integrity
b) Respect
c) Innovation
d) Customer Intimacy
e) Excellence

Role of the board

The responsibility of governing the Company and directing the management of the Company in the day to day operations rests with the Board. Accepting and understanding this, the members of the Board maintain a high degree of character and competence both as individuals and as a team. It demonstrates through its operations the uncompromising integrity and professionalism in the conduct of our business.

The constitution of the board and the committees and the contribution to the corporate governance are discussed in detail in the following paragraphs.

1. Board Composition and membership

Board members are expected to possess the requisite expertise and experience to be able to guide your Company. Expertise and depth of experience in one or more of strategy, finance, technology, marketing and human resource matters is essential. Another requirement for Board membership is independence, based upon the absence of relationships and interests that could compromise, or could be perceived as compromising the ability of a director to exercise judgment in the best interests of the Company. Subject to Board review and modification in specific instances, criteria that could vitiate such independence would include:

- Current or previous (within five years before) employment with the Company or any of its affiliates. This criterion will not apply to Executive directors.
- Member of the immediate family of an Executive Officer or Director of the Company.
- Any business relationship with the Company or interest in any significant transactions involving the Company, except as a director or shareholder or as a supplier or customer in the ordinary course of business.

The Board of Directors of the Company consists of nine members. Following is the board's composition:

Founder / Promoter Directors:

Sl. No.	Name	Designation	Category
1	Mr. Rajiv C Mody	Chairman and Managing Director	Founder Director
2	Mr. Pranabh D Mody	Director	Founder Director
3	Mr. Krishna J Jhaveri	Whole-Time Director	Founder Director
4	Mr. J B Mody	Director	Founder Director

Non - Executive and Independent Directors

Sl. No.	Name	Designation	Category
1	Dr. Ashok Jhunjhunwala	Director	Independent Director
2	Mr. Bansi S Mehta	Director	Independent Director
3	Professor J Ramachandran	Director	Independent Director
4	Mr. Vinod Dham	Director	Independent Director

Other Executive Director

Sl. No.	Name	Designation	Category
1	Dr. G.Venkatesh	Wholetime Director	Executive Director

During the year, Mr. Shirish B Mody and Mr. Suresh Dholakia resigned from the Board. Consequent to resignation of Mr. Shirish B Mody, the office of Mr. Bansi S Mehta who was an alternate director to Mr. Shirish B Mody has got vacated and Mr. Bansi S Mehta was subsequently appointed as an additional director effective 19th October 2004. Consequent to the resignation of Mr. Suresh Dholakia the office of Mr. Mahendra J Jhaveri an alternate director to Mr. Suresh Dholakia was also vacated.

On 25th January 2005, Dr. G.Venkatesh was appointed as a Wholetime Director of the Company. Mr. Pranabh D Mody, Executive Director until March 31, 2005, continues as a Founder Director, in a non Executive capacity.

The Board comprises of three executive directors, viz., a Managing Director and two Wholetime Directors. The remaining directors are non-executive directors who bring in a wide range of experience and skills in the fields of strategy, finance, technology, marketing and management. Four of the non-executive directors are independent directors., The Board believes that it has the right amount of independence for the current size of the Company. It is committed to increasing the proportion of independent directors, based on the governance need and also to meet compliance requirements.

2. Profile of the independent directors:

We rely on our independent directors to bring us a diverse portfolio of knowledge and personal perspectives as well as business judgment. We expect that our directors will be engaged with us beyond the Board and committee meetings.

Dr. Ashok Jhunjhunwala

Dr. Ashok Jhunjhunwala completed his Bachelors in Technology in 1975, his Masters in Science and doctorate from the University of Maine, US in 1977 and 1979 respectively. He is a Professor and Head of Department of Electrical Engineering, Indian Institute of Technology (IIT), Madras. He is associated with the Telecommunications and computer Networks Group (TeNet) of IIT Madras, which incubates technology driven companies in the communication sector. He has more than 26 years of experience. His research interests are in telecommunications network, optical networks, computer networks and wireless communication systems. He has been awarded 6 patents and has 2 pending patent applications. Dr. Jhunjhunwala is an authority on telecommunications and is associated with the telecom task force under the Ministry of Communications and Information Technology, Government of India. He has made significant contributions in the area of academic-industry interaction and is a visionary on telecom policy matters. He is the recipient of several awards, including the Shanti Swarup Bhatnagar award in 1998 and the Padma Shri in 2002. He is on the board of directors of several companies, including Videsh Sanchar Nigam Limited (VSNL) and Bharat Sanchar Nigam Limited (BSNL).

Mr. Bansi S Mehta

Mr. Bansi S Mehta is managing partner of Bansi S. Mehta & Co., Chartered Accountants. He has been the President of the Institute of Chartered Accountants of India from 1981 to 1982 and a member of various committees of international accounting bodies. He is an authority on financial management and taxation issues. He is on the board of directors of several companies and statutory bodies.

Professor J Ramachandran

Professor J Ramachandran is BOC chair professor of business policy at the Indian Institute of Management (IIM), Bangalore. He is a qualified chartered accountant and a cost accountant, and obtained his doctorate from IIM, Ahmedabad. His major research interests are in the areas of corporate transformation and competitive strategy. An award winning teacher and case writer, Prof. Ramachandran is currently engaged in studying the global competitiveness of Indian firms in the pharmaceutical, software and auto component industries. He has been the Harry Reynolds Visiting International Professor at the Wharton School of the University of Pennsylvania; and a Visiting Professor at INSEAD, Fontainebleau, France and the Carlson School of Management, University of Minnesota, USA. He has also been a member of the Sub Committee on Strategy in Non-US Settings, Business Policy & Strategy Division of the Academy of Management, USA. He is currently the Chairperson of Executive Education at the IIM. Prior to joining the faculty at IIM, Bangalore, he was Vice President (Management Services) at Reliance Industries Limited. In addition to his teaching and publishing credits, Professor J Ramachandran has served as a consultant to various Indian and multinational companies, including Daimler Chrysler, Hewlett Packard, Philips, ITC, Colgate Palmolive, Hoechst, Siemens, Wipro, Infosys, Wockhardt, United Breweries, Eicher, Madras Refineries and LIC. He is also a member of the Board of Directors of a number of technology and start up firms.

Mr. Vinod Dham

Mr. Vinod Dham has done his bachelors in Electrical Engineering from the Delhi College of Engineering and Masters in Electrical Engineering from University of Cincinnati, US. He worked in various capacities for 16 years at Intel and rose to the designation of Vice President. He was the leader of Intel's Pentium chip development team in the early 1990s and is referred to in popular press as the "Father of the Pentium". He later moved to NexGen, US (later known as Advanced Micro Devices) and worked on development of a competitor to the Pentium processor. He also started Silicon Spice, to develop a VOIP chip, which Company was later sold to Broadcom. Mr. Dham is the co-founder and managing member of New Path Ventures LLC. He is also on the board of several companies worldwide and has several years of technology, business and entrepreneurial experience.

3. Membership term

In accordance with the Companies Act, 1956, and the Articles of Association of the Company, two thirds of the Board is liable for retirement by rotation of which one third shall retire by rotation at the annual general meeting every year. The person holding the office for the longest period shall be the one to retire. The Executive directors are appointed for a maximum term of five years at a time.

4. Board processes

Board Meeting & Deliberations

The Chairman of the Board establishes the agenda for each Board Meeting. Members of Board are free to suggest inclusion of items on the agenda, in addition to their right to bring up matters for discussion at the meeting with the permission of the Chairman.

Information and data that are important to the Board's understanding of the business in general, and relating to matters tabled for discussion at a meeting in particular are distributed in writing to the members of the Board sufficiently in advance of the meeting. Sensitive material, however, is presented for discussions at the meeting only.

Board Meetings and Procedures

The Board meets at least four times in a year at quarterly intervals and more frequently if deemed necessary to transact its business. Board members normally resident overseas attend as many meetings as they conveniently can, but agree if so required and arranged for, to participate in Board deliberations through audio / video conferencing and/or by written submissions to the Chairman. The Management Council attends board meetings during operational reviews.

The Board at its discretion invites any Executive Officer of the Company and/or outside advisors to their meeting.

5. Chairman of the Board and the Chief Executive Officer

The chairman of the board, Mr. Rajiv C Mody is a founder director and is also the Chief Executive Officer of the Company. The Company believes that, considering its current size of operations, there is no need for a non-executive chairman currently.

During the year the Company restructured around two divisions viz. services division and product division. This re-structuring allows Sasken to have a sharper focus on both the Products and the Services businesses. The nature of the two business demands differing kinds of focus. The time frames for business maturity and drivers for success in the products business differ significantly from the cycles that a services business goes through. The restructuring allows Sasken to maximize the opportunity markets are presenting today. The Services Division is headed by Prabhas Kumar who also continues as the Chief Operating Officer of the Company. The Products Division is headed by Dr. G.Venkatesh who also continues to play the role of Sasken's Chief Technology and Strategy Officer.

The Chairman & Managing Director and CEO is responsible for all board matters. He is also responsible for corporate strategy, enhancing the brand value of Sasken, meeting customers and investors and maintaining these relationships, fostering a good work culture in the organization, and ensuring quality of our offerings.

The COO and CSO, in their capacity as head of the respective divisions are responsible for all operational matters, which include achievement of the annual business plan.

6. Relationship with the management

The management of the business of Sasken is conducted under the supervision of the Chairman and Managing Director (CMD) and by Management Council to whom the management function is properly delegated by the CMD. CMD functions under the direction, control and supervision of the board.

Communication between the directors and management is normally through the office of the CMD. Apart from the regular communication before each of the board/ committee meetings, views of the members of the board/ committee are taken from time to time on all-important matters.

7. Remuneration of the Board Members

The compensation committee approved the compensation payable to all the Executive directors, within the overall limits approved by the shareholders and in accordance with the provisions of the Companies Act, 1956.

The following table shows the amounts paid to the executive directors during the year:

Name	Designation	Salary (Rs.)	QPIC (Rs.)
Mr. Rajiv C Mody	Chairman & Managing Director, CEO	4,000,000	1,816,277
Mr. Pranabh D Mody	Wholetime Director	2,945,714	867,051
Mr. Krishna J Jhaveri	Wholetime Director	9,407,980	1,750,000
Dr. G.Venkatesh *	Wholetime Director	361,111	216,667

* For part of the year

The following paragraphs provide the details about the remuneration for the year ended 31st March 2005. The remuneration proposed from 1st April 2005 is as per the notice sent to shareholders which is to be read in conjunction with the following details, to the extent applicable.

(i) All elements of remuneration package such as salary, benefits, bonuses, stock options, pensions etc of all the directors:

The remuneration payable to the executive directors is broken into two parts viz., fixed pay, and QPIC. QPIC, the Quarterly Performance Indexed Compensation is paid on the basis of performance parameters set for each of the Executive directors, at the beginning of the year, in consultation with the CEO. The compensation committee periodically reviews the performance of the executive directors. Fixed pay is determined by the compensation committee within the limits set by the shareholders. QPIC payable to the executive directors for the year is determined by the compensation committee on the performance of the directors and also of the Company. The details of the fixed pay and QPIC paid/payable for the year 2004-05 are given in the succeeding paragraphs.

Contribution towards provident and superannuation funds is as per the Company's policy and forms part of the fixed pay.

The Company compensates the independent directors who have been co-opted to various committees of the board for the quality time and professional advice these eminent personalities bring to the organization. The non- executive directors are presently paid sitting fees for attending the board meetings. Remuneration paid/ payable to independent directors is as under:

Sl.No.	Name of the independent director	Amount
1	Mr. Bansi S Mehta	Rs. 6 lakhs
2	Professor J Ramachandran	Rs. 6 lakhs
3	Dr. Ashok Jhunjhunwala	Rs. 6 lakhs
4	Mr. Vinod Dham	US$ 20,000

(ii) Details of fixed component and performance-linked incentive for the year ended 31st March 2005 are as follows:

Particulars	Rajiv C Mody (Rs. lakhs)	Pranabh D Mody (Rs. lakhs)	Krishna J Jhaveri (US$)	G.Venkatesh (Rs. lakhs)
Fixed Pay – proposed**	40.00	30.00	200,000	3.62
Fixed Pay – Paid	40.00	29.45	200,000	3.61
QPIC – proposed **	50.00	14.00	40,000	2.17
QPIC – Paid / Payable	18.16	8.67	40,000	2.17
Total remuneration paid	58.16	38.13	240,000	5.78

** Approved by shareholders. For Dr. G.Venkatesh it is subject to the approval of the shareholders in the ensuing Annual General Meeting of the Company.

(iii) Service Contracts, notice period, severance fees

As applicable to other employees of the Company. The managerial personnel are appointed for a period of 5 years at a time. No severance fee is payable to any of them, and each of them will provide a three month notice period.

(iv) Stock Option details, if any, and whether the same has been issued to directors at a discount as well as the period over which accrued and over which exercisable: -

Dr. G.Venkatesh who has been inducted into the Board on 25th January 2005 as Executive Director has been allotted 20,540 options under the ESOP scheme during the current year. None of the other directors have been granted any options.

7. Board meetings

The board normally meets once in a quarter. Additional meetings are held as and when required to discuss matters which are urgent. For the financial year ended 31st March 2005, the Board met 5 times viz., April 20, 2004, June 11, 2004, July 16, 2004, October 19, 2004 and January 25, 2005.

8. Committees of the Board

Board of Directors have established the committees to look into specific areas and give their valuable inputs in certain decision making by the board. Committees of the board have been consisting of Non- Executive Directors to the extent practicable.

1. Audit Committee
2. Compensation Committee and
3. Share Transfers and Investor Grievance Committee.

The audit committee, and the compensation committee consist entirely of non-executive, independent directors. The Share Transfers and Investor Grievance Committee consist of Executive directors.

Audit Committee

The purpose of the audit committee is to ensure the objectivity, credibility and correctness of the Company's financial reporting and disclosure processes, internal controls, risk management policies and processes, tax policies, compliance and legal requirements and associated matters.

Sl. No.	Name	Title	Financial expertise / literacy	Status
1	Mr. Bansi S Mehta	Chairman of Audit Committee	Expertise	Independent, Non-executive director
2	Dr. Ashok Jhunjhunwala	Member	Literacy	Independent, Non-executive director
3	Professor J Ramachandran	Member	Expertise	Independent, Non-executive director

The terms of reference of the audit committee are as follows:

1. Regular review of accounts, accounting policies, disclosures etc.
2. Review of the major accounting entries based on exercise of judgment by management and review of significant adjustments arising out of audit .
3. Qualifications in the draft audit report.
4. Establishing and reviewing the scope of the independent audit including the observations of the auditors and review of the quarterly, half- yearly and annual financial statements before submission to the Board.
5. The Committee shall have post audit discussions with the independent auditors to ascertain any area of concern.
6. Establishing the scope and frequency of internal audit, reviewing the findings of the internal auditors and ensuring the adequacy of internal control systems.
7. To look into reasons for substantial defaults in the payment to depositors, debenture holders, shareholders and creditors.
8. To look into the matters pertaining to the Director's Responsibility Statement with respect to compliance with Accounting Standards and accounting policies.
9. Compliance with legal requirements of the Stock Exchange concerning financial statements, to the extent applicable.
10. The Committee shall look into any related party transactions i.e., transactions of the Company of material nature, with promoters or management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.
11. Appointment and remuneration of statutory and internal auditors.
12. Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Audit Committee.

The audit committee met 4 times during the year on April 19, 2004, July 16, 2004, October 19, 2004 and January 24, 2005.

The attendance at audit committee meetings during the year is as follows:

Name of director	April 19, 2004	July 16, 2004	October 19, 2004	January 24, 2005
Mr. Bansi S Mehta	Yes	Yes	Yes	No
Dr. Ashok Jhunjhunwala	Yes	Yes	Yes	Yes
Professor J Ramachandran	Yes	Yes	No	Yes

During each meeting, the Audit Committee met with the statutory auditors and the internal auditors.The Chief Financial Officer was present at the audit committee meetings. The minutes of the Audit Committee meetings are placed before the Board at the succeeding Board meeting for information. The management represented to the Committee that the Company's financial statements were prepared in accordance with generally accepted accounting principles. The committee discussed with the auditors the companies audited financial statements, including the reasonableness of significant judgements and the extent of disclosures in the financial statements.

The committee also reviewed with the internal auditors and the management, the internal controls prevalent in the Company, and the areas of improvement. In conducting such reviews, the committee found no material discrepancy or weakness in the internal control systems of the Company.

The committee recommended to the Board, the appointment of M/s. S R Batliboi & Co Chartered Accountants, as the statutory auditors of the Company for the fiscal year ending March 31, 2006. The appointment of M/s. Ernst and Young has been recommended for carrying out the audit under US GAAP. The committee also recommended the appointment of M/s. S B Billimoria and Co. as the internal auditors of the Company for the fiscal year ending March 31, 2006.

Compensation Committee

The committee's goal is to ensure that the Company attracts and retains highly qualified employees in accordance with its business plans, that the Company fulfils its ethical and legal responsibilities to its employees, and that management compensation is appropriate.

Professor J Ramachandran chairs the Compensation Committee. The other members of the committee are Dr. Ashok Jhunjhunwala and Mr. Vinod Dham.

The terms of reference of the Compensation Committee is given below.

1. To determine the remuneration, review performance and decide on QPIC and variable pay of executive directors.

2. To determine the number of stock options to be granted under the Company's Employees stock Option Schemes and administration of the stock option plan.

3. Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Compensation Committee.

4. Establishment and administration of employee compensation and benefit plans.

The compensation committee met four times on 20th April 2004, 16th July 2004, 16th November 2004 (through conference call) and 25th January 2005. The minutes of the Compensation Committee meetings are placed before the Board at the succeeding Board meeting for information. Attendance of compensation committee meetings is as follows:

Name of director	20th April 2004	16th July 2004	16th November 2004 (Audio Conference)	25th January 2005
Dr. Ashok Jhunjhunwala	Yes	Yes	Yes	Yes
Professor J Ramachandran	Yes	Yes	Yes	Yes
Mr. Vinod Dham	Yes	Yes	Yes	Yes

The committee reviewed the performance of all the Executive directors and approved the remuneration of the Executive Directors for fiscal 2004-05, within the overall limits approved by the shareholders. The committee also approved the ESOP scheme put to them by the Company and decided to issue stock options to the employees in April 2004, June 2004 and January 2005.

Share Transfers and Investor Grievance Committee

This Committee is responsible for the smooth functioning of the share transfer process as well as redressal of shareholder grievance. Prof. J Ramachandran is the chairman of the Committee and Mr. Rajiv C Mody and Dr. G.Venkatesh are the other members of the Committee. The terms of reference of the Share transfer and Investor Grievance committee is as follows:

1. To approve share transfers and transmissions.
2. To approve splitting of share certificates, consolidation of share certificates and related matters including issue of fresh share certificates in lieu of the split / consolidated certificates.
3. Issue of duplicate share certificates in lieu of lost, mutilated and destroyed certificates.
4. Matters relating to dematerialisation of shares and securities.
5. Investor relations and redressal of shareholders grievances in general and relating to non receipt of dividends, interest, non receipt of balance sheet etc in particular.
6. Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Shareholders and investor relations committee.

The Committee met 9 times on these dates viz., 6th April 2004, 10th June 2004, 15th July 2004, 2nd September 2004, 17th September 2004, 18th October 2004, 25th November 2004, 20th January 2005, 18th March 2005.

The minutes of the Share Transfer Committee meetings are placed before the Board at the succeeding Board meeting for information.

The committee expressed satisfaction with the Company's performance in dealing with investor's grievances and share transfers.

The following table gives the details about the directors' attendance at the meetings of the Board:

Name of the Director	Board Meeting [5]
Dr. Ashok Jhunjhunwala	4
Mr. Bansi S Mehta *	4
Mr. J B Mody	5
Prof. J Ramachandran	4
Mr. Krishna Jhaveri	4
Mr. Mahendra Jhaveri **	2
Mr. Pranabh D Mody	5
Mr. Rajiv C Mody	5
Mr. Shirish Mody	*
Mr. Suresh Dholakia	2**
Mr. Vinod Dham	3
Dr. G.Venkatesh	1

* Shri Bansi S Mehta was the alternate director for Mr. Shirish Mody and attended on his behalf till July 16, 2004 meeting.

** Mr. Mahendra Jhaveri is the alternate director to Mr. Suresh Dholakia and attended on his behalf.

Overall, we believe that our Board has a good record with respect to corporate governance and corporate responsibility. However, there is always room for improvement. There is clearly a need for greater openness and transparency at a time when boards are being examined for their independence, integrity and effectiveness. We will continue to review guidelines and practices, as well as proposed governance reforms, not just to ensure compliance, but also in order to implement what we believe are the most effective governance policies and practices for the Company.

On behalf of the Board, I would like to assure everyone with a stake in our future, that the directors would continue to diligently oversee the business affairs of the Company and restore good profits and confidence in our Company, in the years ahead.

Rajiv C Mody
Chairman and Managing Director

9. Related parties disclosures

During the period under review, the Company did not have any related party transactions that are material in nature, with its promoters, the directors or the management, relatives etc., which may have potential conflict with the larger interests of the Company.

10. General Body Meetings

The last three annual general meetings of the Company were held as per the following details:

Year	Venue	Date	Time
2002	Registered Office of the Company at Domlur, Bangalore	21 Jun, 2002	4.30 p.m.
2003	Registered Office of the Company at Domlur, Bangalore	14 Jul, 2003	4.30 p.m.
2004	Registered Office of the Company at Domlur, Bangalore	11 Jun, 2004	4.30 p.m.

The last three Extra-ordinary General Meetings of the Company were held as per the following details:

Year	Venue	Date	Time
2003	Registered Office of the Company at Domlur, Bangalore	21 Feb, 2003	4.30 p.m.
2004	Registered Office of the Company at Domlur, Bangalore	16 Jul, 2004	4.30 p.m.
2005	Registered Office of the Company at Domlur, Bangalore	28 Feb, 2005	4.30 p.m.

11. Distribution of Shareholding as on the date of the report is as follows:

Range		Shareholders		Number of Shares			% to Total
From	To	Numbers	% to Total	Physical	Demat	Total	
1	2500	410	40.35	341,480	118,490	459,970	0.27
2501	5000	137	13.48	408,260	109,900	518,160	0.31
5001	10000	106	10.43	614,120	200,680	814,800	0.48
10001	20000	104	10.24	1,182,990	293,370	1,476,360	0.88
20001	30000	50	4.92	914,270	337,200	1,251,470	0.74
30001	40000	29	2.85	831,830	216,190	1,048,020	0.62
40001	50000	17	1.67	591,490	188,000	779,490	0.46
50001	100000	45	4.43	2,285,930	1,108,210	3,394,140	2.02
> 100000		118	11.61	88,627,430	70,069,380	158,696,810	94.22
Total		**1016**	**100.00**	**95,797,800**	**72,641,420**	**168,439,220**	**100.00**

– As of date of this report 35.89% of shares have been dematerialised by the shareholders of the Company.

12. Shareholding Group wise

The break up of shareholding as of 31.3.2005 is as follows:

Category	Percentage
Promoters*	57.55
Employees including ex employees	4.28
Others including strategic investors	38.17
Total	100.00

* This figure includes shareholders who are relatives, friends of promoter and promoters group.

13. Plant location

The Company's operations are consolidated in its Registered and Corporate office building at Domlur, Bangalore. In addition during the year the Company has taken a few more offices on lease in Bangalore and also opened a branch at Pune. The overseas offices of the Company are located in Canada, China, Germany, Japan, Sweden, UK and USA.

14. General Shareholder Information

- AGM: Date, time and venue: 10th June 2005, at 4.30 p.m. at the Registered Office of the Company at:

  Sasken Communication Technologies Limited

  139/25, Domlur Layout, Ring Road,

  Domlur P O,

  Bangalore 560 071

- Financial Calendar: 1st April to 31st March.
- Record Date for Payment of dividend: 6th June 2005.
- The shares of the Company can be dematerialized with National Securities Depositories Limited. Equity shares of Sasken are identified by the number (ISIN) INE231F01020. It is now possible for a Sasken shareholder to have his holdings in the Company in electronic form in a DP account. Please do write to investor@sasken.com for further details on the subject.
- The following table shows the investor queries/ requests received during the year and the response time:

Total requests for share transfer/ split/ transmission/ issue of duplicate shares/ demat requests received	1-15 days	16 –30 days	31- 40 days
Share transfer	17	–	–
Split	6	–	–
Transmission	3	–	–
Issue of duplicate share certificates	5	–	–
Demat requests	104	3	–

Other shareholder queries:

S No.	Nature of query	No of queries	Within 24 hours	1 to 2 days	3 to 5 days	Over a week
1	Change of address	122	122	–	–	–
2	ESOP related queries	14	14	–	–	–
3	Exchange of Rs. 10 consolidated certificates in lieu of Rs. 5 certificates	595	595	–	–	–
4	Others @@	35	35	–	–	–

@@ Query under this category includes general clarifications regarding results, annual report etc which are not classified separately in the above para.

- Share Transfer System:

The share transfer and investor grievance committee meets periodically depending on requests for transfers, issue of duplicate shares, requests for split of certificates, approval of demat requests received from the shareholders etc. Shareholders willing to transfer the shares should send the duly completed transfer deed together with the share certificates to the Company at the address given at the end of this section. Similarly shareholders intending to hold shares in the demat mode are advised to get in touch with the Depository Participants (DPs) with whom the shareholders are required to have an account.

Apart from Annual report, notices and specific issues like calling of a general meeting, issue of rights shares etc, yearly results are put up on the website of the Company. A shareholder can access and download the Annual Report as well as the official news releases at www.sasken.com

Address for postal correspondence:

The Company Secretary
Sasken Communication Technologies Limited
139/ 25, Domlur Layout
Ring Road, Domlur P. O.
Bangalore 560 071
Ph: +91 (80) 25355501, 25355503
Fax: +91 (80) 25351309, 25351156
Email: investor@sasken.com

Financial Statements in Compliance with Indian GAAP

Auditors' Report

To

The Members of Sasken Communication Technologies Limited

1. We have audited the attached Balance Sheet of Sasken Communication Technologies Limited ("the Company") as at March 31, 2005 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. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

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

   ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   v. On the basis of the written representations received from the directors, as on March 31, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

   vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

   a. in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2005;

   b. in the case of the profit and loss account, of the profit for the year ended on that date; and

   c. in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore
April 19, 2005

Annexure to the Auditors' Report

Annexure referred to in paragraph 3 of our report of even date

Re: Sasken Communication Technologies Limited

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.

(c) There was no substantial disposal of fixed assets during the year.

(ii) In our opinion and according to the information and explanations given to us, in view of the nature of activities of the Company, the provisions of Clause 4(ii) relating to inventory is not applicable to the Company.

(iii) (a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us, as represented by the management that some items are of a special nature for which alternative quotations cannot be obtained, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

(v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.

(b) According to the information and explanations provided by the management, none of the transactions made in pursuance of such contracts or arrangements exceed the value of Rupees five lakh in respect of any one such party in the financial year.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.

(ix) (a) According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it with the appropriate authorities.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the information and explanations given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of any dispute.

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

(xii) Based on our examination of documents and records, we are of the opinion that the Company has maintained adequate records where the Company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

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

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) The Company did not have any term loans outstanding during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money through a public issue during the year.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No.: 35141

Bangalore
April 19, 2005

Balance Sheet

	Schedule No.	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Sources of Funds			
Shareholders' Funds			
Share Capital	1	1,684.72	1,516.09
Share Application Money		25.49	–
Reserves and Surplus	2	12,376.77	9,860.11
Loan Funds			
Secured Loans	3	45.03	42.68
Total Sources		**14,132.01**	**11,418.88**
Application of Funds			
Fixed Assets	4		
Gross Block		15,629.92	13,599.01
Less : Accumulated Depreciation		7,251.65	5,911.47
Net Block		8,378.27	7,687.54
Capital Work in Progress including capital advances		77.41	117.81
Total		**8,455.68**	**7,805.35**
Capitalised software product costs (net of amortization)		–	115.03
Investments	5	329.55	269.19
Current Assets, Loans and Advances			
Inventories	6	19.75	54.97
Sundry Debtors	7	4,536.72	3,367.82
Cash and Bank Balances	8	914.28	268.18
Loans and Advances	9	2,895.68	1,569.17
Gross Current Assets	(A)	**8,366.43**	**5,260.14**
Less: Current Liabilities and Provisions	10		
Current Liabilities		2,188.11	1,474.55
Provisions		831.54	556.28
Total	(B)	**3,019.65**	**2,030.83**
Net Current Assets	(A-B)	5,346.78	3,229.31
Total Applications		**14,132.01**	**11,418.88**
Notes to Accounts	16		

The Schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date.

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Profit and Loss Account

	Schedule No.	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Revenues		22,299.02	16,613.01
Cost of Revenues	11	12,909.65	9,468.86
Product Engineering Expenses		2,061.68	1,553.71
Gross Profit		**7,327.69**	**5,590.44**
Research and Development		271.78	193.80
Gross Profit after Research and Development		**7,055.91**	**5,396.64**
Selling and Marketing Expenses	12	2,146.69	1,890.87
Administrative and General Expenses	13	2,856.34	1,918.83
Employee stock option compensation cost (net) (Refer note 7(b) in the Notes to Accounts)		73.70	15.63
Profit from operations		**1,979.18**	**1,571.31**
Other Income / (Expenses)	14	60.59	69.46
Exchange gain / (loss), (net)		339.08	60.99
Profit before Interest and Income Taxes		**2,378.85**	**1,701.76**
Interest Expense	15	44.85	79.84
Profit before Income Taxes		**2,334.00**	**1,621.92**
Income Tax expense / (credit), net		164.20	(213.20)
Profit after Tax		**2,169.80**	**1,835.12**
Add: Balance brought forward		3,756.11	2,532.08
Profit available for appropriations		**5,925.91**	**4,367.20**
Appropriations			
Proposed dividend (Rs. 3.00 per Share)		505.42	379.02
Tax on dividend		70.88	48.56
Transfer to General Reserve		216.98	183.51
Balance carried to Balance Sheet		5,132.63	3,756.11
Earnings Per Share (Equity Share par value Rs. 10 each)			
Basic		13.28	12.16
Diluted		12.88	11.56
Weighted average number of Equity Shares used in computation of			
Basic		16,335,283	15,093,479
Diluted		16,835,322	15,883,602
(Refer Note 10 in Notes to Accounts)			
Notes to Accounts	16		

The Schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account.

As per our report of even date.

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Schedules forming part of the Balance Sheet

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 1		
Authorised Capital		
35,000,000 Equity Shares of Rs. 10 each	3,500.00	2,500.00
(At March 31, 2004, 50,000,000 Equity Shares of Rs. 5 each)		
Total	**3,500.00**	**2,500.00**
Issued, Subscribed and Paid Up Capital		
16,847,222 Equity Shares of Rs. 10 each fully paid up (At March 31, 2004, 30,321,637 Equity Shares of Rs. 5 each fully paid up)	1,684.72	1,516.09
(Of the above, 5,675,000 Equity Shares of Rs. 10 each have been alloted as fully paid up Bonus shares by capitalisation of balance in Profit and Loss Account of Rs. 502.83 Lakhs and General Reserve of Rs. 64.67 Lakhs)		
Total	**1,684.72**	**1,516.09**
Schedule 2		
Reserves and Surplus		
Securities Premium		
Opening Balance	5,273.93	4,048.69
Add: Received during the year	859.86	1,225.24
Total	**6,133.79**	**5,273.93**
General Reserve		
Opening Balance	814.44	630.93
Add: Transferred from Profit & Loss Account	216.98	183.51
Total	**1,031.42**	**814.44**
Profit & Loss Account	5,132.63	3,756.11
Employee Stock Option Outstanding (Net of Deferred Compensation Cost)	78.93	15.63
(Refer note 7(b) in Notes to Accounts)		
Total	**12,376.77**	**9,860.11**

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 3		
Secured Loans		
Packing Credit from Scheduled Bank (Refer Note 3(e) in Notes to Accounts)	45.03	42.68
(Secured by a charge on the current assets including receivables, both present and future and equitable mortgage on land and buildings of the Company and hypothecation of the other fixed assets of the Company)		
Total	**45.03**	**42.68**

Rs. in Lakhs

Schedule 4 – Fixed Assets

Particulars	Gross Block				Depreciation				Net Block	
	As at April 1 2004	Additions during the year	Deletions during the year	As at March 31 2005	As at April 1 2004	For the year	Adjustments during the year	As at March 31 2005	As at March 31 2005	As at March 31 2004
Land	2,287.67	–	–	2,287.67	–	–	–	–	2,287.67	2,287.67
Building	3,310.98	–	–	3,310.98	468.65	157.34	–	625.99	2,684.99	2,842.33
Lease Hold Improvements	–	187.97	–	187.97	–	25.61	–	25.61	162.36	–
Computers	2,451.57	865.82	–	3,317.39	1,964.58	380.21	–	2,344.79	972.60	486.99
Intangible Assets (Computer software)	1,537.37	188.90	–	1,726.27	1,513.07	109.55	–	1,622.62	103.65	24.30
Electrical Fittings	96.37	79.93	–	176.30	75.31	25.28	–	100.59	75.71	21.06
Furniture and Fittings	1,247.72	410.29	–	1,658.01	337.78	176.63	–	514.41	1,143.60	909.94
Office Equipments	2,667.33	299.84	1.84	2,965.33	1,552.08	467.26	1.70	2,017.64	947.69	1,115.25
Total	**13,599.01**	**2,032.75**	**1.84**	**15,629.92**	**5,911.47**	**1,341.88**	**1.70**	**7,251.65**	**8,378.27**	**7,687.54**
Balance as at March 31, 2004	13,153.61	678.61	233.21	13,599.01	4,939.95	1,187.78	216.26	5,911.47	7,687.54	–

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 5		
Investments		
A. Long term, Unquoted, Non Trade, at cost		
a) Investment in subsidiary companies		
Sasken Network Systems Limited		
500,000 equity shares of Re. 1 each, fully paid up	5.00	5.00
Sasken Network Engineering Limited		
(i) 50,000 equity shares of Rs. 10 each, fully paid up	5.00	–
(ii) Optionally Convertible Debentures of Rs. 100 each	263.71	–
b) Other Investments		
Indira Vikas Patra	0.02	0.02
29,764 fully paid shares of Preferred Stock of 2Wire Inc, a Company incorporated in USA.	169.40	169.40
Less: Provision for diminution in value of investment	(155.00)	(155.00)
392,285 fully paid equity shares of Rs.10/- each of Prime Telesystems Ltd.	240.00	240.00
Less: Provision for diminution in value of investment	(240.00)	(240.00)
203,500 common shares of Extandon Inc, a Company incorporated in USA (Refer note 3(g) in the Notes to Accounts)	0.23	0.23
B. Current, Non-Trade, Unquoted, at lower of cost and net realisable value		
Templeton India Treasury Management Account	–	249.54
[As at March 31, 2005 Nil Units]; [Market value - Rs. Nil]		
[As at March 31, 2004 15,851.483 Units of Rs. 1,574.2270 each]; [Market value - Rs. 250.74 Lakhs]		
DSP Merril Lynch Floating Rate Fund	41.19	–
[As at March 31, 2005 410,879.541 Units of Rs. 10.0275 each]; [Market value - Rs. 41.23 Lakhs]		
[As at March 31, 2004 Nil Units]; [Market value - Rs. Nil]		
Total	**329.55**	**269.19**

Schedules forming part of the Balance Sheet (contd.)

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 6		
Inventories		
Work-in-progress	19.75	54.97
Total	**19.75**	**54.97**
Schedule 7		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	73.87	52.81
– Unsecured, considered doubtful	94.02	181.72
b) Other debts		
– Unsecured, considered good	4,462.85	3,315.01
Less: Provisions	(94.02)	(181.72)
Total	**4,536.72**	**3,367.82**

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 8		
Cash and Bank Balances		
(Refer note 3(e) in Notes to Accounts)		
Cash on Hand	3.59	2.65
Balances with:		
Scheduled Banks		
– in Current Accounts	428.12	156.72
– in Deposit Accounts	23.44	32.58
(held as margin money for bank guarantees / letters of credit)		
Other Banks		
– Barclays Bank, UK	83.08	28.26
– Bank of America, US	316.17	7.71
– Bank of Montreal, Canada (CAD)	15.86	11.81
– Summitomo Bank, Japan	3.97	1.07
– Kawasaki Shinkim Bank, Japan	0.97	0.03
– China Minsheng Banking Corporation (USD)	4.05	1.12
– China Minsheng Banking Corporation (CNY)	0.41	2.78
– Nordbanken AB (Sweden)	16.39	0.78
– Hypo Vereins Bank, Germany	18.23	22.67
Total	**914.28**	**268.18**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	172.69	85.56
– Bank of America-Texas-USA	9.94	338.26
– Bank of America-USA	528.14	764.08
– Bank of Montreal, Canada (CAD)	75.86	166.25
– Bank of Montreal, Canada (USD)	–	18.73
– Summitomo Bank, Japan (USD)	22.45	163.16
– Summitomo Bank, Japan (JPY)	24.40	19.11
– China Minsheng Banking Corporation (USD)	4.80	10.55
– China Minsheng Banking Corporation (CNY)	3.38	30.33
– China Minsheng Banking Corporation (RMB)	0.28	–
– Nordbanken AB (Sweden)	16.39	14.45
– Hypo Vereins Bank, Germany	116.07	32.60
Deposit Account		
– Kawasaki Shinkim Bank, Japan	1.52	18.28

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 9		
Loans and Advances		
A. Unsecured, considered good		
Due from subsidiary companies		
– Sasken Network Systems Limited [maximum amount outstanding during the year Rs. 75.19 Lakhs]; (March 31, 2004 - Rs. 0.39 Lakhs)	18.08	0.39
– Sasken Network Engineering Limited [maximum amount outstanding during the year Rs. 38.77 Lakhs]; (March 31, 2004 - Nil)	38.77	–
Loan to Sasken Network Systems Limited, a subsidiary Company [maximum amount outstanding during the year - Rs. 457.10 Lakhs]	457.10	–
Loan to Sasken Network Engineering Limited, a subsidiary Company [maximum amount outstanding during the year - Rs. 160.00 Lakhs]	160.00	–
Advances recoverable in cash or in kind or for value to be received	729.03	300.00
Deposits with Government Departments and others	832.83	546.76
Loans and Advances to Staff	190.18	139.19
Interest Income Accrued but not due	8.52	0.73
Unbilled Revenues	253.69	531.89
Advance Income Tax (Net of provision for tax)	157.48	50.21
B. Secured, considered good		
Loan to Blue Broadband Technologies Private Limited	50.00	–
Total	**2,895.68**	**1,569.17**

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 10		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
Dues to Small Scale Industrial Units	0.11	0.18
Others	1,363.56	1,103.23
Other Liabilities	468.78	267.67
Deferred Revenues	96.19	43.70
Advance received from customers	259.47	59.77
Total (A)	**2,188.11**	**1,474.55**
Provisions		
Proposed Equity Dividend	505.42	379.02
Tax on Proposed Equity Dividend	70.88	48.56
Provision for Leave Encashment	112.20	92.43
Provision for Warranty	26.49	27.97
Provision for Gratuity	116.55	8.30
Total (B)	**831.54**	**556.28**
Total (A) + (B)	**3,019.65**	**2,030.83**

Schedules forming part of the Profit and Loss Account

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 11		
Cost of Revenues		
Salaries & Bonus	9,800.84	7,077.25
Contribution to Provident and Other Funds	516.71	341.60
Staff Welfare	157.59	117.70
Recruitment and Relocation	278.16	188.81
Rent	463.33	52.75
Repairs and Maintenance		
– Plant & Machinery	269.48	131.13
– Building	149.26	65.70
– Others	51.77	61.76
Communication Expenses	199.30	85.58
Travel Expenses	682.19	540.86
Electricity and Water Charges	281.02	203.30
Professional & Consultancy Charges	612.81	357.12
Depreciation	1,089.96	1,052.17
Software expenses	172.33	73.51
Training and Conference Expenses	97.81	44.05
Warranty Expenses provided /(reversed)	(1.48)	(23.10)
Sub Total	14,821.08	10,370.19
Amortization of capitalised software product costs	115.03	461.37
Add: Opening balance of work in progress	54.97	245.98
Less: Closing balance of work in progress	(19.75)	(54.97)
Less: Reclassified as Product Engineering Expenses	(2,061.68)	(1,553.71)
Total	**12,909.65**	**9,468.86**

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 12		
Selling and Marketing Expenses		
Salaries & Bonus	1,132.32	860.04
Contribution to Provident and Other Funds	12.75	32.36
Staff Welfare	32.38	31.80
Recruitment and Relocation	8.62	16.17
Rent	104.82	90.94
Repairs and Maintenance		
– Plant & Machinery	5.69	9.24
– Building	11.01	12.12
– Others	2.63	1.15
Communication	79.39	71.26
Travel	254.70	211.53
Electricity and Water Charges	4.76	1.31
Professional, Legal & Consultancy Charges	192.18	271.23
Agency Commission - others	95.56	175.31
Selling Expenses - others	172.21	89.14
Depreciation	25.40	12.27
Training and Conference	12.27	5.00
Total	**2,146.69**	**1,890.87**

Schedules forming part of the Profit and Loss Account (contd.)

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 13		
Administrative and General Expenses		
Salaries & Bonus	1,005.59	797.06
Contribution to Provident and Other Funds	92.83	60.28
Staff Welfare	37.40	14.43
Recruitment and Relocation	83.49	40.77
Rent	173.18	26.97
Rates and Taxes	201.44	55.57
Repairs and Maintenance		
– Plant & Machinery	46.60	12.27
– Building	49.96	24.55
– Others	12.23	7.07
Communication	50.48	23.61
Travel	117.00	66.83
Electricity and Water Charges	86.26	32.71
Depreciation	215.39	116.51
Professional, Legal & Consultancy Charges	296.11	154.47
Software Charges	3.27	0.11
Auditors' Remuneration		
– Statutory Audit	7.75	6.20
– Other Services	4.45	0.15
– Out of Pocket Expenses (including service tax)	1.08	1.01
Training and Conference Expenses	46.91	56.24
Directors' sitting fees	0.48	0.44
Insurance	72.66	76.16
Miscellaneous	468.07	301.75
Net loss on sale of current investments	–	10.19
Loss on sale of fixed assets, (net)	0.13	5.21
Provision for doubtful debts, net of reversals	(87.70)	28.27
Less: Recovery of common costs from subsidiary companies	(128.72)	–
Total	**2,856.34**	**1,918.83**

Schedules forming part of the Profit and Loss Account (contd.)

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 14		
Other Income / (Expenses)		
Miscellaneous income	0.02	7.99
Dividend received on current investments (non-trade)	14.09	55.47
Net gain on sale of current investments (non-trade)	11.39	–
Interest income on Bank Deposits (Gross)*	3.46	4.30
Other interest income	4.25	1.70
Interest on Loan / Optionally Convertible Debentures to subsidiary companies	27.38	–
Total	**60.59**	**69.46**
* Tax deducted at source	0.76	0.84
Schedule 15		
Interest Expense		
– On Term Loans	–	8.25
– On Fully Convertible Debentures	–	0.02
– Others	44.85	71.57
Total	**44.85**	**79.84**

Notes forming part of accounts

Schedules forming part of the accounts for the year ended March 31, 2005.

Schedule 16

1. Description of Business

Sasken Communication Technologies Limited ("Sasken" or "the Company") is a provider of telecommunication software services and solutions to network equipment manufacturers, mobile terminal vendors and semiconductor companies around the world. Sasken delivers end-to-end solutions that enable richer content delivery on next generation networks.

Sasken has its headquarters in Bangalore, India with offices in Pune, Canada, China, Germany, Japan, Sweden, United Kingdom (UK) and the United States of America (USA).

2. Significant Accounting Policies

Basis for preparation of financial statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the year ended March 31, 2004, except for change in accounting policy and change in estimate as stated below.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

Change in accounting policy

In order to comply with Accounting Standard – 11 (Revised) – The Effects of Changes in Foreign Exchange Rates, which is effective April 1, 2004, during the reporting periods subsequent to March 31, 2004, the Company changed its accounting policy in respect of accounting for forward contracts entered into to hedge the foreign currency risk of the underlying assets and liabilities at the balance sheet date. Consequently, in respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, exchange differences on such contracts are recognized in the statement of profit and loss of the relevant period. On account of such change in the accounting policy, exchange gain for the year ended March 31, 2005 is higher by Rs. 136.47 lakhs with a consequential impact on the profit after tax for the year ended March 31, 2005.

Change in estimate

During the year ended March 31, 2005 the Company revised its estimate of useful life of generic computer software to one year, prospectively. Hitherto, generic computer software was charged 100% depreciation in the year of purchase. Due to this change, depreciation on fixed assets for the year ended March 31, 2005 is lower by Rs. 51.86 lakhs and profits after tax are higher to the same extent.

Revenue Recognition

The Company derives its revenues from product and technology licensing and software services.

Licensing revenue is recognized when the product or technology is delivered and accepted. Revenue related to customized products or technology development agreements is recognized using the proportionate completion method, determined based on the achievement and acceptance of the milestone. In all cases revenue is recognized only when no further vendor obligations remain and collection is probable. Revenue related to post contract customer support is recognized over the support period.

Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price service contracts is recognized based on the proportionate completion method, determined based on the achievement and acceptance of the milestone, provided collection is probable. Revenue from maintenance is recognized ratably over the term of the maintenance arrangement.

Revenue from Royalty is recognized on an accrual basis based on the terms of the agreement, provided collection is probable.

Dividend income is recognized when the right to receive dividend is established.

Interest income is recognized on an accrual basis.

Work in progress

Costs related to milestones that have not been met are treated as costs of future activity and are reported as work in progress. Work in progress is carried at cost or net realizable value whichever is lower.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation less impairment, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation

Depreciation is provided on Straight Line Method (SLM) at the rates mentioned below which are greater than or equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956:

Type of asset	Rates (SLM)(%)	Schedule XIV rates (SLM) (%)
Building	5	1.63
Computers	25	16.21
Electrical Fittings	20	4.75
Furniture & Fittings	10	6.33
Office Equipments	20	4.75

Leasehold improvement at leased property are depreciated over estimated useful life or the lease period of the property, whichever is lower.

Assets with unit value of Rs. 5,000 or less are depreciated entirely in the year of acquisition.

Intangible assets comprise of the following and are amortised over the estimated useful life as given below:

a) Computer Software used for development of software/rendering software services – Over the life of the project /product.

b) Generic Computer Software – over 12 months.

c) Product Software for administration purposes – 3 years.

Capitalization and Amortization of Software

Costs incurred towards development of computer software products meant for sale, lease or otherwise marketed, are capitalised subsequent to establishing technological feasibility. Capitalisation ceases when the product is available for general release to customers. Capitalised software costs are amortised on a product-by-product basis. The amortization shall be greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. The unamortised cost of capitalized software products is carried at cost or net realisable value whichever is lower.

Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

Foreign currency transactions

(i) Initial Recognition – Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

(ii) Conversion – Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

(iii) Exchange Differences – Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the year in which they arise except those arising on liabilities pertaining to fixed assets, which are adjusted with the cost of the fixed assets.

(iv) Forward Exchange Contracts – The Company uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The Company does not use the forward exchange contracts for trading or speculation purposes. In respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, the premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract, except where it relates to fixed assets in which case it is adjusted to the cost of the corresponding asset. Exchange differences on such contracts are recognised in the statement of profit and loss of the relevant year. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

(vi) Foreign branches – The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

Retirement benefits to employees

The Company contributes to a Group Gratuity Scheme, administered by a private insurance Company. The contributions are charged to the Profit and Loss account. Provision is made for the difference between the actuarial valuation (determined as at the balance sheet date) and the funded balance.

Provision for leave encashment benefits is made based on actuarial valuation as at the balance sheet date.

The Company has established a Provident Fund Trust to which contributions towards provident fund are made each month. The contributions towards the pension fund are remitted to the Regional Provident Fund. Contributions towards Provident Fund and Pension Fund are charged to the Profit and Loss Account on an accrual basis. The Trust guarantees a specified rate of return on such contributions of employee and employer on a yearly basis. The Company will meet the shortfall in the return, if any, and the same is charged to the profit and loss account on an accrual basis.

The Company established a Super Annuation Scheme administered by a private insurance Company. As per the Scheme, for employees claiming the benefit, the Company makes monthly contributions, which are charged to the Profit and Loss Account on an accrual basis. The Company has no other obligations under the Scheme.

Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or recoverable amount of the cash-generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

Warranty expenses

The Company provides for the estimated costs based on trend of past analysis and nature of services rendered, that may be incurred under free warranties, as provided in licensing and service contracts.

Research and Development

All research and development costs are charged to Profit and Loss account when incurred. Equipment or facilities that are acquired or constructed for research and development activities, which have alternative future uses are capitalized as tangible assets. Depreciation on such assets is charged to expense as research and development costs.

Income Taxes

Tax expense comprises both current and deferred taxes. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961 and tax laws applicable to the overseas branches under the respective jurisdictions. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Stock Compensation Expense

The Company accounts for stock compensation expense based on the fair value of the options granted on the date of grant. Compensation expense is amortized over the vesting period of the option on a straight-line basis. The accounting value of the options net of the Deferred Compensation Expense is reflected as Employee Stock Options Outstanding under Reserves and Surplus.

Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting year. The weighted average number of equity shares outstanding during the year are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Segment Policy

Identification of segments:
The Company is focused in the telecommunication space. The risks and returns of the Company are predominantly determined by the nature of the solution offered to its customers, which may be in the form of products or services. The primary reporting segments are Services and Products.

The geographical segment information is disclosed based on the location of the customers.

Allocation of common costs

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items

The Corporate and other segment include general corporate income and expense items, which are not allocated to any business segment.

Operating Leases

Operating lease payments are recongnised as expense in the profit and loss account on a straight line basis over the lease term.

3. Other notes

a) Research & Development expenses include: (Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Salaries and Bonus	203.93	178.00
Contribution to Provident Fund and Other Funds	14.71	8.97
Depreciation	11.14	6.83
Consultancy	42.00	–
Total	**271.78**	**193.80**

b) Based on the information available with the Company, dues to small-scale industrial undertakings (SSIs) outstanding for more than 30 days are given below:

(Rs. in lakhs)

Name of the Vendor	As at March 31, 2005	As at March 31, 2004
Halda Office Systems	0.11	0.18
Total	**0.11**	**0.18**

c) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 82.15 lakhs (As at March 31, 2004 Rs. 632.65 lakhs).

d) Contingent liabilities towards taxes on income not provided for amount to Rs. 157.71 lakhs (As at March 31, 2004 Rs. 165.41 lakhs). There are certain claims made against the Company by customers/investee companies, which in the view of the management of the Company are not tenable and amounts are currently not ascertainable.

(Rs. in lakhs)

	As at March 31, 2005	As at March 31, 2004
Bank guarantees	96.95	139.56
Letters of credit	36.38	110.59

e) Cash & Bank balances include remittances in transit amounting to Rs. 351.18 lakhs (As at March 31, 2004 Rs. Nil) and Packing Credit is net of remittances in transit amounting to Rs. Nil (As at March 31, 2004 is Rs. 97.13 lakhs).

f) Foreign exchange gain arising on account of foreign exchange forward contracts entered into by the Company to be recognized in the subsequent financial periods amount to Rs. 76.85 lakhs as at March 31, 2005 and Rs. 22.07 lakhs as at March 31, 2004.

g) The shares held in Extandon Inc, US are held by Extandon Inc as a collateral to secure the Company's compliance with all terms and conditions under a software licensing agreement entered into by the Company with Extandon Inc and performance of the delivery obligations under the repurchase options available with Extandon Inc under the terms of investment agreement.

h) During the year ended March 31, 2004 the Company entered into an agreement for services. The customer agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to Rs. 157.14 lakhs. The Company considered this transaction to be a non-monetary exchange.

i) During the year ended March 31, 2005, the Company provided guarantees to its subsidiaries customers for performance under the terms of the contracts entered into by such subsidiaries. As at March 31, 2005, there are no obligations under such guarantees.

j) During the year ended March 31, 2005, the Company paid customs duty of Rs. 146.00 lakhs (including interest) under protest towards debonding charges of its fixed assets, which have been charged off to the profit and loss account.

k) During the year ended March 31, 2005, the Company has provided accelerated depreciation of Rs. 135.09 lakhs on certain assets based on an estimation of their expected use and net residual value. Due to this charge, the depreciation on fixed assets for the year ended March 31, 2005 is higher by Rs. 135.09 lakhs and profits after tax are lower to the same extent.

l) During the year ended March 31, 2005, the Company has written back a sum of Rs. 107.63 lakhs (March 31, 2004 – Rs. Nil) to expenses, pertaining to liabilities of previous years, which were no longer considered necessary.

m) Earnings and Expenditure in Foreign Currency

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Earnings in Foreign Currency		
Income from Licensing and Software development	21,393.43	16,381.50
Royalty	216.61	95.72
Others	188.67	–
Expenditure in Foreign Currency, (on payment basis)		
Travel	855.71	584.43
Less: Recovered from customers	(775.75)	(531.16)
Selling Expenses	154.98	158.65
Professional, Legal & Consultancy Charges	203.40	132.97
Software Expenses	273.04	27.99
Expenses at Branch Offices	4,182.22	3,824.40
Others	196.52	94.42
Value of Imports on CIF Basis – Capital Goods	587.60	254.74
Remittance in foreign currency on account of dividends		
No. of Shareholders	20	–
No. of shares of Rs. 5 (par value per share)	7,416,868	–
Amount of Dividend paid	92.71	–
Year to which dividends relate	2003-04	–

4. Managerial Remuneration

a) Managerial remuneration paid to Directors

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Whole Time Directors		
Salaries and bonus	203.34	196.69
Contribution to Provident Fund and other Funds #	10.31	8.99
Non Whole Time Directors	26.96	16.83
Total	**240.61**	**222.51**

The above does not include provisions for/contributions to employee retirement and other employee benefit schemes determined on actuarial basis.

b) Computation of net profits under section 198 read with Section 349 and Section 350 of the Companies Act, 1956 for the year ended March 31, 2005.

(Rs. in lakhs)

Particulars		For the Year ended March 31, 2005
Profits before Taxation		2,334.00
Add:		
Managerial remuneration to directors	240.61	
Director's sitting fee	0.48	
Stock compensation cost	73.70	
Provision for doubtful debts, created (net of Reversals)	(87.70)	
Depreciation as per accounts (except intangibles)	1,341.88	
Loss on sales of assets	0.13	
Warranty expenses reversed	(1.48)	
		1,567.62
		3,901.62
Less:		
Depreciation as per Section 350 of the Companies Act, 1956	784.50	
Loss on sale of assets as per Section 350	1.24	
		785.74
Net profits as per Section 349 of the Companies Act, 1956		3,115.88

c) Computation of net profits under section 198 read with Section 349 and Section 350 of the Companies Act, 1956 for the year ended March 31, 2004.

(Rs. in lakhs)

Particulars		For the Year ended March 31, 2004
Profits before Taxation		1,621.92
Add:		
Managerial remuneration to directors	222.51	
Provision for doubtful debts	28.27	
Depreciation as per accounts	1,187.78	
Loss on sales of assets	5.21	
Employee stock compensation cost	15.63	
Loss on Sale of Investments	10.19	
		1,469.59
		3091.51
Less:		
Warranty expenses reversed	23.09	
Depreciation as per Section 350 of the Companies Act, 1956	792.18	
Loss on sale of assets as per Section 350	28.45	
Provision for doubtful debts adjusted against debtors	123.96	
		967.68
Net profits as per Section 349 of the Companies Act, 1956		2,123.83

5. Provision for taxation

A significant portion of the Company's income is non-taxable as the Company claims deduction under section 10A of the Income Tax Act, 1961. No deferred tax asset has been recognised, as it is not virtually certain that such deferred tax asset will be realised. Further, the temporary differences arising reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	140.37	249.21
The above are net of refund/reversal of overseas taxes	204.54	472.81

6. Fixed Price Revenue Contracts

The following table provides disclosures in accordance with the revised Accounting Standard (AS) 7 Construction Contracts:

(Rs. in lakhs)

Particulars	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Contract revenue recognized during the year	2,618.48	923.34
Aggregate amount of costs incurred and recognised profits (less recognised losses) upto date of balance sheet for contracts in progress as at that date	19.75	207.00
	As at March 31,2005	**As at March 31,2004**
Gross amount due from customers for contract work-presented as an asset	30.04	7.23
Gross amount due to customers for contract work-presented as a liability	15.72	–

7. Employee Stock Option Plan

The Company has two employee stock option schemes, 'SAS Stock Option Plan, 1997' and 'Sasken ESOP-2000'. The details of options granted, options vested and shares issued against the exercised options are explained herein below.

a) SAS Stock Option Plan, 1997

The shareholders approved the Plan at the Extraordinary General Meeting on November 20, 1997. Under this scheme, Fully Convertible Debentures (FCD's) were issued to employees of the Company, consultants and advisors. Each of these FCDs are converted into one share of Rs.10 each. There are no outstanding debentures as on March 31, 2005.

b) Sasken ESOP 2000

During the year ended March 31, 2001, the Company announced a Stock Option Plan in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. This stock option plan called ESOP-2000, was approved by the shareholders at the Extraordinary General Meeting (EGM) of the Company held on September 22, 2000. It covers all employees of the Company including foreign branches, employees of the subsidiaries including its part time/ full time Directors other than the promoter directors. The Plan provides for the issue of 30 lakh shares (including the shares issued under the FCD's as per the SAS Stock Option plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current plan) of Rs. 10 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

A decision to consolidate the face value of the shares from Rs. 5 to Rs. 10 was taken by the board at the meeting held on June 11, 2004 and an EGM was held on July 16, 2004. The EGM approved the consolidation of the shares and consequently the options also have been adjusted to reflect the consolidation. The options have now been converted to 1 option for every 2 options held earlier and fractional options have been adjusted to the next whole number.

The Company cancelled stock options granted under Sasken ESOP 2000 and remaining unexercised as at December 31, 2002. Consequent to the cancellation of the stock options, the Company reversed the compensation cost of Rs. 714.62 lakhs recognized by it in the prior years.

In October 2003 and thereafter, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of Rs. 40 per share being the fair value of the Company's share as determined by the Company as at the date of grant. The above options have been consolidated to reflect the above as 296,040 options at a revised fair value price of Rs. 80 per share.

On April 2, 2004 and June 1, 2004, the Company issued 757,850 options to 1372 employees and 1,943,065 options to 347 employees, respectively. The effective options after consolidation translates to 378,925 Options to 1372 employees and 971,533 options to 347 employees respectively. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 80 to Rs. 128 per share depending upon the exercise period being the fair value of the Company's share as determined by the Company as at the date of grant. The exercise price translates to Rs. 160 to Rs. 256 per share after the consolidation of the options.

On February 23, 2005, the Company issued 42,530 options to 41 employees of Sasken Network Systems Ltd. and 2,735 options to 3 employees of the Company. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 184 to Rs. 256 per share depending upon the exercise period, being the fair value of the Company's share as determined by the Company as at the date of grant.

The movement in options is given below:

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Options outstanding as at the beginning of the year	274,110	Nil
Options issued during the year	1,395,723	296,040
Options forfeited during the year	166,475	21,930
Options exercised during the year	84,870	Nil
Options outstanding as at the closing of the year	1,418,488	274,110

The total accounting value of options outstanding as on March 31, 2005 is Rs. 115.02 lakhs (as at March 31, 2004 Rs. 31.30 lakhs) of which Rs. 83.28 lakhs (net of reversal) (2004 – Rs. 15.63 lakhs) has been recognized as compensation cost based on the vesting period of the options. The accounting value of the options outstanding at March 31, 2005, net of the Deferred Compensation Cost of Rs. 31.74 lakhs (as at March 31, 2004 Rs. 15.67 lakhs) has been reflected as Employee stock options outstanding under Reserves and Surplus.

8. Related Party Disclosures

a. Remuneration paid to Key Managerial Personnel

(Rs. in lakhs)

Name of the related party	Relationship	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Rajiv C Mody	Managing Director	58.16	56.39
Pranabh D Mody	Wholetime Director	38.13	37.35
Krishna Jhaveri	Wholetime Director	111.58	111.94
G.Venkatesh #	Wholetime Director	5.78	N.A

for the period after appointment as director

The above does not include provision for/contribution to employee retirement and other employee benefit schemes determined on actuarial basis.

Sasken Network Systems Limited

During the quarter ended December 31, 2003, the Company established Sasken Network Systems Limited ('SNS'), as a wholly owned subsidiary Company to engage in the business of consultative engineering services focused on telecom operation systems. The Company has invested Rs. 5.00 lakhs towards the equity capital of SNS. Further, the Company has given a loan of Rs. 457.10 lakhs (March 31, 2004 Rs. Nil) to SNS, repayable within a period of four years at an interest of approximately 5.88% per annum (based on the inter bank offer rate). During the year the Company has charged an interest of Rs. 21.34 lakhs (March 31, 2004 Rs. Nil). The Company also extends certain common administration support to SNS towards which allocable expenses are recovered from SNS amounting to Rs. 97.90 Lakhs and Rs. Nil for the year ended March 31, 2005 and 2004, respectively. The Company has also provided a guarantee to one of SNS's customer for performance under the terms of contract entered into by SNS with such customer. As at March 31, 2005 there are no obligations under such guarantee.

The accumulated compensation cost as at March 31, 2005 and the compensation cost amortised during the year amount to Rs. 1 lakh and Rs. 1 lakh, respectively (March 31, 2004 Nil) towards employee compensation cost for options granted to employees of SNS during the year ended March 31, 2005 (refer note 7). The Company has not charged this cost to SNS.

The details of transactions with the subsidiary are as under:

(Rs. in lakhs)

	As at March 31, 2005	As at March 31, 2004
Receivables towards reimbursement of expenses	11.36	0.39
Receivable towards interest on loan	6.72	–
Unsecured Loan	457.10	–

Sasken Network Engineering Ltd [SNEL]

On September 29, 2004, the Company established SNEL as a wholly owned subsidiary of the Company to engage in the business of installation and commissioning of cellular network. The Company has invested Rs. 5.00 lakhs towards equity capital of SNEL and a sum of Rs. 263.71 lakhs towards optionally convertible debentures ("OCD's").

The OCD are convertible into equity shares or redeemable at the option of the Company within a term of five years. Further, the Company has given a loan of Rs. 160.00 lakhs. During the year the Company has charged an interest of Rs. 6.04 lakhs (March 31, 2004 Rs. Nil) on the loan and the OCD's at an interest of approximately 5.88% per annum (based on the inter bank offer rate).The Company also extends certain common administrative support to SNEL towards which allocable expenses are recovered from SNEL amounting to Rs. 30.82 lakhs. The Company has also provided a guarantee to one of SNEL's customer for performance under the terms of contract entered into by SNEL with such customer. As at March 31, 2005 there are no obligations under such guarantee.

The details of transactions with the subsidiary are as under:

(Rs. in lakhs)

	As at Year ended March 31, 2005
Receivables towards reimbursement of expenses	32.73
Receivable towards interest on loan	6.04
Unsecured Loan	160.00

9. Segment Reporting

The segmental information is given based on Software Services and Software Products offerings. Services that are related with Intellectual Property based product offerings are considered part of the Products segment. This change was made during the year consequent to a change in the organization of the Company's business. Previous year segment information is restated to conform to those of the current year.

Product engineering expense

Product engineering expenses include the costs of product modifications and enhancements to products that are already available to customers.

a) Business Segment Information

As at March 31, 2005 (Rs. in lakhs)

	Software Services	Software Products	Corporate and Others	Total
Segment assets	5,179.41	1,026.34	–	6,205.75
Unallocated corporate assets	–	–	10,945.91	10,945.91
Total assets	5,179.41	1,026.34	10,945.91	17,151.66
Segment liabilities	926.20	414.67	–	1,340.87
Unallocated corporate liabilities	–	–	1,723.81	1,723.81
Total liabilities	926.20	414.67	1,723.81	3,064.68
Capital expenditure – Tangible and Intangible	376.66	136.68	1,519.41	2,032.75

As at March 31, 2004 (Rs. in lakhs)

	Software Services	Software Products	Corporate and Others	Total
Segment assets	3,560.60	1,287.27	–	4,847.87
Unallocated corporate assets	–	–	8,601.84	8,601.84
Total assets	3,560.60	1,287.27	8,601.84	13,449.71
Segment liabilities	352.99	230.84	–	583.83
Unallocated corporate liabilities	–	–	1,489.68	1,489.68
Total liabilities	352.99	230.84	1,489.68	2,073.51
Capital expenditure - Tangible and Intangible	307.07	93.02	278.52	678.61

Year ended March 31, 2005 (Rs. in lakhs)

	Software Services	Software Products	Total
Revenue	18,905.47	3,393.55	22,299.02
Segment Result	6,916.49	411.20	7,327.69
Corporate Expenses	–	–	5,348.51
Operating Profit	–	–	1,979.18
Interest expense	–	–	44.85
Other income / (Expense), including exchange gain / (loss)	–	–	399.67
Income tax expenses / (credit)	–	–	164.20
Profit after tax	–	–	2,169.80
Other Information:			
Depreciation on identified segment assets	207.09	95.23	302.32
Depreciation allocated to segments	633.09	154.55	787.64
Unallocated depreciation	–	–	251.92
Amortisation of capitalised software costs	–	115.03	115.03

Year ended March 31, 2004 (Rs. in lakhs)

	Software Services	Software Products	Total
Revenue	12,378.43	4,234.58	16,613.01
Segment Result	4,430.89	1,159.55	5,590.44
Corporate Expenses	–	–	4,019.13
Operating Profit	–	–	1,571.31
Interest expense	–	–	79.84
Other income / (Expense), including exchange gain / (loss)	–	–	130.45
Income tax expenses / (credit)	–	–	(213.20)
Profit after tax	–	–	1,835.12
Other Information:			
Depreciation on identified segment assets	310.64	109.76	420.40
Depreciation allocated to segments	429.30	208.65	637.95
Unallocated depreciation	–	–	129.43
Amortisation of capitalised software costs	–	461.37	461.37

Note: Unallocated corporate assets and liabilities comprise of assets and liabilities not identifiable with reportable segments, as these assets and liabilities are used interchangeably between the segments. However, depreciation on such assets has been allocated to the segments based on the related utilisation by the respective segments, as used by management for its internal reporting purposes.

a) Geographic Segment Information

Revenues: (Rs. in lakhs)

Region	For the Year ended March 31, 2005	For the Year ended March 31, 2004
North America (Including Canada)	6,751.64	6,413.94
Europe	11,214.82	5,799.31
Asia Pacific (Other than India)	2,400.76	2,898.55
India	1,931.80	1,501.21
Total	**22,299.02**	**16,613.01**

Assets:

Sundry Debtors and Unbilled Revenues: (Rs. in lakhs)

Region	As at March 31, 2005	As at March 31, 2004
North America (including Canada)	1,237.49	1,114.52
Europe	2,828.45	1,632.57
Asia Pacific (other than India)	330.75	714.95
India	393.72	437.67
Total	**4,790.41**	**3,899.71**

Note: Most of the other tangible and intangible assets relate to India. Assets for other geographical segments are not significant and hence not furnished.

10. Earnings Per Share (EPS)

Reconciliation of the net income and number of shares considered in the computation of basic and diluted EPS is given below:

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Profit for computation of basic EPS	2,169.80	1,835.12
Add: Interest on Fully convertible debentures (FCDs)	–	0.02
Profit for computation of diluted EPS	2,169.80	1,835.14
Weighted average number of shares considered for basic EPS	16,335,283	15,093,479
Add: Effect of stock options & warrants	500,039	789,423
Add: Potential shares on conversion of FCDs	–	700
Weighted average number of shares considered for diluted EPS	16,835,322	15,883,602

As stated in note 7 above, during the year the Company consolidated its equity shares from a par value of Rs. 5 to a par value of Rs.10 each. All the share and stock options data have been adjusted accordingly. The board of directors of the Company issued and allotted 3,864,274 equity shares of Rs. 10 each on April 14, 2005.

11. Operating leases

The Company has operating leases for office premises that are (a) renewable on a periodic basis and are cancelable by giving a notice period ranging from 1 month to 6 months and (b) are non cancelable for specified periods under arrangements. Rent escalation clauses vary from contract to contract.

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Rent expenses included in profit & loss account towards operating leases	664.00	170.66

Minimum lease obligation under non cancellable lease contracts amounts to:

(Rs. in lakhs)

	As at March 31, 2005	As at March 31, 2004
Due in one year of the balance sheet date	720.55	426.82
Due between one to five years	248.62	309.96

12. Provisions

Effective April 1, 2004, the Company adopted the Accounting Standard (AS 29) on Provisions, Contingent Liabilities and Contingent Assets. The following table provides disclosures in accordance with AS 29.

(Rs. in lakhs)

	Balance as at April 1 2004	Additions during the year	Amounts used/ Paid during the year	Unused amounts reversed during the year	Balance as at March 31, 2005
Dividend	379.02	505.42	379.02	–	505.42
Leave encashment	92.43	23.07	–	3.30	112.20
Gratuity	8.30	163.71	55.46	–	116.55
Provision for warranty	27.97	1.97	3.45	–	26.49
Tax on proposed dividend	48.56	70.88	48.56	–	70.88

13. Previous year figures have been re-grouped / rearranged, wherever necessary.

Signatures to Schedules 1 to 16

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

per Sunil Bhumralkar
Partner
Membership No. 35141

Neeta Revankar
Chief Financial Officer & Company Secretary

Place: Bangalore
Date : April 19, 2005

Cash Flow Statement

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
A. Cash flow from operating activities:		
Net Profit before tax	2,334.00	1,621.92
Adjustments for:		
Depreciation	1,341.88	1,187.78
Amortisaton of capitalised software cost	115.03	461.37
Other non-cash (writeback)/charges	(18.22)	59.30
Foreign exchange adjustments	(182.00)	–
Interest expense	44.83	79.84
Other income	(60.57)	(61.47)
Operating profit before working capital changes	3,574.95	3,348.74
Adjustments for:		
(Increase)/decrease in Sundry Debtors	(1,081.21)	(293.08)
(Increase)/decrease in Work in Progress	35.22	191.01
(Increase)/decrease in Loans & Advances	(399.57)	(943.10)
Increase/(decrease) in Current Liabilities and Provisions	839.53	169.21
Cash generated from operations	2,968.92	2,472.78
Direct taxes (paid) / refund received	(271.46)	122.53
Net cash from operating activities	**2,697.46**	**2,595.31**
B. Cash flow from investing activities:		
Purchase of fixed assets	(1,991.77)	(814.55)
Sale of fixed assets	–	11.73
Dividend received	14.09	55.45
Interest received	14.54	6.00
Sale of investments	2,857.66	2,818.14
Investment in Subsidiary	(5.00)	(5.00)
Investments purchased	(2,637.93)	(3,078.08)
Loans given to Subsidiaries	(617.10)	–
Optionally Convertible Debentures in Subsidiary	(263.72)	–
Net cash used in investing activities	**(2,629.23)**	**(1,006.31)**

Cash Flow Statement (contd.)

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
C. Cash flow from financing activities:		
Proceeds from issue of shares (includes share application money)	1,047.93	–
Refund of share application money	–	(172.76)
Repayment of long-term borrowings	–	(1,343.93)
Increase/ (decrease) in Working capital loans	2.35	(1,288.18)
Redemption of Debentures	–	(0.24)
Dividend Paid inclusive of dividend tax	(427.58)	–
Interest paid	(44.83)	(119.17)
Net cash from/(used) in financing activities	**577.87**	**(2,924.28)**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	646.10	(1,335.28)
Cash and Bank balances at the beginning of the year	268.18	1,603.46
Cash and Bank balances at the end of the year *	**914.28**	**268.18**
* Refer Schedule 8		
Supplementary non-cashflow information		
Issuance of share capital out of share application money	–	1,470.00
Dividends received re-invested in units of mutual funds	14.09	55.47
Conversion of fully convertible debentures into equity shares	–	0.32

In terms of our attached report of even date

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

per Sunil Bhumralkar
Partner
Membership No. 35141

Neeta Revankar
Chief Financial Officer & Company Secretary

Place: Bangalore
Date : April 19, 2005

Balance Sheet Abstract

(Rs. in lakhs)

Information pursuant to Part IV of Schedule VI to the Companies Act, 1956			
Statement on Balance Sheet Abstract and General Business Profile of the Company			
I. Registration Details			
Registration No	08 14226	State Code 8	
Balance Sheet Date	31-03-05		
II. Capital raised during the year			
Public Issue	–	Rights Issue	–
Bonus Issue	–	Conversion of FCD's & Stock Options	–
III. Position of mobilisation and deployment of funds			
Total Liabilities	14,132.01	Total Assets	14,132.01
Sources of Funds			
Paid-up Capital	1,684.72		
Share Application Money	25.49		
Reserves & Surplus	12,376.77		
Unsecured Loans	–		
Secured Loans	45 .03		
Application of Funds			
Net Fixed Assets	8,455.68		
Capitalized Software	–		
Investments	329.55		
Net Current Assets	5,346.78		
Misc. Expenditure	–		
Accumulated Losses	–		
IV. Performance of the Company			
Turnover	22,299.02	Total Expenditure	20,129.22
Profit/(Loss) Before tax	2,334.00	Profit/(Loss) After tax	2,169.80
Earnings per share (Rs.) (Weighted average)	13.28	Dividend rate	30%
V. Generic names of three principal products of the Company			
(as per monetary terms)			
Item Code No (ITC Code)	85249009.10		
Product Description:	Computer Software		

Consolidated Financial Statements
Auditors' report

The Board of Directors

Sasken Communication Technologies Limited

We have audited the attached consolidated balance sheet of Sasken Communication Technologies Limited and its subsidiaries (collectively called "Sasken Group"), as at March 31, 2005, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of the subsidiaries, whose financial statements together reflect total assets of Rs. 152,554,771 as at March 31, 2005, total revenues of Rs. 187,798,215, total expenditure (including taxes) of Rs. 176,974,518 and net cash flows amounting to Rs. 16,795,871 for the year / period then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the reports of the other auditors.

We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated financial statements issued by the Institute of Chartered Accountants of India.

Based on our audit and on consideration of the reports of the other auditors on separate financial statements of the subsidiaries and on the other financial information of the subsidiaries, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the consolidated balance sheet, of the state of affairs of Sasken Group as at March 31, 2005;

(b) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and

(c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No.: 35141

Place: Bangalore
Date : April 19, 2005

Consolidated Balance Sheet

	Schedule No.	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Sources of funds			
Shareholders' Funds			
Share Capital	1	1,684.72	1,516.09
Share Application Money		25.49	–
Reserves and Surplus	2	12,483.59	9,858.70
Loan Funds			
Secured Loans	3	45.03	42.68
Unsecured Loans	4	100.56	–
Total Sources		**14,339.39**	**11,417.47**
Application of funds			
Fixed Assets	5		
Gross Block		16,025.31	13,599.01
Less : Accumulated Depreciation		7,328.77	5,911.47
Net Block		8,696.54	7,687.54
Capital Work in Progress including capital advances		77.41	117.81
Total		**8,773.95**	**7,805.35**
Capitalised software product costs (net of amortization)		–	115.03
Investments	6	55.95	264.29
Current Assets, Loans and Advances			
Inventories	7	19.75	54.97
Sundry Debtors	8	5,412.18	3,367.82
Cash and Bank Balances	9	1,086.64	272.60
Loans and Advances	10	2,371.14	1,568.78
Gross Current Assets	(A)	**8,889.71**	**5,264.17**
Less: **Current Liabilities and Provisions**	11		
Current Liabilities		2,536.05	1,475.09
Provisions		844.17	556.28
Total	(B)	**3,380.22**	**2,031.37**
Net Current Assets	(A-B)	5,509.49	3,232.80
Total		**14,339.39**	**11,417.47**
Notes to consolidated financial statements	17		

The Schedules referred to above and notes to consolidated financial statements form an integral part of the Consolidated Balance Sheet.

As per our report of even date

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Consolidated Profit and Loss Account

	Schedule No.	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Revenues		24,177.00	16,613.01
Cost of Revenues	12	14,044.41	9,468.86
Product Engineering Expenses		2,063.68	1,553.71
Gross Profit		**8,068.91**	**5,590.44**
Research and Development		271.78	193.80
Gross Profit after Research and Development		**7,797.13**	**5,396.64**
Selling and Marketing Expenses	13	2,490.26	1,890.87
Administrative and General Expenses	14	3,100.75	1,920.24
Employee stock option compensation cost (net)		73.70	15.63
(Refer note 7(b) in the Notes to consolidated financial statements)			
Profit from operations		**2,132.42**	**1,569.90**
Other income / (expenses)	15	33.21	69.46
Exchange gain / (loss), (net)		333.87	60.99
Profit before Interest and Income Taxes		**2,499.50**	**1,700.35**
Interest Expense	16	47.32	79.84
Profit before Income Taxes		**2,452.18**	**1,620.51**
Income Tax expense/(credit), net		174.15	(213.20)
Profit after Tax		**2,278.03**	**1,833.71**
Add: Balance brought forward		3,754.70	2,532.08
Profit available for appropriations		**6,032.73**	**4,365.79**
Appropriations			
Proposed dividend		505.42	379.02
Tax on dividend		70.88	48.56
Transfer to General Reserve		216.98	183.51
Balance carried to Balance Sheet		5,239.45	3,754.70
Earnings Per Share (Equity Share par value Rs. 10 each)			
Basic		13.94	12.14
Diluted		13.53	11.54
Weighted average number of Equity Shares used in computation of			
Basic		16,335,283	15,093,479
Diluted		16,835,322	15,883,602
(Refer Note 10 in Notes to consolidated financial statements)			
Notes to Consolidated Accounts	17		

The Schedules referred to above and the notes to consolidated financial statements form an integral part of the Consolidated Profit and Loss Account.

As per our report of even date
S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Schedules forming part of the Consolidated Balance Sheet

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 1		
Authorised Capital		
35,000,000 Equity Shares of Rs. 10 each	3,500.00	2,500.00
(At March 31, 2004, 50,000,000 Equity Shares of Rs. 5 each)		
Total	**3,500.00**	**2,500.00**
Issued, Subscribed and Paid Up Capital		
16,847,222 Equity Shares of Rs. 10 each fully paid up (At March 31, 2004, 30,321,637 Equity Shares of Rs. 5 each fully paid up)	1,684.72	1,516.09
(Of the above, 56,75,000 equity shares of Rs. 10 each have been alloted as fully paid up Bonus shares by capitalisation of balance in Profit and Loss Account of Rs. 502.83 lakhs and General Reserve of Rs. 64.67 lakhs)		
Total	**1,684.72**	**1,516.09**
Schedule 2		
Reserves and Surplus		
Securities Premium		
Opening Balance	5,273.93	4,048.69
Add: Received during the year	859.86	1,225.24
Total	**6,133.79**	**5,273.93**
General Reserve		
Opening Balance	814.44	630.93
Add: Transferred from Profit & Loss Account	216.98	183.51
Total	**1,031.42**	**814.44**
Profit & Loss Account	5,239.45	3,754.70
Employee Stock Option Outstanding (Net of Deferred Compensation Cost)	78.93	15.63
(Refer note 7(b) in Notes to consolidated financial statements)		
Total	**12,483.59**	**9,858.70**

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 3		
Secured Loans		
Packing Credit from Scheduled Bank	45.03	42.68
(Refer Note 3(d) in Notes to consolidated financial statements)		
(Secured by a charge on the current assets including receivables, both present and future and equitable mortgage on land and buildings of the Company and hypothecation of the other fixed assets of the Company)		
Total	**45.03**	**42.68**
Schedule 4		
Unsecured Loans		
Cash credit from Union Bank of India	100.56	–
Total	**100.56**	–

Rs. in Lakhs

Schedule 5 - Fixed Assets

Particulars	Gross Block				Depreciation Block				Net Block	
	As at April 1 2004	Additions during the year	Deletions during the year	As at March 31 2005	As at April 1 2004	For the year	Adjustments during the year	As at March 31 2005	As at March 31 2005	As at March 31 2004
Land	2,287.67	–	–	2,287.67	–	–	–	–	2,287.67	2,287.67
Building	3,310.98	–	–	3,310.98	468.65	157.34	–	625.99	2,684.99	2,842.33
Lease Hold Improvements	–	194.50	–	194.50	–	26.00	–	26.00	168.50	–
Plant & Machinery	–	79.74	–	79.74	–	10.45	–	10.45	69.29	–
Computers	2,451.57	931.79	–	3,383.36	1,964.58	392.49	–	2,357.07	1,026.29	486.99
Electrical Fittings	96.37	82.22	–	178.59	75.31	25.36	–	100.67	77.92	21.06
Furniture and Fittings	1,247.72	464.08	–	1,711.80	337.78	189.54	–	527.32	1,184.48	909.94
Office Equipments	2,667.33	322.49	1.84	2,987.98	1,552.08	480.41	1.70	2,030.79	957.19	1,115.25
Vehicles	–	12.71	–	12.71	–	1.31	–	1.31	11.40	–
Intangible Assets										
– Computer Software	1,537.37	192.57	–	1,729.94	1,513.07	111.50	–	1,624.57	105.37	24.30
– Contract Rights	–	148.04	–	148.04	–	24.60	–	24.60	123.44	–
Total	**13,599.01**	**2,428.14**	**1.84**	**16,025.31**	**5,911.47**	**1,419.00**	**1.70**	**7,328.77**	**8,696.54**	**7,687.54**
Balance as at March 31, 2004	13,153.61	678.61	233.21	13,599.01	4,939.95	1,187.78	216.26	5,911.47	7,687.54	–

Schedules forming part of the Consolidated Balance Sheet (contd.)

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 6		
Investments		
A) Long term, Non Trade, unquoted at cost		
National Savings Certificates / Indira Vikas Patra	0.12	0.12
29,764 fully paid shares of Preferred Stock of 2Wire Inc, a Company incorporated in USA.	169.40	169.40
Less: Provision for diminution in value of investment	(155.00)	(155.00)
392,285 fully paid equity shares of Rs.10/- each of Prime Telesystems Ltd.	240.00	240.00
Less: Provision for diminution in value of investment	(240.00)	(240.00)
203,500 common shares of Extandon Inc, a Company incorporated in USA	0.23	0.23
(Refer note 3(f) in the Notes to consolidated financial statements)		
B. Current, Non-Trade, Unquoted, at lower of cost and net realisable value		
Templeton India Treasury Management Account	–	249.54
[As at March 31, 2005 Nil Units] ; [Market value - Rs.Nil]		
[As at March 31, 2004 15,851.483 Units of Rs.1574.2270 each]; [Market value - Rs.250.74 Lakhs]		
DSP Merrill Lynch Floating Rate Fund	41.20	–
[As at March 31, 2005 410,879.541 Units] ; [Market value - Rs.41.23 lakhs]		
[As at March 31, 2004 Nil Units]; [Market value - Rs.Nil]		
Total	**55.95**	**264.29**
Schedule 7		
Inventories		
Work-in-progress	19.75	54.97
Total	**19.75**	**54.97**
Schedule 8		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		
– Unsecured, considered good	73.87	52.81
– Unsecured, considered doubtful	94.02	181.72
b) Other debts		
– Unsecured, considered good	5,338.31	3,315.01
Less: Provisions	(94.02)	(181.72)
Total	**5,412.18**	**3,367.82**

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 9		
Cash and Bank Balances		
(Refer note 3(d) in Notes to consolidated financial statements)		
Cash on Hand	4.61	2.65
Balances with:		
Scheduled Banks		
– in Current Accounts	582.46	161.14
– in Deposit Accounts	24.82	32.58
(held as margin money for Bank guarantees / Letters of credit)		
Other Banks		
– Barclays Bank, UK	83.08	28.26
– Bank of America, US	316.17	7.71
– Bank of Montreal, Canada (CAD)	15.86	11.81
– Summitomo Bank, Japan	3.97	1.07
– Kawasaki Shinkim Bank,Japan	0.97	0.03
– China Minsheng Banking Corporation (USD)	4.05	1.12
– China Minsheng Banking Corporation (CNY)	0.41	2.78
– Nordbanken AB (Sweden)	16.39	0.78
– Hypo Vereins Bank, Germany	18.23	22.67
– Fleet Bank, US	15.62	–
Total	**1,086.64**	**272.60**
Maximum amount outstanding at any time during the year in other banks		
Current Accounts		
– Barclays Bank, UK	172.69	85.56
– Bank of America – Texas, USA	9.94	338.26
– Bank of America – USA	528.14	764.08
– Bank of Montreal, Canada (CAD)	75.86	166.25
– Bank of Montreal, Canada (USD)	–	18.73
– Summitomo Bank, Japan (USD)	22.45	163.16
– Summitomo Bank, Japan (JPY)	24.40	19.11
– China Minsheng Banking Corporation (USD)	4.80	10.55
– China Minsheng Banking Corporation (CNY)	3.38	30.33
– China Minsheng Banking Corporation (RMB)	0.28	–
– Nordbanken AB (Sweden)	16.39	14.45
– Hypo Vereins Bank, Germany	116.07	32.60
– Fleet bank	36.18	–
Deposit Account		
– Kawasaki Shinkim Bank, Japan	1.52	18.28

	As at March 31, 2005 Rs. in Lakhs	As at March 31, 2004 Rs. in Lakhs
Schedule 10		
Loans and Advances		
A. Unsecured, considered good		
Advances recoverable in cash or in kind		
or for value to be received	740.19	300.00
Deposits with Government Departments and others	935.12	546.76
Loans and Advances to Staff	226.17	139.19
Interest Income Accrued but not due	8.52	0.73
Unbilled Revenues	261.75	531.89
Advance Income Tax (Net of Provision for Tax)	149.39	50.21
B. Secured, considered good		
Loan to Blue Broadband Tech Pvt Ltd.	50.00	–
Total	**2,371.14**	**1,568.78**
Schedule 11		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors for goods, expenses and services		
Dues to Small Scale Industrial Units	0.11	0.18
Others	1,557.31	1,103.22
Other Liabilities	522.67	267.67
Deferred Revenues	196.49	43.70
Advance received from customers	259.47	59.77
Total (A)	**2,536.05**	**1,475.09**
Provisions		
Proposed Equity Dividend	505.42	379.02
Tax on Proposed Equity Dividend	70.88	48.56
Provision for Leave Encashment	120.04	92.43
Provision for Warranty	26.49	27.97
Provision for Gratuity	121.34	8.30
Total (B)	**844.17**	**556.28**
Total (A) + (B)	**3,380.22**	**2,031.37**

Schedules forming part of the Consolidated Profit and Loss Account

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 12		
Cost of Revenues		
Salaries & Bonus	10,546.17	7,077.25
Contribution to Provident and Other Funds	563.45	341.60
Staff Welfare	174.51	117.70
Recruitment and Relocation	311.06	188.81
Rent	591.18	52.75
Repairs and Maintenance		
– Plant & Machinery	269.60	131.13
– Building	149.59	65.70
– Others	54.29	61.76
Communication Expenses	207.77	85.58
Travel Expenses	763.23	540.86
Electricity and Water Charges	297.49	203.30
Professional & Consultancy Charges	613.72	357.12
Depreciation	1,137.50	1,052.17
Software expenses	172.33	73.51
Training and Conference Expenses	101.31	44.05
Warranty Expenses provided (reversed)	(1.48)	(23.10)
Miscellaneous	6.12	–
Sub Total	15,957.84	10,370.19
Amortization of capitalised software product costs	115.03	461.37
Add: Opening balance of work in progress	54.97	245.98
Less: Closing balance of work in progress	(19.75)	(54.97)
Less: Reclassified as Product Engineering Expenses	(2,063.68)	(1,553.71)
Total	**14,044.41**	**9,468.86**

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 13		
Selling and Marketing Expenses		
Salaries & Bonus	1,399.50	860.04
Contribution to Provident and Other Funds	32.65	32.36
Staff Welfare	32.38	31.80
Recruitment and Relocation	8.62	16.17
Rent	109.13	90.94
Repairs and Maintenance		
– Plant & Machinery	5.69	9.24
– Building	11.01	12.12
– Others	2.71	1.15
Communication	85.15	71.26
Travel	300.38	211.53
Electricity and Water Charges	4.76	1.31
Professional, Legal & Consultancy Charges	192.24	271.23
Agency Commission – others	95.56	175.31
Selling Expenses – others	172.68	89.14
Depreciation	25.51	12.27
Training and Conference	12.29	5.00
Total	**2,490.26**	**1,890.87**

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 14		
Administrative and General Expenses		
Salaries & Bonus	1,038.24	797.06
Contribution to Provident and Other Funds	93.52	60.28
Staff Welfare	39.76	14.43
Recruitment and Relocation	83.04	40.77
Rent	187.01	26.97
Rates and Taxes	202.83	55.57
Repairs and Maintenance		
– Plant & Machinery	46.60	12.27
– Building	49.98	24.55
– Others	12.42	7.07
Communication	54.10	23.61
Travel	122.64	66.83
Electricity and Water Charges	88.75	32.71
Depreciation	244.87	116.51
Professional, Legal & Consultancy Charges	306.06	154.95
Software Charges	3.27	0.11
Auditor's Remuneration		
– Statutory Audit	7.75	6.20
– Other Services	4.45	0.15
– Out of Pocket Expenses (including service tax)	1.08	1.01
Training and Conference Expenses	51.35	56.24
Directors' sitting fees	0.48	0.44
Insurance	73.98	76.16
Miscellaneous	476.13	302.68
Net loss on sale of current investments	–	10.19
Loss on sale of fixed assets (net)	0.14	5.21
Provision for doubtful debts, net of reversals	(87.70)	28.27
Total	**3,100.75**	**1,920.24**

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Schedule 15		
Other Income / (Expenses)		
Miscellaneous income	0.02	7.99
Dividend received on current investments (non-trade)	14.09	55.47
Net gain on sale of current investments (non-trade)	11.39	–
Interest income on Bank Deposits (Gross) *	3.46	4.30
Other interest income	4.25	1.70
Total	**33.21**	**69.46**
* Tax deducted at source	0.76	0.84
Schedule 16		
Interest Expense		
– On Term Loans	–	8.25
– On Fully Convertible Debentures	–	0.02
– Others	47.32	71.57
Total	**47.32**	**79.84**

Schedule 17

1. Description of Business

Sasken Communication Technologies Limited ("Sasken" or "the Company") is a provider of telecommunications software services and solutions to network equipment manufacturers, mobile terminal vendors and semiconductor companies around the world. Sasken delivers end-to-end solutions that enable richer content delivery on next generation networks.

Sasken has its headquarters in Bangalore, India with offices in Pune, Canada, China, Germany, Japan, Sweden, United Kingdom and the United States of America.

During the year ended March 31, 2004, the Company promoted Sasken Network Systems Limited ("SNS") a wholly owned subsidiary in India. SNS was incorporated on October 20, 2003 and obtained its certificate to commence business on November 21, 2003, from the Registrar of Companies, Karnataka. SNS provides consultative engineering services focused on telecom operation systems. As at March 31, 2005, SNS is a wholly owned subsidiary of the Company.

During the year, the Company promoted Sasken Network Engineering Limited ("SNEL"), a wholly owned subsidiary in India. SNEL was incorporated on September 29, 2004 and obtained its certificate to commence business on October 11, 2004 from the Registrar of Companies, Karnataka. SNEL provides installation and commissioning of and project management services in cellular network. As at March 31, 2005, SNEL is a wholly owned subsidiary of the Company.

2. Significant Accounting Policies

Basis for preparation of financial statements

The accompanying consolidated financial statements include the accounts of Sasken, SNS and SNEL (hereinafter collectively referred to as "the Group"). The financial year-end of the subsidiaries is March 31.

The consolidated financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Group and are consistent with those used in the year ended March 31, 2004, except for change in accounting policy and change in estimate as stated below.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Group may undertake in future, actual results ultimately may differ from the estimates.

All significant inter Company balances and transactions between the Company and its subsidiaries have been eliminated in consolidation.

Change in accounting policy

In order to comply with Accounting Standard – 11 (Revised) – The Effects of Changes in Foreign Exchange Rates, which is effective from April 1, 2004, for the reporting periods subsequent to March 31, 2004, the Company changed its accounting policy in respect of accounting for forward contracts entered into to hedge the foreign currency risk of the underlying assets and liabilities at the balance sheet date. Consequently, in respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, exchange differences on such contracts are recognized in the statement of profit and loss in the period in which the exchange rates change. On account of such change in the accounting policy, exchange gain for the year ended March 31, 2005 is higher by Rs. 136.47 lakhs, with a consequential impact on the profit after tax for the year ended March 31, 2005.

Change in estimate

During the year ended March 31, 2005 the Company revised its estimate of useful life of generic computer software to one year, prospectively. Hitherto, generic computer software was charged 100% depreciation in the period of purchase. Due to this change, depreciation on fixed assets for the year ended March 31, 2005 is lower by Rs.51.86 lakhs and profits after tax are higher to the same extent.

Revenue Recognition

The Group derives its revenues from product and technology licensing, software services and installation and commissioning services.

Licensing revenue is recognized when the product or technology is delivered and accepted. Revenue related to customized products or technology development agreements is recognized using the proportionate completion method, determined based on the achievement and acceptance of the milestone. In all cases revenue is recognized only when no further vendor obligations remain and collection is probable. Revenue related to post contract customer support is recognized over the support period.

Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price service contracts is recognized based on the proportionate completion method, determined based on the achievement and acceptance of the milestone, provided collection is probable. Revenue from maintenance is recognized ratably over the term of the maintenance arrangement.

Revenue from royalty is recognized on an accrual basis based on the terms of the agreement, provided collection is probable.

Dividend income is recognized when the right to receive dividend is established.

Interest income is recognized on an accrual basis.

Work in progress

Costs related to milestones that have not been met are treated as costs of future activity and are reported as work in progress. Work in progress is carried at cost or net realizable value whichever is lower.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation less impairment, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation

Depreciation is provided on Straight Line Method (SLM) at the rates mentioned below which are greater than or equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956:

Type of asset	Rates (SLM)(%)	Schedule XIV rates (SLM) (%)
Building	5	1.63
Computers	25	16.21
Electrical Fittings	20	4.75
Furniture & Fittings	10	6.33
Plant & Machinery	25	4.75
Office Equipment	20	4.75
Vehicles	20	9.50

Leasehold improvements at leased property are depreciated over estimated useful life or the lease period of the property, whichever is lower.

Assets with unit value Rs. 5,000 or less are depreciated entirely in the year of acquisition.

Intangible assets comprise of the following and are depreciated over the estimated useful life as given below:

a) Computer Software used for development of software/rendering software services – Over the life of the project/product.

b) Generic Computer Software – over 12 months.

c) Product Software for administration purposes – 3 years.

d) Contract rights – 3 years.

Capitalisation and Amortization of Software

Costs incurred towards development of computer software products meant for sale, lease or otherwise marketed, are capitalised subsequent to establishing technological feasibility. Capitalisation ceases when the product is available for general release to customers. Capitalised software costs are amortised on a product-by-product basis. The amortization shall be greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. The unamortised cost of capitalized software products is carried at cost or net realisable value whichever is lower.

Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

Foreign currency transactions

(i) Initial Recognition – Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

(ii) Conversion – Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

(iii) Exchange Differences – Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets, which are adjusted with the cost of the fixed assets.

(iv) Forward Exchange Contracts – The Group uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The Group does not use the forward exchange contracts for trading or speculation purposes. In respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, the premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract, except where it relates to fixed assets in which case it is adjusted to the cost of the corresponding asset. Exchange differences on such contracts are recognised in the statement of profit and loss in the period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

(v) Foreign branches – The financial statements of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Group itself.

Retirement benefits to employees

The Group contributes to a Group Gratuity Scheme, administered by a private insurance group. The contributions are charged to the Profit and Loss account. Provision is made for the difference between the actuarial valuation (determined approximately as at the balance sheet date) and the funded balance.

Provision for leave encashment benefits is made based on actuarial valuation as at every balance sheet date.

The Company has established a Provident Fund Trust to which contributions towards provident fund are made each month. The Trust guarantees a specified rate of return on such contributions of employees and employer contributions on a yearly basis. The Company will meet the shortfall in the return, if any, and the same is charged to the profit and loss account on an accrual basis. The contributions towards the pension fund are remitted to the Regional Provident Fund. The contributions towards Provident Fund and Pension Fund of SNS and SNEL are remitted to the Regional Provident Fund. Contributions towards Provident Fund and Pension Fund are charged to the Profit and Loss Account on an accrual basis.

The Company and SNS established a Super Annuation Scheme administered by a private insurance group. As per the Scheme, for employees claiming the benefit, the employer makes monthly contributions, which are charged to the Profit and Loss Account on an accrual basis. The employer has no other obligations under the Scheme.

Impairment of assets

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or recoverable amount of the cash-generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

Warranty expenses

The Company provides for the estimated costs based on trend of past analysis and nature of services rendered, that may be incurred under free warranties, as provided in licensing and service contracts.

Research and Development

All research and development costs are charged to Profit and Loss account when incurred. Equipment or facilities that are acquired or constructed for research and development activities, which have alternative future uses are capitalized as tangible assets. Depreciation on such assets is charged to expense as research and development costs.

Income Taxes

Tax expense comprises both current and deferred taxes. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961 and tax laws applicable to the overseas branches under the respective jurisdiction. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Group does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Stock Compensation Expense

The Group accounts for stock compensation expense based on the fair value of the options granted on the date of grant. Compensation expense is amortized over the vesting period of the option on a straight-line basis. The accounting value of the options net of the Deferred Compensation Expense is reflected as Employee Stock Options Outstanding under Reserves and Surplus.

Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Segment Policy

Identification of segments

The Group is focused in the telecommunication space. The risks and returns of the Group are predominantly determined by the nature of the solution offered to its customers, which may be in the form of products or services. The primary reporting segments are Software Services, Software Products and Network Engineering Services.

The geographical segment information is disclosed based on the location of the customers.

Allocation of common costs

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items

The Corporate and other segment include general corporate income and expense items, which are not allocated to any business segment.

Operating Leases

Operating lease payments are recognised as expense in the profit and loss account on a straight line basis over the lease term.

3) Other notes

a) Research & Development expenses include;

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Salaries and Bonus	203.93	178.00
Contribution to Provident Fund and Other Funds	14.71	8.97
Depreciation	11.14	6.83
Consultancy	42.00	–
Total	**271.78**	**193.80**

b) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. 82.15 lakhs (As at March 31, 2004 Rs. 632.65 lakhs)

c) Contingent liabilities towards taxes on income not provided for amount to Rs. 157.71 lakhs (As at March 31, 2004 Rs. 165.41 lakhs). There are certain claims made against the Company by customers/investee Company, which in the view of the management of the Company are not tenable and amounts are currently not ascertainable.

(Rs. in lakhs)

	As at March 31, 2005	As at March 31, 2004
Bank guarantees	96.95	139.56
Letters of credit	36.38	110.59

d) Bank balance includes remittances in transit amounting to Rs. 351.18 lakhs (As at March 31, 2004 Rs. Nil) and Packing Credit is net of remittances in transit amounting to Rs. Nil (As at March 31, 2004 Rs. 97.13 lakhs).

e) Foreign exchange gain arising on account of foreign exchange forward contracts entered into by the Group to be recognized in the subsequent financial periods amount to Rs. 76.85 lakhs as at March 31, 2005 and Rs. 22.07 lakhs as at March 31, 2004.

f) The shares held in Extandon Inc, US are held by Extandon Inc as a collateral to secure the Company's compliance with all terms and conditions under a software licensing agreement entered into by the Company with Extandon Inc and performance of the delivery obligations under the repurchase options available with Extandon Inc under the terms of investment agreement.

g) During the year ended March 31, 2004 the Company entered into an agreement for services. The customer has agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to Rs. 157.14 lakhs. The Company has considered this transaction to be a non-monetary exchange

h) During the year ended March 31, 2005, the Company paid customs duty of Rs. 146.00 lakhs (including interest) on protest towards debonding charges of its fixed assets, which have been charged off to the profit and loss account.

i) During the year ended March 31, 2005, the Company has provided accelerated depreciation of Rs. 135.09 lakhs on certain assets based on an estimation of their expected use and net residual value. Due to this charge, the depreciation on fixed assets for the year ended March 31, 2005 is higher by Rs. 135.09 lakhs and profits after tax are lower to the same extent.

j) During the year ended March 31, 2005, the Company has written back a sum of Rs. 107.63 lakhs (March 31, 2004 – Rs. Nil) to expenses, pertaining to liabilities of previous years, which were no longer considered necessary.

k) During the year SNEL has entered into an agreement with Blue Broadband Technologies Private Limited, Mumbai ("BBT") for the purchase of tangible and intangible fixed assets amounting to Rs. 250.00 lakhs. BBT is yet to raise the invoice on SNEL for the assets, pending which the sales taxes on the assets has as yet not been accounted for. This will be accounted for on receipt of the invoices.

4. Managerial Remuneration

a) Managerial remuneration paid to Directors.

(Rs. in lakhs)

	Year ended March 31, 2005	Year ended March 31, 2004
Whole Time Directors		
Salaries and bonus	203.34	196.69
Contribution to Provident Fund and other Funds #	10.31	8.99
Non Whole Time Directors	26.96	16.83
Total	**240.61**	**222.51**

The above does not include provisions for/contributions to employee retirement and other employee benefit schemes determined on actuarial basis.

5. Provision for taxation

A significant portion of the Company and SNS income is non-taxable as the companies claim deduction under section 10A of the Income Tax Act, 1961. No deferred tax asset has been recognised on carry forward losses, as it is not virtually certain that such deferred tax asset will be realised. Further, the temporary differences arising reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

Income tax expense/(credit) comprises of:

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Overseas income taxes (comprising of withholding taxes and overseas branch income taxes)	150.31	249.21
The above are net of refund/reversal of overseas taxes	204.54	472.81

6. Fixed Price Revenue Contracts

The following table provides disclosures in accordance with the revised Accounting Standard (AS) 7 – Construction Contracts:

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Contract revenue recognized during the year	2,844.94	923.34
Aggregate amount of costs incurred and recognised profits (less recognised losses) upto date of balance sheet for contracts in progress as at that date	19.75	207.00
	As at March 31, 2005	**As at March 31, 2004**
Gross amount due from customers for contract work- presented as an asset	30.04	7.23
Gross amount due to customers for contract work- presented as a liability	15.72	–

7. Employee Stock Option Plan

The Company has two employee stock option schemes, 'SAS Stock Option Plan, 1997' and 'Sasken ESOP-2000'. The details of options granted, options vested and shares issued against the exercised options are explained herein below.

a) SAS Stock Option Plan, 1997

The shareholders approved the Plan at the Extraordinary General meeting on November 20, 1997. Under this scheme, Fully Convertible Debentures (FCD's) were issued to employees of the Company, consultants and advisors. Each of these FCDs are converted into one share of Rs.10 each. There are no outstanding debentures as on March 31, 2005.

b) Sasken ESOP-2000

During the year ended March 31, 2001, the Company announced a Stock Option Plan in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) for Employees Stock Option Plans. This stock option plan called ESOP-2000, was approved by the shareholders at the Extraordinary General Meeting

(EGM) of the Company held on September 22, 2000. It covers all employees of the Company including foreign branches, employees of the subsidiaries including its part time/ full time Directors other than the promoter directors. The Plan provides for the issue of 30 lakh shares (including the shares issued under the FCD's as per the SAS Stock Option plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current plan) of Rs. 10 each duly adjusted for any bonus, splits, etc. A Compensation Committee comprising of three independent directors on the Board administers the scheme.

A decision to consolidate the face value of the shares from Rs. 5 to Rs. 10 was taken by the board at the meeting held on June 11, 2004 and an EGM was held on July 16, 2004. The EGM approved the consolidation of the shares and consequently the options also have been adjusted to reflect the consolidations. The options have now been converted to 1 option for every 2 options held earlier and fractional options have been adjusted to the next whole number.

The Company cancelled stock options granted under Sasken ESOP 2000 and remaining unexercised as at December 31, 2002. Consequent to the cancellation of the stock options, the Company reversed the compensation cost of Rs. 714.62 lakhs recognized by it in the prior years.

In October 2003 and thereafter, the Company issued 592,080 options to employees, convertible into 592,080 equity shares, with a vesting period of one year at an exercise price of Rs. 40 per share being the fair value of the Company's share as determined by the Company as at the date of grant. The above options have been consolidated to reflect the above as 296,040 options at a revised fair value price of Rs. 80 per share.

On April 2, 2004 and June 1, 2004, the Company issued 757,850 options to 1372 employees and 1,943,065 options to 347 employees, respectively. The effective options after consolidation translates to 378,925 Options to 1372 employees and 971,533 options to 347 employees respectively. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 80 to Rs. 128 per share depending upon the exercise period being the fair value of the Company's share as determined by the Company as at the date of grant. The exercise price translates to Rs. 160 to Rs. 256 per share after the consolidation of the options.

On February 23, 2005, the Company issued 42,530 options to 41 employees of Sasken Network Systems Ltd. and 2,735 options to 3 employees of the Company. These options carry a vesting period ranging one to four years at an exercise price ranging from Rs. 184 to Rs. 256 per share depending upon the exercise period, being the fair value of the Company's share as determined by the Company as at the date of grant.

The movement in options is given below:

	Year ended March 31, 2005	Year ended March 31, 2004
Options outstanding as at the beginning of the year	274,110	Nil
Options issued during the year	1,395,723	296,040
Options forfeited during the year	166,475	21,930
Options exercised during the year	84,870	Nil
Options outstanding as at the closing of the year	1,418,488	274,110

The total accounting value of options outstanding as on March 31, 2005 is Rs. 115.02 lakhs (as at March 31, 2004 Rs. 31.30 lakhs) of which Rs. 83.28 lakhs (net of reversal) has been recognized as compensation cost based on the vesting period of the options. The accounting value of the options outstanding at March 31, 2005, net of the Deferred Compensation Cost of Rs. 31.74 lakhs (as at March 31, 2004 Rs.15.63 lakhs) has been reflected as Employee stock options outstanding under Reserves and Surplus.

8. Related Party Disclosures

Remuneration paid to Key Managerial Personnel

(Rs. in lakhs)

Name of the related party	Relationship	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Rajiv C Mody	Managing Director	58.16	56.39
Pranabh D Mody	Wholetime Director	38.13	37.35
Krishna Jhaveri	Wholetime Director	111.58	111.94
G.Venkatesh #	Wholetime Director	5.78	N.A

for the period after appointment as a director

The above does not include provision for/contribution to employee retirement and other employee benefit schemes determined on actuarial basis.

9. Segment reporting

The segmental information is given based on Software Services, Software Products and Network Engineering Services. Software Services that are related with Intellectual Property based product offerings are considered part of the Products segment. Network Engineering Services segment provides network planning, deployment, commissioning, integration and network operations support to network equipment vendors and operators. During the year ended March 31, 2005, the Company changed its segmental reporting consequent to a change in the organization of the Company's business. Previous years segment information is restated to conform to those of the current years.

Product engineering expense

Product Engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers.

a) Business Segment Information

As at March 31, 2005 (Rs. in lakhs)

	Software Services	Software Products	Network Engineering Services	Corporate and Others	Total
Segment assets	5,904.27	1,026.34	790.74	–	7,721.35
Unallocated corporate assets	–	–	–	9,998.26	9,998.26
Total assets	5,904.27	1,026.34	790.74	9,998.26	17,719.61
Segment liabilities	1,003.10	414.67	384.22	–	1,801.99
Unallocated corporate liabilities	–	–	–	1,723.82	1,723.82
Total liabilities	1,003.10	414.67	384.22	1,723.82	3,525.81
Capital expenditure – Tangible and Intangible	487.81	136.68	284.25	1,519.40	2,428.14

As at March 31, 2004 (Rs. in lakhs)

	Software Services	Software Products	Network Engineering Services	Corporate and Others	Total
Segment assets	3,559.74	1,287.27	–	–	4,847.01
Unallocated corporate assets	–	–	–	8,601.83	8,601.83
Total assets	3,559.74	1,287.27	–	8,601.83	13,448.84
Segment liabilities	353.53	230.84	–	–	584.37
Unallocated corporate liabilities	–	–	–	1,489.68	1,489.68
Total liabilities	353.53	230.84	–	1,489.68	2,074.05
Capital expenditure – Tangible and Intangible	307.07	93.02	–	278.52	678.61

Year ended March 31, 2005 (Rs. in lakhs)

	Software Services	Software Products	Network Engineering Services	Total
Revenue	20,349.45	3,393.55	434.00	24,177.00
Segment Result	7,597.50	411.20	60.21	8,068.91
Corporate Expenses	–	–	–	5,936.49
Operating Profit	–	–	–	2,132.42
Interest expense	–	–	–	47.32
Other income / (Expense)	–	–	–	367.08
Income taxes	–	–	–	174.15
Profit after tax	–	–	–	2,278.03
Other Information:				
Depreciation on identified segment assets	240.99	95.23	43.23	379.45
Depreciation allocated to segments	633.09	154.55		787.64
Unallocated depreciation	–	–	–	251.91
Amortisation of capitalised software costs	–	115.03	–	115.03

Year ended March 31, 2004 (Rs. in lakhs)

	Software Services	Software Products	Network Engineering Services	Total
Revenue	12,378.43	4,234.58	–	16,613.01
Segment Result	4,430.89	1,159.55	–	5,590.44
Corporate Expenses	–	–	–	4,020.54
Operating Profit	–	–	–	1,569.90
Interest expense	–	–	–	79.84
Other income/(Expense)	–	–	–	130.45
Income taxes	–	–	–	(213.20)
Profit after tax	–	–	–	1,833.71
Other Information:				
Depreciation on identified segment assets	310.64	109.76	–	420.40
Depreciation allocated to segments	429.30	208.65	–	637.95
Unallocated depreciation	–	–	–	129.43
Amortisation of capitalised software costs	–	461.37	–	461.37

Note: Unallocated corporate assets and liabilities comprise of assets and liabilities not identifiable with reportable segments, as these assets and liabilities are used interchangeably between the segments. However, depreciation on such assets has been allocated to the segments based on the related utilisation by the respective segments, as used by management for its internal reporting purposes.

b) Geographic Segment Information:

Revenues (Rs. in lakhs)

Region	For the Year ended March 31, 2005	For the Year ended March 31, 2004
North America (including Canada)	8,138.62	6,413.94
Europe	11,271.82	5,799.30
Asia Pacific (excluding India)	2,400.76	2,898.55
India	2,365.80	1,501.22
Total	**24,177.00**	**16,613.01**

Assets:

Debtors and Unbilled Revenue (Rs. in lakhs)

Region	As at March 31, 2005	As at March 31, 2004
North America (including Canada)	1,578.03	1,114.52
Europe	2,861.25	1,632.57
Asia Pacific (excluding India)	330.76	714.95
India	903.89	437.67
Total	**5,673.93**	**3,899.71**

Note: Most of the other tangible and intangible assets relate to India. Assets for other geographical segments are not significant and hence not furnished.

10. Earnings Per Share (EPS)

Reconciliation of the net income and number of shares considered in the computation of basic and diluted EPS is given below:

(Rs. in lakhs)

	Year ended March 31, 2005	Year ended March 31, 2004
Profit for computation of basic EPS	2,278.03	1,833.71
Add: Interest on Fully convertible debentures (FCDs)	–	0.02
Profit for computation of diluted EPS	2,278.03	1,833.73
Weighted average number of shares considered for basic EPS	16,335,283	15,093,479
Add: Effect of stock options & warrants	500,039	789,423
Add: Potential shares on conversion of FCDs	–	700
Weighted average number of shares considered for diluted EPS	16,835,322	15,883,602

As stated in note 7 above, the Company consolidated its equity shares from a par value of Rs.5 to a par value of Rs.10 each. All the share and stock options data have been adjusted accordingly. The board of directors of the Company issued and allotted 3,864,274 equity shares of Rs. 10 each on April 14, 2005.

11. Operating lease

The Group has operating leases for office premises that are (a) renewable on a periodic basis and are cancelable by giving a notice period ranging from 1 month to 6 months and (b) are non cancelable for specified periods under arrangements. Rent escalation clauses vary from contract to contract.

(Rs. in lakhs)

	For the Year ended March 31, 2005	For the Year ended March 31, 2004
Rent expenses included in profit & loss account towards operating leases	764.23	170.66

Minimum lease obligation under non cancellable lease contracts amounts to:

(Rs. in lakhs)

	As at March 31, 2005	As at March 31, 2004
Due in one year of the balance sheet date	816.34	426.82
Due between one to five years	248.62	309.96

12. Provisions

Effective April 1, 2004, the Group adopted the Accounting Standard (AS 29) on Provisions, Contingent Liabilities and Contingent Assets. The following table provides disclosures in accordance with AS 29.

(Rs. in lakhs)

	Balance as at April 1, 2004	Additions during the year	Amounts used/ Paid during the year	Unused amounts reversed during the year	Balance as at March 31, 2005
Dividend	379.02	505.42	379.02	–	505.42
Leave encashment	92.43	32.04	1.13	3.30	120.04
Gratuity	8.30	168.50	55.46	–	121.34
Provision for warranty	27.97	1.97	3.45	–	26.49
Tax on proposed dividend	48.56	70.88	48.56	–	70.88

13. Comparatives

The financial statements for the year ended March 31, 2005 are the consolidated financial statements of Sasken, SNS and SNEL. The comparative numbers of March 31, 2004 are those of Sasken and SNS. Previous year figures have been re-grouped / re-arranged, wherever necessary.

Signatures to Schedules 1 to 17

For and on behalf of the Board

S.R. Batliboi & Co.
Chartered Accountants

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

per Sunil Bhumralkar
Partner
Membership No. 35141

Neeta Revankar
Chief Financial Officer & Company Secretary

Place: Bangalore
Date : April 19, 2005

Consolidated Cash Flow Statement

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
A. Cash flow from operating activities:		
Net Profit before tax	2,452.18	1,620.51
Adjustments for:		
Depreciation	1,419.00	1,187.78
Amortisation of capitalised software costs	115.03	461.37
Other non-cash (writeback)/charges	(18.22)	59.30
Foreign exchange adjustments	(182.00)	–
Interest expense	47.32	79.84
Other income	(33.19)	(61.47)
Operating profit before working capital changes	3,800.12	3,347.33
Adjustments for:		
(Increase)/decrease in Sundry Debtors	(1,956.66)	(293.08)
(Increase)/decrease in Work in Progress	35.22	191.01
(Increase)/decrease in Loans & Advances	(685.43)	(942.72)
Increase/(decrease) in Current Liabilities and Provisions	1,371.15	169.75
Cash generated from operations	2,564.40	2,472.29
Direct taxes (paid) / refund received	(273.33)	122.53
Net cash from operating activities	**2,291.07**	**2,594.82**
B. Cash flow from investing activities:		
Purchase of fixed assets	(2,386.70)	(814.57)
Sale of fixed assets	–	11.73
Dividend received	14.09	55.45
Interest received	–	6.00
Sale of investments	2,857.66	2,818.14
Investments purchased	(2,637.93)	(3,078.18)
Net cash used in investing activities	**(2,152.88)**	**(1,001.43)**
C. Cash flow from financing activities:		
Proceeds from issue of shares (includes share application money)	1,047.93	–
Refund of share application money	–	(172.76)
Proceeds from long-term borrowings	100.56	–
Repayment of long-term borrowing	–	(1,343.93)
Increase/ (decrease) in Working capital loans	2.35	(1,288.18)

Consolidated Cash Flow Statement (contd.)

	For the Year ended March 31, 2005 Rs. in Lakhs	For the Year ended March 31, 2004 Rs. in Lakhs
Redemption of Debentures	–	(0.24)
Dividend paid (inclusive of dividend tax)	(427.58)	–
Interest paid	(47.41)	(119.17)
Net cash used in financing activities	**675.85**	**(2,924.28)**
Net increase / (decrease) in Cash and Bank balances (A+B+C)	814.04	(1,330.86)
Cash and Bank balances at the beginning of the year	272.60	1,603.46
Cash and Bank balances at the end of the year	1,086.64	272.60
Supplementary non-cash flow information		
Issuance of share capital out of share application money	–	1,470.00
Dividends received re-invested in units of mutual funds	14.09	55.47

In terms of our attached report of even date

S.R. Batliboi & Co.
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership No. 35141

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Managing Director

Pranabh D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Statement pursuant to Section 212

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies

1	Name of the Subsidiary	Sasken Network Systems Limited	Sasken Network Engineering Limited
2	Financial year of the Subsidiary ended on	March 31, 2005	March 31, 2005
3	Holding Company's interest		
	Equity Share Capital	100%	100%
		(500,000 equity shares of Re.1 each fully paid up)	(50,000 equity shares of Rs.10 each fully paid up)
4	Net aggregate amounts of the profits/(losses) of the subsidiary		
	so far as it concerns the members of the holding Company and is		
	not dealt with in accounts of holding Company		
	– For the financial year of the subsidiary (Rs.)	16,921,193	(6,097,496)
	– For the previous financial year of the subsidiary		
	since it became its subsidiary (Rs.)	(141,283)	Nil
5	Net aggregate amounts of the profits/(losses) of the subsidiary		
	so far as it concerns the members of the holding Company		
	and is dealt with in accounts of holding Company		
	– For the financial year of the subsidiary (Rs.)	Nil	Nil
	– For the previous financial year of the subsidiary		
	since it became its subsidiary (Rs.)	Nil	Nil

Rajiv C Mody
Managing Director

Pranab D Mody
Director

Neeta Revankar
Chief Financial Officer & Company Secretary

Place : Bangalore
Date : April 19,2005

Management's Discussion and Analysis of Financial Performance

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE " AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE HEREOF.

The consolidated financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India. The management accepts responsibility for the integrity and objectivity of these consolidated financial statements, as well as for various estimates and judgments used in preparing the financial statements. The management's discussion and analysis is based on the consolidated financial statements.

1. Overview

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of complementary IP software components, research and development consultancy as well as software services to many of the leading semiconductor manufacturers, network equipment companies, and global wireless handset developers. Established in 1989, Sasken employs over 2100 people, operating from state of the art research and development centers in Bangalore and Pune in India and with offices in Canada, China, Germany, Japan, Sweden, UK and US.

Sasken is an embedded telecom solutions Company that helps businesses across the telecom value chain accelerate product development life cycles. Sasken helps clients' speed product development through a unique combination of ready-to-use technology blocks and services. Sasken works with terminal device manufacturers, network equipment manufacturers, and semiconductor vendors to help them get to market ahead of the competition and stay focused on new product development and manufacturing. Products earn revenues in the form of one or more of licensing fees, customization fees, royalties, sub licensing fees, and fees for annual maintenance contracts. Services revenues are from fixed price contracts or contracts billed on time and material basis. Differential rates are charged for services provided from Sasken's offices in India, vis-à-vis for services provided at customer's site. Services provided from our own development centers being established closer to the customers are also priced differentially.

Key Highlights for the Year Ended March 31, 2005

- Sasken recommended a dividend of 30%.
- Consolidated revenues increased by 45.5%, from Rs. 16,613.01 lakhs in fiscal 2004 to Rs. 24,177.00 lakhs in fiscal 2005.
- Software Services revenue grew by 64.4%, Product revenues declined by 19.9% and the new segment Network engineering services recorded revenues of Rs. 434.00 lakhs.
- The revenue mix between Software Services, Software Products & Network Engineering Services was 84:14:2 in fiscal 2005 as against 75:25:0 in fiscal 2004.
- Royalties and sublicensing fees received from multiple product offerings.
- Consolidated Profit after Tax increased during the fiscal ended 2005 by 24.2%, from Rs. 1,833.71 lakhs to Rs. 2,278.03 lakhs.
- Net profit margins were at 9.4% in 2005 as against 11.0% in 2004.
- Consolidated basic earnings per share for fiscal 2005 was Rs. 13.94 (Rs. 12.14 – fiscal 2004) and diluted earnings per share was Rs. 13.53 (Rs. 11.54 – fiscal 2004).
- Investment in R & D increased by 40.2% to Rs. 271.78 lakhs during fiscal 2005 from Rs. 193.80 lakhs during fiscal 2004.

- Cash and bank balance stood at Rs. 1,086.64 lakhs as on March 31, 2005.
- Headcount of the group increased from 1,437 as on March 31, 2004 to 2,121 as on March 31, 2005.

During the current year Sasken has been certified as a BS 7799 Company.

During the year ended March 31, 2005, the Company promoted Sasken Network Engineering Limited ("SNEL"), a subsidiary in India. SNEL provides installation and commissioning of cellular networks. SNEL was incorporated on September 29, 2004 and obtained its certificate to commence business on October 11, 2004 from the Registrar of Companies, Karnataka.

2. Results of operations

Particulars	Year ended March 31 2005 (Rs. in lakhs)	Year ended March 31 2005 (%)	Year ended March 31 2004 (Rs. in lakhs)	Year ended March 31 2004 (%)	Increase/ (Decrease) (%)
Revenues	24,177.00	100.0	16,613.01	100.0	45.5
Cost of Revenues	16,108.09	66.6	11,022.57	66.3	46.1
Gross Profit	8,068.91	33.4	5,590.44	33.7	44.3
Research And Development	271.78	1.1	193.80	1.2	40.2
Gross Profit after Research and Development	7,797.13	32.3	5,396.64	32.5	44.5
Selling and Marketing Expense	2,490.26	10.3	1,890.87	11.4	31.7
Administrative and General expenses	3,100.75	12.8	1,920.24	11.6	61.5
ESOP Compensation Cost	73.70	0.3	15.63	0.1	371.5
Profit from operations	2,132.42	8.8	1,569.90	9.4	35.8
Other Income, including exchange gain	367.08	1.5	130.45	0.8	181.4
Profit before interest and Income taxes	2,499.50	10.3	1,700.35	10.2	47.0
Interest	47.32	0.2	79.84	0.5	(40.7)
Profit before Income taxes	2,452.18	10.1	1,620.51	9.8	51.3
Income Taxes Expense/(Credit), net	174.15	0.7	(213.20)	(1.3)	(181.7)
Profit after Income taxes	2,278.03	9.4	1,833.71	11.0	24.2

Revenue (Rs in lakhs)

	Year ended March 31, 2005	Year ended March 31, 2004
Total Revenue	**24,177.00**	**16,613.01**
Software Services	20,349.45	12,378.43
Software Products	3,393.55	4,234.58
Network Engineering services	434.00	–
Segmental Profit	**8,068.91**	**5,590.44**
Software Services	7,597.50	4,430.89
Software Products	411.20	1,159.55
Network Engineering services	60.21	–
Less:		
Corporate Expenses	5,936.49	4,020.54
Operating Profit before interest, other income and income taxes	2,132.42	1,569.90
Software Services as % of Total Revenue	84.2%	74.5%
Software Products as % of Total Revenue	14.0%	25.5%
Network Engineering services as % of Total Revenue	1.8%	–

The consolidated revenues have grown by 45.5% during the year ended March 31, 2005 to Rs. 24,177.00 lakhs from Rs. 16,613.01 lakhs during the year ended March 31, 2004. The software services revenues have grown by 64.4% to Rs. 20,349.45 lakhs during the year ended March 31, 2005 as against Rs. 12,378.43 during the year ended March 31, 2004. The proportion of the software services business has grown to 84.2% of total revenue during the year ended March 31, 2005 as against 74.5% of total revenue during the year ended March 31, 2004. The growth in the software services business is in line with the growth in software services seen over the last few quarters. However, the revenues from software products declined to 14.0% during the year ended March 31, 2005 from 25.5% during the year ended March 31, 2004. The new segment during they year ended March 31, 2005 was network engineering services, which contributed revenues of Rs. 434.00 lakhs.

The segmental profits were Rs. 8,068.91 lakhs during the year ended March 31, 2005 as against Rs. 5,590.44 lakhs during the year ended March 31, 2004. Segmental profit margin for software services was 37.3% during the year ended March 31, 2005 as against 35.8% during the year ended March 31, 2004. However the segmental profits for software products declined sharply to 12.1% during the year ended March 31, 2005 as against 27.4% during the year ended March 31, 2004 largely on account of the revenue decline during the year ended March 31, 2005. The fall in the software products revenue and the resultant segmental profits is largely on account of a conscious act to sign up royalty linked deals, as opposed to one time licensing deals that were being signed up in the past. The shift from licensing deals has resulted in lower upfront revenues and hence impacted the revenues of the current financial year.

Consolidated Revenue Model

Revenue	Year ended March 31, 2005 (Rs. in lakhs)	Year ended March 31, 2005 %	Year ended March 31, 2004 (Rs. in lakhs)	Year ended March 31, 2004 %
Software Services				
– Time & Material Onsite	4,425.01	21.7%	3,545.52	28.6%
– Time & Material Offshore	13,967.29	68.6%	6,982.96	56.4%
– Fixed Price	1,957.15	9.6%	1,849.95	15.0%
Total	**20,349.45**	**100.0%**	**12,378.43**	**100.0%**
Software Products				
– License fees	1,562.66	46.0%	2,793.27	66.0%
– Royalties	341.48	10.1%	94.64	2.2%
– Development and customization fees	1,489.41	43. 9%	1,346.67	31.8%
Total	**3,393.55**	**100.0%**	**4,234.58**	**100.0%**
Network Engineering services				
– Onsite	213.77	49.3%	–	
– Fixed Price	220.23	50.7%	–	
Total	**434.00**	**100.0%**	**–**	
Total	**24,177.00**		**16,613.01**	

The offshore time & material business generated the highest revenue under the software services model contributing 56.4% of software services revenue during the year ended March 31, 2004 and it further increased to 68.6% of the software services revenue during the year ended March 31, 2005. While, the license fees generated the highest revenues to the software products revenue at 66.0% for the year ended March 31, 2004, the largest revenue contributor during year ended March 31, 2005 to software products was the license fees at 46.0%. The largest component of network engineering services was fixed price generating 50.7% of revenue from network engineering services for the period ended March 31, 2005.

The revenue earned from the various geographies are as stated:

Consolidated Geography Wise Revenue (Rs. in lakhs)

Revenue	Year ended March 31, 2005	Year ended March 31, 2004
North America (including Canada)	8,138.62	6,413.94
Europe	11,271.82	5,799.30
APAC (excluding India)	2,400.76	2,898.55
India	2,365.80	1,501.22
Total	**24,177.00**	**16,613.01**

North America's (including Canada) contribution to the total revenue has declined to 33.7% during the year ended March 31, 2005 as against 38.6% during the year ended March 31, 2004. The contribution of Europe has increased to 46.6% during the year ended March 31, 2005 as against 34.9% during the year ended March 31, 2004.

Revenue from Asia Pacific (excluding India) has declined to 9.9% for the year ended March 31, 2005 as against 17. 4% of total revenues for the year ended March 31, 2004. Revenue from India has increased to 9.8% during the year ended March 31, 2005 from 9.0% in the year ended March 31, 2004.

Consolidated Client Concentration (Rs. in lakhs)

Revenue	Year ended March 31, 2005	Year ended March 31, 2004
Single largest client contribution to revenues	6,960.59	4,531.20
Top 5 client contribution to revenues	16,997.06	9,449.00
Top 10 client contribution to revenues	19,887.22	11,948.00
Contribution % of Top 10 clients to Overall Revenue	82.3%	71.9 %

Revenues from top 10 clients have increased to 82.3% during the year ended March 31, 2005 from 71.9% during the year ended March 31, 2004. The contribution from the top 5 clients over the two periods has increased to 70.3% during the year ended March 31, 2005 as against 56.9% for the year ended March 31, 2004. The top client contributed 28.8% and 27.3% during the year ended March 31, 2005 and year ended March 31, 2004, respectively.

Client Profile

Revenue	Year ended March 31, 2005	Year ended March 31, 2004
Number of less than US$ 1 Million client	46	50
Number of more than US$ 1 Million less than US$ 3 Million client	5	5
Number of more than US$ 3 Million less than US$ 10 Million client	1	2
Number of more than US$ 10 Million client	2	–
Total Number of Clients	54	57

The total numbers of clients were 54 for the year ended March 31, 2005 as against 57 during the year ended March 31, 2004. Revenues from our top 2 customers exceeded US$ 10 Million each during the year ended March 31, 2005.

2.2 Cost of Revenues

Cost of revenues comprise of costs incurred by the business units and operating costs allocated to the business unit, based on the related utilization by each of the segments.

Particulars	Year ended March 31 2005 (Rs. in lakhs)	Year ended March 31 2005 (% of Total Revenue)	Year ended March 31 2004 (Rs. in lakhs)	Year ended March 31 2004 (% of Total Revenue)	Increase/ (Decrease) (%)
Cost of Revenues	16,108.09	66.6	11,022.57	66.3	46.1
Employment Costs	11,109.62	46.0	7,418.85	44.7	49.7
Staff Welfare	174.51	0.7	117.70	0.7	48.3
Recruitment and Relocation	311.06	1.3	188.81	1.1	64.7
Rent	591.18	2.4	52.75	0.3	1,020.7
Repairs and Maintenance	473.48	2.0	258.59	1.6	83.1
Communication Expenses	207.77	0.9	85.58	0.5	142.8
Travel Expenses	763.23	3.2	540.86	3.3	41.1
Electricity and Water Charges	297.49	1.2	203.30	1.2	46.3
Professional, Legal & Consultancy Charges	613.72	2.5	357.12	2.1	71.9
Depreciation	1,137.5	4.7	1,052.17	6.3	8.1
Software Charges	172.33	0.7	73.51	0.4	134.4
Training and Conference	101.31	0.4	44.05	0.3	130.0
Warranty Expenses	(1.48)	(0.0)	(23.10)	(0.1)	(93.6)
Miscellaneous	6.12	0.0	–	–	100.0
Amortization (Net of capitalization)	115.03	0.5	461.37	2.8	(75.1)
Movement in Work In progress	35.22	0.1	191.01	1.1	(81.6)

Cost of revenues increased to Rs. 16,108.09 lakhs during the year ended March 31, 2005 from Rs. 11,022.57 lakhs during the year ended March 31, 2004, an increase of 46.1%, and Rs. 5,085.52 lakhs in absolute terms.

Employments costs have increased by Rs. 3,690.77 lakhs during the year ended March 31, 2005, the increase of 49.7% in fiscal 2005 over fiscal 2004 was on account of increase in headcount, annual increments & increase in the quantum of on-site work.

The increase in recruitment and relocation by Rs. 122.25 lakhs was due to increased recruitments during the year.

The increase in rent by Rs. 538.43 lakhs was mainly on account of additional facilities taken on lease in Bangalore and new facility taken in Pune during fiscal 2005, as compared with fiscal 2004, when a large part of the operations were carried out from owned facilities.

Staff welfare increased due to increase in headcount during the year.

Communication expense increased due to addition of new facilities and increase in headcount.

Professional, Legal & Consultancy Charges have increased by Rs. 256.60 lakhs, significantly due to the use of highly experienced technical consultants at foreign locations for certain customer contracts.

Depreciation expenses increased by Rs. 85.33 lakhs, mainly on account of increase in depreciation on generic software. The residual value of all assets that had reached their estimated useful lives was written off during the period.

Increase in software charges during the year was due to increased usage of software licenses and training tools.

During the current year, no product costs have been capitalized and the balance amount of capitalized software cost was fully amortised during the year ended March 31, 2005 amounting to Rs. 115.03 lakhs.

Work in progress represents costs incurred against milestones in projects, for which milestones fall in following periods. The movement in work in progress is on account of the milestones occurring during the current year.

Product Engineering Expenses

Product Engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers, and for which revenues may or may not have been recognized during the current year. These expenses, which have been charged to the respective expense heads and the appropriate segments in the cost of revenue, when taken together, constitute 8.5% of revenues for fiscal 2005, as compared with 9.4% in fiscal 2004. In absolute terms, there has been an increase in the amount of expenses incurred in product engineering by Rs. 509.97 lakhs. Product engineering expenses incurred on new products that have passed the stage of technological feasibility are capitalized. No costs were capitalized during the year ended March 31, 2005 on account of the fact that no new R & D initiatives had reached the stage of technological feasibility.

2.3 Gross Profit

Gross profit before research & development expenses increased to Rs. 8,068.91 lakhs during the year ended March 31, 2005 from Rs. 5,590.44 lakhs during the year ended March 31, 2004, an increase of 44.3%, and Rs. 2,478.47 lakhs in absolute terms. Gross profit as a percentage of revenues was 33.4% during the year ended March 31, 2005, as compared with 33.7% recorded during the year ended March 31, 2005.

2.4 Research and Development expenses (R & D)

Research and development expenses constituted 1.1% of the total revenues during fiscal 2005, as compared with 1.2% during fiscal 2004. In absolute terms, R & D expenses increased by Rs. 77.98 lakhs. However, it is appropriate to consider R & D expenses in conjunction with product engineering expenses, in order to determine the Company's investments in new growth initiatives.

2.5 Selling and Marketing Expenses:

Selling and marketing expenses primarily include costs related to employment expenses of the marketing and sales staff, rent for foreign offices, distributor fees, and travel expenses for marketing and sales staff.

Particulars	Year ended March 31 2005 (Rs. in lakhs)	Year ended March 31 2005 (%)	Year ended March 31 2004 (Rs. in lakhs)	Year ended March 31 2004 (%)	Increase/ (Decrease) (%)
Selling and Marketing Expenses	2,490.26	10.3	1,890.87	11.4	31.7
Employment Costs	1,432.15	5.9	892.40	5.4	60.5
Staff Welfare	32.38	0.1	31.80	0.2	1.8
Recruitment and Relocation	8.62	–	16.17	0.1	(46.7)
Rent	109.13	0.5	90.94	0.5	20.0
Repairs and Maintenance	19.41	0.1	22.51	0.1	(13.8)
Communication Expenses	85.15	0.4	71.26	0.4	19.5
Travel Expenses	300.38	1.2	211.53	1.3	42.0
Electricity and Water Charges	4.76	–	1.31	–	263.4
Professional, Legal & Consultancy Charges	192.24	0.8	271.23	1.6	(29.1)
Agency Commission – Others	95.56	0.4	175.31	1.1	(45.5)
Selling expense – Others	172.68	0.7	89.14	0.5	93.7
Depreciation	25.51	0.1	12.27	0.1	107.9
Training and conference	12.29	0.1	5.00	–	145.8

Selling and marketing expenses were 10.3% of revenues during the year ended March 31, 2005 as against 11.4% during the year ended March 31, 2004. The increase in absolute terms is Rs. 599.39 lakhs. The increase in absolute selling and marketing expenses were due to increase in employment cost on account of increase in head count and increased variable pay.

However there was a decrease in selling and marketing expenses as percentage of revenue, which is indicative of the fact that economies of scale are being reaped.

2.6 Administrative and General Expenses

Administrative and general expenses primarily include costs related to employment expenses of support staff, rent, professional, legal and consultancy fees and training expenses.

Particulars	Year ended March 31 2005 (Rs. in lakhs)	Year ended March 31 2005 (%)	Year ended March 31 2004 (Rs. in lakhs)	Year ended March 31 2004 (%)	Increase/ (Decrease) (%)
Administrative and General expenses	3,100.75	12.8	1,920.24	11.6	61.5
Employment Costs	1,131.76	4.7	857.34	5.2	32.0
Staff Welfare	39.76	0.2	14.43	0.1	175.5
Recruitment and Relocation	83.04	0.3	40.77	0.2	103.7
Rent	187.01	0.8	26.97	0.2	593.4
Rates and Taxes	202.83	0.8	55.57	0.3	265.0
Repairs and Maintenance	109.00	0.5	43.89	0.3	148.3
Communication Expenses	54.10	0.2	23.61	0.1	129.1
Travel Expenses	122.64	0.5	66.83	0.4	83.5
Electricity and Water Charges	88.75	0.4	32.71	0.2	171.3
Depreciation	244.87	1.0	116.51	0.7	110.2
Professional, Legal and Consultancy Charges	309.33	1.3	155.06	0.9	99.5
Auditors remuneration	13.28	0.1	7.36	–	80.4
Training Expense	51.35	0.2	56.24	0.3	(8.7)
Directors' sitting fees	0.48	–	0.44	–	9.1
Insurance	73.98	0.2	76.16	0.6	(2.9)
Miscellaneous	476.13	2.0	302.68	1.8	57.3
Net loss on sale of current investments	–	–	10.19	0.1	–
Loss on sale of fixed assets (net)	0.14	–	5.21	–	(100.3)
Bad debts & provision for doubtful debts	(87.70)	(0.4)	28.27	0.2	(410.2)

Administrative and general expenses increased by Rs. 1,180.51 lakhs during the year ended March 31, 2005, 61.5% higher than incurred during the year ended March 31, 2004. Employments costs have increased on account of headcount, annual increments and provision for QPIC.

Rates and taxes increased due to the customs duty paid during the current year on assets de-bonded.

Increase in repairs and maintenance was on account of Company entering into comprehensive maintenance contracts for plant and machinery and also due to new facilities added during the current year.

Increase in electricity and water charges was on account of new facilities added during the current year.

The management periodically evaluates receivables from customers for collectibility and makes appropriate provisions based on customer specific issues and economic factors that could impact the customer's ability to pay. The provisions of an earlier year were reversed during the year on collection.

2.7 Employee Stock Compensation Cost

During the year the Company issued 1,395,723 stock options to employees at prices ranging between Rs. 160-256 per option. The Company accounts for stock compensation expenses based on the fair value of the options granted on the date of grant. Rs. 73.70 lakhs was the compensation cost charged to profits during the year ended March 31, 2005.

2. 8 Profit from Operations

Profit from operations for the year ended March 31, 2005 was Rs. 2,132.42 lakhs as compared with Rs. 1,569.90 lakhs earned during the year ended March 31, 2004. The profit from operations as percentage of revenue was 8.7% during fiscal 2005 as against 9.4% reported for fiscal 2004.

2.9 Other Income

Other income amounted to Rs. 367.08 lakhs and Rs. 130.45 lakhs, constituted 1.6% and 0.8%, of total revenues during the year ended March 31, 2005 and during the year ended March 31, 2004 respectively. The increase of Rs. 136.47 lakhs during the year ended March 31, 2005 was mainly on account of change in accounting policy for forward contracts entered into to hedge the foreign currency risk of the underlying assets at the balance sheet date, in order to comply with the provisions of the newly introduced Accounting Standard on the subject. There has also been a substantial increase in the gain on forward contract utilization.

2.10 Profit before interest and income taxes

Profit before interest and income taxes was at 10.3% of revenues, amounted to Rs. 2,499.50 lakhs during the year ended March 31, 2005, as against 10.2% of revenues amounting to Rs. 1,700.35 lakhs during the year ended March 31, 2004. The corresponding increase over the previous year was 47.0%.

2.11 Interest

Interest expenses charged to profits decreased by Rs. 32.52 lakhs to Rs. 47.32 lakhs during the year ended March 31, 2005 from Rs. 79.84 lakhs during the year ended March 31, 2004, a decrease of 40.7%. Interest represented 0.2% of revenues during fiscal 2005 and 0.5% of revenues during fiscal 2004. The decrease was on account of inflow from the equity issue on exercise of certain warrants and efficiencies in the use of bank credit for working capital purposes.

2.12 Income taxes

Income tax expense was 0.7% of revenues during fiscal 2005, while the income tax fiscal 2004 was a credit of 1.3%. The tax refunds received during the current year were much lower than those received during fiscal 2004. Additionally, the extent of business carried out in India for our customers saw an increase, leading to a higher domestic tax incidence.

2.13 Profit after tax

During the year ended March 31, 2005 the group posted a profit of Rs. 2,278.03 lakhs as against a profit of Rs. 1,833.71 lakhs during the year ended March 31, 2004 an increase of 24.2%. This represents 9.4% and 11.0% of revenues during fiscal 2005 and 2004 respectively.

3 Financial condition

3.1. Share capital

The issued capital increased to Rs. 1,684.72 lakhs during fiscal 2005 from Rs. 1,561.09 lakhs during fiscal 2004. During the fiscal 16.33 lakh shares (pre-consolidation 32.67 lakh shares of Rs. 5 each) of face value of Rs. 10 each were allotted to a strategic investor on exercise of the warrants held by them. Further 0.53 lakhs shares of Rs. 10 each at a premium of Rs. 70 were issued to the employees under the ESOP Scheme.

At present the Company has only one class of shares - equity shares of par value Rs. 10 each. A consolidation of shares was effected during July 2004 whereby one share of Rs. 10 was issued for every two shares of Rs. 5. During the year ended March 31, 2005 the authorized share capital of the Company has been increased by Rs. 1,000.00 lakhs, which comprises of 100 lakhs equity shares of Rs. 10 each. The total authorized share capital of the Company as of March 31, 2005 is Rs. 3,500.00 lakhs divided into 350 lakhs equity shares of Rs. 10 each.

3.2 Reserves and Surplus

Reserves and Surplus as at March 31, 2005 was Rs. 12,483.59 lakhs, as compared with Rs. 9,858.70 lakhs as at March 31, 2004.

Share Premium

Share premium as at March 31, 2005 was Rs. 6,133.79 lakhs, as compared with Rs. 5,273.93 lakhs as at March 31, 2004.

The balance in the share premium increased by Rs. 859.86 lakhs, on account of allotment of 16.33 lakh shares of Rs. 10 each (pre-consolidation 32.67 lakhs shares at a premium of Rs. 25 per share) on exercise of warrants, at a premium at Rs. 50 per share and on account of the premium received on 0.53 lakh shares issued at a premium of Rs. 70 to employees on exercise of their options.

General reserve

During the year ended March 31, 2005 there was an addition of Rs. 216.98 lakhs due to the transfer of 10% of the profits after tax in line with the provisions of The Companies (Transfer of Profits To Reserves) Rules, 1975 for declaration of dividends in excess of 20%.

The Profit and Loss Account Balance has increased by Rs. 1,484.75 lakhs after appropriations on account of the profits generated during the year ended March 31, 2005.

The employee stock option outstanding (Net of Deferred Compensation Cost) represents the amount charged to the profit and loss account towards employee stock option compensation cost. The Company issued 1,395,723 options during the year to its employees under the ESOP 2000 scheme. The net increase in the employee stock option outstanding account was Rs. 63.30 lakhs for the year ended March 31, 2005.

3.3 Secured Loans

Secured Loans as at March 31, 2005 were Rs. 45.03 lakhs as against Rs. 42.68 lakhs as at March 31, 2004. The packing credit balance is down to Rs. 45.03 lakhs (against a sanctioned limit of Rs. 2,500 lakhs), the maximum amount utilized during the year was Rs. 1,805.14 lakhs. Further the Company has not borrowed any loans during the year, apart from continuing with the packing credit facility it has with its scheduled banks. The limit on non-fund based facilities is Rs. 500.00 lakhs against which the Company has utilized Rs. 133.33 lakhs during the year ended March 31, 2005.

3.4 Unsecured Loans

The unsecured Loans as at March 31, 2005 was Rs. 100.56 lakhs obtained through a cash credit facility from a scheduled bank by one of the subsidiaries.

3.5 Fixed Assets

Net Fixed Assets including capital work-in-progress represent 61.2% of the total assets as at March 31, 2005 as against 68.36% as at March 31 2004. Accumulated depreciation as a % of Gross block was 45.73% as at March 31 2005 as against 43.47% as at March 31, 2004.

During the year the Company invested Rs. 2,428.14 lakhs in assets as against Rs. 678.61 lakhs during the year ended March 31, 2004, with the significant increase being in computers, furniture and fixtures and office equipments. These additions were due to the setting up of new leased facilities and the increase in headcount over the fiscal 2005.

Deletions of fixed assets of Rs. 1.84 lakhs and Rs. 233.21 lakhs during fiscal 2005 and 2004 respectively, represent the assets that were sold, and those written off, since they were obsolete or those that have outlived their useful life.

The capital work in progress represents advances paid towards acquisition of fixed assets and the cost of assets not put to use. It reduced to Rs. 77.41 lakhs as at March 31 2005 as against Rs. 117.81 lakhs as at March 31 2004.

As on March 31 2005, the contracts remaining to be executed on capital account (net of advances) amounted to Rs. 82.15 lakhs as against Rs. 632.65 lakhs as at March 31, 2004. The decrease is due to the completion of the work undertaken at new leased facilities that were outstanding as of March 31, 2004.

3.6 Capitalized software product costs

The capitalized software costs amounting to Rs. 115.03 lakhs were fully amortized during the year ended March 31, 2005 in line with the consistent method of amortization based on the estimated life of the product line. During the year, no product development expenses were capitalized, since none of the initiatives reached technological feasibility during the year.

3.7 Investments

Investments represent 0.4% of the total assets as at March 31, 2005 as against 2.3% as at March 31, 2004.

The long-term non-trade investments have remained unchanged as of March 31, 2005 at Rs. 14.75 lakhs. An amount of Rs. 41.20 lakhs has been invested with a mutual fund.

The current non-trade portion of investments represents 73.64% of total investments during the year ended March 31, 2005 as against 94.42% during the year ended March 31, 2004. The reduction of Rs. 208.34 lakhs in current non-trade investments was largely on account of investments in fixed assets. The Company invests surplus funds in highly rated mutual fund papers, considering safety & liquidity as the key determinants for the investment in a fund.

3.8 Inventories

Inventories represent 0.1% of the total assets as on March 31, 2005 as against 0.5% as on March 31 2004. As a % of current assets inventories constitute 0.2% as at March 31, 2005 and 1.0% as at March 31, 2004.

Costs related to milestones that have not been met, are reported as Inventories. The decrease in absolute terms is Rs. 35.22 lakhs.

3.9 Sundry Debtors

Sundry Debtors (Net of provision for doubtful debts) represent 37.7% of the total assets as at March 31 2005 as against 29.5% as at March 31, 2004.

Sundry Debtors (Net of provision for doubtful debts) amounted to Rs. 5,412.18 lakhs as at March 31, 2005 as compared with Rs. 3,367.82 lakhs as at March 31, 2004. These debtors are considered good and realizable. The management periodically reviews the quality of receivables, customer and geography specific risks and makes provision for receivables that are doubtful.

The age profile is as follows:

As at March 31

Period in days	2005	2004
	Percentage of Debtors	
0-30	72.9	71.2
31-60	15.6	13.8
61-90	4.7	4.1
More than 90	6.8	10.9
Total	100.0	100.0

The percentage of debtors more than 90 days showed a decline due to realization of long over due receivables.

The DSO as at March 31 2005 was 82 days and 74 days as at March 31 2004.

The unbilled revenue as on March 31 2005 was Rs. 261.75 lakhs as against Rs. 531.89 lakhs as on March 31 2004. DSO including unbilled revenue was 86 days as at March 31, 2005 and 2004.

Sundry debtors have increased by Rs. 2,044.36 lakhs or 60.50% as at March 31, 2005 against sundry debtors balance as on March 31, 2004.

3.10 Cash and bank balances

The cash and bank balances represent 7.6% and 2.4% of the total assets as at March 31, 2005 and 2004 respectively, an increase of 298.6%.

Out of Rs. 1,086.64 lakhs as at March 31, 2005 Rs. 474.75 or 43.7% was held in foreign bank accounts as against Rs. 76.23 lakhs as at March 31, 2004 or 28.0%. Cash in foreign bank accounts are maintained to meet branch expenses.

3.11 Loans and advances

Loans and Advances represent 16.5% of total assets as at March 31, 2005 as against 13.7% of the total assets as at March 31, 2004. Loans and advances increased by 151.8% to Rs. 2,371.14 lakhs as at March 31, 2005 from Rs. 1,568.78 lakhs as at March 31, 2004. The increase is due to the advances paid for the various leased facilities amounting to Rs. 363.06 lakhs and the increase of Rs. 86.98 lakhs towards staff advances.

Advances recoverable in cash or in kind or for value to be received have increased to Rs. 740.19 lakhs as at March 31, 2005 to Rs. 300.00 lakhs as at March 31, 2004. The increase is largely on account of the unrealized gain on the forward covers booked on debtors and prepaid expenses.

The deposits with Government departments and others have increased to Rs. 935.12 lakhs as at March 31, 2005 from Rs. 546.76 lakhs as at March 31, 2004. The increase is due to the advances paid for the various leased facilities amounting to Rs. 363.06 lakhs.

Loans and advances to staff increased by Rs. 86.98 lakhs in the current year.

Unbilled revenue represents amounts recognized based on services performed in accordance with contract terms and where billing is pending for any reason. Unbilled revenue reduced to Rs. 261.75 lakhs as at March 31, 2005 as against Rs. 531.89 lakhs as at March 31, 2004.

Advance tax of Rs. 109.13 lakhs was towards taxes deducted on domestic income and the withholding taxes for overseas revenue.

3.12 Current liabilities and provisions

Current Liabilities and provisions represent 23.6% and 17.8% of total assets as at March 31, 2005 and March 31, 2004 respectively, an increase of 66.9% or Rs. 1,348.85 lakhs. This increase is significantly due to creditors for goods and services, deferred revenue, advance received from customers, equity dividend and provision for gratuity.

Sundry creditors represent the amount payable to vendors/employees for the supply of goods or for services rendered. These dues constituted 10.9% and 9.7% of the total assets as at March 31, 2005 and March 31, 2004 respectively, which is an increase of 41.2%.

The other liabilities increased by Rs. 255.00 lakhs during the year ended March 31, 2005 over the year ended March 31, 2004. The other liabilities include statutory payments like TDS, PF and others, for the month of March 2005 which are payable on various dates in April 2005.

The deferred revenue constituted 1.4% and 0.4% of total assets as at March 31, 2005 and March 31, 2004 respectively. The increase of Rs. 152.79 lakhs was largely on account of revenues deferred based on possible schedule overruns

Advances received from customers denote monies received, for services yet to be rendered, such advances constitute 1.8% and 0.5% of the total assets as at March 31, 2005 and March 31, 2004 respectively, an increase of Rs. 199.70 lakhs. This was due to completion of milestones against which customers made advance payments.

A dividend of 30% on the paid up capital (Subject to shareholders approval at the AGM) along with the dividend distribution tax has been provided during the year ended March 31, 2005.

Leave encashment provision has been created based on actuarial valuation for fiscal 2005 and fiscal 2004.

The Company creates a warranty provision towards estimated expenses in servicing the contracted warranty obligations towards customers. The warranty provision is reviewed periodically and if the contractual warranty period expires or warranty efforts are expended, the provisions for the specific warranty is reversed.

The Company contributes to a Group Gratuity Scheme, administered by a private life insurance Company. The contributions are charged to the Profit and Loss account. Provision of Rs. 113.04 lakhs represents the difference between the actuarial valuation and the funded balance as at the year-end. The increase was on account of increased headcount and the removal of the ceiling on gratuity payable per employee.

4. Cash Flow

The net cash from operating activities was Rs. 2,291.07 lakhs during the year ended March 31, 2005 as against Rs. 2,594.82 lakhs during the year ended March 31, 2004. There was a reduction of Rs. 303.75 lakhs during the year ended March 31, 2005 as result of increase in debtors and taxes paid.

The inflow on account of operating profits before working capital changes was Rs. 3,800.12 lakhs during the year ended March 31, 2005 as against Rs. 3,347.33 lakhs during the year ended March 31, 2004 an increase of Rs. 452.79 lakhs. The increase was mainly on account of higher profits before taxes, lower amortization of software costs and unrealized foreign exchange component, compared with that of the previous year. The outflow on account of working capital was Rs. 1,235.72 lakhs for the year ended March 31, 2005 as against an outflow of Rs. 875.04 lakhs during the year ended March 31, 2004.

The net cash used in investing activities was Rs. 2,152.88 lakhs during the year ended March 31, 2005 as against Rs. 1,001.43 lakhs net used during the year ended March 31, 2004. The net cash was used mainly on setting up additional development facilities for the increased headcount during fiscal 2005. An amount of Rs. 2,386.70 lakhs was spent on fixed assets from the net cash generated from operating activities and the net cash generated from financing activities. The amounts held in current non-trade investments amounting to Rs. 219.73 lakhs were also utilized towards the purchase of fixed assets.

The net cash generated from financing activities was Rs. 675.85 lakhs during the year ended March 31, 2005 as against net cash used in financing activities of Rs. 2,924.28 lakhs during the year ended March 31, 2004. The inflow during 2005 was on account of the issuance of the share capital amounting to Rs. 1,047.93 lakhs. The outflow in 2004 is primarily on account full repayment of term loan and repayment of Packing credit.

5. Risk management

The management of Sasken actively takes steps to manage the various risks that the Company is exposed to. The major activities to this end are as follows:

Business portfolio

Sasken is an embedded telecom solutions Company that is committed to innovation. Sasken works with terminal device manufacturers, network equipment manufacturers, semiconductor vendors and network operators

Sasken derives revenues from software products and software services. Revenues from software products was at 14.0% of revenues in fiscal 2005, Vs 25.5% in fiscal 2004. Investments in products entail a certain amount of risk, and hence we keep such investments within limits. We also make sure that such investment decisions are made carefully and are periodically reviewed. Such investments are expected to yield recurring revenues in the longer term.

Sasken understands the need to be geographically diversified in order to mitigate political and economic risks on account of excessive exposure to specific regions. Specific actions are continually being taken to this end. The proportion of revenues from Europe increased significantly during the year where as the proportion of revenues from North America declined. Likewise, a well-diversified customer base, with reduction in the proportion of revenues from its top customers, has been another goal at Sasken.

Revenue	Year ended March 31, 2005	Year ended March 31, 2004
Number of less than US$ 1 Million client	46	50
Number of more than US$ 1 Million less than US$ 3 Million client	5	5
Number of more than US$ 3 Million less than US$ 10 Million client	1	2
Number of more than US$ 10 Million client	2	–
Total Number of Clients	54	57

Protection of intellectual property

It is the prime and foremost responsibility of any Company in the knowledge industry to safeguard its own intellectual property. The management has taken the following measures to protect its IP:

Filing of patents

The Company actively encourages employees to file patents to protect its intellectual property. Apart from serving the purpose of protection, these patents, as and when granted, could lead to revenues from their license, or to other benefits, by cross licensing of these patents, in exchange for others that we may want to use. As of now Sasken has applied for 32 patents out of which 5 has already been granted.

Filing of trademarks

Trademarks have acquired much importance to Sasken with the software market focusing on branding of software products and services. We have also applied for registration of certain trademarks in USA, EU, Russia, Japan, China and India.

Protection of confidentiality

Sasken assigns much importance to the confidentiality of its software, trade secrets, internal data, systems and processes. Sasken ensures that the employees, clients, prospects, subcontractors, advisors, consultants, vendors, prospective investors who are exposed to any of the confidential information of Sasken, are contractually bound to keep it confidential.

Contracting process for limitation of liability

Each and every contract entered into by Sasken, including both customer and vendor contracts, undergoes a well-settled legal and commercial contract review process. The process ensures that, the clauses, which may be imposed by the customer / vendors that expose Sasken to risks, are proportionate with the benefits accruing from the contract. Sasken is also protected by insurance coverage.

Financial risks-

Foreign exchange fluctuation risk

Most of Sasken' revenues are in US Dollars, while its expenses are in Indian Rupees. Operating profits are therefore subject to fluctuations in exchange rates. The exchange rate between the Rupee and the US Dollar has changes substantially in the recent years. During the year Rupee depreciated from Rs. 43.65 for a US Dollar as on April 1, 2004 to Rs. 43.74 for a US Dollar on March 31, 2005. The depreciation was insignificant, however during the year the Rupee had depreciated to Rs. 46.45 against a US Dollar. We expect that majority of our billings in future will be in US Dollar and a significant portion of our expense will be in Indian Rupee. This will result in our operations being significantly impacted on account of Rupee appreciation.

The following are the de-risking measures we adopt to minimize the impact of Rupee appreciation.

The Company periodically reviews its foreign exchange exposures and takes appropriate hedges regularly. The policy of the Company is to take hedges for risk mitigation and not for profit maximization. The Company has pre set loss limits and unhedged exposures are based on these loss limits.

Credit Risk

The Company's ability to recover dues from customer is dependent on the agreed credit terms. With customers and operations all over the world, effective procedures and recovery mechanism have to be in place to avoid excessive bad debts. The Company constantly reviews credibility of existing customers and follows rigorous credit checks on prospective customers before fixing credit limits and credit periods.

Liquidity Risk

The Company has adequate working capital limits with its bankers, which it uses during periods where there are mismatches in the business inflows and outflows. As such, the extent of cash balance, taken together with the undrawn working capital limit, together determines the liquidity position of the Company. The Board reviews the liquidity position periodically and determines the need for infusion of equity capital into the business.

Sasken Network Systems Limited

Directors' Report

The Directors have pleasure in presenting the second Annual Report of the Company along with the Audited Accounts for the financial year ended March 31, 2005.

Financial Results	For the Year ended March 31, 2005 (Rs.)	For the Period ended March 31, 2004 (Rs.)
Revenues	144,397,752	Nil
Gross Profit	61,151,266	Nil
Profit / (Loss) before tax	17,916,121	(141,283)
Income tax	994,928	Nil
Profit / (Loss) after tax	16,921,193	(141,283)

Operations

The Company started the commercial operations in the current financial year though it had the certificate for commencement of business on 21st November 2003. During the current year the Company earned revenue of Rs. 1,443.98 lakhs (US$ 3.22 mio). The net profit was 11.72% of revenues.

The Company's headcount as on 31st March 2005 was 105. The Company has taken a facility on lease in Bangalore.

Dividend

The Directors do not recommend any dividend for the current year.

Directors

In accordance with the provisions of the Companies Act, 1956 and the provisions of the Articles of Association of the Company Mr. Rajiv C Mody retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Fixed Deposits

The Company has not accepted any fixed deposits during the year.

Personnel

No employee was in receipt of remuneration during the year as prescribed under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, that requries disclosure under this report.

Conservation of Energy, Technology absorption and foreign exchange Earnings / Outgo

A) Conservation of Energy

Though the Company does not have energy intensive operations, it continues to adopt energy conservation measures to reduce cost.

B) Technology absorption – This is not applicable to your Company for the time being.

C) Foreign Exchange Earnings and Outgo (on accrual basis)	Rs.
Foreign exchange earnings	144,395,280
Foreign exchange outgo	43,018,353

Auditors

M/s. Deloitte Haskins & Sells, Chartered Accountants, the Auditors of the Company retire at the forthcoming Annual General Meeting of the Company and have confirmed their eligibility and willingness to accept the office, if reappointed.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors responsibilities statement, it is hereby confirmed that the management of Sasken Network Systems Limited has prepared and is responsible for the accompanying financial statements.

The Directors have followed the applicable Accounting Standards in the preparation of the annual accounts along with proper explanation relating to material departures.

In the preparation of the annual accounts, the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year.

The Directors had taken proper and sufficient care 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.

The Directors have prepared the annual accounts on a going concern basis.

Acknowledgement

Your Directors would like to place on record, their appreciation to customers, shareholders, vendors, Union Bank of India, HDFC Bank and all Governmental and statutory agencies for their co-operation and invaluable support. Your Directors would also like to thank the employees for their valuable contribution during the year and look forward to their continued support.

For and on behalf of the Board of Directors

Place: Bangalore
Date : April 19, 2005

Rajiv C Mody
Chairman

Auditors' Report

To The Members of Sasken Network Systems Limited

We have audited the attached Balance Sheet of SASKEN NETWORK SYSTEMS LIMITED as at March 31, 2005, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.

Further to our comments in the Annexure referred to above, we report that:

(a) we have obtained all the 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 it appears from our examination of the books;

(c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956;

(e) on the basis of the written representations from the directors as on March 31, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director under Section 274 (1)(g) of the Companies Act, 1956;

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

    (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2005;

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

    (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 19, 2005

Annexure to the Auditors' Report

(Referred to in our report of even date)

1. The provisions of clauses i (c), ii, iii (b) to (d), iii (f), iii (g), vi, vii, viii, x, xi, xii, xiii, xiv, xv, xviii, xix and xx of paragraph 4 and 5 of the Companies (Auditor's Report) Order, 2003 are not applicable for the current year.

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) Some of the 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 has neither accepted from nor granted any loans to companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956.

4. 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 regard to the purchase of fixed assets and sale of services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

5. To the best of our knowledge and belief and according to the information and explanations given to us, there were no contracts or arrangements that were needed to be entered into the Register maintained in pursuance of Section 301 of the Companies Act, 1956.

6. According to the information and explanations given to us in respect of statutory and other dues:

   a) According to the information and explanations given to us, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Investor Education and Protection Fund, Income Tax, Wealth Tax, Service Tax, Excise Duty, Customs Duty, Sales Tax, cess and any other material statutory dues with the appropriate authorities during the year and there are no undisputed statutory dues as noted above is outstanding for a period more than six months from the date they became payable.

   b) According to the information and explanations given to us there are no disputed sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess which have not been deposited as on 31 March, 2005 on account of any dispute.

7. To the best of our knowledge and belief and according to the information and explanations given to us, 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.

8. According to information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds on a short-term basis have, prima facie not been used during the year for long term investment.

9. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 19, 2005

Balance Sheet

	Schedule No.	As at March 31, 2005 Rs.	As at March 31, 2004 Rs.
Sources of Funds			
Shareholders' Funds			
Share Capital	1	500,000	500,000
Reserves & Surplus			
Profit & Loss Account		16,779,910	–
Loan Funds			
Unsecured Loans	2	45,710,000	–
Total		**62,989,910**	**500,000**
Application of Funds			
Fixed Assets	3		
Gross Block		11,114,537	–
Less : Accumulated Depreciation		3,389,054	–
Net Block		7,725,483	–
Capital Work in Progress including Capital Advances		–	–
Total		**7,725,483**	**–**
Investments	4	10,000	10,000
Current Assets, Loans and Advances			
Sundry Debtors	5	37,334,898	–
Cash and Bank Balances	6	16,541,158	441,313
Loans and Advances	7	11,869,294	–
Current Assets	(A)	**65,745,350**	**441,313**
Less: Current Liabilities and Provisions	8		
Current Liabilities		8,523,874	92,596
Provisions		1,967,049	–
Total	(B)	**10,490,923**	**92,596**
Net Current Assets	(A-B)	55,254,427	348,717
Profit & Loss Account		–	141,283
Total		**62,989,910**	**500,000**
Notes to Accounts	13		

The Schedules referred to above, form an integral part of the Balance Sheet.

In terms of our attached report of even date.
Deloitte Haskins & Sells
Chartered Accountants

V Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Chairman

Pranabh D Mody
Director

Neeta Revankar
Director

Place: Bangalore
Date : April 18, 2005

Profit and Loss Account

	Schedule No.	For the Year ended March 31, 2005 Rs.	For the Period ended March 31, 2004 Rs.
Revenues		144,397,752	–
Cost of Revenues	9	83,246,486	–
Gross Profit		**61,151,266**	**–**
Selling and Marketing Expenses	10	33,183,308	–
Administrative and General Expenses	11	7,397,565	59,587
Preliminary Expenses		–	81,696
Profit from Operations		**20,570,393**	**(141,283)**
Exchange loss (net)		(520,542)	–
Profit / (Loss) before Interest & Income Taxes		20,049,851	(141,283)
Interest Expense	12	2,133,730	–
Profit before Income Taxes		**17,916,121**	**(141,283)**
Income Tax expense / (credit), net			
Current		994,928	–
Deferred		–	–
Profit / (Loss) after Tax		**16,921,193**	**(141,283)**
Add: Balance brought forward Profit / (Loss)		(141,283)	–
Balance carried to Balance Sheet		16,779,910	(141,283)
Earnings Per share (Equity Share par value Re. 1 each)			
Basic		33.84	(0.28)
Diluted		33.84	(0.28)
Weighted Average number of Equity Shares used in computation of			
Basic		500,000	500,000
Diluted		500,000	500,000
Notes to Accounts	13		

The Schedules referred to above, form an integral part of the Profit and Loss Account.

In terms of our attached report of even date.

Deloitte Haskins & Sells
Chartered Accountants

V. Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody
Chairman

Pranabh D Mody
Director

Neeta Revankar
Director

Place: Bangalore
Date : April 18, 2005

Schedules forming part of the Balance Sheet

	As at March 31, 2005 Rs.	As at March 31, 2004 Rs.
Schedule 1		
Authorised Capital		
1,000,000 Equity Shares of Re. 1 each	1,000,000	1,000,000
Total	**1,000,000**	**1,000,000**
Issued, Subscribed and Paid Up Capital		
500,000 Equity Shares of Re. 1 each fully paid up	500,000	500,000
(All the Equity shares are held by Sasken Communication Technologies Limited and its nominees)		
Total	**500,000**	**500,000**
Schedule 2		
Unsecured Loans		
Loan from holding Company Sasken Communication Technologies Limited	45,710,000	–
Total	**45,710,000**	**–**

(Amount in Rs.)

Schedule 3 – Fixed Assets

	Gross Block			Depreciation			Net Block	
Particulars	**As at April 1 2004**	**Additions during the year**	**As at March 31 2005**	**As at April 1 2004**	**For the year**	**As at March 31 2005**	**As at March 31 2005**	**As at March 31 2004**
Computers	–	4,374,399	4,374,399	–	872,638	872,638	3,501,761	–
Furniture and Fittings	–	4,905,303	4,905,303	–	1,118,028	1,118,028	3,787,275	–
Office Equipments	–	1,467,635	1,467,635	–	1,203,568	1,203,568	264,067	–
Intangible Assets	–	367,200	367,200	–	194,820	194,820	172,380	–
Total	**–**	**11,114,537**	**11,114,537**	**–**	**3,389,054**	**3,389,054**	**7,725,483**	**–**
Balance as at March 31, 2004	–	–	–	–	–	–	–	–

	As at March 31, 2005 Rs.	As at March 31, 2004 Rs.
Schedule 4		
Investments		
A. Long term, Unquoted, Non Trade, at cost		
National Savings Certificates	10,000	10,000
Total	**10,000**	**10,000**
Schedule 5		
Sundry Debtors (Unsecured, considered good)		
a) Debts outstanding for a period exceeding six months	–	–
b) Other debts	37,334,898	–
Total	**37,334,898**	**–**
Schedule 6		
Cash and Bank Balances		
Cash on Hand	165	–
Balances with:		
Scheduled Banks		
– in Current Accounts	14,840,335	441,313
– in Deposit Accounts	137,500	–
(Held as margin money for Bank guarantees / Letters of credit)		
Other banks		
– Fleet Bank, USA	1,563,158	–
Maximum amount outstanding at any time during the year – Rs. 3,618,329		
(None of the directors and their relatives have any interest in Fleet bank, USA)		
Total	**16,541,158**	**441,313**

Schedules forming part of the Balance Sheet (contd.)

	As at March 31, 2005 Rs.	As at March 31, 2004 Rs.
Schedule 7		
Loans and Advances (Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	627,502	–
Deposits	8,187,515	–
Loans and Advances to Staff	3,054,277	–
Total	**11,869,294**	**–**
Schedule 8		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors – other than dues to Small Scale Industries	7,165,992	92,596
[out of which due to holding Company Rs. 1,807,619] (as at 31.03.2004 Rs. 38,596)		
Other Liabilities	1,357,882	–
Total (A)	**8,523,874**	**92,596**
Provisions		
Provision for Leave Encashment	494,121	–
Provision for Gratuity	478,000	–
Provision for Taxation	994,928	–
Total (B)	**1,967,049**	**–**
Total (A) + (B)	**10,490,923**	**92,596**

Schedules forming part of Profit and Loss Account

	For the Year ended March 31, 2005 Rs.	For the Period ended March 31, 2004 Rs.
Schedule 9		
Cost of Revenues		
Salaries & Bonus	52,992,307	–
Contribution to Provident and Other Funds	4,219,771	–
Staff Welfare	78,189	–
Recruitment and Relocation	3,290,274	–
Rent	8,910,996	–
Electricity & Water Charges	1,647,460	–
Professional & Consultancy Charges	91,018	–
Repairs and Maintenance		
– Building	32,929	–
– Others	125,379	–
Printing & Stationery	97,365	–
Books & Periodicals	660	–
Communication Expenses	126,716	–
Travel Expenses	1,587,019	–
Depreciation	3,052,675	–
Training and Conference Expenses	349,000	–
Selling Expenses – Others	3,069	–
Miscellaneous	72,960	–
Insurance Premium	(3,410)	–
Shared Services	6,572,109	–
Total	**83,246,486**	**–**
Schedule 10		
Selling and Marketing Expenses		
Salaries & Bonus	25,891,747	–
Contribution to Provident and Other Funds	1,947,470	–
Rent	430,480	–
Others	8,418	–
Printing & Stationery	2,109	–
Communication	576,596	–
Travel	4,276,576	–
Selling Expenses – Others	43,763	–
Consultancy Fees	6,149	–
Total	**33,183,308**	**–**

Schedules forming part of Profit and Loss Account (contd.)

	For the Year ended March 31, 2005 Rs.	For the Period ended March 31, 2004 Rs.
Schedule 11		
Administrative and General Expenses		
Salaries & Bonus	1,492,827	–
Contribution to Provident and Other Funds	(60,523)	–
Staff Welfare	23,618	–
Recruitment and Relocation	(45,002)	–
Rent	515,887	–
Electricity & Water Charges	134,124	–
Communication	5,541	–
Travel	1,349	–
Rates and Taxes	29,163	500
Repairs and Maintenance		
– Building	29,472	–
– Others	12,560	–
Depreciation	336,380	–
Professional, Legal & Consultancy Charges	477,676	5,000
Auditors' Remuneration		
– Audit Fees (including Service Tax)	275,410	54,000
– Out of pocket expenses	564	–
Bank charges	258,253	–
Insurance Premium	36,843	–
Printing & Stationery	82,665	–
Training and Conference Expenses	443,645	–
Miscellaneous	129,281	87
Shared Services	3,217,832	–
Total	**7,397,565**	**59,587**
Schedule 12		
Interest Expense		
Interest on loan from holding Company Sasken Communication Technologies Ltd.	2,133,730	–
Total	**2,133,730**	**–**

Schedules forming part of the Accounts for the year ended March 31, 2005.

Schedule 13

1. Significant Accounting Policies

Basis for preparation of financial statements

The financial statements have been prepared under the historical cost convention, on accrual basis, in conformity with the Accounting Standards issued by The Institute of Chartered Accountants of India, the provisions of The Companies Act, 1956 and other applicable statutes and guidelines.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

Revenue Recognition

The Company derives its revenues from software services. Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price service contracts is recognized based on the proportionate completion method, determined based on the achievement and acceptance of the milestone, provided collection is probable.

Interest income is recognized on an accrual basis.

Work in progress

Costs related to milestones that have not been met are treated as costs of future activity and are reported as work in progress. Work in progress is carried at cost or net realizable value whichever is lower.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation

Depreciation is provided on Straight Line Method (SLM) at the rates mentioned below which are greater than or equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956:

Type of asset	Rates (SLM) (%)	Schedule XIV rates (SLM) (%)
Computers	25	16.21
Furniture & Fittings	10	6.33
Office Equipments	20	4.75

Assets with unit value Rs. 5,000 or less are depreciated entirely in the period of acquisition.

Intangible assets comprise of the following and are depreciated over the estimated useful life as given below:

Generic Computer Software is depreciated over a period of twelve months.

Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

Foreign Exchange Transactions

(i) Initial Recognition – Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.

(ii) Conversion – Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.

(iii) Exchange Differences – Exchange differences arising on the settlement or conversion of monetary items, are recognised as income or as expenses in the period in which they arise except those arising on liabilities pertaining to fixed assets, which are adjusted with the cost of the fixed assets.

(iv) Forward Exchange Contracts – The Company uses forward exchange contracts to hedge its exposure to movements in foreign exchange rates. The Company does not use the forward exchange contracts for trading or speculation purposes. In respect of foreign currency monetary assets or liabilities in respect of which forward exchange contract is taken, the premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract, except where it relates to fixed assets in which case it is adjusted to the cost of the corresponding asset. Exchange differences on such contracts are recognised in the statement of profit and loss in the period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

(v) Foreign branches – The financial statement of an integral foreign operation are translated as if the transactions of the foreign operation have been those of the Company itself.

Retirement Benefits

The Company contributes to a Group Gratuity Scheme, administered by a private insurance Company. The contributions are charged to the Profit and Loss account. Provision is made as per the actuarial valuation determined as at the balance sheet date.

Provision for leave encashment benefits is made based on actuarial valuation as at the balance sheet date.

The contributions towards Provident Fund and Pension fund are remitted to the Regional Provident Fund. Contributions towards Provident Fund and Pension Fund are charged to the Profit and Loss Account on an accrual basis.

The Company established a Super Annuation Scheme administered by a private insurance Company. As per the Scheme, for employees claiming the benefit, the Company makes monthly contributions, which are charged to the Profit and Loss Account on an accrual basis. The Company has no other obligations under the Scheme.

Impairment of Assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or recoverable amount of the cash-generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

Income Taxes

Tax expense comprises both current and deferred taxes. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities across various countries of operation are not set off against each other as the Company does not have a legal right to do so. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Segment Policy

Identification of segments:

The Company provides consultative engineering services focused on telecom operating systems. The risks and returns of the Company are predominantly determined by the nature of the solution offered to its customers, which is currently in the form of services. The Company currently operates in a single business segment, i.e. services.

The geographical segment information is disclosed based on the location of the customers.

2. The Company is engaged in the business of development of computer software. The production and sale of such software cannot be expressed in any generic unit and hence, the quantitative details of such sale and the information required under paragraphs 3, and 4C of Part II of Schedule VI of the Companies Act, 1956, are not furnished.

3. Earnings and Expenditure in Foreign Currency

(Amount in Rs.)

	For the Year ended March 31, 2005	For the Period ended March 31, 2004
a) Earnings in Foreign Currency		
Income from Software Services	144,395,280	Nil
b) Expenditure in Foreign Currency, (on payment basis)		
Travel	824,654	Nil
Expenses at Branch Office	36,673,871	Nil
c) Value of Imports on CIF basis Capital Goods	5,519,828	Nil

4. Other notes

a) Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. Nil (As at March 31, 2004 – Rs. Nil).

b) Contingent liabilities not provided for amount to Rs. Nil (As at March 31, 2004 – Rs. Nil).

c) During the year ended 31st March 2005 the Company has recognised an expense towards interest cost on the unsecured loan availed by it from Sasken Communication Technologies Limited. The Interest cost so accrued has been accrued for the year ended March 31, 2005 pursuant to a mutual understanding between the two companies for charge of interest.

5. Provision for taxation

The Company's income is non-taxable as the Company claims deduction under section 10A of the Income Tax Act, 1961. No deferred tax asset has been recognized, as it is not virtually certain that such deferred tax asset will be realized. Further, the temporary differences arising reverse within the balance period of tax holiday under section 10A of the Income Tax Act, 1961.

(Amount in Rs.)

	For the Year ended March 31, 2005	For the Period ended March 31, 2004
Overseas income taxes (comprising of overseas branch income taxes)	994,928	Nil

6. Details of Provisions Made & Utilised

(Amount in Rs.)

Details of Provision	Balance as at April 01, 2004	Additions during the year	Utilisation during the year	Balance as at March 31, 2005
Gratuity	Nil	478,000	Nil	478,000
Leave Encashment	Nil	607,540	113,419	494,121

7. Fixed Price Revenue Contract

The following table provides disclosures in accordance with revised Accounting Standard (AS) 7 – Construction contracts:

(Amount in Rs.)

Particulars	For the Year ended March 31, 2005	For the Period ended March 31, 2004
Contract revenue recognized during the year	623,653	Nil
Contract costs incurred and recognized profits	Nil	Nil

8. Related Party Disclosures

The Company is a wholly owned subsidiary of Sasken Communication Technologies Limited.

The details of transactions with the Holding Company are as under:

(Amount in Rs.)

Holding Company	Reimbursement of expense	Loan
Sasken Communication Technologies Limited		
Raised during the Year	–	–
Reimbursement for shared services	9,736,041	–
Recovery of share of BS7799 audit fees	69,590	–
Reimbursement of Leave Encashment	(212,738)	–
Reimbursement of Medical Premium	927,050	–
Interest on unsecured loan	2,133,730	–
Net Balance due on 31.03.2005	1,807,619	45,710,000
Net Balance due on 31.03.2004	38,596	–
Maximum outstanding during the year ending March 31, 2005	7,948,976	45,710,000

9. Segment Reporting

The Company currently operates in a single business segment, i.e. services.

The geographical segment information is disclosed based on the location of the customers.

Revenues (Amount in Rs.)

Region	For the Year ended March 31, 2005	For the Period ended March 31, 2004
North America (including Canada)	138,696,995	–
Europe	5,698,285	–
Total	**144,395,280**	**–**

Assets:

Debtors and unbilled revenues (Amount in Rs.)

Region	As at March 31, 2005	As at March 31, 2004
North America (including Canada)	34,054,039	–
Europe	3,280,858	–
Total	**37,334,897**	**–**

10. Operating Leases

The Company has operating leases for office premises that are (a) renewable on a periodic basis and are cancelable by giving a notice period ranging from 1 month to 6 months and (b) are non cancelable for specified periods under arrangements. Rent escalation clauses vary from contract to contract.

(Amount in Rs.)

	For the Year ended March 31, 2005	For the Period ended March 31, 2004
Rent expenses included in profit & loss account towards operating leases	9,180,000	Nil

Minimum lease obligation under non cancellable lease contracts amounts to:

(Amount in Rs.)

	As at March 31, 2005
Due in one year of the balance sheet date	9,579,600
Due over 12 Months	Nil

11. The figures for the previous period are from 21st November 2003 to 31st March 2004 and hence are not strictly comparable with that of the current year. Previous period figures have been re-grouped / re-arranged, wherever necessary.

Signatures to Schedules 1 to 13

For and on behalf of the Board

Rajiv C Mody Chairman	Pranabh D Mody Director	Neeta Revankar Director

Place: Bangalore
Date : April 18, 2005

Cash Flow Statement

	For the Year ended March 31, 2005 Rs.	For the Period ended March 31, 2004 Rs.
A. Cash flow from operating activities:		
Net (Loss)/Profit before tax	17,916,121	(141,283)
Adjustments for:		
Depreciation	3,389,054	–
Interest Expense	2,133,730	–
Operating profit before working capital changes	**23,438,905**	**(141,283)**
Adjustments for:		
(Increase)/decrease in Sundry Debtors	(37,334,898)	–
(Increase)/decrease in Loans & Advances	(11,869,294)	–
Increase/(decrease) in Current Liabilities and provisions	8,731,462	92,596
Cash generated from operations	**(17,033,825)**	**(48,687)**
Direct taxes (paid) / refund received	–	–
Net cash from operating activities	**(17,033,825)**	**(48,687)**
B. Cash flow from investing activities:		
Purchase of Investments	–	(10,000)
Purchase of fixed assets	(11,114,537)	–
Net cash used in investing activities	**(11,114,537)**	**(10,000)**
C. Cash flow from financing activities:		
Proceeds from issue of shares (includes share application money)	–	500,000
Loan from Holding Company	45,710,000	–
Interest Expense	(1,461,793)	–
Net cash used in financing activities	**44,248,207**	**500,000**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	**16,099,845**	**441,313**
Cash and Bank balances at the beginning of the year	441,313	–
Cash and Bank balances at the end of the year	**16,541,158**	**441,313**

Note: The cash flow statement has been prepared under the Accounting Standard (AS 3) -Cash Flow Statements issued by The Institute of Chartered Accountants of India.

In terms of our attached report of even date.

Deloitte Haskins & Sells
Chartered Accountants

V.Srikumar
Partner
Membership No. 84494

Place: Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody, Chairman
Pranabh D Mody, Director
Neeta Revankar, Director

Place: Bangalore
Date : April 18, 2005

Balance Sheet Abstract

(Rs. in lakhs)

Information pursuant to Part IV of Schedule VI to the Companies Act, 1956			
Statement on Balance Sheet Abstract and General Business Profile of the Company			
I. Registration Details			
Registration No	08/32760	State Code 8	
Balance Sheet Date	31-03-05		
II. Capital raised during the year			
Public Issue	–	Rights Issue	–
Bonus Issue	–	Conversion of FCD's & Stock Options	–
III. Position of mobilisation and deployment of funds			
Total Liabilities	629.90	Total Assets	629.90
Sources of Funds			
Paid-up Capital	5.00		
Reserves & Surplus	167.80		
Unsecured Loans	457.10		
Secured Loans	–		
Application of Funds			
Net Fixed Assets	77.25		
Capitalized Software	–		
Investments	0.10		
Net Current Assets	552.55		
Misc. Expenditure	–		
Accumulated Losses	–		
IV. Performance of the Company			
Turnover	1,443.98	Total Expenditure	1,274.77
Profit/(Loss) before tax	179.16	Profit/(Loss) after tax	169.21
Earnings per share (Rs.) (Weighted average)	33.84	Dividend rate	–
V. Generic names of three principal products of the Company			
(as per monetary terms)			
Item Code No (ITC Code)	85249009.10		
Product Description:	Computer Software		

Sasken Network Engineering Limited

Directors' Report

The Directors have pleasure in presenting the first Annual Report of the Company along with the Audited Accounts for the financial period ended March 31, 2005.

Financial Results	Period ended March 31, 2005 (Rs.)
Revenues	43,400,463
Gross Profit	6,020,852
Profit / (Loss) before tax	(6,097,496)
Income tax	–
Profit / (Loss) after tax	(6,097,496)

Operations

The Company was incorporated on 29^{th} September 2004 and obtained the certificate of commencement of business on 11^{th} October 2004. The Company is a wholly owned subsidiary of Sasken Communication Technologies Limited ("Sasken").

The Company provides network planning, deployment, commissioning, integration and network operations support to network equipment vendors and operators.

During the period, the Company acquired the assets and contract of the Mumbai based Blue Broadband Technologies Private Limited. This acquisition instantly gave the Company, comprehensive infrastructure and existing customer relationships with some of the leading wireless equipment vendors and also a team of more than hundred highly experienced engineers as some of them resigned and joined the Company. The Company's synergy with Sasken's deep domain expertise in the Radio Access Networks space that spans 1000+ man-years and intensive R&D capability built over 13 years enables it to offer a unique and comprehensive basket of engineering services.

Dividend

The Directors do not recommend any dividend in view of the loss for the period.

Directors

Mr. Rajiv C Mody, the first director on incorporation of the Company, being eligible offers himself for appointment as a Director of the Company in the ensuing Annual General Meeting.

Mr. Pranabh D Mody, the first director on incorporation of the Company, being eligible offers himself for appointment as a Director of the Company in the ensuing Annual General Meeting.

Dr. G. Venkatesh, the first director on incorporation of the Company, being eligible offers himself for appointment as a Director of the Company in the ensuing Annual General Meeting.

Fixed Deposits

The Company has not accepted any fixed deposits during the period.

Personnel

No employee was in receipt of remuneration during the period as prescribed under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, that requries disclosure under this report.

Conservation of Energy, Technology absorption and foreign exchange Earnings / Outgo

A) Conservation of Energy

Though the Company does not have energy intensive operations, it continues to adopt energy conservation measures to reduce cost.

B) Technology absorption – This is not applicable to your Company for the time being.

C) Foreign Exchange Earnings and Outgo (on accrual basis)

Foreign exchange earnings (Rs.)	32,964
Foreign exchange outgo (Rs.)	41,899

Auditors

M/s. Deloitte Haskins & Sells, Chartered Accountants, the Auditors of the Company retire at the forthcoming Annual General Meeting of the Company and have confirmed their eligibility and willingness to accept the office, if reappointed.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors responsibilities statement, it is hereby confirmed that the management of Sasken Network Engineering Limited has prepared and is responsible for the accompanying financial statements.

The Directors have followed the applicable Accounting Standards in the preparation of the annual accounts along with proper explanation relating to material departures.

In the preparation of the annual accounts, the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period and of the loss of the Company for the period.

The Directors had taken proper and sufficient care 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.

The Directors have prepared the annual accounts on a going concern basis.

Acknowledgement

Your Directors would like to place on record, their appreciation to customers, shareholders, vendors, Bankers and all Governmental and statutory agencies for their co-operation and invaluable support. Your Directors would also like to thank the employees for their valuable contribution during the period and look forward to their continued support.

For and on behalf of the Board of Directors

Rajiv C Mody
Chairman

Place: Bangalore
Date : April 19, 2005

Auditors' Report

To The Members of Sasken Network Engineering Limited

We have audited the attached Balance Sheet of SASKEN NETWORK ENGINEERING LIMITED as at March 31, 2005, the Profit and Loss Account and the Cash Flow Statement of the Company for the period ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.

Further to our comments in the Annexure referred to above, we report that:

(a) we have obtained all the 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 it appears from our examination of the books;

(c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956;

(e) on the basis of the written representations from the directors as on March 31, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director under Section 274 (1)(g) of the Companies Act, 1956;

(f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2005;

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

(iii) in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

Place: Bangalore
Date : April 19, 2005

V.Srikumar
Partner
Membership No. 84494

Annexure to the Auditors' Report

(Referred to in our report of even date)

1. The provisions of clauses i(c), ii, iii (b) to (d), iii (f), iii (g), vi, vii, viii, x, xii, xiii, xiv, xv, xviii, xix and xx of paragraph 4 and 5 of the Companies (Auditor's Report) Order, 2003 are not applicable for the current year.

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) Some of the 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 has neither accepted from nor granted any loans to companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956.

4. 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 regard to the purchase of fixed assets and sale of services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

5. To the best of our knowledge and belief, and according to the information and explanations given to us, there were no contracts or arrangements that were needed to be entered into the Register maintained in pursuance of Section 301 of the Companies Act, 1956.

6. According to the information and explanations given to us in respect of statutory and other dues:

   a) According to the information and explanations given to us, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Investor Education and Protection Fund, Income Tax, Wealth Tax, Service Tax, Excise Duty, Customs Duty, Sales Tax, cess and any other material statutory dues with the appropriate authorities during the year and there are no undisputed statutory dues as noted above is outstanding for a period more than six months from the date they became payable.

   b) According to the information and explanations given to us there are no disputed sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess which have not been deposited as on 31 March, 2005 on account of any dispute.

7. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in the repayment of dues to banks and debenture holders.

8. To the best of our knowledge and belief and according to the information and explanations given to us, 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.

9. According to information and explanations given to us, and on an overall examination of the balance sheet of the Company, funds on a short-term basis have, prima facie not been used during the year for long term investment.

10. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

Place: Bangalore
Date : April 19, 2005

V.Srikumar
Partner
Membership No. 84494

Balance Sheet

	Schedule No.	As at March 31, 2005 Rs.
Sources of Funds		
Shareholders' Funds		
Share Capital	1	500,000
Loan Funds		
Unsecured Loans	2	52,428,679
Total Sources		**52,928,679**
Application of Funds		
Fixed Assets	3	
Gross Block		28,424,707
Less : Accumulated Depreciation		4,323,229
Net Block		24,101,478
Current Assets, Loans and Advances		
Sundry Debtors	4	51,016,534
Cash and Bank Balances	5	696,026
Loans and Advances	6	3,259,900
Gross Current Assets	(A)	**54,972,460**
Less: Current Liabilities and Provisions	7	
Current Liabilities		31,954,102
Provisions		288,653
Total	(B)	**32,242,755**
Net Current Assets	(A-B)	22,729,705
Profit and Loss Account		6,097,496
Total Applications		**52,928,679**
Notes to Accounts	12	

The Schedules referred to above, form an integral part of the Balance Sheet.

In terms of our attached report of even date.

Deloitte Haskins & Sells
Chartered Accountants

V.Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody, Director
Pranabh D Mody, Director
G.Venkatesh, Director

Place : Bangalore
Date : April 18, 2005

Profit and Loss Account

	Schedule No.	For the Period ended March 31, 2005 Rs.
Revenues		43,400,463
Cost of Revenues	8	37,379,611
Gross Profit		**6,020,852**
Selling and Marketing Expenses	9	1,557,115
Administrative and General Expenses	10	9,707,937
Profit / (Loss) before Interest & Income Taxes		**(5,244,200)**
Interest Expense	11	853,296
Profit / (Loss) before Income Taxes		**(6,097,496)**
Income Tax expense / (credit), net		
Current		–
Deferred		–
Profit / (Loss) after Tax		**(6,097,496)**
Balance carried to Balance Sheet		(6,097,496)
Earnings Per share (Equity Share par value Rs. 10 each)		
Basic [No.of shares 50,000]		(122)
Diluted [No.of shares 50,000]		(122)
Notes to Accounts	12	

The Schedules referred to above, form an integral part of the Profit and Loss Account.

In terms of our attached report of even date.

Deloitte Haskins & Sells
Chartered Accountants

V.Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody, Director
Pranabh D Mody, Director
G.Venkatesh, Director

Place : Bangalore
Date : April 18, 2005

Schedules forming part of the Balance Sheet

	As at March 31, 2005 Rs.
Schedule 1	
Authorised Capital	
100,000 Equity Shares of Rs. 10 each	1,000,000
Total	**1,000,000**
Issued, Subscribed and Paid Up Capital	
50,000 Equity Shares of Rs. 10 each fully paid up	500,000
(All the Equity shares are held by Sasken Communication Technologies Limited and its nominees)	
Total	**500,000**
Schedule 2	
Unsecured Loans	
Debentures [Refer Notes to Accounts – Note 3]	26,372,200
Loan from holding Company – Sasken Communication Technologies Limited	16,000,012
Cash Credit from Union Bank of India	10,056,467
Total	**52,428,679**

Schedule 3

Fixed Assets

Particulars	Gross Block		Depreciation		Net Block
	Additions during the Period	As at March 31, 2005	For the Period	As at March 31, 2005	As at March 31, 2005
Intangibles – Contracts	14,804,000	14,804,000	2,460,327	2,460,327	12,343,673
Plant & Machinery	7,973,992	7,973,992	1,045,378	1,045,378	6,928,614
Computers	2,222,546	2,222,546	356,125	356,125	1,866,421
Electrical Fittings	228,265	228,265	7,602	7,602	220,663
Furniture & Fittings	474,038	474,038	172,578	172,578	301,460
Leasehold Improvements	653,503	653,503	39,210	39,210	614,293
Office Equipments	796,800	796,800	111,375	111,375	685,425
Vehicles	1,271,563	1,271,563	130,634	130,634	1,140,929
Total	**28,424,707**	**28,424,707**	**4,323,229**	**4,323,229**	**24,101,478**

Schedules forming part of the Balance Sheet (contd.)

	As at March 31, 2005 Rs.
Schedule 4	
Sundry Debtors (Unsecured, considered good)	
a) Debts outstanding for a period exceeding six months	–
b) Other debts	50,209,891
c) Unbilled Revenues	806,643
Total	**51,016,534**
Schedule 5	
Cash and Bank Balances	
Cash on Hand	101,481
Balances with:	
Scheduled Banks	
– in Current Accounts	594,545
Total	**696,026**

	As at March 31, 2005 Rs.
Schedule 6	
Loans and Advances (Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received	488,021
Deposits	2,041,300
Loans and Advances to Staff	544,679
Advance Income-tax	185,900
Total	**3,259,900**
Schedule 7	
Current Liabilities and Provisions	
Current Liabilities	
Sundry Creditors – other than dues to Small Scale Industries	17,893,019
(out of which due to holding Company is Rs. 3,876,610/-)	
Other Liabilities	4,031,483
Deferred Revenues	10,029,600
Total (A)	**31,954,102**
Provisions	
Provision for Leave Encashment	288,653
Total (B)	**288,653**
Total (A) + (B)	**32,242,755**

Schedules forming part of Profit and Loss Account

	For the Period ended March 31, 2005 Rs.
Schedule 8	
Cost of Revenues	
Salaries & Bonus	21,540,950
Contribution to Provident and Other Funds	453,958
Rent	
– Equipments	2,996,519
– Vehicles	877,225
Consumables	298,723
Repairs and Maintenance	
– Plant & Machinery	11,773
– Others	126,422
Printing & Stationery	85,742
Communication Expenses	719,880
Travel Expenses	8,139,160
Depreciation	1,701,415
Shared Services	376,758
Others	51,086
Total	**37,379,611**
Schedule 9	
Selling and Marketing Expenses	
Salaries & Bonus	826,509
Contribution to Provident and Other Funds	42,240
Travel	291,047
Depreciation	10,326
Shared Services	383,787
Selling Expenses – Others	3,206
Total	**1,557,115**

	For the Period ended March 31, 2005 Rs.
Schedule 10	
Administrative and General Expenses	
Salaries & Bonus	1,771,956
Contribution to Provident and Other Funds	129,456
Staff Welfare	212,334
Rent	866,847
Electricity & Water Charges	114,983
Communication	356,375
Travel	562,375
Repairs and Maintenance	
– Others	19,073
Rates and Taxes	
– Others	125,420
Depreciation	2,611,488
Professional, Legal & Consultancy Charges	21,500
Auditors' Remuneration	
– Audit Fees (including Service Tax)	220,400
Bank charges	2,887
Insurance Premium	82,414
Printing & Stationery	150,061
Miscellaneous	138,748
Shared Services	2,321,620
Total	**9,707,937**
Schedule 11	
Interest	
On Unsecured Loan from Holding Company and Debentures (Sasken Communication Technologies Limited)	604,356
On Loans from Banks	248,940
Total	**853,296**

Notes forming part of Accounts

Schedules forming part of the Accounts for the Period ended March 31, 2005.

Schedule 12

1. Significant Accounting Policies

Basis for preparation of financial statements

The Company was incorporated on 29th September 2004 and obtained the certificate for Commencement of Business on 11th October 2004 from the Registrar of Companies, Karnataka.

The financial statements have been prepared for the period from 29th September 2004 to 31st March 2005.

The financial statements have been prepared under the historical cost convention, on accrual basis, in conformity with the Accounting Standards issued by The Institute of Chartered Accountants of India, the provisions of The Companies Act, 1956 and other applicable statutes and guidelines.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in future, actual results ultimately may differ from the estimates.

Revenue Recognition

The Company derives its revenues from Installation & Commissioning services.

Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price contracts is recognized based on the percentage of completion, determined based on the achievement and acceptance of the milestone, provided collection is probable.

Fixed Assets

Fixed Assets are stated at cost of acquisition less accumulated depreciation. The cost of an asset comprises its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use.

Depreciation

Depreciation on fixed assets is provided under the straight-line method over the estimated useful lives of assets as appraised by the Management.

The estimated useful lives are as follows:

Type of asset	Estimated life (in years)
Intangibles – Contracts	3
Test Equipments	4
Equipments	4
Electrical Fittings	5
Office equipments	5
Furniture & Fittings	10
Leasehold improvements	Over the primary lease period of the facility
Tools & Tackles	4
Computers	4
Vehicles	5

Assets with unit value Rs. 5,000 or less are depreciated entirely in the period of acquisition.

Generic Computer Software is depreciated over a period of twelve months.

Foreign Exchange Transactions

Transactions arising in foreign currency are recorded at average rates closely approximating those ruling at the transaction dates. Assets and liabilities in foreign currency (other than those covered by forward contracts) as at the date of Balance Sheet are re-stated at year end exchange rate. All exchange differences arising from settlement / conversion are recognized in the Profit and Loss Account, except differences on liabilities for purchase of fixed assets, which are capitalized.

Retirement benefits to employees

The Company contributes to a Group Gratuity Scheme formulated by the Holding Company, Sasken Communication Technologies Limited and administered by a Private Insurance Company. No contributions or provision is made during the period based on the actuarial valuation received being Nil value, as at the end of the period.

Provision for leave encashment benefits is made based on actuarial valuation.

The contributions towards Provident Fund and Pension fund are remitted to the Office of the Regional Provident Fund Commissioner, Bangalore. Contributions towards Provident Fund and Pension Fund are charged to the Profit and Loss Account on an accrual basis.

Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or recoverable amount of the cash-generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

Income Taxes

Tax expense comprises both current and deferred taxes. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Deferred tax assets are recognized on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realized against future taxable profits.

Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Segment Reporting

The Company provides installation and commissioning services in India to network equipment companies. The Company currently operates in a single business and geographical segment.

Earnings Per Share

Basic Earnings per Share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

2. Fixed Price Revenue Contracts

The following Table provides disclosures in accordance with the revised Accounting Standard (AS) 7 – Construction Contracts:

	Rupees
Contract revenue recognized during the period	22,022,243/-

In respect of contracts in progress as at 31st March 2005:

Contract costs incurred and recognized profits (less recognized losses) upto 31st March 2005	Nil
Advances received	Nil
Retentions	Nil
Gross amount due from customers for contract work – presented as an asset	Nil
Gross amount due to customers for contract work – presented as a liability	Nil

3. Debentures

The Company has entered into a Subscription Agreement ("Agreement") dated 24th January 2005 with Sasken Communication Technologies Limited for the allotment of 263,722 Optionally Convertible Debenture (OCDs) of Rs. 100/- each at par aggregating to Rs. 26,372,200/- with an option to convert them into equity shares of the Company in the following manner:

– The Debenture shall not carry interest if the Debenture Holder exercises the conversion option.

– The tenure of the OCDs are 5 years and at the expiry of 5 years the same will be redeemed without any premium or converted into equity shares at the discretion of the Debenture Holder.

– The Debenture Holder will have the right to exercise the conversion option or demand for the redemption of OCDs before the expiry of 5 years at any point of time at its own discretion.

– If the Option for conversion is exercised by the Debenture Holder, the Debenture of Rs. 100/- each will be converted into 10 equity shares of Rs. 10/- each in the capital of the Company.

4. The Company is engaged in the business of Installation & Commissioning and Project Management Services. The production and sale of such Services cannot be expressed in any generic unit and hence, the quantitative details of such sale and the information required under paragraphs 3, and 4C of Part II of Schedule VI of The Companies Act, 1956, are not furnished.

5. Earnings in Foreign Currency (on accrual basis)

	Period ended March 31, 2005 Rs.
Testing and other charges	32,964

6. Expenditure in Foreign Currency (on accrual basis)

Travel	41,899

7. Other notes

Estimated amount of contracts remaining to be executed on capital account (net of advances) amounted to Rs. Nil.

8. The Company has entered into an agreement with Blue Broadband Technologies Private Limited, Mumbai ("BBT") for the purchase of tangible and intangible fixed assets amounting to Rs. 25,000,000/- BBT is yet to raise the invoice on the Company for the sale of the assets, pending which the sales taxes on the assets have as yet not been accounted for. This will be accounted for on receipt of the invoices.

9. Details of Provisions made & utilised

(Amount in Rs.)

Details of Provision	Additions during the Period	Utilisation during the Period	Balance as at March 31, 2005
Leave Encashment	288,653	Nil	288,653

10. Related Party Disclosures

The Company is a wholly owned subsidiary of Sasken Communication Technologies Limited.

The details of transactions with the Holding Company are as under:

(Amount in Rs.)

Particulars	Reimbursement of expenses	Loan	Debentures
Raised during the period	Nil	16,000,012	26,372,200
Reimbursement for shared services, (net)	3,876,610	Nil	Nil
Net Balance due on 31.03.2005	3,876,610	16,000,012	26,372,200
Maximum outstanding during the period	3,876,610	16,000,012	26,372,200

11. Operating Leases

The Company has operating leases for office/Guest House premises that are (a) renewable on a periodic basis and are cancelable by giving a notice period ranging from 1 month to 6 months and (b) are non cancelable for specified periods under arrangements. Rent escalation clauses vary from contract to contract.

(Amount in Rs.)

	Period ended March 31, 2005
Rent expenses included in profit & loss account towards operating leases	843,382

Minimum lease obligation under non-cancelable lease contracts amounts to:

	As at March 31, 2005
Due in one year of the balance sheet date	Nil
Due between one to five years	Nil

12. Prior period comparative figures are not available as this being the first year of operations of the Company.

Signatures to Schedules 1 to 12

For and on behalf of the Board

Rajiv C Mody
Director

Pranabh D Mody
Director

G.Venkatesh
Director

Place : Bangalore
Date : April 18, 2005

Cash Flow Statement

	For the Period ended March 31, 2005 Rs.
A. Cash flow from operating activities:	
Net (Loss)/Profit before tax	(6,097,496)
Adjustments for:	
Depreciation	4,323,229
Interest expense	853,296
Operating profit before working capital changes	
Adjustments for:	
(Increase)/decrease in Sundry Debtors	(51,016,534)
(Increase)/decrease in Loans & Advances	(3,259,900)
Increase/(decrease) in Current Liabilities and provisions	25,887,268
Cash generated from operations	**(29,310,137)**
Direct taxes (paid) / refund received	–
Net cash from operating activities	**(29,310,137)**
B. Cash flow from investing activities:	
Purchase of fixed assets	(22,673,576)
Net cash used in investing activities	**(22,673,576)**
C. Cash flow from financing activities:	
Loan from Holding Company	16,000,012
Proceeds from Unsecured Loan from Banks	10,056,467
Proceeds from Debentures	26,372,200
Proceeds from issue of shares	500,000
Interest expense	(248,940)
Net cash used in financing activities	**52,679,739**
Net increase/(Decrease) in Cash and Bank balances (A+B+C)	696,026
Cash and Bank balances at the beginning of the period	–
Cash and Bank balances at the end of the period	**696,026**

Note: The Cash Flow statement has been prepared under the indirect method as per Accounting Standard (AS) 3 – Cash Flow Statements, issued by The Institute of Chartered Accountants of India.

In terms of our attached report of even date.

Deloitte Haskins & Sells
Chartered Accountants

V.Srikumar
Partner
Membership No. 84494

Place : Bangalore
Date : April 19, 2005

For and on behalf of the Board

Rajiv C Mody, Director
Pranabh D Mody, Director
G.Venkatesh, Director

Place : Bangalore
Date : April 18, 2005

Balance Sheet Abstract

(Rs. in lakhs)

Information pursuant to Part IV of Schedule VI to the Companies Act,1956				
I	**Registration Details**			
	Registration No.	08/34773	State Code	8
	Balance Sheet Date	31-03-2005		
II	**Capital raised during the year**			
	Public Issue	5.00	Right Issue	–
	Bonus Issue	–		
III	**Position of Mobilisation and deployment of funds**			
	Total Liability	529.29	Total Assets	529.29
	Sources of Funds			
	Paid up Capital	5.00		
	Reserves & Surplus	–		
	Unsecured loans	524.29		
	Secured loans	–		
	Total	**529.29**		
	Application of Funds			
	Net Fixed Assets	241.02		
	Investments	–		
	Net Current Assets	227.30		
	Misc. Expenditure	–		
	Accumulated Losses	60.97		
	Total	**529.29**		
IV	**Performance of the Company**			
	Turnover	434.00	Total Expenditure	494.97
	Profit / (Loss) before tax	(60.97)	Profit / (Loss) after tax	(60.97)
	Basic earning per share (Rs.)	(121.94)	Dividend rate	–
	Diluted earning per share (Rs.)	(121.94)		
V	**Generic name of three principal**	Not Applicable		
	products of the Company			
	(as per monetory terms)			
	Item Code no. (ITC Code)			
	Product Description			

Financial Statements in Compliance with US GAAP

Management Report

The management is responsible for preparing the Company's financial statements and other related information that appear in this report. The management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations, in accordance with United States Generally Accepted Accounting Principles. The management has included in the Company's financial statement's amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal procedures and controls intended to provide reasonable assurance that transactions are executed in accordance with Company policies and limits and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

Ernst & Young audits the Company's financial statements in accordance with generally accepted auditing standards and provides an objective, independent review of the Company's internal controls and the fairness of its reported financial condition and results of operations.

Place : Bangalore	Rajiv C Mody
Date : April 19, 2005	Managing Director

Report of Independent Auditors

To

The Board of Directors and Shareholders of Sasken Communication Technologies Limited

We have audited the accompanying consolidated balance sheets of Sasken Communication Technologies Limited and its subsidiaries (“the Company”) as of March 31, 2005 and 2004 and the related consolidated statements of operations, stockholders’ equity and cash flows for the years ended March 31, 2005, 2004 and 2003. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. *We were not engaged to perform an audit of the Company’s internal control over financial reporting.* Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at March 31, 2005 and 2004, the consolidated results of their operations and their cash flows for the years ended March 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States.

Place : Bangalore
Date : April 19, 2005

Ernst & Young

Consolidated Balance Sheets as at March 31

(expressed in thousands of US dollars except share data and as otherwise stated)

	2005	2004
ASSETS		
Current assets		
Cash	2,428	550
Available for sale securities	94	572
Accounts receivables, net	12,374	7,506
Work in progress	45	126
Unbilled revenues	598	1,219
Prepaid taxes, net	755	576
Other current assets	2,545	2,205
Total current assets	**18,839**	**12,754**
Property, plant and equipment, net	19,619	17,863
Intangible assets (contract rights), net	282	–
Capitalised software, net	141	264
Other non-current assets	2,200	1,245
Total assets	**41,081**	**32,126**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	2,762	2,529
Income taxes payable, net	414	461
Advances received from customers	593	137
Deferred revenue	449	100
Accrued compensation	2,758	360
Other current liabilities	335	549
Line of credit	333	98
Total current liabilities	**7,644**	**4,234**
Total liabilities	**7,644**	**4,234**
Stockholders' equity		
Equity shares at US$ 0.21 par value (Rs. 10 per share)		
Authorised – 35,000,000 shares (25,000,000 shares)		
Issued and outstanding – 16,847,222 and 15,160,819 shares as of		
March 31, 2005 and 2004, respectively	4,192	3,806
Additional paid in capital	16,675	14,514
Deferred stock compensation	(83)	(38)
Share subscription money	58	–
Accumulated other comprehensive loss	(765)	(803)
Retained earnings	13,360	10,413
Total stockholders' equity	**33,437**	**27,892**
Total liabilities and stockholders' equity	**41,081**	**32,126**

See accompanying notes to consolidated financial statements.

Consolidated Income Statements for the years ending March 31

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

	2005	2004	2003
Revenues	55,737	37,221	23,460
Cost of Revenues	38,162	25,084	15,757
Gross Profit	**17,575**	**12,137**	**7,703**
Research & Development expenses	606	421	240
Selling & Marketing expenses	5,562	4,105	4,102
Administrative & General expenses	6,962	4,169	2,566
Employee Stock Option cost	164	34	–
Other than temporary impairment in value of available for sale securities	–	–	663
Income from Operations	**4,281**	**3,408**	**132**
Other income/(expenses), net	138	1,155	(34)
Interest expense	106	173	749
Income/(Loss) before income taxes	**4,313**	**4,390**	**(651)**
Income tax expense/(credit)	388	(463)	569
Net Income / (Loss)	**3,925**	**4,853**	**(1,220)**
EARNINGS PER SHARE			
Basic earnings per share	0.24	0.32	(0.10)
Weighted shares used in computing basic earnings per share	16,335,283	15,093,479	12,689,718
Diluted earnings per share	0.23	0.31	(0.10)
Weighted shares used in computing diluted earnings per share	16,835,322	15,883,602	12,689,718

See accompanying notes to consolidated financial statements.

Statement of Stockholders' Equity for the years ended March 31, 2005, 2004 and 2003

(expressed in thousands of US dollars except share data and as otherwise stated)

	Common stock		Additional Paid-in Capital	Share Subscription Money	Deferred Compensation Cost	Accumulated other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Par Value						
Balance as at March 31, 2002	**12,669,417**	**3,281**	**13,901**	**–**	**(2,071)**	**(1,828)**	**6,780**	**20,063**
Net income							(1,220)	(1,220)
Translation adjustment						636		636
Unrealized loss on available for sale securities (net of tax)						(1,657)		(1,657)
Total comprehensive income								(2,241)
Exercise of Options	602	1	4					5
Common stock arising on conversion of								
Fully convertible debentures	40,000	8	25					33
Share subscription money received towards rights and preferential issue				3,462				3,462
Adjustment related to cancellation of stock option plan			(2,071)		2,071			–
(refer note B(2) in notes to the consolidated financial statements)								
Balance as at March 31, 2003	**12,710,019**	**3,290**	**11,859**	**3,462**	**–**	**(2,849)**	**5,560**	**21,322**
Net income							4,853	4,853
Translation adjustment						2,046		2,046
Total comprehensive income								6,899
Common stock arising on conversion of								
Fully convertible debentures	800	*0	1					1
Allotment of stocks out of share subscription money	2,450,000	516	2,582	(3,098)				–
Share subscription money refunded				(364)				(364)
Compensation related to stock option grants			72		(72)			–
Amortization of compensation cost					34			34
Balance as at March 31, 2004	**15,160,819**	**3,806**	**14,514**	**–**	**(38)**	**(803)**	**10,413**	**27,892**
Net income							3,925	3,925
Translation adjustment						38		38
Total comprehensive income								3,963
Cash dividend paid @ US$ 0.06 per share, including dividend tax							(978)	(978)
Common stock arising on conversion of								–
Allotment of stocks	1,633,394	374	1,867					2,241
Exercise of Options	53,010	12	85					97
Share subscription money received				58				58
Compensation related to stock option grants			209		(209)			–
Amortization of compensation cost					164			164
Balance as at March 31, 2005	**16,847,222**	**4,192**	**16,675**	**58**	**(83)**	**(765)**	**13,360**	**33,437**

* Less than US$ 1000
See accompanying notes to consolidated financial statements.

Consolidated statement of cash flows for the year ending March 31

(expressed in thousands of US dollars except share data and as otherwise stated)

	2005	2004	2003
Cash flows from operations			
Net income / (loss)	3,925	4,853	(1,220)
a) Non-cash items			
Depreciation and amortization	3,508	3,672	5,230
(Profit) /Loss on sale of assets	–	11	5
Employee compensation cost amortized	164	34	–
Provision for diminution in value of available for sale securities	–	–	663
Provision for doubtful debts/(reversals), net	(201)	–	(634)
(Gain) / Loss on sale of available for sale securities	(25)	22	–
Dividend income on available for sale securities	(31)	(120)	–
Unrealized foreign exchange (gain)/loss	(591)	(872)	–
b) Items considered separately			
Interest expense	106	173	749
Other Income	(8)	(30)	(19)
Income taxes	388	(463)	569
c) Changes in working capital items			
(Increase) / decrease in account receivables	(4,667)	(1,176)	111
(Increase) / decrease in other current assets	269	(402)	8
(Increase) / decrease in non-current assets	(954)	(910)	489
(Increase) / decrease in unbilled revenues	620	(967)	(113)
(Increase) / decrease in work in progress	81	392	(332)
Increase / (decrease) in accounts payable	2,627	1,043	433
Increase / (decrease) in other current liabilities	(213)	(188)	(156)
Increase / (decrease) in advance received from customers	805	(263)	129
Income taxes (paid)/ refund received	(615)	263	(717)
Net cash from operations	**5,188**	**5,072**	**5,194**
Cash flows from investing activities			
Purchase of property, plant and equipment	(4,921)	(3,330)	(2,162)
Acquisition of Intangible assets	(338)	–	–
Purchase of capitalized software costs	(161)	–	(1,829)
Proceeds of sale of property, plant and equipment	–	50	188
Purchase of available for sale securities	(5,999)	(6,939)	(266)
Sale of available for sale securities	6,534	6,462	–
Interest income	(10)	18	1
Other income	–	–	17
Net cash used in investing activities	**(4,895)**	**(3,739)**	**(4,051)**

Consolidated statement of cash flows for the year ending March 31 (contd.)

(expressed in thousands of US dollars except share data and as otherwise stated)

	2005	2004	2003
Cash flows from financing activities			
Cash received from exercise of option/issuance of common stock	2,338	1	4
Share application money received / (refunded)	58	(364)	3,462
Line of credit	235	(2,707)	2,326
Repayment of loans	–	(2,832)	(3,918)
Redemption of Debentures	–	(1)	(7)
Interest paid	(106)	(256)	(866)
Dividends paid	(978)	–	–
Net cash from/(used in) financing activities	**1,547**	**(6,159)**	**1,001**
Effect of translation adjustments on cash flows	38	2,046	636
Total increase/(decrease) in cash and cash equivalents during the year	1,878	(2,781)	2,782
Cash and cash equivalents at the beginning of the year	550	3,331	549
Cash and cash equivalents at the end of the year	**2,428**	**550**	**3,331**
Supplementary non cash information			
Issuance of share capital out of share application money	–	3,098	–
Dividends received re-invested in units of mutual funds	31	120	–
Conversion of fully convertible debentures into equity shares	–	1	–

See accompanying notes to consolidated financial statements.

A. Significant Accounting Policies

1. Description of business

Sasken Communication Technologies Limited ("Sasken" or "the Company") is a provider of telecommunications software services and solutions to network equipment manufacturers, mobile terminal vendors and semiconductor companies around the world. Sasken delivers end-to-end solutions that enable richer content delivery on next generation networks.

Sasken has its headquarters in Bangalore, India with offices in Pune, Canada, China, Germany, Japan, Sweden, United Kingdom and the United States of America.

During the year ended March 31, 2003, the Company promoted Sasken Network Systems Limited ("SNS") a wholly owned subsidiary in India. SNS was incorporated on October 20, 2003 and obtained its certificate to commence business on November 21, 2003, from the Registrar of Companies, Karnataka, India. SNS provides consultative engineering services focused on telecom operation systems. As at March 31, 2005, SNS is a wholly owned subsidiary of the Company.

During the year ended March 31, 2005, the Company promoted Sasken Network Engineering Limited ("SNEL"), a wholly owned subsidiary in India. SNEL was incorporated on September 29, 2004 and obtained its certificate to commence business on October 11, 2004 from the Registrar of Companies, Karnataka, India. SNEL provides installation and commissioning of and project management services in cellular network. As at March 31, 2005, SNEL is a wholly owned subsidiary of the Company.

2. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in compliance with the accounting principles generally accepted in the United States of America (US GAAP) in Indian Rupees and have thereafter been translated in United States Dollars (USD). The fiscal year begins on April 1 and ends on March 31 of the following year.

3. Use of estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results ultimately may differ from the estimates.

4. Consolidation

The consolidated financial statements for the year ended March 31, 2005 include the accounts of the Company, its subsidiaries SNS and SNEL (hereinafter collectively referred to as "the Group") and, for the year ended March 31, 2004, include the accounts of the Company and its subsidiary SNS. All significant inter-Company accounts and transactions are eliminated in consolidation.

5. Foreign currency transactions and translation

Transactions arising in a currency other than the functional currency are converted into the functional currency at rates closely approximating those ruling during the relevant transaction dates. All monetary assets and liabilities in foreign currency as at the date of the financial statements are restated at the current exchange rate. All exchange differences, including those arising on foreign currency borrowings related to the acquisition of property, plant and equipment are recognized in the Consolidated Income Statement.

Consolidated Income Statement for the years ended March 31, 2005, 2004, and 2003 include foreign exchange gain/(loss) amounting to US$64, (US$ 66), and (US$ 35) respectively.

The functional currency of the Group is the Indian Rupee. The Group's foreign operations (branch offices) use their local currency as the functional currency. For such entities, all the balance sheet items are translated to Indian Rupees for the purposes of consolidation, using the rate of exchange at the year-end. Revenues and expenses are translated using a monthly simple average rate of exchange. Gains and losses from translation are included as a separate component of accumulated other comprehensive income.

6. Reporting in US Dollars

The consolidated financial statements denominated in Indian Rupees, prepared in compliance with US GAAP, have been reported in US Dollars. For this purpose, incomes and expenses have been translated using a monthly simple average rate of exchange for the respective periods and all balance sheet items, except stockholders' equity at the year end rate. Gains or losses arising on the translation of the financial statements from Indian Rupees to US Dollars are reported as translation adjustment, a separate component of accumulated other comprehensive income.

The translation of rupee denominated assets and liabilities into US$ for the purposes of these financial statements does not necessarily mean that the Group could realise or settle, in US$, the reported values of these assets and liabilities. Likewise, it does not necessarily mean that the Group could return or distribute the reported US$ value of capital to its shareholders.

The balance sheet items have been translated into US$ at the bank buying rate in Bangalore on March 31, 2005 and 2004 of 1US$ = Rs. 43.74 and Rs. 43.65 respectively. The income statement items have been translated into US$ at the average exchange rates during the year ended on March 31, 2005, 2004 and 2003 of 1US$ = Rs. 44.84, Rs. 46.06 and Rs. 48.39, respectively.

7. Revenue recognition

The Group derives its revenues from product and technology licensing, software services and installation and commissioning services. The Group recognises revenue in accordance with the provisions of Staff Accounting Bulletin No. 104, Revenue Recognition.

Licensing revenue is recognized when the product or technology is delivered and accepted, provided no further vendor obligations remain and collection is probable. Revenue related to customized products or technology development agreements is recognized using the proportionate completion method. The Group measures progress towards completion based on the achievement and acceptance of contract milestones provided no further vendor obligations remain and collection is probable. In order to properly match contract revenue, cost related to milestones that have not been met, are reported as work in progress. Provision for estimated contract losses are recognized when determined. Revenue related to post contract customer support is recognized over the support period.

Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price service contracts is recognized based on the proportionate completion method, determined based on the delivery and acceptance of contract milestones, provided collection is probable. Revenue from maintenance arrangement is recognized ratably over the term of the maintenance arrangement.

Revenue from royalty is recognized on an accrual basis based on the terms of the agreement, provided collection is probable.

8. Capitalized software

Costs incurred towards development of computer software are capitalized subsequent to establishing technological feasibility in accordance with SFAS 86 'Accounting for the Costs of Computer Software to be sold, leased, or otherwise marketed'. Capitalized software costs are amortized on a product-by-product basis. The amortization shall be greater of the amount computed using (a) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. Such amortization is included in Cost of Revenues.

Cost of software licenses procured for products are capitalized and amortized over the remaining estimated economic life of the product including the period being reported upon. The un-amortized costs of computer software are compared with the net realizable value of that product, and the excess, if any, of the un-amortized costs over the net realizable value is written off.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

Cost of software licenses procured in connection with specific software projects are amortized over the remaining life of the respective projects, including the period being reported upon.

9. Research and development

All research and development costs are charged to Consolidated Income Statement when incurred. Equipment or facilities that are acquired or constructed for research and development activities, which have alternative future uses, are capitalized as tangible assets. Depreciation on such assets is charged to expense as research and development costs.

10. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises of its purchase price and any cost directly attributable to bringing the asset to its present condition for intended use. The Group provides depreciation for all property, plant and equipment using the straight-line method based on estimated useful life of the asset. The estimated useful lives of assets as appraised by the Management, are as follows:

Asset	Estimated useful life (in years)
Building	20
Leasehold improvements	Over the lease period of the facility
Plant & Machinery	4
Computing equipment	4
Electrical fittings	5
Furniture and fittings	10
Office equipment	5
Vehicles	5

Assets whose values are not material on acquisition (less than the US Dollar equivalent of Rs. 5,000) are recognized in the Consolidated Income Statement in the year of acquisition. Software used in administration is amortized over 3 years. Generic Computer Software licenses are capitalized and amortized over a period of 12 months.

11. Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Intangible assets are amortized over their estimated economic useful life.

12. Impairment of long-lived assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

13. Cash and cash equivalents

Cash and cash equivalents include cash on hand and with banks. Cash excludes deposit with banks held as margin money for bank guarantees, which are included in current assets. As at March 31, 2005 and 2004, US$ 57 and US$ 75, respectively, were held as margin money for bank guarantees with banks. These bank guarantees mature between May 2006 and February 2007. As at March 31, 2005 and 2004, bank balances include remittances in transit amounting to US$ 803 and nil respectively.

14. Investments

Investments are stated at their fair values. Dividend and realized/unrealized gains and losses on securities classified as "Trading Securities" are reported in the Consolidated Income Statement, as "Other income/expense.' Dividend and realized gains and losses on securities classified as "Available for sale securities' are classified as "Other income/expense". Unrealized gains or losses on securities classified as "Available for sale securities', which are temporary, are reported in Stockholders equity, as "Accumulated other comprehensive income', net of taxes and, the unrealized losses that are considered as "other than temporary ", are reported in the Consolidated Income Statement. The cost of securities sold is based on the specific identification method.

15. Derivative financial instruments

The Group accounts for all derivatives in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. All derivatives are recognized in the balance sheet at fair value. Changes in the fair value of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as part of a hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income are reclassified to earning in the period in which earnings are affected by the underlying hedge. Derivatives not designated as a hedge and the ineffective portion of all hedges is recognized in earnings in the current period.

16. Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share is computed using the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential ordinary shares. The number of shares and per share amounts has been adjusted retroactively for all periods presented to reflect changes in capital structure arising on account of stock-dividends/stock splits.

17. Fair value of financial instruments

The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, accounts receivable, accounts payable and debt approximate their respective fair values due to the short period of maturities.

18. Concentration of credit risk on financial instruments

The Group's cash is with banks and are considered to be safe and highly liquid. The Group derives its revenue from reputed customers across different geographies and hence, the risk on account of accounts receivables is limited. The Group determines allowances for uncollectible accounts receivables on specific identification basis taking into account factors such as the aging of the uncollected receivables, assessments of collectability based on historical information, etc. Receivables are written off against allowances for uncollectible accounts receivable, when all collection efforts are exhausted and the receivables are no longer collectible. As at March 31, 2005 and 2004, individual customer balances exceeding 10% of the total accounts receivable (including unbilled revenues) are approximately 55% and 44%, respectively.

19. Accumulated other comprehensive income

Accumulated other comprehensive income consists of:

a) Translation adjustment – being gain/loss arising from translation of financial statements of the Company's subsidiary/ branches, into the functional currency of the Company and gain or loss on translation of the financial statements from Indian Rupees to US Dollars.

b) Unrealized gain / (loss) on "Available for sale securities", net of taxes.

20. Stock options

The Group uses the fair value based method of accounting for stock-based compensation plans, in accordance with SFAS-123 'Accounting for stock based compensation'. Compensation cost is amortized on a straight line basis over the vesting period.

21. Income tax

The Group uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years differences between the tax basis of assets and liabilities and the financial reporting amounts at each year-end, based on the enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period in which the tax rates become applicable.

A valuation allowance is provided for deferred tax assets, when it is more likely than not that the asset or a portion thereof would not be realized.

22. Retirement benefits to employees

Gratuity

The Group provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to eligible employees at retirement or on termination of employment based on the salary of the respective employee and the years of employment with the Group.

The Group contributes to a gratuity fund maintained by an insurance Company. The amount of contribution is determined based upon actuarial valuations approximately as at year-end. Such contributions are charged off to the Consolidated Income Statement. Provision is made for the difference between the actuarial valuation and the funded balance with the insurance Company.

Provident Fund

Employees are also eligible to receive Provident Fund benefits through a defined contribution plan in which both employee and employer make monthly contributions to the plan, @ 12% each, of the covered employee's salary. The Company has established a Provident Fund Trust to which contributions towards provident fund are made each month. The contributions towards the pension fund are remitted to the Regional Provident Fund. The contributions towards Provident Fund and Pension Fund of SNS & SNEL are remitted to the Regional Provident Fund Commissioner maintained by the Government of India. Contributions towards Provident Fund and Pension Fund are charged to the Consolidated Income Statement on an accrual basis. The Trust guarantees a specified rate of return on such contributions on a yearly basis. The Company will meet shortfall in the return, if any. At March 31, 2005 and 2004, the shortfall was estimated to be US$ 103 and US$ Nil, respectively.

Superannuation

The Company and SNS have established a Superannuation Scheme administered by private insurers. As per the Scheme, for employees claiming the benefit, the Company and SNS makes monthly contributions, which are charged to the Consolidated Income Statement on an accrual basis. The employer has no other obligations under the Scheme.

Leave Encashment / Compensation absences

As per Group policy, employees are eligible to encash leave standing to the credit of employees subject to terms and conditions. The Group estimates the provision for leave encashment based on the actuarial valuation as of the balance sheet date. Provision for compensated absences is made on an estimate of utilization / availment of the un-availed leave balance to the credit of the employees as at the year-end.

23. Change in estimate

During the year ended March 31, 2005 the Company revised its estimate of useful life of generic computer software to one year, prospectively. Hitherto, generic computer software was charged 100% depreciation in the period of purchase. Due to this change, depreciation on fixed assets for the year ended March 31, 2005 is lower by US$ 116 and profits before tax are higher to the same extent.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

24. Presentation

Previous years' numbers have been reclassified/rearranged to conform to the current year's presentation.

B. Other Notes:

1. Stockholders' equity

In April 2003, the Company issued warrants to one of the shareholders of the Company, to purchase 1,633,334 equity shares at a price of US$ 1.16 (equivalent to Rs. 60) or such other higher price as may be determined in accordance with the guidelines of the Reserve Bank of India framed for such purposes. These warrants have been exercised during the current fiscal year.

Shares which have been reserved for issuance (other than for stock options) as at March 31, 2005 and 2004 were Nil and 3,484,515 respectively.

Accumulated other comprehensive gain / (loss) (net of taxes) comprise of, as at March 31:

	2005	2004	2003
Translation adjustment	(765)	(803)	(2,849)
Total	(765)	(803)	(2,849)

2. Stock option plan

a. SAS Stock Option Plan 1997

The SAS Stock Option Plan (Plan) established during 1997, provided for the issue of Fully Convertible Debentures (FCD's) to employees, consultants, advisors and to employees of subsidiaries. One million equity shares were approved by the shareholders for the purpose. The FCD's were convertible into shares over a period of three years and the price and conversion date was determined on the date of allotment of the FCD's. The shares arising on conversion of the FCD's would be free of any lock-in provisions. There will be no further issue of securities under the SAS Stock Option Plan 1997 consequent to the establishment of Sasken ESOP-2000.

A summary of the movement and status of shares arising out of the FCD's issued under the above plan as of March 31, 2005, 2004 and 2003 is given below:

	2004*		2003
	Shares arising out of FCD's	Shares arising out of FCD's	Weighted average exercise/ conversion price
Outstanding at the beginning of the year	1,400	51,500	$0.82
Forfeited	(600)	(10,100)	$0.82
Exercised/converted into shares	(800)	(40,000)	$0.82
Outstanding at the end of the year	–	1,400	$0.84

*weighted average exercise/conversion price was US$ 0.84.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

The fair value for each of the Options granted under the above plan was estimated at the date of grant using the minimum value method and the following weighted average assumptions:

Year ended March 31,	2003
Average risk-free interest rate	10%
Expected life of options granted (in months)	6.00
Expected dividend %	Nil

b) Sasken ESOP – 2000

Sasken ESOP – 2000 was approved by the shareholders at the Extra Ordinary General Meeting of the Company held on September 22, 2000. The Plan provided for the issue of 3 million shares (including the shares issued/ to be issued under the FCD's as per the SAS Stock Option Plan, 1997 and the shares to be issued consequent to the exercise of the options granted under the current Plan) of US$ 0.23 par value equivalent of Rs. 10 each.

Options granted under the Plan vest based on the vesting schedule as determined by the Compensation Committee and are issued at an exercise price as fixed by the Compensation Committee from time to time.

Under Sasken ESOP – 2000, stock options were granted to all employees based on the period of service with the Company, performance and potential. However, the intended response to the scheme was poor as the market value of the shares, since the grant of the stock options, had a negative impact due to the global recession and the conditions prevailing in the capital markets. In view of this, the Company, after considering other alternatives, decided to cancel the stock options remaining unexercised as at December 31, 2002. The Compensation Committee and the Shareholders approved the cancellation of the stock options remaining unexercised as on December 31, 2002.

A decision to consolidate the face value of the shares from Rs. 5 to Rs. 10 was taken by the board at the meeting held on June 11, 2004 and an EGM was held on July 16, 2004. The EGM approved the consolidation of the shares and consequently the options also have been adjusted to reflect the consolidations. The options have now been converted to 1 option for every 2 options held earlier and fractional options have been adjusted to the next whole number. All share data including stock option data are restated in line with the consolidation of Rs. 5 to Rs. 10 par value.

In October 2003 and thereafter, the Company issued 296,040 options to employees, with a vesting period of one year at an exercise price of US$ 1.84 (equivalent to Rs. 80 per share) being the fair value of the Company's share on the date of grant as determined by the Company.

On April 2, 2004 and June 1, 2004, the Company issued 378,925 options to 1372 employees and 971,533 options to 347 employees, respectively. These options carry vesting periods ranging one to four years at an exercise price ranging from US$ 3.66 to US$ 5.85 equivalent to Rs. 160 to Rs. 256 per share depending upon the exercise period being the fair value of the Company's share as determined by the Company as at the date of grant.

On February 23, 2005, the Company issued 42,530 options to 41 employees of Sasken Communication Technologies Ltd. and 2,735 options to 3 employees of Sasken Networks Systems Ltd. These options carry vesting periods ranging one to four years at an exercise price ranging from US$ 4.21 to US$ 5.85 equivalent to Rs. 184 to Rs. 256 per share depending upon the exercise period being the fair value of the Company's share as determined by the Company as at the date of grant.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

The following table summarizes the Company's stock option activity for Sasken ESOP-2000:

	Shares underlying options outstanding				
		2005		2004	2003
	No of Shares	Weighted average price	No of Shares	Weighted average price	No of Shares
Outstanding at the beginning of the year	274,110	3.66	–	–	517,265
Granted during the year	1,395,723	4.30	296,040	3.67	–
Forfeited/cancelled during the year	(166,475)	4.15	(21,930)	3.67	(516,664)
Exercised during the year	(84,870)	3.66	–	–	(601)
Outstanding at the end of the year	1,418,488	4.23	274,110	3.67	–
Exercisable at the end of the year	175,980	3.66	–	–	–
Weighted average remaining contractual life	2.83 years		1.50 years		–

The fair value of the option granted under the above plan was estimated at the date of grant using the minimum value method. The weighted average fair value of the options issued during the year amounts to US$ 0.10 per option. The Company recognized a compensation expense of US$ 164 and US$ 34 for the year ended March 31, 2005 and 2004 respectively. Other assumptions used in the computation of compensation expense are given below:

Year ended March 31,	2005	2004
Average risk-free interest rate	5.24%	8%
Expected life of options granted (in years)	2.83	1.50
Expected dividend rate	Nil	Nil

The exercise price of Sasken ESOP-2000 as at March 31, 2005 is as given below:

Range of exercise price	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price
US$ 3.66 – 5.49	1,313,608	2.63	4.11
US$ 5.50 – 5.85	104,880	5.12	5.76

The exercise price of Sasken ESOP - 2000 as at March 31, 2004 is as given below:

Range of exercise price	Number of options outstanding	Weighted remaining life of options (in years)	Weighted average exercise price
US$ 1.84 (equivalent to Rs. 80)	274,110	1.50	US$ 1.84 (equivalent to Rs. 80)

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

3. Line of credit

The Company has a secured revolving credit facility of US$ 5,716 from a bank at interest rates approximating 6.5% per annum. The facilities are secured by a charge on the current assets including accounts receivables, both present and future and an equitable mortgage on land and buildings and hypothecation of other fixed assets of the Company. An amount of US$ 104 and US$ 98 is outstanding as at March 31, 2005 and 2004 respectively. Line of credit is net of remittances in transit amounting to US$ Nil and US$ 222 as at March 31, 2005 and 2004 respectively.

SNEL has an unsecured revolving credit facility to the tune of US$ 229 from a bank at interest rate of 14.25% per annum. The facility has been fully utilized as at March 31, 2005.

As at the end of the year March 31, 2005 unutilized lines of credit fund based amounts to US$ 5,613 and non-fund based (letters of credit and bank guarantees) amounts to US$ 838.

4. Property, plant and equipment, (net)

Property, plant and equipment, net, consist of as at March 31,

Particulars	2005	2004
Land	5,230	5,241
Building	7,570	7,585
Leasehold Improvements	372	–
Plant & Machinery	182	–
Computing equipment	7,735	5,616
Computer software	3,794	3,608
Office equipment	423	6,111
Electrical fittings	3,972	221
Furniture and fittings	6,831	2,858
Vehicles	29	–
Capital work-in-progress and capital advances	177	270
Total	**36,315**	**31,510**
Less: Accumulated depreciation	16,696	13,647
Net	**19,619**	**17,863**

5. Amortization of capitalized software costs

Year ended March 31,	Un-amortized Costs	Amounts charged to expense for amortization
2005	141	285
2004	264	983
2003	1,242	2,633

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

6. Intangibles (Contract rights)

On October 1, 2004 SNEL acquired certain fixed assets and contract rights to render services to a customer from Blue Broadband Technologies Limited ("BBT") for a consideration of US$ 233 and US$ 338, respectively. Contract rights acquired have been recorded as Intangible Assets and are being amortised over a period of three years, being the estimated economic useful life of the contract rights, on a straight line basis. Accordingly, the Group recorded an amortization of US$ 56, for the year ended March 31, 2005. The expected amortisation over the next three years, is as follows:

Amortization during the next 3 years

Year ended March 31,	
2006	113
2007	113
2008	56
Total	**282**

7. Available-for-sale securities

Available-for-sale securities as at March 31, are as follows:

	2005	2004
410,879.541 Units of DSP Merrill Lynch Floating Rate Fund	94	–
15,851.483 Units of Templeton India Treasury Management Account	–	572
Total	**94**	**572**

During the year ended March 31, 2005, the Company invested its surplus funds in units of mutual funds. All such investments are treated as available-for-sale securities. During the year ended March 31, 2005 and 2004, the Company recognized a gain on sale of such units amounting to US$ 25 (net of gross gains of US$ 25 and gross losses of US$ Nil) and a loss of US$ 20 (net of gross gains of US$ 8 and gross losses of US$ 28). Dividend earned and reinvested in such units amounted to US$ 31and US$ 120 for the year ended March 31, 2005 and 2004 respectively.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

8. Accounts receivable

	2005	2004
Accounts receivables	12,589	7,922
Less: Allowance for doubtful receivables	215	416
Total	**12,374**	**7,506**

The activity in the allowance for doubtful accounts receivable for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Allowance for doubtful accounts at beginning of the year	416	585
Additions during the year	56	180
Written-off during the year	–	(349)
Reversals based on amounts due and collected	(257)	–
Total	**215**	**416**

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

9. Other current assets

Other current assets as at March 31, 2005 and 2004 comprise of:

	2005	2004
Prepaid expenses	803	358
Other investments	33	33
Security deposits for office lease and others	–	29
Loans and advances to employees	443	297
Interest accrued but not due	19	2
Other advances	599	330
Unrealised exchange gain on forward exchange contracts	591	1,081
Margin money on bank guarantees	57	75
Total	**2,545**	**2,205**

Other investments include US$ 0.5 being shares held in Extandon Inc, US as a collateral to secure the Company's compliance with all terms and conditions under a software licensing agreement entered into by the Company with Extandon Inc and performance of the delivery obligations under the repurchase options available with Extandon Inc under the terms of investment agreement.

10. Non-current assets

Non-current assets as at March 31, 2005 and 2004 comprise of:

	2005	2004
Security deposits for office lease and others	2,139	1,223
Loans to employees	61	22
Total	**2,200**	**1,245**

11. Derivative financial instruments and hedging activities

The Company enters into foreign exchange forward contracts to hedge foreign currency exposures on US Dollars, UK Pounds, Euro, etc. on accounts receivables and forecasted cash flows denominated in foreign currencies. The Company generally hedges forecasted transactions over a period of twelve months or less. Sasken held foreign exchange forward contracts of US$ 25,949 and US$ 27,313 as at March 31, 2005 and 2004, respectively. The contracts expire on a monthly basis through the month of March 2006. Unrealized gain on account of restatement of forward covers at fair value as at March 31, 2005 and 2004 amounted to US$ 591 and US$ 1,081 respectively. The receivable is recorded under "Other current assets" in the Consolidated Balance Sheet and the gain has been recorded under "Other income" in the Consolidated Income Statement.

12. Income Taxes

The Company and SNS are mainly engaged in the development and export of software under the Software Technology Parks (STP) scheme. The Company and SNS claim deductions from income tax, with respect to its income earned from exports of computer software, under Section 10A of the Income Tax Act, 1961.

Hence, deferred taxes to the extent of the export operations are not recognized as the timing differences reverse out within the balance period of available deduction. Under the law, tax benefits for the various units under the above sections is estimated to phase out by fiscal 2009. Income earned from sale of software development services to domestic customers is taxable.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

Income tax expense comprises for year ended March 31,

	2005	2004	2003
Current			
– Domestic	53	22	59
– Foreign (net of refund)	335	(485)	510
Total	**388**	**(463)**	**569**

During the year ended March 31, 2005 and 2004, foreign taxes are net of refund / reversals recognized as an expense in earlier years amounting to US$ 456 and US$ 1,026 respectively. Current domestic taxes relate to taxes payable under Minimum Alternative Tax (MAT) provision of the Income Tax Act, 1961. For determination of tax under the MAT provisions, the benefit of carry forward of business loss and unabsorbed depreciation are admissible only to the extent of unabsorbed losses as per the books.

The components of net deferred tax asset/(liability) as at March 31, are as follows:

	2005	2004
A. Deferred tax assets		
Provision for doubtful debts	–	8
Accrued retirement benefit	20	5
Depreciation and amortization	–	7
Carry forward of unabsorbed depreciation and business loss	134	198
Carry forward of capital loss	21	45
Total deferred tax assets	175	263
B. Deferred tax liabilities		
Depreciation and amortization	(10)	–
Total deferred tax liabilities	(10)	–
Less: Valuation allowance	(165)	(263)
Net deferred tax (liability)/asset	**–**	**–**

As at March 31, 2005 the Group has US$ 148 unabsorbed depreciation and business loss in India which mainly pertains to SNEL and US$ 256 unabsorbed business losses relating to foreign branches. The Group set off US$ 765 towards taxable business profits of fiscal 2005 towards tax otherwise leviable on the domestic sales of the Group. The valuation allowance has been created, in view of the uncertainty of taxable income from the Group's domestic operations. The unabsorbed depreciation loss in India can be carried forward indefinitely.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to income before income taxes is summarized below:

Provision for tax	2005	2004	2003
Net income / (loss) before taxes	4,313	4,390	(651)
Enacted tax rates in India	36.59%	35.87%	36.75%
Statutory tax provision	1,578	1,575	(240)
Tax effect of non taxable income	(1,757)	(1,544)	253
Brought forward loss adjusted	(280)	(121)	–
Minimum income taxes payable	53	12	–
Tax effect on expenses disallowed / (admissible) (Net)	481	12	246
Valuation allowance on other temporary differences	–	39	(197)
Overseas taxes	769	590	814
Withholding tax refunds / reversal of overseas taxes	(456)	(1,026)	(307)
Total provision for income taxes	**388**	**(463)**	**569**

13. Retirement benefits to employees

Amounts recognized in the Consolidated Income Statements on account of retirement benefits:

Year ended March 31	Superannuation Scheme	Provident Fund
2005	69	1,012
2004	28	580
2003	–	414

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

The following table sets out the funded status of the gratuity plan for the years ended March 31, 2005, 2004 and 2003.

	2005	2004	2003
a. Change in benefit obligations			
Projected benefit obligations at beginning of the year	444	242	214
Service cost	364	171	89
Interest cost	35	19	30
Benefits paid	(54)	(71)	(97)
Effect of change in assumptions	–	54	–
Actuarial (gain)/loss	21	(1)	–
Translation (gain)/loss	(19)	30	6
Projected benefit obligations (PBO) at the end of the year	**791**	**444**	**242**
b. Expected return on plan assets	**35**	**9**	**9**
c. Change in plans assets			
Plans assets at the beginning of the year at fair value	453	139	107
Employer contributions	112	353	115
Benefits paid	(54)	(71)	(97)
Actual return on plan assets	27	3	11
Translation gain/(loss)	(16)	29	3
Plans assets at the end of the year, at fair value	**522**	**453**	**139**
d. Funded status of the plan	**(269)**	**9**	**(103)**
Excess of actual over estimated return	(8)	(6)	3
Unrecognized transitional obligations	–	–	25
(Accrued)/prepaid benefits	–	(20)	–
e. Net amount recognized	**(277)**	**(17)**	**(75)**
f. Gratuity cost for the period			
Service cost	364	171	89
Interest cost	35	19	30
Expected return on plan assets	(35)	(9)	(9)
Transitional obligations	–	26	78
Other	–	54	–
Net gratuity cost	**364**	**261**	**188**
g. Assumptions			
Interest rate	7.50%	7.50%	8.00%
Discount	7.50%	7.50%	8.00%
Estimated rate of return on plan assets	7.50%	7.50%	8.00%
Rate of compensation increase	5.00%	5.00%	4.00%
Attrition Rate	2.00%	2.00%	1.00%
Retirement expectancy	58	58	58

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

The benefits expected to be paid, in each of the next five fiscal years, and, in the aggregate for the five years thereafter are given below:

Fiscal year ended March 31,	
2006	58
2007	67
2008	77
2009	88
2010	100
Five years thereafter	385

The Group's best estimate of the contributions expected to be paid to the gratuity plan during the next fiscal year is US$ 171.

The plan is managed by a private Company. The plan assets are invested in Government Securities, Corporate Bonds rated AA or above, Money market and other liquid assets, Infrastructure and Social Sectors as defined by Insurance Regulatory Authority in India and, listed equities. The expected rate of return on plan assets is based on the average interest rates prevailing in the market on investments similar to those held by the Company.

14. Transactions with related parties

Amounts due from officers and employees of the Company

The Group provides interest free loans to its employees for various purposes. These loans are recoverable over periods ranging from 1 to 24 months. Officers of the Group avail loans under the same terms. Loans due from officers and employees of the Group:

Year ended March 31,	Amounts due	Recoverable in 12 months	Recoverable after 12 months
2005	517	456	61
2004	319	297	22

15. Earnings per share (EPS)

Given below is a reconciliation of the net income and number of shares considered in the computation of basic and diluted EPS for the year ended March 31:

	2005	2004	2003
Net income for the computation of basic EPS and diluted EPS	3,925	4,853	(1,220)
Basic EPS – weighted average number of ordinary shares outstanding	16,335,283	15,093,479	12,689,718
Effect of dilutive stock options	202,296	46,999	–
Effect of dilutive share warrants	297,743	742,425	–
Effect of dilutive potential ordinary shares (FCDs)	–	700	–
Diluted EPS – weighted average number of ordinary shares outstanding	16,835,322	15,883,603	12,689,718

On April 14, 2005, the Company issued 3,864,274 equity shares of Rs. 10 each.

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

16. Segment reporting

The segmental information is given based on Software Services, Software Products and Network Engineering Services. Software Services that are related with Intellectual Property based product offerings are considered part of the Products segment. Network Engineering Services segment provides network planning, deployment, commissioning, integration and network operations support to network equipment vendors and operators. During the year ended March 31, 2005, the Company changed its segmental reporting consequent to a change in the organization of the Company's business. Previous period segment information is restated to conform to those of the current period.

The geographical segment information is disclosed based on the location of the customers.

Allocation of common costs:

Common allocable costs are allocated to each segment based on factors such as number of employees, space occupied, etc.

Unallocated items:

The Corporate and other segment include general corporate income and expense items, which are not allocated to any business segment.

a. Operating Segments

Information on segment revenues and margins is as given below:

Year ended March 31, 2005

Revenues	Software Services	Software Products	Network Engineering Services	Total
Revenue from external customers	47,057	7,712	968	55,737
Gross profit	16,628	804	143	17,575

Year ended March 31, 2004

Revenues	Software Services	Software Products	Total
Revenue from external customers	27,861	9,360	37,221
Inter-segment revenue	–	159	159
Eliminations	–	(159)	(159)
Total revenues	27,861	9,360	37,221
Gross profit	9,620	2,517	12,137

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

Year ended March 31, 2003

Revenues	Software Services	Software Products	Total
Revenue from external customers	14,015	9,445	23,460
Gross profit	3,161	4,542	7,703

Note:

a) During the year ended March 31, 2003, the Company entered into an agreement to license its product to one of its customers (in the Software Products segment – Europe region) for a sum of US$ 588. Simultaneously, the Company entered into an agreement to purchase software at a value of US$ 588 from the customer. The Company has considered this transaction to be a non-monetary exchange.

b) During the year ended March 31, 2004, the Company (in the Software Products segment – Europe region) entered into an agreement for services rendered to one of its customers. The customer has agreed to settle the consideration by transferring certain software programs and annual maintenance services amounting to US$ 360. The Company has considered this transaction to be a non-monetary exchange.

Information on segment assets is as given below:

Assets	2005	2004
Software Services	13,521	8,168
Software Products	2,346	2,852
Network Engineering Services	1,808	–
Total segment assets	**17,675**	**11,020**
Unallocated assets	23,406	21,106
Total assets	**41,081**	**32,126**

The assets identifiable to segments are apportioned to the segments on a reasonable basis.

b. Geographical information

The geographical segment information given below is based on the location of the Group's customer. The Group has presented the geographical information based on the continents (except India) in view of the similarity of the economic and market risks in the countries within the continents.

Net Revenues	2005	2004	2003
North America (including Canada)	18,752	14,530	10,402
Europe	26,213	13,012	4,972
Asia Pacific (excluding India)	5,373	6,195	5,936
India	5,399	3,288	2,094
Rest of the world	–	196	56
Total revenues	**55,737**	**37,221**	**23,460**

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

c. Information about major customers

(i) Customers with whom the transactions exceed 10% of the revenue:

Year ended March 31,	Percentage of revenue	No. of customers
2005	60%	3
2004	41%	2
2003	25%	1

(ii) Amount of revenues from customers with whom transactions exceed 10% of the revenue of any one of the three fiscal years being reported:

Particulars	2005	2004	2003	Operating segments
Customer 1	15,805	9,998	5,780	Software Services
Customer 2	11,146	5,151	2,221	Software Services & Software Products
Customer 3	6,454	1,018	270	Software Services & Software Products

17. Commitments and contingent liabilities

a. Contingent liabilities:

- The contracts remaining to be executed for purchase of property, plant and equipment on March 31, 2005 and 2004, amounted to US$ 188 and US$ 1,449 respectively.
- The Group has provided bank guarantees and letters of credit for certain imports as required by the statutory authorities, amounting to US$ 305 and US$ 573, as at March 31, 2005 and 2004 respectively.
- There are certain claims from income tax authorities for US$ 361 and US$ 379 as at March 31, 2005 and 2004 respectively. The Company believes that no provision for taxes needs to be created for these claims.
- The Group is involved in litigation in the normal course of business and believes that none of these are probable of settlements which would have a material adverse impact on the Group.

b. Operating lease commitments

The Group has operating leases for office premises that are (a) renewable on a periodic basis and are cancelable by giving a notice period ranging from 1 month to 6 months and (b) are non cancelable for specified periods under arrangements. Rent escalation clauses vary from contract to contract. Rental expenses for operating leases included in the Consolidated Income Statements are as under:

Year ended March 31,	
2005	1,704
2004	371
2003	352

(expressed in thousands of US dollars except share data, per share data and as otherwise stated)

Minimum lease obligations payable under lease contracts having initial or remaining non cancelable period of over one year is as given below:

Year ended March 31,	
2006	1,866
2007	568
Thereafter	–
Total	**2,434**

18. Other Notes

(i) During the year ended March 31, 2005, the Company paid customs duty of US$ 326 (including interest) under protest towards debonding charges of its fixed assets, which have been charged off to the profit and loss account.

(ii) During the year ended March 31, 2005, the Company has written back a sum of US$ 240 (March 31, 2004 – US$ Nil) to expenses, pertaing to liabilities of previous years, which were no longer considered necessary.

Management's Discussion and Analysis of Financial Performance

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE" AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE HEREOF.

The consolidated financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in the United States of America. The management of Sasken Communication Technologies Limited (Sasken) accepts responsibility for the integrity and objectivity of these consolidated financial statements, as well as for various estimates and judgments used in preparing the financial statements. The management discussion and analysis is based on consolidated financial statements.

1. Overview

Headquartered in Bangalore, India, Sasken is a global telecom software solutions provider offering a unique combination of complementary IP software components, research and development consultancy as well as software services to many of the leading semiconductor manufacturers, network equipment companies, and global wireless handset developers. Established in 1989, Sasken employs over 2100 people, operating from a state of the art research and development center in Bangalore, India with offices in Canada, China, Germany, Japan, Sweden, UK and US.

Sasken is an embedded telecom solutions Company that helps businesses across the telecom value chain accelerate product development life cycles. Sasken helps clients speed product development through a unique combination of ready-to-use technology blocks and services. Sasken works with terminal device manufacturers, network equipment manufacturers, semiconductor vendors and network operators to help them get to market ahead of the competition and stay focused on new product development and manufacturing. Products earn revenues in the form of one or more of licensing fees, customization fees, royalties, sub licensing fees, and fees for annual maintenance contracts. Services revenues are from fixed price contracts or contracts billed on time and material basis. Differential rates are charged for services provided from Sasken's offices in India, vis-à-vis for services provided at customer's site. Services provided from our own development centers being established closer to the customers will also be priced differentially.

Key Highlights for the Year Ended March 31, 2005

- Recommended a dividend of 30%.
- Revenue increased by 50% from US$ 37,221 thousand in fiscal 2004 to US$ 55,737 thousand in fiscal 2005.
- Software Services revenue grew by 69%, Software Product revenues declined by 18% and there was a new segment in the current year, Network Engineering Services that recorded revenue of US$ 968 thousand.
- Software Services, Software Products & Network Engineering Services Mix in revenue stood at 84:14:2 in 2005 Vs 75:25:0 in 2004
- Royalties and sublicensing fees received from multiple product offerings.
- Consolidated Profit after Tax decreased by 19%, from US$ 4,853 thousand to US$ 3,925 thousand
- Net profit margins was at 7% in 2005 as against 13% in 2004

- Consolidated basic earnings per share for 2005 was US$ 0.24 (US$ 0.32 – 2004) and diluted earnings per share for 2005 was US$ 0.23 (US$ 0.31 – 2004).
- Investment in R & D increased by 44% from US$ 421 thousand in 2004 to US$ 606 thousand in 2005
- Headcount increased from 1437 in last fiscal to 2120 in 2005.

During the current year Sasken has been certified as a BS 7799 Company.

During the fiscal 2005, the Company promoted Sasken Network Engineering Limited ("SNEL"), a subsidiary in India. SNEL would provide installation and commissioning of cellular network. SNEL was incorporated on September 29, 2004 and obtained its certificate to commence business on October 11, 2004 from the Registrar of Companies, Karnataka.

2. Consolidation of financial statements

The financial statements for the year ended March 31, 2005 include the accounts of the Company and its subsidiaries, Sasken Network Systems Limited and Sasken Network Engineering Limited. All significant inter-Company accounts and transactions are eliminated from the consolidated statements.

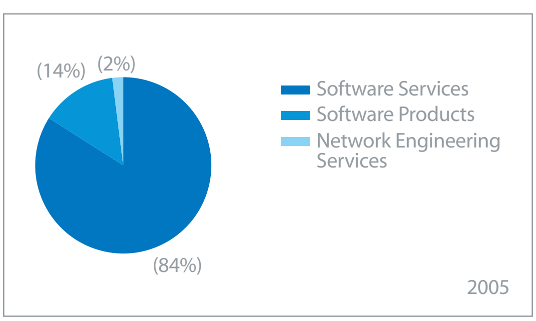
2.1.1 Revenues

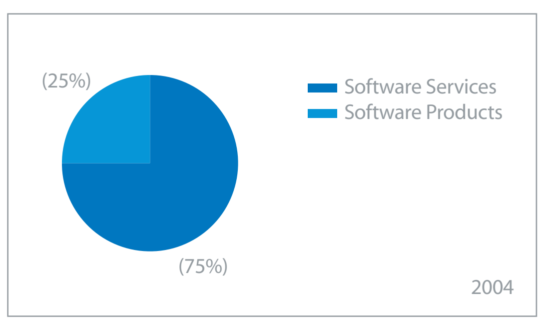
The Group derives its income from Software Services, Software Products and Network Engineering Services.

The consolidated revenues were US$ 55,737 thousand during fiscal 2005 as compared to US$ 37,221 thousand during fiscal 2004, registering a growth of 50%. While the software services revenues have grown to US$ 47,057 thousand during fiscal 2005 as against US$ 27,861 thousand during fiscal 2004. The proportion of the software services business has grown to 84% of revenues during fiscal 2005 as against 75% during fiscal 2004. The growth in the software services is line with the growth in services seen over the last few quarters. However, the revenues from software products declined to 14% during the fiscal 2005 from 25% during the fiscal 2004. The new segment during the fiscal 2005 was Network Engineering Services, which contributed revenues of US$ 968 thousand.

The segmental profits were US$ 17,575 thousand during the fiscal 2005 as against US$ 12,137 thousand during the fiscal 2004. Segmental profit margin for software services remained at 35% for both fiscal periods 2005 and 2004. However the segmental profits for software products declined sharply to 10% during the fiscal 2005 as against 26% during the fiscal 2004 on the back of the revenue decline during the fiscal 2005. The fall in the software product revenues and the resultantly segmental profits is largely on account of a shift in strategy to focus from licensing deals to royalty linked deals. The shift in focus from licensing deals has resulted in lower upfront revenues.

Pie chart of Revenues by Business Segments





2.1.2 Cost of revenues

Cost of revenues comprises costs incurred by the business units and operating costs allocated to the business units, based on the related utilization by each of the segments.

The cost of revenues for fiscal 2005 was US$ 38,162 thousand as compared to US$ 25,084 thousand in the previous year. As percentage of revenues, it works out to 68% and 67% respectively in each of the fiscal period. In absolute terms, the cost of revenues has increased by US$ 13,078 thousand (52%).

Employment costs as a percentage of revenue, constitute 45% & 43% for the fiscal 2005 & 2004 respectively. During the year, the employment costs increased by 56%, due to increase in head count, annual increments and increase in salaries paid to employees deputed overseas, on account of an increase in the quantum of on-site work.

Depreciation as a percentage of revenue is 5% for the fiscal 2005 & 6% for the fiscal 2004. In absolute terms, depreciation increased by 11%, mainly on account of increase in expenses on purchase of generic software.

Product Engineering expenses

Product Engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers, and for which revenues may or may not have been recognized during the current year. These expenses, which have been charged to the respective expense heads, and the appropriate segments, when taken together, constitute 8% of revenues for fiscal 2005, as compared with 9% in fiscal 2004. In absolute terms, there has been an increase in the amount of expenses incurred in product engineering by US$ 1,229 thousand. Product engineering expenses incurred on new products that have passed the stage of technological feasibility, are capitalized. No costs were capitalized in fiscal 2005 and 2004 on account of the fact that no new R & D initiatives had reached the stage of technological feasibility.

2.1.3 Gross profit

Gross profit was US$ 17,575 at 32% of revenues during the fiscal 2005 and US$ 12,137 at 33% of revenues during the fiscal 2004. In absolute terms, gross profit increased by 45%, on account of increase in revenues. The economies of scale on higher revenues were offset by employment cost and rent on new facilities.

2.1.4 Research and Development (R&D)

Research and development expenses constituted 1% of the revenues each during fiscal 2005 and fiscal 2004. In absolute terms, R&D increased by 44%.

2.1.5 Selling & Marketing expenses

Selling and Marketing expenses primarily include costs related to employment expenses of the marketing and sales staff, rent for foreign offices, distributor fees, channel commissions and travel expenses for marketing and sales staff.

Selling and Marketing expenses were at 10% of revenues for fiscal 2005 as against 11% in fiscal 2004. The increase in absolute terms was US$ 1,457. However the decrease in selling and marketing expenses as percentage of revenue, which is indicative of the fact that economies of scale are being reaped.

2.1.6 Administrative and General expenses

Administrative and General expenses primarily include costs related to employment expenses of support staff, rent, professional, legal and consultancy fees, provision for bad debts, depreciation and, training expenses.

Administrative and General expenses constituted 12% in fiscal 2005 and 11% in fiscal 2004. In absolute terms, these expenses posted an increase of 67% during fiscal 2005 over the previous fiscal mainly on account of increase in employment costs, professional, legal and consultancy, rent, communication expenses, electricity and water charges, rates and taxes, repairs and maintenance. Employment costs increased on account of increase in head count and annual increments and provision for QPIC and Gratuity. Professional, legal and consultancy has increased marginally due to higher expenses on EVA consultancy and legal fees. Increase in rent is mainly on account of additional facilities taken on lease in Bangalore and new facility taken in Pune. Communication expense increased due to addition of new facilities and increase in head count. Increase in electricity and water charges is on account of new facilities added during the current fiscal. Rates and taxes increased due to the customs duty paid during the current fiscal on assets debonded. Increase in repairs and maintenance is on account of Company entering into comprehensive maintenance contracts for plant and machinery and also due to new facilities added during the current year. The management periodically reviews the quality of receivables and wherever necessary provisions for bad debts are made. The provisions of an earlier year were reversed during the year on collections.

2.1.7 Employee stock option compensation cost

In the current fiscal, the Company issued 1,395,723 stock options to employees at prices ranging between US$ 3.66 – 5.85 (Rs. 160-256) per option. The Company accounts for stock compensation expense based on the fair value of the options granted on the date of grant. US$ 164 thousand was the compensation cost accounted for the fiscal 2005.

2.1.8 Income from operations

Operating income for fiscal 2005 is US$ 4,281 thousand compared with US$ 3,408 thousand for fiscal 2004. Operating income as a proportion of revenue was 8% for fiscal 2005 as compared to 9% for fiscal 2004. The economies of scale on higher revenues were offset by employment cost under Selling & Marketing expenses, Administrative and General expenses, rent on new facilities added during the year and other costs necessitated by increase in head count.

2.1.9 Other income

Other income for fiscal 2005 was US$ 138 thousand as compared to US$ 1,155 thousand for fiscal 2004. The decrease was mainly on account of decrease in unrealized exchange gain on forward cover, by US$ 884 thousand.

2.1.10 Interest

Interest charged against income during the fiscal 2005 was US$ 106 thousand as compared with US$ 173 thousand for fiscal 2004. The decrease was on account of inflow from the equity issue on exercise of certain warrants and efficiencies in the use of bank credits for working capital purposes.

2.1.11 Income taxes

Income taxes paid during fiscal 2005, was US$ 388 thousand as compared to a tax credit of US$ 463 thousand during fiscal 2004. The tax refunds received during the current year were much lower than those received during fiscal 2004. Additionally, the extent of business carried out in India for our customers saw an increase, leading to a higher domestic tax incidence.

2.1.12 Net income

Net income from ordinary activities and continuing operations for fiscal 2005 was US$ 3,925 thousand as compared to US$ 4,853 thousand during previous fiscal.

3. Results of operations for the fiscal ended March 31, 2004 compared with fiscal ended March 31, 2003

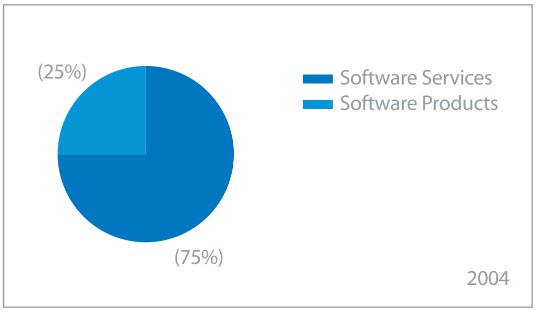
3.1.1 Revenues

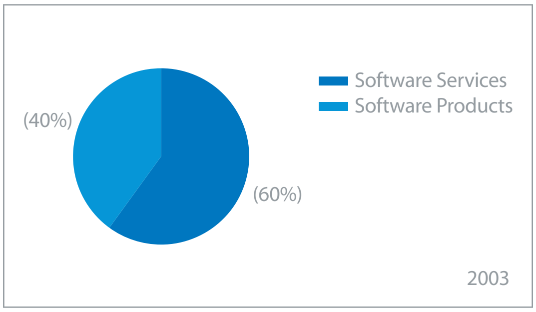
The Company derives its income from Software Services and Software Products.

The revenues were US$ 37,221 thousand during fiscal 2004 as compared to US$ 23,460 thousand during fiscal 2003, registering a growth of 59%. While the Software Services revenues have grown to US$ 27,861 thousand during the fiscal 2005 as against US$ 14,015 thousand during the fiscal 2004. The proportion of the Software Services business has grown to 75% of revenues during fiscal 2004 as against 60% during fiscal 2003. The revenues from Software Products declined to 25% during the fiscal 2004 from 40% during the fiscal 2003. The slowdown in the global telecom sector led to slowdown of investments by telecom vendors in newer technologies such as 3G. This resulted in a reduced demand for our products. This led to a conscious effort on growing the services business to bring greater stability to the overall revenue base of the Company.

Segmental profits were US$ 12,137 thousand during the fiscal 2004 as against US$ 7,703 thousand during the fiscal 2003. Segmental profit margin for Software Services was 35% and 23% respectively for the fiscal 2004 and 2003. However the segmental profits for Software Products declined sharply to 27% during the fiscal 2004 as against 48% during the fiscal 2003 on the back of the revenue decline during the fiscal 2004. The fall in the Software Product revenues and the resultant segmental profits is largely on account of a shift in strategy to focus from licensing deals to royalty linked deals. The shift in focus from licensing deals has resulted in lower upfront revenues.

Pie chart of Revenues by Business Segments





3.1.2 Cost of revenues

Cost of revenues comprises costs incurred by the business units and operating costs allocated to the business units, based on the related utilization by each of the segments.

The cost of revenues for fiscal 2004 was US$ 25,084 thousand as compared to US$ 15,757 thousand in the previous year. As percentage of revenues, it works out to 67% in each of the fiscal period. In absolute terms, the cost of revenues has increased by US$ 9,327 thousands (59%).

Employment costs as a percentage of revenue, constitute 43% & 41% for the fiscal 2004 & 2003 respectively. During the year, the employment costs increased by 70%, mainly on account of an increase in the quantum of onsite work.

Depreciation as a percentage of revenue is 6% for the fiscal 2004 & 9% for the fiscal 2003. This reflects the improvement in the utilization of assets by the organization. In absolute terms, depreciation increased by 12%, mainly on account of increase in expenses on purchase of generic software.

Product Engineering Expenses

Product Engineering expenses include the costs of product development, and modifications and enhancements to products that are already available to customers, and for which revenues may or may not have been recognized during the current year. These expenses, which have been charged to the respective expense heads, and the appropriate segments, when taken together, constitute 8% of revenues for fiscal 2004, as compared with 11% in fiscal 2003. In absolute terms, there has been an increase in the amount of expenses incurred in product engineering to the tune of US$ 322 thousand. Product Engineering expenses incurred on new products that have passed the stage of technological feasibility are capitalized. No costs were capitalized in fiscal 2004 on account of the fact that no new R & D initiatives had reached the stage of technological feasibility. Capitalized costs as a percentage of revenue were 8% for the fiscal 2003.

3.1.3 Gross profit

Gross profit remained at 33% of revenues each during fiscal 2004 & 2003. In absolute terms, gross profit increased by 58%, on account of increase in revenues.

3.1.4 Research and Development (R&D)

Research and Development expenses constituted 1% of the revenues each during fiscal 2004 and fiscal 2003. In absolute terms, R&D increased by 75%. The R&D efforts were specifically in the areas of DSL, multimedia codecs and applications, and mobile platform solutions, as in fiscal 2003.

3.1.5 Selling & Marketing expenses

Selling and marketing expenses primarily include costs related to employment expenses of the marketing and sales staff, rent for foreign offices, distributor fees, channel commissions and travel expenses for marketing and sales staff.

Selling and Marketing expenses were at 11% of revenues for fiscal 2004 as against 17% in fiscal 2003. This was largely on account of improvement in productivity of the sales team and also on account of rationalization of the sales staff in Japan, to bring them in line with revenues from the region.

3.1.6 Administrative and General expenses (including provision for diminution in value of investment)

Administrative and General expenses primarily include costs related to employment expenses of support staff, rent, professional, legal and consultancy fees, provision for bad debts, depreciation, ESOP costs and, training expenses.

Administrative and General expenses (excluding provision for diminution in value of investment) constituted 11% in each of the fiscal periods. In absolute terms these expenses posted an increase of 64% during fiscal 2004 over the previous fiscal mainly on account of increase in employment costs, training costs and insurance costs. Employment costs increased on account of increase in head count and annual increments. Training costs increased due to larger number of training programs undertaken both in the technical domain and in organization development. The management periodically reviews the quality of receivables and wherever necessary provisions for bad debts are made. In the current year, under review, a provision of US$ 416 thousand was made. Professional, legal and consultancy has increased marginally due to higher expenses on patents being filed. Insurance costs increased since the charge for fiscal 2003 was for part of the year only, whereas for the current year the cover was there for the full year. Increase in the scope of coverage also cause some part of the increase.

Provision for diminution in value of investment was Nil during 2004 and 3% during fiscal 2003.

Employee stock option compensation cost

Under Sasken ESOP-2000, on October 1, 2003, the Company issued 296,040 options to employees, convertible into 296,040 equity shares, with a vesting period of one year at an exercise price of US$ 1.84. Although the options were issued at the fair value of the shares, compensation cost arises on account of the inherent value of options. Compensation cost of US$ 34 thousand was booked during fiscal 2004, for the six month period until March 31, 2004. There was no corresponding charge during fiscal 2003, since the Company had cancelled the options, which were substantially out of money, during that year.

3.1.7 Income from operations

Operating income for fiscal 2004 is US$ 3,408 thousand compared with US$ 132 thousand for fiscal 2003. Operating income as a proportion of revenue was 9% for fiscal 2004 as compared to 0.6% for fiscal 2003. Increase in the revenue base, and improvement in the proportion of selling expenses was largely responsible for this.

3.1.8 Other income

Other income for fiscal 2004 was US$ 1,155 thousand as compared to US$ 34 thousand negative for fiscal 2003. The increase was mainly on account of unrealized exchange gain on forward covers of US$ 1,082 thousand.

3.1.9 Interest

Interest charged against income during the fiscal 2004 was US$ 173 thousand as compared with US$ 749 thousand for fiscal 2003. The decrease in interest expense was on account of repayment of the long-term debt availed by the Company during the early part of fiscal 2004, reduction in the interest rates for working capital borrowings, reduction in the utilization of the working capital limits by about 14% in fiscal 2004. Also part of the Rupee denominated line of credit was converted into a US Dollar debt at much lower interest rates towards the end of fiscal 2004, the results of which will be more visible during the coming year.

3.1.10 Income taxes

Income taxes, during fiscal 2004, was a negative amount of US$ 463 thousand as compared to US$ 569 thousand during fiscal 2003. The decrease was mainly due to lower taxable income on account of set off of carry forward losses of earlier years and refund received of US$ 1,026 thousand of excess taxes withheld in the earlier fiscal.

3.1.11 Net income

Net income from ordinary activities and continuing operations for fiscal 2004 was US$ 4,853 thousand as compared to Net loss of US$ 1,220 thousand during previous year.

4. Reconciliation between Net Income as per US GAAP and Indian GAAP

Sasken is registered in India and is therefore required to comply with Indian GAAP and the provisions of the Indian Companies Act, 1956. The Company has voluntarily decided to present its financial statements in accordance with US GAAP.

Reconciliation of Net income:

(Amounts in '000 US$)

	2005	2004	2003
Net income as per Indian GAAP	5,080	3,981	263
Adjustments			
Unrealized exchange gain, (Net)	(681)	872	–
Exchange differences capitalized	–	–	(9)
Depreciation	–	–	3
Provision for leave availment	(475)	–	–
ESOP costs reversal on cancellation of the ESOP scheme	–	–	(1,477)
Net income as per US GAAP	3,925	4,853	(1,220)

5. Risk Management

This has been addressed in the relevant section of the Management's discussion on the financial performance under Indian GAAP.

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